Candidates are admitted to the examination room ten minutes before the start of the examination. On admission to the examination room, you are permitted to acquaint yourself with the instructions below and to read the question paper.

Do not write anything until the invigilator informs you that you may start the examination. You will be given five minutes at the end of the examination to complete the front of any answer books used.

---

May/June 2013

RE3AV 2012/3 A 001

1 Answer Book
Formula Sheet
Non-Programmable Calculators Permitted
Any English Language Dictionary Permitted

UNIVERSITY OF READING

APPLIED VALUATION (RE3AV)

Two Hours

Answer THREE Questions

Show all working and make use of relevant examples to illustrate your points.
SECTION A

1. "AVMs provide quick and cheaper valuations which in this very competitive market-place put them at a distinct advantage over traditional approaches."


Discuss.

2. ‘The rating assessment should be the same as the rent on the property’.

Discuss the accuracy of this statement.

3. (a) With reference to investment decisions, explain the two key ways in which Prospect Theory differs from Expected Utility theory and discuss how these explain the "aversions" that are manifest in investor behaviour.

(40% of marks)

(b) ‘It has been alleged that valuers are prone to anchoring and subject to client influence.’

Discuss these claims.

(60% of marks)
4. Identify the difference between valuation accuracy, valuation variation and bias and discuss the implications for different kinds of clients of ‘inaccurate’ valuations.

5. Value the head-leasehold interest in an office property by both a conventional and a contemporary cash-flow approach assuming each of the different head-leasehold arrangement set out below. You can assume in each case that the head-lessee sublet the property to an occupying tenant three years ago on a 15-year full repairing and insuring lease with five-yearly upwards-only rent reviews at a rent of £100,000 per annum, expiring at or around the same time as the head-lease. The estimated rental value on full repairing and insuring terms is £125,000 per annum. The different head-leases are set out below:

(i.) A head-lease on full repairing and insuring terms at a fixed rent of £25,000 per annum for the remaining 12 years.

(ii.) A head-lease on full repairing and insuring terms at a rent of £50,000 per annum with rent reviews at the same time as the sublease to 50% of the market rent at each review date, also expiring in 12 years.

(iii.) A head-lease on full repairing and insuring terms at a fixed rent of £90,000 per annum for the remaining 12 years.

You can also assume that the freehold capitalisation rate is 7% and the estimated growth rate for rental values is 3% per annum. You can ignore fees and costs in your valuations. Comment on the differences between the answers from the conventional and contemporary approaches.

(End of Question Paper)