



## Department of Finance and Investment Management

# Property Valuation and Management 3B

PVM3B01 / PVM03B3

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### SUPPLEMENTARY ASSESSMENT OPPORTUNITY JANUARY 2020

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**Time: 3 hours**

**Marks: 150**

**Assessor:** Mr M Booyens

**Moderator:** Miss N Msibi

#### INSTRUCTIONS:

- This paper consists of **6** pages
- Answer ALL questions in the **answer book** provided.
- Silent, non-programmable calculators may be used, unless otherwise instructed.
- Where applicable, show all calculations clearly.
- Answers with Tippex and in pencil will **not** be marked.
- Scratch out all open spaces and empty pages.
- All the best.

Question	Topic	Marks	Time
1	Short questions	20	24 minutes
2	Various Topics	40	48 minutes
3	Rezoning	20	24 minutes
4	Township development and Farms	35	42 minutes
5	Special Properties	20	24 minutes
6	DCF discount rates	15	18 minutes
		<b>150</b>	<b>180 minutes</b>

## **QUESTION 1**

**[20 marks]**

Answer the following questions in your answer book.

- 1.1 List five typical zoning categories. **(5)**
- 1.2 Name and **briefly** discuss three advantages and three disadvantages of discounted cash flow techniques in valuations. **(12)**
- 1.3 The policy adopted by the local authority with regard to servicing can make a big difference to the township development costs and, as importantly, the cash flow. List the three basic areas of concern to a developer. **(3)**

## **QUESTION 2**

**[40 marks]**

The potential a property has for rezoning, from a valuer's perspective, is determined by factors such as location, size, supply and demand as dictated by the market for a particular usage (i.e. financial viability) and the extent to which existing restrictive conditions militate against such rezoning.

It must be remembered that some of these factors will change over time as market characteristics change. The valuer would therefore be looking at the value attributing factors (or lack thereof) that a property enjoys which will influence the potential for rezoning.

The town planner, on the other hand, will be looking at a wider set of criteria regarding the potential for rezoning which will not necessarily be based on the value forming attributes of the subject property only. In this regard it is believed that a town planner will consider other factors in deciding whether or not to grant a rezoning of a particular property in a particular area.

- There are no specific adverse influences on the immediate environment that could be identified by the company that conducted the environmental impact study.
- There are some concerns about the increase in traffic that would result due to the rezoning and subsequent development.
- There is very limited development in terms of schools in the area under consideration.
- The area is an open area with spectacular views of a nearby mountain range and natural stream.
- The local authority that will be impacted by the rezoning have gone under immense financial pressure and is in need of a financial injection.
- There is a dire need for schools and residential units in the area.
- There are no medical clinics or hospitals in a radius of 15km of the subject property.

### **REQUIRED:**

**Consider the information given and the subject property and discuss the following:**

- 2.1 The factors identified in the extract that the valuer is to consider in his valuation for the potential of rezoning as it practically applies if the property was to be rezoned to commercial. **(20)**
- 2.2 The factors that the town planner should consider for the subject property if he/she is considering rezoning the property to residential. **(20)**

### **QUESTION 3**

**[20 marks]**

A town planner has received an application to rezone a specific property. In her investigations, she has found the following information relating to the property to help her in the decision making:

- There are no specific adverse influences on the immediate environment that could be identified by the company that conducted the environmental impact study.
- There are some concerns about the increase in traffic that would result due to the rezoning and subsequent development.
- There is very limited development in terms of schools in the area under consideration.
- The area is an open area with spectacular views of a nearby mountain range and natural stream.
- The local authority that will be impacted by the rezoning have gone under immense financial pressure and is need of a financial injection.

#### **REQUIRED:**

- 3.1 Identify and briefly discuss 5 aspects that the town planner will consider when she evaluates the potential for rezoning from the above scenario. **(20)**

## **QUESTION 4**

**[35 marks]**

### **PART A**

More often than not farmland situated within the boundaries of a town-planning scheme in operation will be zoned “agricultural” or “undetermined”. To ascertain what potential use the property may be put to, the valuer has to obtain town-planning information, preferably from a professional in this field. The valuer's own examination of structure plans, development plans and guide plans may not be revealing the full picture as far as development potential is concerned.

### **REQUIRED:**

Consider the extract above and discuss 5 technical aspects that are of concern when you consider township development. **(15)**

### **PART B**

The valuation of farms requires special valuation skills and knowledge of the AGRI sector. The valuer has to know the right terminology during interviews. There are a number of valuation methods that can be followed when valuing property under which the following will count:

1. Direct Comparison Method
2. Depreciated Cost Method
3. Income Capitalisation Method
4. Accounts Method or Going Concern
5. Residual Land Value Method (DCF)
6. Turnover Method

The problem with farm valuations is that properties are very seldom homogeneous:

1. Different in size
2. Different location
3. Different soil structure
4. Different components
5. Etc.

And most often a combination of 2 or more methods will be applied.

### **REQUIRED**

Describe the macro and micro economic factors that affect land value in farm valuations. You should discuss five macro and five micro factors.

**(20)**

## QUESTION 5

**[20 marks]**

### Specialised Properties – I.V.S. 6.4

Both the I.V.S. and I.A.S. 16 recognise the categories of assets for which market based evidence may be UNAVAILABLE because of their specialised nature and recognises

- depreciated replacement cost approach, and
- income approach to value.

The choice of approach is not dictated by the type of asset but by the presence or absence of market evidence.

The availability or lack of market evidence goes to a number of considerations such as design, specialised application, location, size, funding, etc. where evidence does not fit the profile of the subject property or has to be disregarded.

### REQUIRED

Discuss 5 sections of the valuation report as it would specifically relate to specialised properties. **(20)**

## QUESTION 6

**[15 marks]**

The details of comparable sales noted below have been sourced from the Deeds Office and various property brokers were active in the sales. The properties noted below all compare favourably to a subject property you are valuing in terms of location, exposure to passing trade and lack of parking.

	Sale 1	Sale 2	Sale 3	Sale 4
<b>Erf number</b>	2156	4758	2348	2697
<b>Gross income</b>	R 483 621	R 456 432	R 507 118	R 415 730
<b>Expenses</b>	R 63 081	R 82 307	R 80 968	R 58 880
<b>Sales price</b>	R 4 300 000	R 3 650 000	R 4 500 000	R 3 900 000
<b>Date of sale</b>	18/03/2015	16/07/2015	26/06/2015	29/12/2014
<b>Comments</b>	Similar quality, smaller extent	Inferior quality, larger extent	Similar quality, similar extent	Superior quality, similar extent

### REQUIRED

Calculate a suitable discount rate that can be applied in the valuation process of the above property. **(15)**