Northern Branch Country Seminar

Valuation in South Africa in 1959 and thence

South Africa’s property trends

Professional standards a necessity for the MPRA
Greetings from the Eastern Cape, and more specifically, the friendly City of Port Elizabeth. Can you believe we are fast approaching the last few months of 2014?

Soon we will have our shopping centres decorated with festive lights and tinsel while Bony M drones on in the background.

This issue of The SA Valuer is once again packed with interesting and varied articles from details of the Northern Branch Country Seminar to articles which bring you up to date with latest developments in our profession and feedback on what your Institute has been up to. Enjoy!

The 14th African Real Estate Society (AfRES) Annual Conference was held in Cape Town from 2 to 5 September 2014. The theme of the conference was Urban Real Estate Markets: A Catalyst for Economic Growth and Development. The conference attracts representatives from around the world to discuss and present innovative solutions to real estate challenges with relevance to Africa. Professionals from real estate stakeholders, government agencies, academics, as well as users of real estate services attend. The SAIV was represented by Janet Channing. Feedback from Janet indicates that the conference was successful, presenting a range of research papers related to real estate, with specific emphasis on the advancement of African valuers and how AfRES could promote the establishment of an umbrella professional valuer association.

One issue that came out of the conference was the proposal to develop a corporate category of membership. Councils under the Council for the Built Environment – including the South African Council for the Property Valuers Profession – are mandated to register individuals and not companies. However, some institutes or associations affiliated to these councils have corporate or company membership. The SAIV’s current membership is through individuals. This is not a model which is shared by any other country across the continent. There was a strong feeling from our African valuer colleagues that we should explore the establishment of a corporate category of membership. The establishment of corporate membership within the SAIV was discussed at the National Executive meeting in May in Bloemfontein and is a matter that is being addressed by Natex.

As we race towards the end of the year and go off to enjoy a well deserved break, spare a thought for those less fortunate and keep in mind the true meaning of Christmas.

Mark Bakker
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On 19 and 20 September the Northern Branch of the Institute held its annual Country Seminar at the The Blades, north east of Pretoria. The chosen venue was peaceful, the atmosphere relaxed, as was the audience because everything was so well organised. The day ran like clockwork, thanks to usual careful input on the part of Melanie Vallun and Lynne Brookshaw. A record 134 people attended the two-day event, many of them coming from as far away as the Eastern Cape, all over Mpumalanga and Limpopo, and even from Botswana. André Zybrands welcomed them all. Heather Donald was the master of ceremonies on both days and she introduced and thanked each speaker in turn.

Melanie Vallun opened the seminar in her characteristic way: “Good Morning Northern Branch Chairman André Zybrands, the Northern Branch Executive and fellow valuers - thank you for allowing me to do the opening address this morning. I would like to start off by showing you what brilliant minds you have!

Brilliant minds – good example of a brain study – if you can read this you have a strong mind.

THIS MESSAGE SERVES TO PROVE HOW OUR MINDS CAN DO AMAZING THINGS!

IMPOSSIBLE THINGS!

IN THE BEGINNING IT WAS HARD BUT NOW ON THIS LINE YOUR MIND IS READING IT AUTOMATICALLY WITHOUT EVEN THINKING ABOUT IT.

BE PROUD! ONLY CERTAIN PEOPLE CAN READ THIS.

PLEASE SHARE IF YOU CAN READ THIS.

Isn't it amazing what our minds can do? I wonder if this is why we battle to see our own spelling mistakes.

Let us listen to the theme song of our Country Seminar: “If's an illusion. No, you won't believe in If anymore, If's an illusion…”

The more IFs there are in a valuation report the less the valuation is worth. IF is an illusion but IF is also an assumption. And when you assume what are you doing you are making an ass of U and ME (not this ass…..an ass is also a donkey)! Yes, we all know that in some instances, we have to conduct valuations based on certain development assumptions as given by the developer and instructed by the financial institution. What is important is that the instruction is made very clear in your report.

However, I do not believe in a normal valuation that we can simply assume that there are no restrictive conditions in the title deed or that there are no servitudes over the property. It is also not correct to assume that the improvements comply with town planning rights and restrictions. It is the core or basis of our work to check the title deed, check for servitudes and check compliance with town planning rights and restrictions. These are the minimum basics needed to deliver a professional valuation.

What I am trying to say is that OUR PROFESSION WILL BE AN ILLUSION IF WE DON'T ALL COMMIT TO PROFESSIONAL SERVICE AND WORK FOR OUR CLIENTS.

LET'S LOOK AT A FEW EXAMPLES THAT CAN LEAD TO 'IFs'
and ASSUMPTIONS THAT ULTIMATELY CAN LEAD TO OUR INTEGRITY BEING QUESTIONED.

Is what you see really what you see?
Were you close enough whilst doing your inspection? We should know exactly what is on the property and we can only know if we saw it up close and with our own eyes. Walk the walk (the distance)...then you can talk the talk. Imagine this building is a sales transaction and you lower your subject property’s cap rate because this building is poorer than the subject property because of the state of the wall?

That brings me to our friend Google. I am not too sure whether we should really call Google our friend. Should we be analysing sales using Google? Remember Google shows you a photo BUT can you really see what is behind the scenes? In other words... Don’t rely only on what you see, instead rely on what you can see beyond, because illusion is always on the outside and the reality is definitely on the inside.

As valuers we need to be extremely careful of illusions. Clients don’t always want to hear the truth, because they don’t want their illusions destroyed, the outside – reality is often hidden away.

Immeasurable?
Don’t waste energy trying to measure the immeasurable. Get the building plans; get the expert, the architect or city council or owner to give you the building plans.

Do you have building plans?
Even after you have obtained building plans; DON’T always trust them. Do spot checks and if they don’t measure up – go back and re-measure. Tony Gebhardt of Gebhardt & Associates who were key in the compilation of the SAPOA method of measuring, stated at the Workschool that you should always work from building plans. This was a bit confusing to the candidate valuers because they are taught to measure the buildings. The difference here is that Tony is an architect bound by his profession’s standards. We as valuers are not bound by the same standards and rules. We measure or at least do spot checks and we make sure that what is on the property is what is on the building plans and also whether they are compliant with town planning requirements.

The saying goes: measure with a caliper (the architect); lay out with a tape or measuring wheel (the project manager); build with unskilled labour (the bricklayers); the final product (what has really been built) – that is the job of the valuer.

At the end of the day, we as valuers are and should in actual fact be the only people on earth who know a property in detail...and know a property in detail BEFORE we submit a valuation report.

Be hands-on
Feel the building, I mean get a feel for the property, the surroundings, have a feel for the economy and take notice of your ‘gut’ feeling. If your valuation just doesn’t make sense and you think your calculations are correct, but you can’t find the mistake...sleep on it. Tomorrow morning you will see the light. Let’s hope it is not the light of an oncoming train...

Most important: be hands-on when mentoring our candidate valuers.

They need our training and our guidance. We need to take them by the hand and lead them. Let’s skill them by sharing our knowledge with them. Ultimately they are the future of our profession. It will not help us one day to wonder why our profession’s standards have dropped if today we are not willing to train our candidate valuers.

Don’t gamble
Gambling, as we all know, is based on assumptions and possible outcomes, given certain inputs.

If our valuations are full of assumptions, are we not gambling? Are we then not also, by implication, gambling with our work and reputation? Let us rather make sure of our facts and deliver reports of high quality and standard.

Don’t let sinkholes sink your valuation
The importance of Geotech reports, especially in areas known for dolomite like Centurion, cannot be understated. But sinkholes can also be

• the date of valuation
• the instruction...if you and the client don’t understand each other
• the property description...is it perhaps only a portion of the property?
• incorrect identification of the subject property or a sales transaction
• timeframe
• etc.

Confusion?
I am sure we are all familiar with this situation.

Given: $a = b$
$a^2 = ab$
$a^2 - b^2 = ab - b^2$
$(a + b) (a - b) = b (a - b)$
$(a + b) = b$
$a + a = a$
$2a = a$
$2 = 1 !!!$

Be careful with your calculations and discounted cashflows...2 might become equal to 1. If we look at the calculation all the different algebraic/mathematical steps are correct. But what might
stare you in the face and you don’t notice it, is the starting point. If a=b then a minus b is equal to 0 and you can’t divide by 0.

Which brings me to another sinkhole and perhaps the largest sinkhole of all: garbage in = garbage out.

When we are using models we have to make sure that we understand how the model works.

The answer might stare you in the face…

Don’t over-complicate your calculations or over-analyse.

Have fun

Let’s have fun today…..but not just today…also when we are doing our work. Having fun leads to optimism and a positive outlook on life. This in turn leads to better performance, better quality of work and ultimately professional work for our clients.

To come back to my original message this morning: IF’s an illusion… All of us, at some point, think that we know and have seen it all, but beware - our greatest obstacle is not our ignorance, but the illusion that we have all the knowledge; that there is an elevator to success is an illusion; there are only stairs to success.

Let us all commit to

• NO IFs
• NO unsubstantiated assumptions
• ONLY professional service and work for our clients.

In other words, to return to the chorus of Roger’s song: “Valuers don’t believe in If anymore; It’s an illusion…”

Closure

I hope you all benefit from the presentations. I also hope and firmly believe that our 2014 Northern Branch Country Seminar will make certain professional illusions fade away, but rest assured, our social tonight will definitely NOT be AN ILLUSION!!!
The next presentation was Self-storage as an asset class, given by Steven Horton (Director) and Pinny Hack (Group Finance Manager) Stor-Age Self Storage (Pty) Ltd. After showing a short dvd of the concept, Steven explained that the company offered space for personal and business use in various unit sizes. ‘You lock – you keep the key’. It is cost effective, secure and has a flexible lease period.

User base is 70% domestic – event driven and lifestyle users – and 30% commercial – traditionally SME but includes corporates. The competitive market area is within 5 to 8 km or within 15 to 20 minutes’ drive away. The business is management intensive and it was a resilient asset class during 2008-2011. Location, visibility and convenience are its largest differentiating factors of success.

Key influencers are many: public awareness – low, growing market; population mobility and density; physical planning and constraints, smaller homes; focus on high density development; the South African market for security estate living; rising disposable incomes – emerging middle class; housing demand, divorce, single parent families, single living, and small business formation, requiring flexible economic space.

Types of self-storage properties are now in their third generation: either traditional, rows of units, predominantly drive-up access; big box, a term ‘borrowed’ from ‘big box retail’ style developments, multi-storey, prime locations, with main road frontage or smaller parcel sizes, and conversions - existing commercial space converted into self-storage.

The three generations of self storage assets also reflect on their quality. The first generation is the term applied to the earliest type of self-storage facilities constructed and developed; they were typically, ‘raw’ and basic products, not aesthetically pleasing, poorly constructed, ground-floor facilities, situated in an undesirable location. The second generation is typically rows of buildings, some dual-level facilities and conversions of existing buildings. Although construction techniques improved, they are still located in industrial type nodes, characterised by an ‘industrial type’ operation.

The third generation is mostly found in retail locations, light commercial or even multi-family residential neighbourhoods (rather than the traditional industrial corridor or location in heavier commercial areas). These newer facilities emphasise aesthetics in construction, and are designed to blend in with the ‘retail’ nature of the neighbourhoods they serve.

There are also three grades of self-storage assets according to location: A-grade units are in a highly desirable urban location, complimented by retail or light commercial operations and/or in a residential neighbourhood. Convenience of use and security is a major upside to these types of locations. B-grade units are situated in a light commercial node and/or on the urban edge, typically in a ‘safe’ operating environment but with no retail feel or presence, and C-grade in an industrial or farm type location where security is a major issue. Quality of the surrounding operations is industrial or agricultural in nature.

The international market
There are approximately 58 000 self-storage facilities worldwide (2014 – US 48 500, Canada 3 000+, Aus 1 000+, UK and Europe 2 000+). US is the fastest growing real estate sector over the past 35 years. There are four REITs in this asset class: Public Storage, Extra Space, Sovran and U-Store-It. The market capitalisation is $39 billion and consistently outperforms the REIT index average returns. The UK has two LSE listed companies: Big Yellow, a REIT with a £820 million property portfolio (80 stores) and Safe-store, a £880 million property portfolio (120 stores). Australia has Kennards (80 stores) and National which listed in December 2013 (60 stores).

The South African market
The local market is still in its infancy. It started in the late 1980s with low cost and poor quality; change is under way but there is still an ‘80s hangover’. The average unit size is 15m² with little or no retail offering. Facilities trade at 90-100% occupancy, but often below market rentals and ownership is highly fragmented. There is a lack of professionalism and quality offering, and therefore little public awareness of benefits. We are 20 to 25 years behind the US, 12 years behind Australia and eight to ten years behind the UK market.

Valuations
Self-storage properties should be valued as a going concern as there can be no separation between the property and the ‘business’; the business can be valued but cannot be sold separately. All revenue should be included – rentals, sale of merchandise, late fees, administration fees, insurance, etc. Portfolio effect leads to a national operator and a recognised brand.

There are three stages for a self-storage facility once built: lease-up (two to four years); mature or established (optimal occupancy 90 to 95%); mature facility facing competition – lower grade.

Possible valuation approaches: direct comparison or sales approach; cost approach; income capitalisation; discounted cash flow (DCF). Direct comparison or sales approach is rarely used because of lack of sales volume and lack of comparability of sales (quality, location, price and service). Cost approach is also rarely used because of new facilities and insurance valuations. Income capitalisation is the preferred method for mature proper-
ties, while the DCF approach is preferred for lease-up properties, using a ten-year DCF, notional sale at the end of ten years and terminal value.

A valuer of a storage facility should consider:
1. Revenue producing capability – rentals plus other income (merchandise, late fees, admin fees, insurance, etc)
2. Other income between 3 to 10% of gross income
3. Management/operator fees between 5 to 7% of gross income
4. Cost to income ratio of 30 to 35% (key drivers – staff costs and administered costs)
5. Unit sizes and mix
6. Generation and grade of the facility
7. Pricing strategy – impact of pricing on revenue and occupancy is the key determinant in valuing self-storage assets
   • Ability and strength of the operator to manage occupancy and rate
   • Occupancy measure:
     • Unit occupancy – units rented as a percentage of the total number of units
     • Area occupancy – area rented as a percentage of the total GLA
     • Economic occupancy – actual income achieved as a percentage of total income achievable based on the list price of units available in the store.

The afternoon session began with professional valuer George Nel explaining The valuation of guest houses (this will be featured in the February 2015 issue of this journal) and Stan Garrun of IPD reporting on Valuation trends in the IPD database, followed by Jan Oberholzer on Profit methods of valuation.

After the presentations drinks were served on the lawn overlooking the dam. At 18.00 guests made their way to the swimming pool area which was decorated with candles, and enjoyed the evening braai. Music was provided by a saxophonist and, in keeping with the theme of the seminar, a ‘real-life’ illusionist moved from table to table to entertain the diners. The valuers chatted until late into the night, making the most of the warm evening to mingle and network, ending with ‘braaing’ of marshmallow kebabs.
The first presentation on Saturday morning was given by Hannes Pieterse, Director of Petrorex, on the Service station assessment approach. Hannes started by describing the macro environment of the fuel industry in SA.

The oil company transaction forms a triangle with the oil company/wholesaler at the apex and the other two angles being the development company and the operational company. The following transactions are applicable. The existing transactions could be a combination and permutation as illustrated in option 2 in the table, consisting of rentals, discounts and loans.

**Agreements**

Agreement could be: a head lease agreement, notarially registered against the title deed of the property and ceded to a financial institution; a development agreement that contains all the conditions regarding the development; a product servitude securing the oil company’s sale of product from the property for the duration of the agreement; a sub-lease agreement/operating lease.

If the landlord wishes to have the right to be the dealer/operator or to nominate such an operator, the oil company can retain the right to approve and appoint the landlord as a dealer/operator according to the oil companies’ standard rules and regulations for dealer/operators. There are also retailer dealer agreement/franchise agreements and deeds of suretyship applicable.

**CORO ‘company-owned retailer-operated site’** - This option is clear and simple; it makes provision for the oil company to purchase the land/property on which the services is to be developed. The oil company itself does the development with its own selection of contractors. On completion the oil company sub-lets the business to an operator/dealer of its choice (no risk).

**CORO L site** - The landlord lets the property to the oil company; the development of the facility is done by the oil company or the landlord/developer himself, provided the development is done to the oil company’s satisfaction. Whichever of the two options is taken will affect the rental amount payable by the oil company. The oil company can sub-let the business to a tenant/operator of its choice. The main character of this option is that the oil company pays a rental amount to the landlord (low risk).

**RORO – DODO ‘Dealer-owned site’** - This option suggests that the developer/investor constructs the facility himself. The contract entered into is a ‘supply agreement’ and the oil company will remunerate the operator according to the RAS (regulatory accounting system) module based on the monthly petrol (diesel) purchases (invoice). The developer/investor nominates and develops the operator (high risk). In some instances oil companies would contribute in supplying pump, tanks and signage and then secure their assets by means of a head lease/sublease as well as a product servitude over the property safeguarding their position over a period of at least ten years.

**Regulatory accounting system (RAS)**

The retailer collects all margin related to the operations and assets of the benchmark service station (BSS) and the investor of the asset will recover its return in both company owned retailer operated (CORO) and retailer owned retailer operated (RORO) operating platforms or agreements. (Receive then give back.) The RAS is based on the principle that whoever invests in or whoever incurs the cost should receive the remuneration.

The module is based on:

- a margin of fuel sales (petrol, diesel and paraffin) per month – ±250 kl/m;
- benchmark service station (BSS) – facility being needed, R6.7m;
- cents per litre was calculated to produce a fair return on the investment - rate of return (ROR) – based on the capital asset pricing model – CAPEX;
- cents per litre was calculated on the operational expenses that would be incurred when running a BSS – OPEX;
- cents per litre was calculated as an entrepreneurial compensation for operating the assets – EC.

With CORO sites, oil companies recover their capital portion less an entrepreneurial compensation for operating the assets on their behalf. They recover from the OPEX numbers those expenses that are incurred by the oil company as per the BSS model, ie pump and tank maintenance, rates and taxes as well as any other assets and operating expenses allowed in terms of the BSS model. Oil companies renegotiate/enforce new transactions, digging into the EC as well as increase rentals and turnover clauses on other areas apart from the BSS areas to maintain their ROR. Changes to existing contracts, prior to December 2013, remain a challenge. The Regulation to the implementation of the RAS still needs to be contested as it is not practical, for
example, to alter completely a pre-paid transaction done previously. The logic of contract law would therefore still take precedence over the Regulation. Existing contracts therefore need to serve their time as stipulated in each individual transaction prior to December 2013. Existing franchise agreements can, however, be revised. All transactions concluded by oil companies/wholesalers after December 2013 have to adopt the RAS module.

With RORO sites, oil companies may own the pumps and tanks and, in certain instances, some small assets such as generators, so the calculations work differently. The capital expenditure recovery will be based on the BSS assets owned by the company and OPEX recovery will be based on the expenses incurred as per the BSS model. In a nutshell, RAS will reward the investor who owns the assets and incurs the operating expenses according to the BSS model.

Hannes then turned to the micro environment of the industry.

Feasibility of service stations – existing and new
Factors which influence the feasibility and financial viability of service stations are physical and legal issues, market feasibility, existing/potential throughput, owner/operator profile (influence on the cap rate/discount rate – goodwill payback period - risk factor).

Physical and legal feasibility is influenced by site location – whether this is residential, industrial, commercial, alongside provincial or national routes; what its accessibility is like from particular roads; whether it has been approved; and whether it has sufficient turning radius for large fuel delivery trucks; whether it has good visibility within stopping sight distance.

Essential property information includes the title deed, giving the description and transfer number of the property, the registered owner, area, legal checks, conditions or restrictions of title and any servitudes against the property.

Surveyor’s information: the survey diagram should be available, as should the site plan with adjacent properties and road borders surrounding the site, building lines, service points (electrical, water and sewerage) – and these should have been approved.

Zoning information: the zoning certificate from local authorities – town planning scheme – definition, or PTO (permission to occupy) for rural areas is needed.

Environmental authorisation is required for new sites/extensions/tank capacity – EIA/ROD/EMP. New applications where the tank capacity is less that 80 m³ do not need to go through the full EIA process and are exempt by NEMA.

Site and retail licences must be obtained from the Department of Energy.

Market feasibility requires the identification of the potential/existing supporters in the catchment area; the demographic profile of the catchment area; the economic profile of the assessment area; the types of transport used by people living in the area; the travel patterns within the study area, and between the area and other places; the traffic flows in the assessment area, and future developments in the area (growth).

In order to do a fuel sales projection or market demand analysis with an existing site, obtain 24 months volume sales per product/grade, confirmation from oil company/point of sale back office system and financial statements; with new sites volume projection would be included in a feasibility study that should use four tested and proven methods: the traffic analysis, passing traffic, co-efficient of attraction and comparison methods.

Competition service stations within a 3-km radius in a built-up area or 25km on the open road must be studied to establish: the location of each existing service station/undevolved/identified within the study area and its description in relation to the proposed site; estimated fuel volumes sold by existing service station; convenience facilities provided by existing service stations, and implications of the existing service stations on the existing/new site.

Financial viability: The viability must be determined both from the point of view of the operator/dealer who will be involved in the day-to-day running of the service station as well as that of a developer/investor/oil company transaction.

Operational viability: For existing sites obtain financial statements/shift roster, etc; the two main expense items are rent and wages. RAS allocates 11cpl rental amount - BSS (CORO). This excludes revenue-generating areas/turnover percentages. The market norm can be benchmarked at 20% to 24% of the gross profit for (RORO) and 25% to 30% (CORO) for a completely branded service station; RAS OPEX is only applicable on BSS fuel sales and excludes any additional profit opportunities.

Development viability (new sites): The estimate of the current building cost is based on the preliminary design and consists mainly of basic items, special items, site works, preliminaries, contingencies and the quantity surveyor’s report. With existing sites the cost approach is used, additional information should be obtained considering the age of pump and tanks, type of tanks and equipment that needs to be replaced.

Owner/operator profile: It is important to take into account his experience as a dealer/retailer, property portfolio (investment vs owner/operator), ability (hands-on management); industry knowledge, whether he/she is focused on this business vs involvement in other businesses not related to service station industry. The owner’s/operator’s ability, availability to give prompt feedback on required information should also be taken into account.
Service station assessment

The assessment of service station developments falls into three categories.

First is the cost approach and second the income approach based on the modern capital approach, discounted cash flow analysis and the cap rate method and thirdly, there is also a goodwill/business assessment that needs to be taken into consideration.

The land valuation technique is based on the residual technique. A service station is a high-value land user. Based on the oil companies’ methods, the cost of the highest and best structure is determined, and the difference between the total value of the development, discounted at an applicable discounted rate, less the highest and best use structure cost, will give the residual land value.

It is important to note that when both the development and operational income are valued, there must be a clear distinction made between the goodwill value and property assessment.

The goodwill/business value

The goodwill associated with a service station is influenced by the site’s position in the marketplace and its ability to serve its customers effectively (risk factors influence the payback period). To determine the basic goodwill value, calculate the average (12 months) net income before owner’s remuneration/expenses, loan payment, tax and then multiply the result by 36 months as an average (risk influences). The result would be an indication of the business operational value. This calculated value would include the current assets of the business used to generate business.

In conclusion, it is important for valuers to consider the various factors which arise when valuing service stations on an individual case-by-case basis. The improvements on a service station site are specifically designed and built to sell fuel and allied products. Therefore an investor’s primary interest in a service station is its income stream and desirable return on his equity. It is therefore important to determine who is your client and whose hat you are wearing. Set industry standards by means of initiating workshops to assess different scenarios that could serve as a guideline for valuers.

The next speaker was Gerrie Minnaar of Engel and Volkers Commercial on Rentable areas versus sectional areas in commercial buildings.

Definitions of areas in commercial buildings

In order to standardise the reference, calculation and utilisation of the various areas in office buildings, The South African Property Owners Association (SAPOA) has formulated and produced what is commonly known as the Method for Measuring Floor Areas in Buildings which relates to office, retail, industrial as well as residential buildings. In this presentation reference will only be made to the differences between rentable areas and sectional areas in office buildings.

The following definitions are extracted from the 1992 and 2005 editions of the Method for Measuring Floor Areas in Buildings:

Construction area covers the entire covered built area which is the sum of the areas measured at each floor level over any external walls to the external finished surface, including basement parking, ground floor lobbies, corridors, basements, mezzanine floors, stairwells, lift shafts, duct spaces, machine room floors, lift motor rooms, penthouses and the like. Its main use is to determine the replacement cost or the building cost. Only the lowest levels of atria are to be included and all openings on other levels from atria, are to be excluded.

Building area (also commonly referred to as gross building area or GBA) includes the construction area but excludes major vertical penetrations, basements and parking. It is used mainly by planning consultants in order to plan and execute a building in accordance with the permissible floor area ratio, which is derived from the zoning of the property. It is fixed for the life of a building but it should be noted that different local authorities may interpret the National Building Regulations which regulate the floor area ratio definition in slightly different ways.

Rentable area (also commonly referred to as gross lettable area or GLA) is the total area of the building enclosed by the dominant face, adjusted by deducting major vertical penetrations such as stairs and landings, lift shafts, flues, pipe shafts and vertical ducts which serves more than one floor; it does include additional services such as stairs, dumb-waiters and lifts which exclusively serve a tenant occupying offices on more than one floor. No deduction is made for columns. Its intended use is for determining the revenue-producing area of a building which consists of the rentable area, supplementary area and parking. Investors, lenders, developers, architects and valuers use the rentable area to analyse the economic potential of a building.
The rentable area has a minimum floor-to-ceiling height of 1.5m, comprises useable area plus common area but excludes a supplementary area which may produce additional revenue and fixed for the life of a building; it is the same for single-and multi-let floors which makes the rental rates of single-and multi-let floors/buildings comparable.

Useable area is the area capable of exclusive occupation by the tenant or the total area of the building enclosed by the dominant face, adjusted by deducting all common area and major vertical penetrations. No deduction is made for columns. Its intended use is the essential part of rentable area and the basis for the apportionment of common area.

The useable area may vary over the life of a multi-tenancy building, as it is partly used for passages to give access to multiple tenancies and for fire escape/access passages defined as secondary common area. In the case of single tenancy per floor, secondary common area is deemed to be useable area. On a single tenancy floor, useable area is measured to the inner finished surface of the common area or major vertical penetration enclosing walls. On a multi-tenancy floor this principle remains, but useable areas of tenancies are measured to the centre line of partition walls shared by adjacent tenants and to the inner finished surface of the other internal closing walls, or where an access passage exists, to the inner finished surface of the partition wall defining the access passage. On multi-tenant floors the useable area can vary over the life of a building as corridors expand, contracts change and as floors are remodelled. The rentable area comprises useable area plus common area.

Supplementary area is any additional revenue-producing component that falls outside the definition of rentable area; it need not be weatherproof, and includes, for example, storerooms, balconies, terraces, patios, access/service passages and signage/advertising area, and parking areas demarcated for the use of the tenant. Parking bays are measured by number. The basis of measurement of supplementary area is agreed between landlord and tenant. Different supplementary areas may attract discrete rentals, and are therefore independently listed.

Floor area ratio (FAR) is the maximum building area permitted by the local authority on a specific property as specified in terms of the zoning certificate issued for the property. This calculation is often used to quantify the parking requirement for the building. Note: There may be significant variance between the interpretations of different local authorities for the purposes of defining FAR. Other terms commonly used to denote FAR include ‘Bulk’ and ‘FSR’ (floor space ratio).

Ratio definitions
- \( R/U \text{ RATIO} = \frac{\text{Rentable area}}{\text{Useable area}} \)

Note: This ratio may vary during the life of a building (refer secondary common area).

General definitions
Atrium - a weatherproof interior space, accessible and capable
of use by the tenant at the lowest level; voids in floors above atrium space shall not be included in rentable area.

Dominant face - that portion of the inside finished surface of the permanent outer building wall in office areas, which is 50% or more of the vertical floor-to-ceiling elevation area of each panel measured at the lowest point of the dominant face; the dominant face shall apply to each panel (between lateral changes of direction) of floor-to-ceiling elevation as viewed from the interior of the building; structural elements, non-typical decorative recesses or protrusions, joinery fixtures, air-conditioning units, bulkheads, skirtings, etc. between regular windows or panels shall be ignored.

Major vertical penetrations - stairs and landings, lift shafts, flues, pipe shafts, vertical ducts, and the like, and their enclosing walls; exceeding 0.5m² in area shall be deducted from rentable area. Where an unenclosed landing and lift lobby are integral, the landing shall not be a major vertical penetration; where a landing provides access to toilets, kitchens, etc. it shall nevertheless remain a major vertical penetration; any major vertical penetration created at the specific request of and for the exclusive use of the tenant shall be rentable area. Where pipe-shafts, duct cupboards, etc exceeding 0.5m² in area are laterally sealed at each floor, they shall not be considered major vertical penetrations for the purpose of this definition

Remote service areas and plant rooms - remote refuse rooms, electrical sub-stations, transformer rooms, central air-conditioning plant rooms, lift motor rooms, etc shall be included in primary common area.

Storage area - dedicated storage areas within useable area, shall be included as useable area; dedicated storage areas are separately listed as supplementary areas.

The Sectional Titles Act, 1986 (Act 95 of 1986)
The following definitions in terms of the Sectional Titles Act 1986 (Act 95 of 1986) are applicable:

Common property in relation to a scheme, means a) the land included in the scheme; b) such parts of the building or buildings as are not included in a section; and c) land referred to in Section 26;

exclusive use area means a part or parts of the common property for the exclusive use by the owner or owners of one or more sections, as contemplated in Section 27;

section means a section shown as such on a sectional plan;

sectional plan in relation to a scheme, means a plan approved by the Surveyor-General: which is described as a sectional plan; which shows the building or buildings and the land comprised in the scheme, as divided into two or more sections and common property; and which complies with the requirements of Section 5, and includes a sectional plan of subdivision, consolidation or extension as provided for in the Act.

undivided share in common property in relation to an owner, means an undivided share of that owner in common property as determined in accordance with the quota of the section of which he is the owner and, in relation to a section, means an undivided share in common property apportioned to that section in accordance with the quota of the section;

unit means a section together with its undivided share in common property apportioned to that section in accordance with the quota of the section.

Definition of sectional areas
Floor areas in sectional title schemes, whether for office or residential purposes, are defined in terms of the Sectional Titles Act 1986 (Act 95 of 1986) under Section 5 and subsections 3,4,5 and 6 as follows:
3. A sectional plan shall – a) delineate the boundaries of the land in accordance with the relevant diagram or general plan and the location of the relevant building or buildings in relation thereto: Provided that any error in such diagram or general plan in regard to the boundaries of the land shall be rectified in terms of the Land Survey Act, 1927 (Act No. 9 of 1927), prior to the preparation of the sectional plan:

Provided further that if the Surveyor-General does not require rectification of such diagram or general plan, the land surveyor shall record his own dimensions on that part of the draft sectional plan referred to in this paragraph;

b) indicate the name of the scheme;

c) include a plan to scale of each storey in the building or buildings shown thereon;

d) subject to subsections (4) and (5), define the boundaries of each section in the building or buildings, and distinguish each section by a number;

e) show the floor area to the median line of the boundary walls of each section, correct to the nearest square metre, and the total of the floor areas of all the sections;

f) delineate in the prescribed manner any exclusive use area;

g) have endorsed upon or annexed to it a schedule specifying the quota of each section in accordance with section 32(1) or (2) and the total of the quotas of all sections shown thereon; and

h) be drawn in such manner and contain such other particulars as may be prescribed.

4. The common boundary between any section and another section or common property shall be the median line of the dividing floor, wall or ceiling, as the case may be.

5. For the purposes of subsection (3)(d) the boundaries of a section shall be defined –

a) by reference to the floors, walls and ceilings thereof, or as may be prescribed; and

b) in respect of a part of a section (such as a stoep, porch, balcony, atrium or projection) of which the boundaries cannot be defined in terms of paragraph (a) but being appurtenant (pertaining) to a part of that section which can be defined in terms of that paragraph, in the manner prescribed.

6. A section may consist of non-contiguous parts of a building or buildings.

Gerrie concluded by determining the market value of a building using rentable floor areas with an example of income and expenditure calculation, then worked out the market value of the building using sectional floor areas also using income and expenditure calculation.

After tea Hein Hartman of Hartman Professional Enterprises did a presentation on The valuation of abattoirs. (This topic was handled in the July 2012 edition of The South African Valuer, No 109, in a write-up of a talk by Rudi van der Westhuizen.)

The final presentation was by Johan Cloete, MD of Rode Residential Valuations and Danéel van Eck, MD of FormValue who spoke on Improving turnaround times and report writing. This was followed by closure by André Zybants and lunch.
AN ECONOMY IN TURMOIL CONTINUES TO IMPACT THE COMMERCIAL PROPERTY MARKET

Leading industrial and commercial property investment company, Improvon, recently hosted its annual Property Trends Forum at Green Park in Sandton. The forum, renowned for bringing together commercial property experts to analyse the major trends and challenges facing the industry, is now in its fourth year. The forum has a tradition of sparking lively debate, and the 2014 forum was no exception. The panel was made up of self-employed political and economic analyst, JP Landman, property economist and head of Property Studies at the University of Cape Town, Professor Francois Viruly and Chief Investment Officer of Stanlib Direct Property Investments, Amelia Beattie.

A major trend and concern the panel noted was the contraction of the economy, on both a national and international level. The fundamental issues that led to the global crisis are still present, argued Viruly, and the result is a global economy that remains in turmoil. Landman concurred and pointed out that the global property scene has changed dramatically in the past three months, with events that seemed unthinkable coming to pass – he cited France and Germany’s slumps as examples. With a rise in interest rates globally, South Africa is sure to follow, he warned.

Feeding into this is the continued contraction of rental growth numbers, as well as unsecured lending – particularly in the retail sector – which is placing significant stress on the economy, Beattie contended. This battle is playing out primarily in cities, she asserted, and it is here that the property sector will fail or succeed.

“There is a good understanding within the National Treasury of the importance of cities,” added Viruly. “Over 60% of South Africa is an urbanised population and there is a growing realisation that if our cities fail, South Africa as a country cannot succeed. As a result, the property sector’s most important role going forward is to ensure growth.”

Filling the skills deficit through a comprehensive skills plan developed by industry bodies and government is the surest way to achieve this growth, Beattie pointed out. There is currently a shortage of town planners, inspectors and valuers, and industry bodies have a responsibility to collaborate with government to build the necessary capacity to effectively sell the South African property sector to investors both locally and internationally.

The panel agreed on the need to sell not only the South African story, but the wider African tale, but differed on the approach. Landman advised the industry to look at local investors, first and foremost, and forget about trying to entice foreign investors to our shores. “If locals buy property, foreigners will too. However, it’s necessary to create an attractive and inviting investment environment for local investors. Once we have achieved that, international investors will follow.”

Focusing on South Africa’s role within the continental growth story is vital, argued Viruly. Africa is growing at 5,5% and as it continues to expand, South Africa needs to ensure it is not left behind. “Six cities the equivalent size of Johannesburg are currently in the process of being built on the rest of the continent,” he proclaimed, making it necessary to determine what South Africa’s unique selling point is. Simply being the gateway into Africa may no longer be enough going forward.

The property sector needs to start thinking more creatively about deal-making and how international partners can be brought in, Beattie stated. “The fundamentals of the property industry in South Africa are strong – it is an ethical and transparent sector with active participation, good returns on rentals and valuable property – how the story is framed becomes key.”

JP Landman, Francois Viruly, Amelia Beattie
After studying at Cape Town, Stellenbosch and Cambridge, there was one thing of which I was certain: I did not wish to practise law.

After unsuccessfully digging minerals near Pofadder I entered the property field in 1959. The level of professional standards at that time was disillusioning to someone who had spent several years at university. Additionally, I found myself with an inadequate understanding of economics and obtained the consent of the University of Cape Town to undertake a PhD on a part-time basis. I began to explore all the literature of world countries on valuation which I could find.

At the end of the Great War in 1918 the University of London and the University of Cambridge commenced degrees in valuation, the courses being described as ‘Estate Management’. By the time I went to study in England these courses were no longer well regarded. London University terminated its degree. Cambridge, unlike South African universities, is a federation of some 30 autonomous colleges and the one to which I went would not accept students for the university’s ‘Estate Management’ degree. Finally this degree was replaced by ‘Land Economy’ which required the student to pass the first part of an economics degree and thereafter to specialise in land economy. A graduate of the new Cambridge degree joined our Johannesburg office and was a huge support to me in negotiations with the Registrar of Financial Institutions on the first REIT model legislation in South Africa.

In 1960 the United States Congress passed REIT legislation. In the mid-1960s I visited every country that had investment vehicles of a ‘REIT’ character. I presented a proposal in early 1968 for REIT type legislation to the Registrar of Financial Institutions and Secretary for Finance, Mr Gerald Browne, to whom the Registrar reported. Mr Browne decided that legislation should be drafted for submission to Parliament. Long discussions with the Registrar followed. The Registrar had the engaging habit of sitting in his huge office in the Union Buildings wearing a large hat, but otherwise he was not engaging and was a proponent of state control rather than market freedom. He insisted on having the power to approve all trust deeds which proved to be an inhibiting factor in the growth of property funds and led to the formation of vehicles based upon the English institution of income debentures.

It is surprising that the REIT approach is sometimes thought to be a recent innovation in South Africa. Much valuation work today is directed towards vehicles of this character listed on the Johannesburg Stock Exchange

In South Africa there were in 1959 no degrees in valuation and I proposed to UNISA that they should establish a part time degree which would be available to both existing professionals and new students. This proposal was not accepted, but ultimately several universities have created degrees of good quality. Before the commencement of these degrees the Graduate School of Business (GSB) at UCT within the Masters Programme provided a course on Real Estate Finance. This was taught by an extremely competent lecturer and I was the external examiner. He and I agreed that our work should be made available to a wider audience and we jointly created The Property Develop-
The topics on which I wrote for the Journal of Economics were ‘Economics of Town Planning’, ‘Urban Renewal’, ‘Compensation and Betterment’ and ‘Rating Valuations’; to the Law Journal I contributed articles on ‘Compensation upon Expropriation’, ‘Value of Land for Sub Division’ and ‘Rent Control’.

I consolidated my diverse writing into a book published by Juta in 1970 Economic and Legal Aspects of Real Estate in South Africa. This was essentially written for the legal profession in the hope that valuation issues would be better understood by legislators and courts, and for a period of time it formed part of the library of most senior counsel. It was reprinted and thereafter Juta wished me to prepare a revision. From their point of view the book had been a resounding success, but I had said what I wished to say and did not want to incur the considerable burden of revising the large number of references that are an inevitable part of a legal book.

At the time I entered the profession in 1959 in terms of valuation methods there had been no advance since the publication of valuation tables in the 19th century. The most used tables were those produced by Parry in 1913.

In 1960 William Hewlett charged his engineers with producing a hand-held financial calculator. The outcome was the revolutionary HP80. Valuation tables and the slide rule fell into disuse. However, in order to solve Internal Rate of Return (IRR) problems we commissioned a mathematically competent software expert to write a program which we could run on an enormous HP desktop machine. The spreadsheet was not yet on the horizon.

In 1979 Dan Bricklin, while a student at the Harvard Business School, produced the first spreadsheet, VisiCalc, which changed valuations (plus much else) forever. Our giant desktop calculator had inadequate memory for VisiCalc and the calculation of a valuation had to be done through running different stages of the process on the machine.

Shortly before I made a visit to New York I saw an article in The Economist in 1981 about a new product of IBM described as a ‘personal computer’ (PC). IBM had a showroom on Fifth Avenue, New York, from which this machine could be bought and I duly used my credit card and proceeded extremely late for the airport to fly back to South Africa. IBM had told me that at the airport I would be able to obtain a rebate on New York State tax by going to a certain office, but my late arrival at the airport did not permit this. On my return to South Africa I wrote to the State of New York sending the invoice for the PC and explaining that I had not been able to go to the relevant office at Kennedy airport. I had a sharp reply from the State of New York saying that if it had been known to their office that I was taking the machine out of the United States it would have been confiscated as a forbidden export to Russia and to South Africa.

I also incurred the wrath of the South African Reserve Bank because I had exceeded the limits they imposed on the use of credit cards in foreign countries. However, I kept the PC and the Reserve Bank accepted my explanation that although I had exceeded the credit card limit I had taken a step in the interests of the South African economy, as I had acquired the first IBM PC in the country.

The quality of valuation practice and the academic support in South Africa is now very different to what it was in 1959. Those entering the profession are able to obtain university qualifications on a par with those available in other disciplines. One thing remains unchanged: the benefit to those entering the profession of close mentoring in their early years by an older person of wider experience.

My own career has been composed of disparate elements, some of them in my younger years being court related. The first occasion on which I was called to be an expert witness was against the tax authority. I took this very seriously. Before the case I talked with a number of more experienced valuers in Cape Town about the case and in doing so stumbled across an element which I thought might be of interest to the judge. When I was called to give evidence I asked him if I might make a statement before being questioned: I informed him that the revenue authorities had obtained about ten valuations of which they rejected all except one which happened to suit their particular purposes. The judge listened carefully and called senior counsel
on both sides into his chambers. On reconvening the court the judge announced that the revenue authorities were withdrawing.

Another occasion I remember with some pleasure arose in acting for Rand Mines relating to a large area of land surrounding the Johannesburg Central Business District which had been expropriated for a freeway and also for a produce market. I was to be the second witness. I watched opposing senior counsel reduce an elderly man of great accomplishment to tears. When I was called for cross examination this hostile advocate began throwing numerical figures at me and I listened while doodling on a notebook. At the end of counsel haranguing he asked me what the answer was, to which I responded I was waiting with interest to hear the answer from him. He was extremely angry. So I said should he not be able to do the calculations if he would give me the notes from which he was reading I would get a member of our Johannesburg staff to work the figures out for him during lunchtime. Subsequently, a university law professor who obviously did not like this Counsel came to me with an expression of praise.

On a note of conclusion a piece of advice for young valuers: never listen to any valuation figure from a client that he desires the valuer to provide. To do so would be to enter the oldest profession which is better left to those who ply their trade on the street.

Peter Penny
October 2014

Dr Penny is the oldest serving member of the Southern Branch of the SAIV.
SAPOA Chairperson and Chief Investment Officer at Stanlib Direct Property Investments, Amelia Beattie, has been active in the commercial property sector for over 15 years and shares her insights into property trends and how best to sell the South African story, despite its challenges, to the rest of the world.

A severe contraction in rental growth numbers, and the mounting impact of traffic and infrastructural problems particularly in cities means that the property industry needs to start thinking much more creatively about how to make and conclude deals, as well as develop new solutions that will bring in international partners. Furthermore, the industry must think laterally about how South Africa can maintain its position as the gateway into Africa. The fundamentals of the property proposition in South Africa are strong, with positive returns on rentals, but the sector needs to find fresh ways of making the rest of the world see the true value of the property sector and overcome the challenges facing the industry.

Issues such as unsecured lending, most especially in retail, pose a risk and have the potential to derail the sector as the practice is placing large amounts of stress on the economy. Looking at retail group Edcon in particular, it is possible to conclude that the organisation is ripe for business rescue, but by the time the company is ready to admit defeat, it will have a hugely negative impact on the rental portfolio. For this reason, Stanlib Direct Property Investments is in the process of formulating a formal response to the Department of Trade and Industry to challenge current business rescue legislation in an attempt to mitigate these risks.

Skills deficits within local municipalities provide further challenges as there is a noticeable paucity of inspectors, valuers and town planners. It is imperative to fill this gap, and industry bodies have a responsibility to work with government to implement educational programmes and skills plans. A substantial 87% of Chief Financial Officers within municipalities do not even have financial qualifications, and the only way to begin to bring down this figure is by industry and government partnering and combining resources to implement skills strategies.

Despite the obstacles, South Africa’s property sector remains, by and large, ethical and transparent. This is the story that should be sold to potential international investors, together with examples of the types of properties on the market – it will then be possible for investors to understand that available commercial properties locally are up to the standards of any investment overseas and in fact, frequently offer better value.

Fitting the South African story into the bigger African picture will offer more opportunities for the sector, as there is global wave of investment flowing into the continent. The country could ride this wave by investing in global trends such as sustainability and implementing independent valuations. There are enormous opportunities in sustainability, but it is vital to take it down to home level and start with the individual, otherwise it is doomed to fail. Once there is buy-in from individuals, it will filter upwards and catch on at macro levels. It is also important to find unique selling points for renewable energy, instead of merely focusing on return-on-investment.

Valuations undertaken independently of municipalities is a further trend that could boost the South African property sector. Most owners get their properties independently valued, so by implementing this policy, it could save time and money by eliminating double valuations. However, there is a need to standardise valuations and it will take time to implement, but it will undoubtedly offer a wealth of opportunities in the future.
Introduction
What is the emerging best practice for the preparation and maintenance of general valuation rolls? What lessons have been learned since the promulgation of the Municipal Property Rates Act in 2005? How do we get back to the basics to ensure quality valuation rolls and fair rating practices for the ratepayers? We need mass appraisal skills and a set of standards to ensure that the valuation rolls which determine our property rates are both accurate and equitable.

Legislative framework
The Local Government: Municipal Property Rates Act No 6 of 2004 (MPRA) heralded a new era for property rating for South Africa. The Western Cape was ahead of the pack because their previous Provincial Rating Ordinance provided for the market valuation of land and buildings. The rest of the country had to play ‘catch up’ as we got our processes and systems to reflect the market value of each property as a whole as opposed to the value of land as vacant and the depreciated replacement cost of buildings. The MPRA is a complicated piece of legislation. Strangely the MPRA did not prompt the handholding and capacity building that went with the implementation of the Local Government: Municipal Finance Management Act No 56 of 2003. It is a fact that most municipalities derive between 25-30% of their revenue from levying property rates. Over the past few years there have been some casualties: some municipalities have failed to comply, some a little, others a lot. Certain municipal valuers have performed 110% and others have not. What are we doing about this?

The new MPRA Amendments have added even more complexity to the mix. On top of the existing provisions municipalities will have to meet the prescriptive monitoring by their respective local government MECs. Municipal valuers will be required to submit monthly progress reports on the general valuation projects. These are all good solid steps to ensure that the procedural requirements are met. These provisions don’t necessarily address the accuracy of the valuation rolls. It is these valuation rolls which municipalities monetise through levying property rates.

What steps are being taken to standardise the preparation and maintenance of valuation rolls of our municipalities? What qualifications are being put in place to develop mass appraisal skills for the valuer profession? What competencies are being developed within municipalities to provide reliable property data administration and appropriate contract management for the valuation service providers? What best practice is there and how is it being scaled up?

Valuation methodology for valuations for the purposes of municipal rating
S45 (1) of the MPRA requires that valuations must be carried out in accordance with generally recognised practices, methods and standards of valuation.

In following this process, the MPRA provides that valuers may use comparative, analytical and other systems or techniques, including aerial photography and computer assisted mass appraisal (CAMA) systems. Mass appraisal is an optional tool available to the valuer in order to achieve the requirements of best practice as stipulated in S45(1).

What is mass appraisal? It is the process of valuing a group of properties at a given date using common data, standardised procedures and statistical testing to ensure uniformity and equity in valuations.

If the municipal valuer uses mass appraisal as a technique to determine market value, then the mathematical models that are applied to the property data to calculate value should be available and open to scrutiny by both the client and the ratepayer.

In South Africa, too few registered valuers may claim competency in the successful application of mass appraisal techniques. Even today, value modelling is still very much the domain of statisticians and academics and less so of the practising valuer. Fewer still are capable of articulating the subject in a language that we can fully understand. As a result, audiences are quiet for fear of exposing their ignorance. The trend in South Africa has been for the CAMA technique to be applied to a combination of larger municipalities operating under tight project timeframes. We have, in many ways, put the cart before the horse. The rules
and standards of mass appraisal remain an off-shore reference point. Our reality is under-valuations and disparities within our valuation rolls. This impacts on the municipality’s capacity to collect rates revenue.

The valuation profession must have mass appraisal training if our clients, the municipalities, are to benefit from this competency.

**IAAO mass appraisal guidelines**

The International Association of Assessing Officers (IAAO) published a guideline on mass appraisal and related tax policy in January 2014. This guideline provides a systematic overview of how property tax professionals can improve and standardise their operations. This is an international guideline pitched at first world professionals. In order for these guidelines to be relevant they need to be customised to meet our country’s specific legislative framework and local capacity. In the UK, property tax is a payment for local services rather than a tax on property wealth. In Canada home-owners lodge their building plan applications online and ascribe the escalated value to their own properties. The checks and balances are that the state has the first option of purchase. Sweden relies on well designed tax payer declarations.

The IAAO does have a clear central message which we need to adhere to: valuation and taxation principles must be visible, transparent and include certain controls.

These processes are a distant reality here in South Africa.

**The way forward**

So where do we go from here? Ten years on from the promulgation of the MPRA the South African Institute of Valuers has initiated a project in collaboration with the International Property Tax Institute (IPTI) and the University of Pretoria. The purpose of the project is to develop a set of municipal valuation standards which are appropriate to the South African context. The second undertaking is for a relevant and appropriate curriculum to be developed to ensure that the municipal valuers using mass appraisal techniques do so from a qualified position. IPTI’s Riel Franzsen, advises that discussions are under way to bring relevant executive training courses to South African valuers specifically to address this issue.

In most countries across the world, government is the property tax administrator and employs full time property appraisers to fulfill this function. In South Africa, local municipalities have the mandate to levy property rates or taxes. Only the metros and a few other municipalities enjoy the privilege of employing in-house valuation departments. The rest of the municipalities outsource the function to valuation service providers sourced from the private sector. It is on this cornerstone that the valuation profession must take up its responsibility to develop both the curriculum and standards against which their services to the public sector may be evaluated and adjudicated. This is not the responsibility of government or the South African Council for Property Valuers Profession (SACPVP), the professional watchdog.

**General valuation contract management**

The procurement of the valuation service providers for municipalities is driven through supply chain management and open bid processes. The bid specification guidelines provided by the Department of Cooperative Governance and Traditional Affairs (CoGTA) are exhaustive. It is a parody that the bid specifications for a metro are equally applied to a municipality of fewer than 2 000 properties. The terms of reference are highly technical and the required submissions complicated. Most municipalities have limited evaluation and adjudication resources who do not necessarily understand the technical content of the bid submissions. The duration of the contracts is lengthy, covering both the initial general valuation, followed by three to four years of roll maintenance. Typically procurement processes are delayed. This results in the contract award being made at a very late stage and impacting upon the time frames for the important roll review phase of the projects. Supplementary rolls become the mechanism for ongoing repair. Damaged relationships between the municipality and its valuation service provider are an obvious casualty.

There is a further disconnect: once the municipality has procured a valuation service provider it generally doesn’t have the resources nor capacity to manage these contracts. There is limited contract management to ensure that the deliverables and processes meet the stringent requirements detailed in the bid. Often neither the quality assurance plans for either property data nor valuation data are implemented. The bottom line is that the municipality just wants the certified valuation roll. Crashed time frames impact on the service provider’s ability to deliver a quality product. Too often the value review phase is just skipped past and the municipality is presented with a final certified roll just before the statutory deadlines. Everyone breathes a huge sigh of relief, the roll is in.

Emerging best practice is for municipalities to appoint an independent project manager to support the municipality in both planning and managing these general valuation contracts. Municipalities should collaborate to share these project management resources.

The SA Institute of Valuers (SAIV) and the Institute of Municipal Financial Officers (IMFO), signed a Memorandum of Understanding in March 2014. The purpose was to develop a curriculum for municipal competencies which would complement the municipal valuer’s scope of work. In fact the need was identified for these skills to embrace the broad real estate function within municipalities. This partnership between the private and public sector will result in a series of technical workshops being rolled out across the country to address upskilling municipal officials
who work in this space during 2015.

Proposed SA mass appraisal standards and a curriculum to address these

Valuations for municipal rating in South Africa is a specialised field within the valuation profession. All municipal valuers must perform to meet minimum standards for the preparation and maintenance of municipal valuation rolls. Unless, and until both the competencies and performance criteria for municipal valuers are defined and aligned, this field of work will remain cast aside by the rest of the profession and outsiders as a virtual free-for-all. Until this happens, it is no surprise that more and more opportunistic bid entities, often without any valuer competencies, are emerging – and being awarded - municipal valuation projects. It is a fact that many general valuation contracts are not monitored or managed by valuers with sufficient expertise or experience in this specialised field.

So let’s un-pack the proposed MPRA standards and what they could mean for municipalities and municipal valuers in South Africa. There are obvious cost benefits through using a mass appraisal technique in preparing the larger general valuation rolls. The object is to produce equitable valuations at low cost under tight time constraints. It is the local municipality’s mandate to plan, budget, organise and control the process. General valuations must be conducted at least every five years in terms of the MPRA Amendment Act, with a further option of a two-year extension if condoned by the MEC.

Critical lessons have been learned from the first two general valuation cycles since the promulgation of the MPRA. There is a growing body of knowledge around emerging best practice. The valuation profession has a responsibility to work together in packaging this knowledge to develop appropriate and relevant standards.

The proposed MPRA standards will be drafted and work-shopped with the valuation profession. It is important to note that the MPRA standards will INCLUDE provision for mass appraisal standards. It is also notable that mass appraisals are an option and not mandatory for municipal valuations. The standards must be relevant and appropriate in terms of our legislative framework and the capacity constraints. There is no point in developing a fancy Mercedes when a robust Toyota is the best fit for the job at hand.

The valuation profession in South Africa is governed by the SACPVP. All professional valuers must register with the Council which forms part of the Built Environment. The SACPVP has the mandate to protect the public. The public makes up our ratepayers. The SACPVP must ensure that municipal valuations prepared by professional valuers are fair and equitable. Appropriate standards must be developed by the profession. These will provide the benchmark which the SACPVP may use to adjudicate the performance of municipal valuers. The proposed MPRA guidelines are planned for rollout by June 2015.

Closing remarks

There is emerging best practice for the preparation and maintenance of general valuation rolls. This, together with the lessons learned since the promulgation of the Municipal Property Rates Act in 2005, needs to be assembled to improve the quality of service which we as professional valuers provide to our municipal clients. The development of appropriate MPRA standards will ensure that we get back to the basics of ensuring mechanisms for the presentation of quality valuation rolls and fair rating practices for the ratepayers. We need MPRA standards and an appropriate curriculum for our municipal valuers. These steps will go the distance towards ensuring that the valuation rolls which determine our property rates are both accurate and equitable, that municipalities can accurately budget for their rates income, thereby ensuring that they can deliver the services they are required to deliver in terms of their constitutional mandate.

By Janet Channing  (BA MPhil NDPV)
Managing Director of MetGovis, is a registered property valuer. She has a wealth of experience in municipal valuations and rating as well as project management within the local government. Her specific interest is to drive the development of the municipal real estate qualification to build capacity within the public sector. Janet was nominated by the SAV KZN Branch Executive to head the portfolio committee on behalf of the SAV to develop appropriate standards for the MPRA. Janet is also a RICS civil commercial mediator. Janet may be contacted on 033 343 2868 or email: janet@metgovis.co.za
Mass appraisal/valuations: professional development and international perspective

Professional development: mass appraisal/valuation sector

We have been requested to provide feedback on the 80th International Association of Assessing Officers (IAAO) Conference held in Sacramento, United States, from 24 to 27 August 2014 which we attended and presented as the South Africa delegation and as representatives of KZN-CoGTA. First, here is a backdrop and historical perspective to property rating and valuation evolution in the build-up to MPRA implementation that started in 2006.

A. Backdrop and historical perspective - property rating and valuation

Valuers who began operating in the municipal mass appraisal space know that they have experienced an unprecedented and rapid rate of change since the MPRA’s initial implementation in 2006. Based on these changes and the challenges that arose, one may argue that the profession was caught unawares and maybe left behind in the wake of the mass appraisal technological advancements. Some eight years on, we are beginning to realise that there will be professional development challenges if a ‘revival for survival’ strategy is not initiated. There is a need for the profession to pause and reflect on where we have come from in order to revive, rebuild and provide direction around municipal mass valuations/appraisal. This action of reflection can then act as a catalyst to advance education, growth and the development of the profession in mass appraisal to support municipalities to deliver their mandates.

So, where potentially have valuers been left behind?
1. Advances in technology
2. Government sector institutional memory loss or diminishing mass appraisal skill
3. Insufficient training and education on mass appraisal (theory and practical); and
4. No standards adopted in South Africa for mass appraisal.

Let’s consider these for a moment and reflect.

1. Advances in technology

Valuer tools - changes from the old hard copy block plans to GIS integration.

Some of the older valuers, who worked within larger municipalities may recall that valuations for rating were performed in-house using the available technology, which included recording zonings, re-zonings, special consents, development restrictions, sales and other reference data on hard copy cadastral block plans. These cadastral plans covered the entire municipal area and were the primary data sources and tools that valuers used to apply their minds in supplementary valuations and in revaluations. These cadastral plans were also effective evidence during an appeal defence, with the history of information available by locality. Sales and re-sales recorded in this fashion offered an easy reference to evidence for defence. Though one still inspected and prepared for the appeals and created sales schedules for the appeal board, the effort of gathering and recording sales (analysed and validated) and market evidence was readily available.

A further benefit of readily available sales data and market information which were updated on an ongoing basis was that they supported both the ad hoc market valuations and periodic municipal revaluations. The main point was that this procedure was institutionally developed over a ±30-year period and was tried and tested.

There was minimal computerisation in the early years. Systems were the centralised main frame type with dumb capture terminals which allowed for minimal data. Before the MPRA was implemented in 2006 each province had separate rating legislation which also determined the basis of valuation. Many municipalities valued the land at market value but some included the value of buildings based on cost less depreciation.

How has technology changed the way valuation rolls were prepared and valued?

The prominence of the GIS as a tool for the valuer has revolutionised how property cadastral data are made available and accessible spatially through sophisticated software. Whilst the GIS is a great tool for the valuer, during initial introduction valuers were not skilled in GIS systems and their use and did not know how to use GIS and its technology. This technological challenge overtook many valuers who never acquired the GIS skills and were therefore required to partner with GIS and IT experts for support. The valuer was no longer directly in control of the data and information that he/she relied upon to produce valuations.
This change also resulted in shifting and varied roles and responsibilities and created some level of disjoint in establishing the property registers (cadastral data) for the rolls. The resistance to technological change was largely brought about as a result of the steep learning curve to convert to GIS software and there are still many valuers who have not found it necessary to acquire the GIS skills even at a basic level.

From a personal perspective, not having the basics of GIS is an extreme limitation for a valuer operating in mass appraisal today. Internationally, the integration and the expansion of skills necessary for GIS and CAMA (mass appraisal) was recognised some 15 years ago, and the training and development in this area has grown considerably, with an annual conference held in the US solely on CAMA and GIS integration by URISA. The valuer profession is slowly realising that mass appraisal is more of a production line routine with specific expertise required across the production line phases, and this is distinctly different from the valuation of single property.

Advent of computer assisted mass appraisal (CAMA) techniques

As the MPRA implementation grew from 2006, it became clear that municipalities did not have sufficient internal resources or the technical valuation skills to implement the MPRA and therefore were forced to outsource valuations and roll. Computer assisted mass appraisal (CAMA) techniques which were being applied internationally for mass appraisal were now being introduced into South Africa to promote efficiencies and economies of scale. The impact was felt by the valuer profession where many of us were used to single property valuations and were now being drawn into a mass appraisal process that was not fully understood. This was another extreme learning curve where predicted values were being generated by CAMA systems after data collection, sales review and modelling. The valuer was also confronted with a whole new dilemma as the MPRA legislated that “inspection of a property is optional”.

The question posed was how could one value a property without inspecting it? This is a valid question, and what the valuer profession has come to learn is that data collection, maintenance and its management is probably the most important part of a revaluation and also the most costly if conducted properly. If collected and maintained properly, however, the cost of subsequent revaluations should most certainly reduce. From experience we note that in many cases there was a concerted effort to inspect property but not all properties were inspected because of access refusal by owners or in some cases poor data collection management.

The valuer of yesterday cannot hope to be competitive, competent and survive in a rapidly changing profession without adapting to technological advancements. There are many other examples of technology impacting on the professional development of valuers which highlight the need for standardisation, monitoring, training and education.

2. Government sector institutional memory loss or diminishing mass appraisal skills

What happened to the structured way that trainee/candidate valuers were trained in the past, in particular, within larger municipalities? I have come to the conclusion that the training ground for valuers has all but disappeared from the government and municipal sector. Established and functional valuation departments within municipalities were systematically downsized by natural attrition and when the MPRA arrived most had to rely on contracted valuers to carry out general valuations.

Some 15 to 20 years ago the government sector and larger municipalities provided the training ground for the valuer profession and over the years produced many valuers. What does stand out is the impact of the progressive loss in institutional ‘valuation’ memory where, for example, as a new candidate valuer joining a municipality you had the benefit of hands-on practical training in a structured environment and where there was year upon year of experience to reference.

The internal valuers became your mentors/supervisors for the duration of your training and this body of knowledge and expertise has unfortunately diminished over the years as institutional memory has diminished, to the detriment of the profession. If one considers international norms of staffing for mass appraisal and property assessment offices, there seems to be an indication of around 3 000 parcels per staff resource and for the mass appraisal function only around 10 000 parcels per assessor. These international benchmarks would need to be analysed and researched further to determine reasonable resource levels for the South African context.

So, to ensure the survival of the mass appraisal profession, one would need to muster a strong revival of institutional memory within the government and municipal sector and grow and develop the required MPRA/mass appraisal skills. The creation of a public sector: professional associated valuer/professional valuer is considered a step in the right direction provided that the necessary educational accreditation and competency accreditation are regulated and monitored to maintain professionalism.

3. Insufficient training and education on mass appraisal (theory and practical)

As a result of the MPRA and rapid changes brought about by technological advancements, the current education and training programmes offered by the profession to train and develop candidate valuers on mass appraisal is, we believe, obsolete. It is internationally recognised that mass appraisal is a separate branch or specialisation of valuation and, based on our legislation in South Africa, it should probably be recognised as such.
There has been continued reliance on the old order curriculum to train and educate candidate valuers; this has not been updated to accommodate mass appraisal and advancing technologies in this specialised field.

Current training and educational courses offered do not cater for MPRA or mass appraisal development within the valuer profession and dedicated effort is required to identify existing and/or develop new curriculum material aimed at building knowledge and competencies in mass appraisal.

4. No standards adopted in South Africa for mass appraisal

Historically in South Africa, there has never been any mass appraisal standard, and some may argue why the fuss now?

In our experience in monitoring the implementation of the MPRA and serving on valuation appeal boards, it is acknowledged that there are shortcomings in the quality of valuation rolls. We believe this is because there is no mass appraisal ‘standard’ in South Africa for referencing, benchmarking and performance monitoring. The dilemma that both valuers and monitoring agents are experiencing is that owners and rate payers are now becoming more knowledgeable, which means a direct demand for better service and the raising of more questions on roll quality and MPRA compliance than before. It is extremely difficult to build confidence in the valuer profession if there is no ‘standard’ for any regulatory or monitoring control.

From a professional standpoint the main reason for a standard is to standardise, build trust and credibility, to promote professionalism and to facilitate oversight and compliance with the standard, to enable quality assurance by the public at large. A standard that is adopted and properly adhered to seeks to promote fairness and equity. There has been reference to the fact that there are valuation standards in South Africa, being the International Valuation Standards (IVS) adopted by the profession. These standards do not cover mass appraisal; hence the motivation for a standard specific to mass appraisal that can augment the IVS.

Within a typical developed municipal jurisdiction one will find a mix of property types with the majority being residential which can be valued using CAMA. One will also find a number of other property uses which will need to be valued individually (single property valuation). Depending on the property type and valuation approach, it will be up to the municipal valuer to determine the applicable standard.

B. What are the current international indicators of best practice and direction on property rating and valuation?

In presenting feedback on the IAAO conference and lessons learnt, the above discussion does provide some insight into the status and an indication of the direction of where the valuation profession should be headed.

The purpose of the attendance by the Department of Co-operative Governance and Traditional Affairs KwaZulu-Natal at the 80th IAAO Conference was (1) to attend and present at the conference itself, (2) to meet the IAAO executive and its Education and Standards Committee on standards and educational support and (3) to network on property tax with the international delegates to support best practice.

A previous article in October 2013 mentioned that The Department of Cooperative Governance and Traditional Affairs in KwaZulu-Natal (KZN-CoGTA) was supporting a Mass Appraisal Strategy (MAS) which included (A) mass appraisal standards development (B) monitoring and oversight and (C) education, training and development in mass appraisal. To support this initiative it is recognised that the ongoing liaison with international professional organisations such as the IAAO and IPTI provides the necessary benchmarks and networking environment to identify best practice and creates opportunities for the use of technology, education information and standards.

As an update KZN-CoGTA, together with the National Department of Cooperative Governance (NDCOG) and the South African Council for the Property Valuers Profession (SACPVP), have formed a partnership to progress the initiative of the Mass Appraisal Strategy. In addressing (A) the mass appraisal standards, KZN-CoGTA in association with SACPVP circulated an IAAO International Guideline on Mass Appraisal and related Property Tax Policy as a version 1 to all members for comment during August 2014. Any comments received will be reviewed by the committee and it is the intention to use the IAAO version with modifications where necessary, subject to IAAO approval.

The main focus of the feedback therefore is on the Mass Appraisal Standards and the development, adoption and roll-out thereof. In this regard, the KZN-CoGTA delegation which was accompanied by representatives of the South African Council for the Property Valuers Profession (SACPVP) was fortunate to meet with the IAAO executive and their Education and Standards Committee on 25 August 2014 to discuss the use and adaptation of standards adopted by the IAAO.

The meeting discussed the use and adaptation of IAAO standards for the South African context. The IAAO in their response are fully supportive of the use of their technical standards by the South African valuer profession and if modifications are required the changes will need to be communicated and included in an MOU. Acknowledgment of use will also form part of the roll-out of any IAAO standard.

Some of the best practices and lessons that are emerging are:

1. There is a sophisticated oversight role provided at state level that covers procedural oversight, performance monitoring and quality assurance. For example, the State of Florida and the State of Kansas have strong legislative oversight which ensures
that reporting, quality assurance and data provision management are delivered in accordance with standards. This means that the data that supports the rolls and values are required by law to be handed over to the state annually after a revaluation so that they can conduct their QA review. Note that these two states revalue annually.

2. There is an advanced, dedicated and established training and education programme for mass appraisal development which includes mass appraisal (regression analysis), training on SPSS for mass appraisal, property assessment administration and GIS mapping.

3. There is a distinction between ‘assessors’ who perform and operate in the mass appraisal industry and ‘appraisers’ who perform fee simple or single property valuations each with their own designations, qualifications and educational requirements, often regulated at a state level.

4. In most states there is continued professional development which is required to retain registration.

5. The IAAO is one of the major sources of professionally recognised education and training support for the mass appraisal profession and the providers of training programmes on property tax administration and mass appraisal for the industry.

6. There is a strong sense of networking and sharing of information for continued development and support.

7. Their mass appraisal systems and techniques, such as performing multiple regression and modelling, are advanced in many jurisdictions, with SPSS being the preferred modelling tool used by CAMA analysts.

8. The assessment offices operate mostly at full capacity; so, whilst facing budget cuts, their property count to staff resource for a functional property assessment office (all staff) is in the region of 3 000 properties per staff resource. If you consider only the assessor staff resource, it is in the region of 10 000 properties per assessor;

9. Based on a recent Staffing in Assessment Offices Survey in the United States and Canada: Results of 2013 Survey undertaken by the IAAO Research Committee, we have extracted some results for reference –

   a. overall average budget of an assessment office per parcel is $26.93 with a median value of $23.23;
   b. nearly 89% of respondents indicated that their assessment agency provides training for assessment personnel;
   c. the most common type of training is agency-sponsored attendance at courses conducted by independent organisations such as the IAAO; a significant number of respondents also indicated that both in-house and online training are offered to their staff;
   d. more than 80% of the assessment offices make property ownership and property characteristics available, and two thirds of all respondents indicated they make the full range of data available to the public on line;
   e. based on the survey ±25% conduct reappraisals annually, ±30% reappraise every two to four years and nearly half (46.9%) reappraise on a five-year cycle or longer.

At a high level, some of the key areas that we believe will need consideration by the profession and industry to improve South Africa’s situation on an international level on MPRA property tax administration and mass appraisal are –

A. development of standards, education and training
B. expanded and enhanced oversight at a provincial level
C. MPRA capacity building and professional development; and
D. MPRA data management, systems and technology support.

For acknowledgement and useful reference links for the profession to property tax administration and mass appraisal web sites refer to IAAO - http://www.iaao.org/
IPTI - http://www.ipti.org/

By Greg Cowden and Roshinee Naidoo

Back row: Dave McMullen, International Committee; Christopher Gavor, Director of Valuations, City of Cape Town and SACPVP member; Michael van der Meulen, Project Coordinator Department of Co-Operative Governance and Traditional Affairs, Chris Bennett, Staff Liaison to the Technical Standards Committee; Bill Marchand, Technical Standards Committee Chair; Greg Cowden, Professional Valuer Department of Co-Operative Governance and Traditional Affairs; Michael Moya, Deputy Manager, Municipal Finance, Department of Co-Operative Governance and Traditional Affairs Dorothy Jacks, AAS, International Committee Chair.

Front row: Roshinee Naidoo, Professional Valuer, Department of Co-Operative Governance and Traditional Affairs; Molefi Kabuzie, SACPVP President; Joey Krishnan, General Manager, Municipal Finance, Department of Co-Operative Governance and Traditional Affairs Martin Marshall, IAAO President-Elect; William ‘Pete’ Rodda, IAAO Vice President.
Introduction and background
Professional valuers in South Africa fall under the ambit of the Council for the Built Environment (CBE), together with professional architects, landscape architects, engineers, project and construction managers and quantity surveyors. Uniquely among these professions, professional valuers in South Africa until recently did not require to have a university degree. A significant majority of registered valuers in South Africa hold the national diploma as the highest academic qualification. There is evidence to suggest that some in the valuation profession in South Africa regarded the current state of affairs as unsatisfactory. Espach (2008), for instance, called for urgent measures to ensure that prospective valuers had at least a bachelor’s degree, describing diploma programmes as too rigid, out-dated and amounted to a lowering of standards. Such concerns may, in part, explain why the South African Council for the Property Valuers Profession (SACPVP) in 2013 raised the educational requirements for professional registration. As from 2013, no one may be registered as a professional valuer without the minimum requirement of a degree.

These issues prompted researchers in the Department of Construction Economics and Management at the University of Cape Town to undertake research into the education and training of valuers in South Africa. Specifically, the study sought to provide answers to two principal questions. Firstly, are South African educated and trained valuers ‘proficient’, broadly speaking, and do they meet local industry requirements? Secondly, how does the valuation curriculum in South Africa compare with international norms? To provide answers to these questions, the paper has the following objectives:

1. Empirical data for the study was obtained by way of a survey of valuers registered on the SACPVP database and a case study of the University of Cape Town’s property programmes. The survey involved an online questionnaire, using the ‘Survey Monkey platform’, to 2062 individuals, representing the total population of valuers registered at the time with the South African Council of the Property Valuation Profession (SACPVP), across all registration categories. A total of 324 individuals, or 15.7% of the target population, responded to the survey. The sample size, 234 male and 90 female, was therefore sufficiently large for the drawing of conclusions and the making of valid inferences about the South African valuation profession.

2. UCT’s valuation curriculum was compared against the structure and contents of leading British/commonwealth valuation textbooks. It is argued that a review of UCT’s curriculum is essentially a review of South African valuation education standards. Anecdotal evidence strongly suggests that UCT’s valuation curriculum is pretty much identical to that of other SACPVP accredited programmes. This is not surprising, given the homogenising effect of the accreditation requirements of the SACPVP. The SACPVP, being the statutory body responsible for the registration of valuers, prescribes the contents of the valuation syllabus for accredited programmes. To the extent that their prescriptions are mandatory, it follows that the SACPVP will have a standardising effect. This is not unexpected, and is in keeping with the practice in all regulated professions, such as engineering and medicine. The difference with the valuation profession in South Africa, however, is that the accredited programmes range from the national diploma right up to the master’s level.

Full results of the study, together with statistical analyses, are to be published in an international peer-reviewed academic journal. What follows is the first of a two-paper summary, designed to be accessible and of interest to the South African professional audience. This paper provides an overview of the South African valuation profession. The second paper summaries the evidence on valuer proficiency and presents a comparative assessment of the South African valuation curriculum.

Overview of South African valuation professional practice
Figures 1, 2, and 3 show, respectively, the professional status, highest academic qualification and (informative for South Africa given its past) the racial profile of the respondents. As might be expected, the profession is male dominated, at 72.2%, with the largest proportion coming out of the economic heartland of Gauteng Province. About two thirds are members of the South African Institute of Valuers (SAIV).

In line with expectation, a significant majority, at just over 42%, have the national diploma as the highest academic qualification. This in contrast with the 22% who possess either the bachelor’s
or honours degree. The data confirms what is widely known, that the biggest proportion of practising valuers in South Africa do not have a university degree.

Figure 1: Respondents’ professional status

Worryingly, 15% of the respondents report having the high school matriculation certificate (‘matric’) only as the highest qualification. When analysed in terms of registration categories, the data shows that 6% of professional valuers, the highest registration category, have matric only, while 47% have the national diploma.

Like many sectors of the South African economy, the valuation profession shows the legacy of apartheid. As figure 3 shows, the profession remains predominantly white. Twenty years after the advent of democracy, about 64% of valuers are white, compared with some 23% who are black.

The issue of racial transformation of the profession is often juxtaposed with worries about its aging profile. As figure 4 shows, 58% of the profession is 40 years of age and above, with the largest cohort in the 40 to 49-age range, followed by that in the 50 to 59 range.

Figure 4: Age profile

In order to obtain an overview of South African valuation professional practice, the study elicited data from employers of valuers regarding the following; size of the business, number of valuers in the business, principal source of business and the usage of software. Regarding size, most valuers work in small firms, though the data shows bipolarity (see figure 6). While the majority of valuers work in businesses of ten or less people, about 30% for businesses with 26 or more employees. Overall 60% of these businesses employ five or fewer valuers (figure 7).

Figure 5: Professional affiliation
The data show that banks and other financial institutions are the principal source of valuation business in South Africa accounting for 47%, followed by municipalities at about 15% (figure 8).

The highest proportion of valuers on average undertake over 200 valuations per year (figure 9). Unsurprisingly, the determination of market value is the most frequent activity by far, followed by the determination of municipal rateable value (figure 10). With respect to type of property, residential property is the subject of the significant majority of valuations (figure 11). The data further reveal that the most widely used valuation method is the sales comparison method, with the accounts method least used. Thus only 3% of valuers have never used the former method while 78% have never used the latter. Almost 40% have never used the discounted cash flow (DCF) method, which is significant, given the rise in importance of this method in today’s increasingly sophisticated market environment. The figures for the direct capitalisation, cost and residual methods are 13.3%, 34.5% and 40.5%, respectively.

The study investigated the extent of the use of technology in the industry, and found the use of advanced valuation software to be miniscule. Thus less than 1% of valuers have experience of Argus, while the requisite figure for Cougar is only 3.4% (figure 12). These two represent the global standard in valuation software solutions. As figure 12 shows, Excel represents the software of choice for the majority.
Concluding summary
The foregoing makes it possible to paint an overview of South African valuation practice. The industry is characterised by small businesses, who, for the most part, use traditional methods of valuation and have limited use of modern software packages. Information about the principal source of business, together with the finding that residential properties are the most frequently valued type of property using mostly the sales comparison method leads to the conclusion that the “typical valuer” in South Africa is most likely to be heavily involved in the valuation of residential property for collateral purposes, followed by rating valuations for the municipalities. The fact that banks represent such a significant proportion of valuation business in South Africa has implications on the industry’s average profitability. It is well known that the banking industry is a very competitive market, with margins very tight and fees consequently rather low. This, together with the increased use of automated valuation models in the sector, has made for a generally unfavourable environment for the valuation industry.

Finally, an interesting feature of the profession in South Africa when compared with, say the United Kingdom, is the clear demarcation between estate agency and valuation practice. Unlike in the UK where virtually all valuation firms have estate agency as an integral part of their businesses, the survey data reveal that only 17% of valuers in South Africa include estate agency as part of their practice. A tighter fit between the two professions is widely regarded as desirable, because market intelligence obtained from estate agency work is critical to, and supportive of, valuation practice.

As indicated in the introduction, the second paper will discuss the evidence on valuer proficiency, and present a comparative assessment of the South African valuation curriculum.

References

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Amendments to the Basic Conditions of Employment Act (BCEA) came into effect on 1 September 2014

The key changes to the BCEA include:
• a prohibition on payment by an employee to the employer to secure employment, and from requiring employees to purchase goods, services or products from the employer;
• bringing the child labour provisions in line with international standards; this includes making it an offence for anyone to require or permit a child under the age of 15 to perform any work or provide any services that place the child’s well-being at risk;
• increasing the Minister of Labour’s powers in relation to sectoral determinations;
• streamlining the enforcement process; and
• increasing penalties and maximum sentences.
The time value of money is something we often work with in valuations and investment analysis and most of it is straightforward, yet after adjudicating many external valuations each month, I realised that there are differences of opinion and sometimes, misunderstandings. I have often gone back to the top valuers in town and bounced my opinions off them. I will therefore cover some of the areas that many professionals have found difficult, or understand in different ways from their colleagues.

Economics is the basis of valuations
I have included some diagrams from T Collins and V Ghyoot An introduction to Commercial Property Finance Development and Investment. The first diagram covers the factors affecting the value of property, some of which are controllable to a point and others we have no control over. The reason for this is when we start debating which methods are market related we need to ask whether the methods include the factors that affect supply and demand and whether the willing buyers and sellers apply these inputs in the same way.

We have some control/choice over
• land
• improvements
• location
• institutional attributes.

The other factors in the diagram dictate to us the boundaries within which we have to work. In addition, there are factors that now affect the economy that were never considered important a few years ago, such as foreign exchange levels and the oil price that, because of their volatility, can affect inflation and interest rates levels.

Factors affecting property markets
Figure 1: Factors affecting property value and its economic foundation

Compound interest
With compound interest calculations the basic formula is:

$$FV = P(1+i)^n$$

This formula forms the basis of most of our calculations whether it be compounding or discounting. The two diagrams below illustrate this.

Discounted cash flow analysis is also just an application of our simple formula above but is now

$$PV = FV / (1+i)^n$$

So why do we need interest rate tables when this formula is so simple to apply in Excel?
A further problem picked up amongst valuers is that some valuers, when asked to give a discounted value of a ten-year lease and the discounted terminal value at the end of ten years will
1. discount nine years of cash flow and then
2. give the terminal value in year ten.

I am of the opinion (after talking to the late Mr Smal a few years ago and Erwin Rode agrees) that we must
1. discount ten years of cash flow and then
2. give the terminal value at the end of year ten.

A further illustration of DCF is given below as applied to NPV.

The above is of course incorrect as the answer is TPV (total present value) and not NPV as it ignores equity input.

Since NPV = sum of the PVs – the equity input (or TPV-equity = NPV).

NPV is a measure of return on equity.

What happens if you indicate the cash flow as above and then obtain an NPV of X? At the same time the QS has also submitted a feasibility study to the bank using NPV and deducting equity and he gets an NPV of Y and he is correct! What will the bank credit officers think of the valuer?

Static DCF
Below is a static DCF model which is fine to use when we want to know why the developer paid R4,2 million for a house on Hermanus beach front and the valuer came up with R3,5 million on comparable sales. The answer lay in the under-utilised bulk the developer intended using once the property was redeveloped. The bank’s valuer took a trip to the local municipality and collected data on town planning and then simulated the proposed highest and best use for the site. The costs and projected incomes were then discounted. The result is given below and the bank consultant was able to explain where the ‘inflated sales price’ came from.

Would you be happy receiving a straight line DCF for a million m² of land in the Eastern Cape on the outlying areas of a city especially after receiving a guestimate at R400 per m²?

Inferential DCF
A simple inferential DCF applied to residual land value is given below. Note that in real life income and expenditure do not move in and out of the project in equal tranches. (Please e-mail me for more advanced residual land value spreadsheets I use for teaching at the universities on the property studies courses at honours and masters levels.)
The problem (says Prof Tom Whipple of Curtain University Perth) does not lie in the method but the application of the method.

1. How do we build up the discount rate?
2. If the DR is the investor’s MARR do we all agree on the magnitude of the components of
   a. cost of capital – savings @ 5% or RSA Bonds @ 10%?
   b. growth or profit mark-up – we will all differ?
   c. interpretation of risk – we have different propensities to take a risk?
3. What terminal cap rate do we use?
4. What operating cost escalation do we apply?
5. How long do we project the lease for?
6. Do we project leases beyond their termination dates?
7. What escalation amount is used after the lease is terminated if we project any further?
8. Do we allow for vacancies after termination dates?
9. Can the past figures be used to predict the future?

When is DCF best used?
1. As a back-up to capitalised value on large projects?
2. Where the future income is of an uncertain nature?
3. As a developer’s method to predict what could be earned by the developer based on his view of how the property should be developed?
4. Beware with vacant land – it is not equal to market value
5. Where the area is a so-called red area (dangerous to loan money in) and we value the cash flow only.

Professor Richard Radcliff states that this is not a market-related method as it ignores the main factors that affect supply and demand.

Top slicing
In the situation of a building earning R40 per square metre on a triple net lease with a blue chip tenant and the market indicates R30 per square metre is this market related? It is practice to project the two incomes over the ten-year lease period, discount the difference and add up the opportunity cash flow. This opportunity cash flow is then added to the market value obtained from capitalising the first year and this creates a maximum price to pay for the property. This is acceptable to the banks.

The problem is where the discounted sum is also capitalised and added to the market related market value based on the first year’s income. This is not acceptable.

Net present value and internal rate of return
A building’s FV in terms of after tax cash flows is discounted back to PV every year. All the PVs are then summed and the initial equity input is subtracted to give the NPV. The NPV is not equal to the total PV for the project.

The criterion required for a successful investment with NPV is:
NPV ≥ 0 (in Rand)

From the diagram below it is clear that the cash flow has been
1. discounted for four years;
2. the four discounted amounts have been added up to get
3. total present value;
4. the equity has been deducted and
5. the answer is NPV.

The example in the table below indicates that we are making 12.5% as well as an extra bonus of R4,513,941 since we have sliced 12.5% of future income off the top and we are left with the R4,513,941 bonus. If we had an NPV of exactly 0 we would be making exactly 12.5%.

Internal rate of return (IRR)
The IRR is the discount rate that equates the projects NPV zero. It therefore determines the rate of interest that causes the present value of the net income of a building to equal the original capital, own equity input. A common technique used by financial calculators and spreadsheets is to make use of iterations, successive approximation which is a problem-solving or computational method in which a succession of approximations, each building on the one preceding, is used to achieve a desired degree of accuracy. This can be checked by using the goal seek facility on a spreadsheet which will accurately calculate IRR once you have worked out NPV. The use of successive approximation is a trial and error method.
Another method is to calculate IRR graphically by plotting NPV at various interest rates using a sloping straight line and then make use of a horizontal line using different discount rates to see where the two lines intersect. Where the two lines intersect the IRR is found and NPV is = 0. The vertical axis represents NPV (from say 80 to -80).

The horizontal axis represents the discount rate. The IRR is a horizontal line starting at 0 / zero on the NPV axis.

Since IRR is the return on the capital balance outstanding over the life of investment, it does not represent the rate of return on the total capital amount over the life of investment. It is actually similar to a mortgage loan calculation schedule when worked out year by year. (Capital + interest – cash inflow.)

\[
\text{IRR} = \frac{\text{Net Income}}{\text{Total Development Costs}}
\]

The criterion is:
IRR ≥ the discount rate (12.5% in the case of the example above) and it is not the same as the criterion for the NPV above (NPV ≥ 0 (in Rand)).

This also means that if the IRR = exactly 12.5% then NPV = 0.

In the table above IRR works out at 42% which is clearly more than the discount rate of 12.5%.

NPV versus IRR

NPV is more reliable

- IRR can sometimes give no answer or two answers where cash flows are unstable or have large positive and negative swings in some years.
- NPV can be used to compare any size and type of building against another as it will always return a Rand amount less, equal to, or greater than zero, which will indicate how well each project will perform.
- IRR can only be used to compare comparable buildings of type and size as it is ineffective at ranking measure when competing investments have different sizes, different income patterns or budget limits.

Yield

(Another much debated concept, which is incorrect in our book and was apparently altered by one of the editors without advising me.) When we talk about yield we mostly refer to net yield in property and net yield is equal to

1. net income from the property / the total development costs of a new project
2. net income / the total purchase price including all costs of purchasing
3. net income / market value; only where the building is purchased as a going concern and the purchase price can be equated to market price and if the costs of transferring the company are not so high as to distort the market value concept.

Conclusion

Don’t be afraid to ask colleagues for help and always help where you can. Together we can become a better profession. I hope that this article has been of interest.

Bibliography

Good acoustics are a good investment. Frank said: “The educational benefits of good acoustic environments have not been quantified. This creates a problem. Even when acoustical features are initially included in the design, they are often removed later in the project because they are perceived as costs without quantifiable benefits. Studies of schools have shown that the economic value of an acoustically better ceiling panel can exceed its cost by a factor of 200. It is important therefore to quantify the cost benefits of good acoustics.

So why should we care about acoustics? I’d like to share some facts and figures and empower you to discuss and demand good room acoustics. We need to consider or include acoustics in the design. Because we know that if we don’t do it right we risk reduced productivity and affect our well-being, as in noise causing stress. Not getting it right can also lead to reduced economic performance once the building is occupied. Addressing acoustics in the early phases therefore also makes economic sense. We are continuously developing our sound absorbing systems to safeguard the acoustic environment and to supply aesthetically pleasing solutions, to offer you great acoustics and freedom of design.

There are three target markets in room acoustic solutions: offices, healthcare and education; what is common to all these areas is that people are working and communicating. All these areas present limitations for occupants to control their indoor environment, including acoustics individually. Our mission is to contribute to a good working environment for the eye, the ear and the mind, developing and manufacturing system ranges with high demands on environmental impact. We work with various institutions and organisations in the environmental, construction and health research field, reducing our carbon footprint and gaining experience through scientific research. Carbon footprint can be reduced by using: glass wool, a natural material from sand and soda, as a core material; up to 80% recycled household glass; water-based paint; 55% renewable energy (2010); renewable binder; a new drainage material and world class manufacturing.

It is best to work with the different stakeholders throughout the whole building process. When we are involved early in the project, the results are better and the solution more cost-efficient. We form relationships with key stakeholders through the project, ensuring that relevant expertise is available in the right phases. We work with sound and the impact on people of the development of our solutions.

What does a good sound environment look like? We try to simulate the outdoors and bring it indoors. This would be ideal and possible in a climate like SA to spend most of our time outside, but when we add walls and ceilings we get reflections of sound. We need to provide shelter from the elements and so have to modify the acoustics to resemble the outdoors. Nowadays people spend about 90% of their time indoors, where sound waves, if not absorbed, cause reflections and result in a build-up of noise.

In other words, we need to bring the outdoor features indoors: the sky (ceiling); the grass (carpets) and the screens and furniture (trees). Sound is actually fluctuations of the sound pressure levels caused by activities. This creates high frequency and low frequency, and can be shown by steep or flat sound waves which are caught by our ears and translated into information by our brain.

Looking at sound waves and how to deal with them in offices, we need to understand that we have amplitude (volume) and frequency (pitch). Vowels decide the volume of speech, consonants contain the information.
A look at some common decibel levels
When one guy in the office laughs loudly this gives a decibel level of 80dB; when another guy laughs at the same level and we add the two, the difference is 3dB (so 80 + 80) is 83. Or if we wish to lower the sound pressure level in a class room by 3dB, we would need to take half of the students out. As laughter is contagious, soon ten people are laughing about the same joke; all of them laughing at 80dB gives a total of 90. It’s a logarithmic scale. A reduction of 10dB means that the sound pressure level is perceived.

To achieve improved performance of students and teachers, you have to be aware that classrooms are used for different teaching methods and thus place different demands on the acoustic environment and solution. Speaker comfort for teachers and listening comfort for pupils gives a comfortable sound level and increased concentration. The quality of communication determines where you would like your child to be seated. Moreover, one can combine wall panels with bookshelves that diffuse the sounds that the absorber may not take up. By reducing the disturbing horizontal reflections (especially late reflections) we increase speech clarity. The graph below shows the correlation between the working sound pressure level and the heart rate of the teacher.

![Graph showing correlation between working sound pressure level and heart rate](image)

A study carried out in Switzerland in 2010, looked at disturbance factors. It can be seen that most highly rated disturbance factor (by over 50% of respondents) was that of noise.

The graph above is just a snapshot of the research carried out. Studies carried out in the 1960s and 1970s, and in recent years have all found noise is the main cause of dissatisfaction with the office environment, particularly in open plan offices. This indicates that even in new or refurbished office buildings the question of how to minimise disturbance caused by noise has still not been satisfactorily resolved. Noise problems are shown to be worse in open plan offices, with the major sources of annoyance being people talking and telephones ringing.

Overlooking the aspect of acoustics in design can lead to quite disturbing scenarios. In an ordinary open plan office desk phones can result in these reactions: you never know who is calling and how long the discussion will take, before you know it you are engaged in a discussion with an upset client, you raise your voice and soon all your colleagues are tuning in to what you’re saying (and do not focus on their own work). Open plan should allow for communication and concentration without impacting on task performance. Many people say, we just get...

What decides the sound absorbing ability of a specific material?
Playing a vuvuzela in a classroom with a 1.34 second reverberation time has125 – 4000Hz frequencies.

Sound in the office and how it affects us
We have open plan offices for flexible and efficient use of floor space, to support knowledge exchange better than with ‘cell’ offices. These new ways of working will not impact as the open plan allows us to modify the area and change how teams are organised without having to change the physical work environment. But how do the people who work there actually feel?

An open plan with typical background noise can cause difficulties in communication, increased tiredness, reduced job satisfaction, impaired concentration, reduced accuracy and reduced productivity. Noise is by far the most common complaint in open plan offices.

We need proper acoustic solutions. We create good acoustics by using ceiling panels with sound absorption. The ceiling’s sound-absorbing properties are described in sound absorption classes (A-E) in an international standard. Class A is the highest level of sound absorption.

![Absorption classes - EN ISO 11654](image)
used to it, it doesn’t affect me. That is not true because different sound pressure levels in the background affect our accuracy.

Impact on task performance

It is not only about discomfort and feeling discontent. Sound affects employees’ intellectual performance. The results from a study performed at Berkeley University show clearly that the more complex the task, the harder it is to perform with sound in the background. The noise group was almost 50% less accurate.

How much productivity and efficiency is lost every day because employees are constantly distracted and interrupted? Research commissioned by Brother proves that it takes an average of 15 minutes to regain concentration after being distracted from a difficult task by unwanted noise. If each person is interrupted five times a day and it takes up to 15 minutes to regain full concentration, this equates to a 15% reduction in productivity over an average eight-hour working day. This 15% reduction in productivity in a company employing 200 staff is equivalent to 30 people effectively being paid to do nothing! The potential benefit of reducing those noise interruptions, at an average annual salary of £20 000 per person, is an increase in productivity of £600 000 per annum.

If you ever have too many applications running on your computer and it starts to act funny and not be as productive and runs a little sluggish, it’s the same with your brain. When you think you’re multi-tasking, what you’re actually doing is switching your concentration back and forth rapidly. The problem with this is that each time you distract yourself from the original task, it takes on average 15 to 20 minutes to regain complete focus. The key to fixing this is to single-task with all of your might for 90 minutes at a time. This is prime-time for your brain. Experts acknowledge that hyper-successful people are able to zone in and reach a ‘flow state’ better than their competitors or peers. So it all comes down to concentration in short spurts. In other words, single-tasking multiple times a day. But concentration isn’t just a matter of squinting your eyes and trying harder. Rather, it is your ability to remove distractions for a specific period of time. So a nice mix of facts and figures, you can say that good acoustics is part of sustainable organisations.

After the completion of the new work environment, this is what the GBCSA had to say about the quality of the sound environment. The incremental costs for achieving good office acoustics is a small fraction of total costs of new office construction or furbishment. Good acoustics can survive this competition if decision makers are convinced that its costs are justified by their economic benefits.

This presentation was given to the Northern Branch One-Day Seminar on 10 April 2014. Frank may be contacted at Ecophon, frank.demen-donca@saint-gobain.com or 012 657 2809.
Introduction
The City of Johannesburg (City) recently promulgated its ‘By-law on Problem Properties’ (By-law). We wrote a previous article commenting on the difficulties that the Draft By-law on Problem Properties poses. This article looks at problems caused by the promulgated (final) version, which is now legally in force. For convenience, some of the content herein is therefore a repeat of what has been said before.

Problem properties
Problem properties are defined to include any part of a building or structure located in the City, and which fit the criteria set out in clause 7(1) of the bylaws. Section 7(1) is a long list, which includes criteria such as whether the property is abandoned, hijacked, overcrowded, illegally connected, illegally occupied, a dumping site, structurally unsound, or a threat to the safety of the public for health or safety reasons; and where rates/taxes/services/charges haven’t been paid for any three out of the preceding twelve months, the structures on the property are not legally compliant, or has no service supply.

Powers of the City re problem properties
The by-laws give the City the power to issue a notice declaring a property to be a ‘problem property’ and inviting any interested party to submit reasons why it should not be so declared. If the City decides to declare it a problem property, it does so by issuing a notice stating such. The City can then make application to court to appoint a person as the administrator, who will then assume all the powers in law of the person who ought to have been responsible for the property.

Missing links
Although the idea of a policy to deal comprehensively with problem properties is to be welcomed, the by-laws appear to have been hastily compiled without giving any real thought to the implications of same. For example, the by-laws completely fail to address the issue of supply terminations. This is probably the most potent weapon in the City’s arsenal to address problem properties, but bizarrely it is not mentioned at all. Another glaring omission is the failure to suspend the City’s powers in relation to problem properties where the property owner has a valid, revenue-related query pending with the City in relation to the property. The billing crisis is well documented and it would be unlawful to subject a property owner to the power of the City to declare and deal with a property as a problem property, where in fact, it is only a billing error on the City’s system that renders the property a problem.

Remedies extending beyond scope of powers
A further problem with the bylaws is that they attempt to create a new remedy for the City – namely the ability to have an administrator appointed over a problem property – where currently there is no provision for this in our law whatsoever. Legally, the City can make its own by-laws regulating its own policy in relation to buildings in its jurisdiction, but it is not authorised to create new laws, especially not laws which infringe constitutional rights. Only Parliament could legislate such a remedy into existence, but then only within the constraints of the Constitution.

Cost recovery impractical
The by-laws further provide that the administrator must recover the costs of rehabilitating and running the property, from the ‘responsible person’. This is non-sensical as the likely reason for the appointment of an administrator would be that the responsible person is AWOL or otherwise cannot afford to run the property. The by-laws also empower the administrator to collect rental and other charges from tenants, which would violate the owner’s common law and constitutional rights to property, and would violate existing cession rental and other contractual arrangements owners may have in place with their mortgagees and others.

No review / appeal procedure
Another issue is that the City’s wide-ranging powers are virtually unchecked, in the sense that no provision is made for an internal review/appeal procedure for decisions taken in terms of the bylaw. This means that a person aggrieved needs to bring an expensive review application to the High Court, to seek relief from biased, unreasonable or otherwise arbitrary decisions.
Interesting exemptions
The By-law includes a new provision which provides that a person who is non-compliant can apply for exemption from the By-law. The City is entitled to grant the exemption or not to, at its discretion, and it may impose any conditions that it sees fit, when granting such exemption. If any of the conditions are not complied with, the City can then revoke the exemption on reasonable notice. This certainly does go a long way towards alleviating the potential impact that these By-laws might have on consumers who have not paid their rates/taxes/services/service charges for more than three months out of twelve because a dispute is pending in relation to such charges, as it means that if the City picks this up and declares the property a problem property, the owner can make application for exemption explaining why it has not paid.

Existing laws
There are more than adequate laws and bylaws in place to regulate and police properties and property owners in the City of Johannesburg. The City simply needs to start applying existing laws. Serious revision is necessary before these by-laws can be published, failing which the City will be challenged for attempting to exercise self-made, unconstitutional powers, promulgated ultra vires its authority.

By Chantelle Gladwin and David Hepburn, partners at Schindlers attorneys conveyancers notaries

WHAT TYPE OF RATES CLEARANCE CERTIFICATE IS A SELLER LEGALLY OBLIGED TO OBTAIN?

Introduction
Following the Supreme Court of Appeal’s Mathabathe judgment in 2013, this area of practice has become fraught with risks for buyers, sellers, banks, estate agents, attorneys, and many others. Every property acquisition can now result in unintended consequences for the unaware. This article explores the question ‘What type of rates clearance certificate (RCC) a seller is legally obliged to obtain and make payment of in order to pass transfer.

The law
There are two types of RCC, namely an abridged (two-year) clearance (in terms of s118(1) of the Local Government: Municipal Property Rates Act) or a full (historical) clearance (in terms of s118(3) of the same Act). Although it is a legal requirement that an RCC be obtained prior to registration of transfer, there is no stipulation as to what type of RCC must be obtained – this leaves it open to a seller to obtain and pass transfer on payment of either, unless there is another law (or agreement) obliging the seller to do otherwise.

Agreement by the parties
The parties to a sale agreement can expressly agree as to which type of RCC must be obtained (and in the light of the Mathabathe judgment it is certainly prudent to provide for this in all sale agreements going forward). But historically, standard sale agreements have not specifically provided for the type of RCC to be obtained. In the absence of express agreement, the question remains as to what type of RCC is required, as between seller and purchaser, by law.

Where there is no express agreement – arguments for and against
A seller may need to obtain an abridged RCC for many reasons, some of which may relate to a failure to pay amounts lawfully owed, and others of which may relate to their refusal to pay amounts claimed which are not lawfully owed. As the law requires a RCC to be obtained, but does not specify which type of RCC is required, sellers will inevitably argue that it is their legal right to choose which to obtain, and that no inference of illegality or impropriety can be drawn from their choice to obtain an abridged (as opposed to a historical) clearance.
Purchasers, however, will argue that the purpose of an RCC is to ensure that the slate is wiped clean and the property is transferred free of municipal debt, and that in this context, if the sale agreement is silent as to the type of RCC that the seller must obtain, then by implication the seller should be obliged to obtain a full clearance. Purchasers will also be quick to point out the potential prejudice that could result if the seller does not settle all of its historical debt.

Application for RCC
Unfortunately, the manner in which certain municipalities issue RCCs does not help the situation. Unless you are familiar with the law and practice relating specifically to the issuing of rates clearances figures, it can be incredibly difficult to understand the figures returned by the municipality, and to determine whether they are abridged or historical. Each municipality has its own prescribed application forms. Johannesburg, for example, uses forms that do not require the conveyancer to indicate whether the figures sought are abridged or historical. In the past, some conveyancers may not even have been aware of the practical difference between the two types of RCCs or the consequences of passing transfer on either, and thus may not have questioned the figures received from the municipality. They might simply have passed the figures on for payment to a seller who may not have appreciated the consequences. In most instances the conveyancer will not advise the purchaser of what type of figures are being paid, and thus the purchaser will be unaware of the potential danger awaiting it when transfer is passed on abridged figures.

How to distinguish between abridged / historical figures
In Johannesburg’s case, the only way to determine whether the figures returned are abridged or historical is to examine the totals in the ‘total outstanding’ blocks and compare these figures to the totals in the ‘S 118 Balance’ blocks. If there is a difference, then the figures are either incorrectly calculated, or are abridged figures. There are thus incidents where property transfers are registered in which the sellers and buyers and sometimes even the conveyancers, do not realise that the property is being transferred without the historical debt relating to same having first been cleared.

Duty on conveyancer / agent
This raises the issue of the professional responsibility of conveyancers and estate agents and the duty (if any) owed by them to the seller, buyer, mortgagee, and others to advise them of the distinction in the types of RCC figures, the type of figures obtained in a particular transaction, and the consequences of relying on abridged figures. This will be more fully considered in another article in this series. This could extend further to advising on the inclusion of a clause in sale agreements to provide for the type of RCC to be obtained, and further in relation to a conflict of interest and breach of confidentiality which may arise where the seller insists on passing transfer on abridged figures, but the buyer is unaware of this or objects to same.

Balancing competing interests
In constitutional jurisprudence the way to determine which of two competing interests of rights will dominate is to ask whether the ‘means’ – the infringement of the seller’s right to choose which RCC he wants to apply for – is proportional to the ‘end’ – the prejudice that is averted by the buyer. The courts adopt a holistic view and look at all relevant factors. Although a full analysis of this issue is beyond the scope of this article, the authors are of the opinion that a court would find that the means justify the end and that it is reasonable to limit a seller’s choice where such extreme prejudice could befall a buyer. It is always open to a seller who still wants to use an abridged RCC to get consent from the purchaser to do so, or to expressly provide for same in the contract. Sellers are also advised to deal with any incorrect charges before they market the property.

By Chantelle Gladwin and David Hepburn, partners at Schindlers attorneys conveyancers notaries
Does zoning or use determine the rating classification?

Introduction
The law provides in the Local Government: Municipal Property Rates Act 6 of 2004 that a municipality must determine its own rating policy, and that it may have reference to either zoning or use when classifying a property for rating purposes.

There are times when the zoning (also known as the permitted use) of a property will align neatly with that of its rating category – for example where a property with commercial zoning rights, is used for an office block, it can easily and neatly be classified as ‘business’ for rating purposes. This article argues that there are times when it is either impossible or inappropriate to classify a property for rating purposes based on its zoning, and that in these instances, the logical solution is to look to the property’s use to determine its rating classification. This much it seems is common sense.

Sectional title units
The classic scenario where it is not possible or appropriate to use zoning to determine rating classification is with sectional title properties. When a developer wants to build a sectional title scheme, he applies for planning permission. He will need to get approval to build his scheme, which may be residential, or commercial, or even industrial, on the land. To do this he may need to apply to amend the existing land use rights (the zoning) to accommodate the proposed development. However, it sometimes happens that a property with (for example) a zoning of ‘special’ or ‘business’ can accommodate residential units, because this is what the town planning scheme provides for (although the ‘title’ of the zoning does not give any indication that this is the case in reality). In cases like these, a developer will legally build residential units on land that has a zoning title as something other than residential. This is the first reason that it is not always appropriate to simply look to the zoning title of the land on which the property is built to determine its rating classification – because the two might differ, and that difference may be entirely legitimate.

Unfair discrimination
Think of two sectional title schemes which are right next door to each other, in which all the units are valued exactly the same and are all residential. The only difference between the schemes is that the property developer involved in the one scheme originally envisaged that he might have a restaurant in the scheme and so he had it rezoned to allow for business and commercial. As a result all the municipality’s policy on how properties are rated based on zoning, all of the units in this scheme were categorised as business and commercial. The scheme next door, however, was categorised correctly as residential as the underlying erf was never rezoned and had a residential zoning before it was developed. Even though there is no difference in the use or value of such units, the owners in the scheme built on the business erf will pay rates three times higher than those owners who bought into the scheme that was built on the residential erf. This differentiation is completely arbitrary – as there is no material difference in the units in the two schemes, but the owners in the one are being forced to pay much more than the owners in the other. This constitutes unfair discrimination because those unlucky owners would then end up paying business rates for residential property (which are about three times higher than residential property rates) simply because they were unlucky enough to have bought into a scheme that was developed on land that was zoned anything other than residential.

Parent erf non-existent
You can’t apply the zoning of the parent erf to the sectional title units built on it, because the parent erf ceases to exist when a sectional title scheme is opened. Municipalities are attempting to apply a zoning (that used to apply to the erf that the sectional title scheme was built on and which no longer exists, once the scheme has been established) to a newly created property that has no zoning in its own right. Although the erf that the scheme was built on had a zoning, you cannot simply take that zoning (from a property that no longer exists) and apply it to the sectional title properties that are built on the land – because of the problems mentioned above that arise when it is (a) not possible and (b) not appropriate to do so.

Impossible to use zoning in all instances
Rating categories (such as sectional title business and residential) are not precisely the same as, and so do not correspond to, zoning categories. For example, there is no rating category for ‘special’, although there is a zoning category of special. So you cannot apply a rule that a property will be rated as per its zoning in every instance. Another example is the rating category of mixed use (which is also known as multiple purpose). There is no equivalent of ‘mixed use’ or ‘multiple purpose’ in zoning terms. This category was specially created to rate properties that have two permitted uses – namely residential and commercial – and where the municipality acknowledges that it is not always appropriate to use zoning to determine the rating category. This has also been confirmed by the Courts.

Conclusion
Logically the only way to decide whether a sectional title unit is residential or commercial, is to look at the use of that property and not the zoning. There are thousands (if not hundreds of thousands) of residential sectional title units in Joburg, built on erven (that no longer exist and) that were originally zoned special or commercial or industrial, and where it would be inappropriate or impossible to apply the zoning of the underlying (and non-existent parent erf) to the sectional title units built upon them.
The legality of municipal charges for exclusive use areas

Introduction
There are three ways in which exclusive use areas in sectional title schemes can be created. This article will argue that, regardless of the manner in which such areas are created, they should all be treated in the same manner by the City of Johannesburg Municipality (‘the City’) and that ultimately, for the reasons that follow, they should not be rated or otherwise attract any municipal charges at all.

Exclusive use areas
These are essentially areas of a sectional title scheme that are reserved for the exclusive use of a particular owner. Common examples are garages, parking bays, gardens, storerooms and balconies.

Creation of exclusive use areas
These areas can be created in one of three ways, the first of which is where the developer registers certain sections of the scheme as exclusive use areas in the Deeds Office. These areas can be transferred from one person to another (usually as part of a sale of a unit in the scheme) by way of the signature and registration of a notarial deed of cession.

The second way to create these areas is for the developer or the body corporate to take a resolution to amend the body corporate’s rules, to include provisions that reserve the exclusive use of a part of the common property in the scheme, for certain owners. These areas are linked by the rules to the units owned by the owners in question, and so when the owner transfers the unit, the exclusive use area, which is attached to the unit, is also transferred to the new owner. With this kind of exclusive use area there is no need to sign or register any deed and normally the body corporate will simply take note that the unit in question and the exclusive use area linked to it have been transferred to another party.

The third way in which these areas can be created, is where a developer registers areas that will be reserved for the sole use of certain owners, as units in the scheme themselves (in the same way that the sections that constitute the houses or apartments are registered as sections in the scheme). These kinds of exclusive use areas need to be transferred in the Deeds Office in the same way that the ‘main’ unit or home is transferred, and a title deed will be issued to the new owner as proof of ownership, when transfer registers.

Is there any difference?
For all intents and purposes, there is no difference in the types of rights that accrue to the owners, or to the body corporate, in respect of the three different ways in which exclusive use areas are registered.

But then why does this matter?
Because the Local Government: Municipal Property Rates Act provides that municipalities must charge rates to the owners of sectional title units, based on the market value of those units. Where an exclusive use area is registered as a unit, then the municipality can lawfully charge the property owner for rates, and arguably for sewer and refuse, on that exclusive use area, in addition to charging the owner the same charges for the ‘main’ house/apartment. In the authors’ opinion this amounts to double billing for the reasons that follow.

Valuation of sectional title properties
In Joburg the way in which the municipality has chosen to value sectional title units, is to value not only the main house, but also to include the value of any amenities that the owner of the main house might be entitled to, such as parking bays, garages, gardens, store rooms, or even the facilities available on the common property, such as pools, tennis courts, security guard houses, or communal laundry facilities. Because the valuation of the main house includes the valuation of the amenities to which it is entitled, if exclusive use areas that are registered as units are then rated again, the owner will be charged twice for rates based on the value of the exclusive use area (once in its own right, and a second time as part of the value of the main house).

Unfair discrimination
Many (if not most) sectional title property owners have no idea as to how their exclusive use areas were created. Even certain estate agents, managing agents and sometimes attorneys are not aware of, or do not understand, this distinction. If the City were to charge sectional title owners rates on exclusive use areas that are registered as sections, for rates and other municipal charges, apart from double charging them (as explained above), the municipality would also be unfairly discriminating between sectional title property owners whose exclusive use areas are registered as sections (and who are being charged rates on those kinds of exclusive use areas), as opposed to sectional title property owners whose exclusive use areas are created either by notarial deed or by the body corporate rules (and who are not charged rates for these kinds of exclusive use areas).

As there is no material difference to any of the parties concerned as to the benefits of or values of these three types of exclusive use areas, in the authors’ opinion there would be no justifiable reason for a municipality to rate owners of one type, but not owners of the two other types of exclusive use areas. This would amount to unfair discrimination and (on the reasoning above) it is unlikely that (in the authors’ view) this kind of unfair discrimina-
Refuse and sewer charges
These types of charges are billed to each and every property in Joburg, and at present are considered ‘rates’ (ie taxes) and not charges for services provided. The accuracy of this is debatable, but leaving this aside for the moment, it is submitted that it would not be lawful for a municipality to charge a sectional title property owner refuse and sewer charges twice (once for the main unit and a second time for the exclusive use area registered as a section), because these taxes should only be charged once to a property owner in relation to each property they own (taken as a whole), and an exclusive use area registered as a section should not be regarded as a whole new property on its own, but should rather be seen as a part of the main unit (which, not coincidentally, is the manner that the City’s valuations department sees it).

Policy considerations
Municipalities (including Joburg) are entitled to create policies that determine how they implement the legislation that governs their empowerment to charge for rates and other municipal services. It is submitted that it would be lawful (and reasonably necessary) for a municipality to make a policy decision that it is not going to charge owners of exclusive use areas registered as sections, any rates or other municipal charges. Indeed, this is what it is recommended Joburg should do (if it has not already taken a decision to do precisely this).

Conclusion
Sectional title property owners (and estate agents, developers, and attorneys) should be aware that owning or creating exclusive use areas as registered sections in a scheme could lead to double municipal charges. Prospective purchasers in sectional title schemes should understand precisely what it is that they are buying, and if this includes any exclusive use areas, exactly how those were created. In the authors’ view municipalities should make a policy decision not to charge sectional title owners rates or other charges for sectional title units that are actually exclusive use areas. It should be easy for an owner to prove that this is the case by submitting copies of the sectional plans to their municipalities as proof of same.

How body corporates should prepare for a power outage
In the light of South Africa’s unstable electricity supply and recent warnings of power cuts this summer, David Rebe, CEO of Sandak-Lewin Property Trust, urges property managers or body corporates of residential developments to ensure that the necessary contingency plans are put in place so that tenants are equipped accordingly when these outages occur. “With load shedding becoming a regular occurrence in the country, it is necessary for body corporates to evaluate each facility within the development that relies on electricity to ensure that residents are prepared for the various challenges that come with power cuts, such as inoperative security booms and alarms, electric gates and lifts within the development.

There are not many buildings higher than three storeys that don’t have a lift. Rebe highlights lift failure as a major concern which body corporates need to ensure they are prepared for. “Lifts can be very costly to fix. Furthermore, tenants can get stuck in a lift, or worse get injured as a result of lift failure.” Power outages can result in security breaches. “Security gates and booms can malfunction if the power is cut, leaving the complex vulnerable to trespassers. Moreover, no lighting within the complex during a power outage can also pose a safety threat to tenants. Therefore the need for physical security barriers such as burglar bars and security gates on apartment doors and windows must be seriously considered by owners.”

Rebe says that in order to avoid issues such as this, body corporates and property managers should consider installing a backup generator to ensure that these issues are handled in the event of a power outage. However, he says that in many complexes the problem is that the cost of generators is as high as R500 000 and that kind of cost is too excessive for some body corporates to pay. Moreover, he says that in some cases there may not be a designated or safe area for a generator to be stored on the common property.

The body corporate should alert tenants of scheduled power cuts, and highlight what facilities will not be available or working when the electricity supply is switched off, for example, electrically motorised security gates and garage doors, lifts, alarm systems, electrically heated water supplies and appliances.
INTERPRETATION OF A TITLE DEED

By Gloria Mosito, Deputy Director, Strategic Institutional Partnership

A title deed is a document by which ownership of property is proven. It is registered in the Deeds Registry when property is acquired in order to keep statistics, and record changes in ownership of property from one person to the other. Documents which are lodged for execution or registration at a deeds registry must be drafted in accordance with the provisions of the Deeds Registries Act 47 of 1937 (hereinafter referred to as the Act), the Sectional Titles Act 95 of 1986 (hereinafter referred to as the Sectional Titles Act) and the regulations promulgated in terms thereof.

It is worth noting that because the South African deeds registration system is a negative system, it is not guaranteed that at all times what one sees in a title deed is indeed the true and current state of affairs. In terms of the system the transfer of ownership takes place on registration of transactions in deeds registries. The system does not, however, guarantee that the registers reflect a true picture of the state of affairs. Incompleteness and inaccurate information is therefore possible, for example in:

- transfers of ownership by operation of law, such as in the case of expropriation, where notification of such expropriation has been served on the registered owner, but transfer has not yet been registered in favour of the expropriating authority; and
- transfer of ownership in respect of an undivided half share of a property to a spouse at the conclusion of a marriage in community of property where such marriage is not reflected in the title deed.

In such cases, the prejudiced party’s remedy will be by means of estoppel and the rule of knowledge.

This article endeavours to illustrate the different clauses of a title deed and the manner in which they should be interpreted when read in conjunction with deeds registry printouts. It is important for people dealing with property in their careers whether as estate agents, professional valuers, conveyancers or as lay persons, to understand and be able to interpret a title deed.

The data printout from a deeds registry alone can tell a lot about a specific property without the actual copy of the deed. For that reason, it is important to be able to analyse and interpret a data printout. A title deed must always be the same as a property data printout and a person data printout. The only benefit of having an actual copy of the deed is that it gives the content and details of the conditions and/or endorsements which are only referred to in the data printout. Below is a replica of a title deed. The clauses it contains will be explained. (I acknowledge Mr Allen West for allowing me to use this illustration.)

For purposes of clarity, please note that there are certain aspects of a title that were not included in the initial drafting by the conveyancer concerned, but were necessary to be included in the deed. These endorsements can only be inserted by an examiner in the deeds registry once he has examined the deed and is satisfied that the particular endorsement needs to be inserted. This is done in accordance with the regulations of the Act 47 of 1937 (even the positioning of the endorsement is regulated). The text in the endorsements is shaded blue to distinguish them from the rest of the deed as initially drafted.

An example is on the first page of the deed below, with an endorsement for the Fees on the top left hand corner. After placing the fees endorsement, the examiner must disclose the office fees payable by the type of transaction contained in the deed judging that from the schedule of fees in Regulation 84 of the Act. The Category I Business Account for deeds registries was implemented on 1 October 1994. The office fees and registration fees which are levied are exempt from VAT. Where a deed of transfer or mortgage bond expresses the purchase price or amount borrowed in a foreign currency, the registration fee is calculated on date of execution as outlined in the Registrars Conference Resolution 20 of 2009.

At the top right hand corner is the preparation clause. This clause is drafted by the conveyancer when preparing the deed. Regulation 43 of the Act stipulates that the conveyancer preparing the deed takes responsibility for the correctness of the factors outlined in regulation 44 of the Act. The preparation clause states the surname and initials of the conveyancer who prepares the deed. An endorsement of a mortgage bond appears in blue. This is also placed by the examiner during examination.
and not by the conveyancer and will only be placed on a deed if the transaction it reflects is applicable in terms of law. In the example below, this endorsement has been placed to reflect that the property has been mortgaged for the amount of R8 000.00, to show that there is a bond over this property. The deed for the mortgage bond will bear a serial number for this title deed being T 5547/2006 to show which property it is endorsed (bonded) against.

The title number of the deed is simply a serial number of the title deed followed by the year of registration the title preceded by the code of the deed. The code refers to a letter ‘T’ for deed of transfer or ‘B’ for mortgage bond, etc. It is followed by the heading of the deed because ‘deed’ does not only refer to a deed of transfer or a ‘title deed’ as is commonly construed; in the deeds registry, the word ‘deed’ also refers to mortgage bond, certificate of transfer, sectional title bond/deed, etc. It is for this reason that a heading is required to ensure that the examiners place the relevant codes against the title number of the deed.

The preamble of the deed is a clause written verbatim to the form according to which the deed is drafted. Different types of deeds are drafted according to different rules of the Act and its Regulations. The conveyancer must conform to the form as far as possible to avoid rejection of the deed. The only changes the conveyancer makes in the preamble are the names of the authorised conveyancer for the deed concerned as reflected in the power of attorney.

Below that is the description of the transacting party/ies: with a deed of transfer the party is referred to as a ‘transferor’ and in the case of the mortgage bond as a ‘mortgagor’ and so on. The party or parties must be described in full: names and surnames, their identity numbers appearing exactly as they do on the identity document (including the sequence), marital status, and place and date upon which power of attorney to pass transfer was given to the conveyancer. If the party is a juristic person only its registered name and registration number are required. These details will be compared with the filed power of attorney which is enclosed at the back as a supporting document in the folder of the deed.

The recital clause often appears is the second page of the deed. The importance of this clause is that it discloses the nature or reason behind the transaction: whether the transfer is a result of a donation, a sale or any other legally recognisable reason for the nature of the transaction.

Next is the vesting clause which confers the right to the party with whom the transaction is being concluded; it must give full names and surname, together with the identity number of the transferee or mortgagee in the same sequence as on their identity documents, followed by their marital status and if the party is a juristic person only its registered name and registration num-

ber are required. The words “his heirs, executors, administrators or assigns, in full and free property” must follow below the description of the transferee in the vesting clause of a deed of transfer because they reiterate the fact that the property is being transferred in full and freely to the transferee and any party who might be legally authorised to act on his behalf in future such as an administrator of his estate or a curator if one is appointed for any reason by a court.

The property description must be given in the manner prescribed in Regulation 28(1) of the Act. It should disclose all elements of the property: the registration number if any and the size of the land either in square metres or hectares. If there has been a change in the description of the land since the registration of the title deed, the new description must appear in the new deed of transfer. An interdict (caveat) by the Surveyor-General may be an indication of the change in the description of the property. In the mechanised deeds registries the deeds controllers will be able to ascertain the correct description of the land as well as the new number and registration division from the computer printout. Part of the property description is referred to as the extending clause and appears just below the extent ‘size’ of the property. Its purpose is to give a brief history of the origin or first transfer of the property. It refers to the general plan or diagram from which the property emanates and the last title deed that it was registered under.

Up to this point, a deed of transfer and a mortgage bond are similar. But from here on, there are major differences which differentiate the deeds. This article deals with a deed of transfer.

The next clause in a deed of transfer is the conditional clause which sets out the special conditions applicable to the property. This is a fundamental part of any deed as it states any servitudes, restrictions, entitlements, etc in favour of or subject to the property, including any conditions created in testament by the previous owner such as a fideicommissary or trusts. These conditions best inform a buyer what he is buying into and even whether he can in fact legally buy the property at all. There are certain titles which may have a restriction prohibiting the registered owner from selling, eg RDP grant titles. For these reasons, it is most important to check conditions on title deeds.

Under the conditional clause are the general conditions applicable to the current title as they applied to all previous titles of that property and in some cases also to all properties in a particular township. These usually emanate from the creative deed. This clause is followed by the divesting clause which formally renounces the rights of ownership of the transferor to the transferee his/her heirs, executors, administrators or assignees.

The consideration clause states the amount given in consideration for the property (purchase price of the property) and is read together with the recital clause; if the recital clause speaks
of a sale, and there is no amount disclosed at the consideration clause there is an error; similarly, if reference is made to a donation at the recital clause then the consideration clause must complete that.

The final clause is the execution clause that is signed by the conveyancer in the presence of the Registrar of Deeds who signs afterwards to complete the process of registration. The execution clause also states the date and place at which the deed was registered. It should be noted that it is not only the clauses of the deed itself which are analysed but those of the attached supporting documents as well. This could form the subject of a future article.

Fees...

(ENDORSEMENT TO INDICATE FEES AND DUTY PAYABLE)

Prepared by me,
CONVEYANCER
J. Daniels

(ENDORSEMENT TO INDICATE NUMBER OF DEED)

T 5547/2006
Heading

Deed of Transfer

BE IT HEREBY MADE KNOWN:

THAT JACK DANIELS
appeared before me, the Registrar of Deeds at PRETORIA,
he/she that said Appearer being duly authorized thereto by a
Power of Attorney granted to him/her by:

RICHIE RICHMAN
Identity Number 540919 5094 08 9
Unmarried

(HEREAFTER STYLED THE TRANSFEROR)
dated the 18th November 2005 and signed at PRETORIA

AND THE SAID APPEARER DECLARED THAT his/her said principal
on the 29TH OCTOBER 2005 had truly and legally sold, and that he/she,
in his/her capacity aforesaid, did, by these presents, cede and transfer,
in full and free property, to and on behalf of

YUPPIE JUNKIE (Transferee)
Identity Number 760313 0003 08 3
Married out of community of property
(HEREAFTER STYLED THE TRANSFEREE)
his Heirs, Executors, Administrators or Assigns,
in full and free property

ERF 1768 ARCADIA TOWNSHIP,
Registration Division J R,
Province Gauteng

(PROPERTY CLAUSE)
EXTENT 453 (Four Hundred and Fifty Three) Square metres


SUBJECT to the following conditions created by the Municipality of Pretoria in accordance with Municipal Ordinance 15 of 1986:

• The erf shall only be used or occupied for such purposes which are in accordance with, and the use and occupation of the erf shall at all times be subject to, the provisions of the Pretoria Town Planning Scheme, prepared and approved in terms of the Town Planning Ordinance, 1954 (Ordinance 18 of 1954).

• No trees known as Prosopis SSP shall be planted or permitted to grow on the erf.

• No storm water drainage pipe, canal, work or obstruction (except storm water drain pipes, canals, works or obstructions which have been authorized in writing by the local authority or which have been or may be built, laid or erected in terms of any law) may be constructed on or over the erf or located in such a way that –
  • the flow of storm water from higher lying erf to lower lying erf is impeded or obstructed and through which any erf is or may be endangered; or
  • the flow of a natural water course (in which the local authority allows water to run off, be discharged or be canalized) is or can be changed, canalized or impeded.

And subject to the conditions contained in the title deeds

WHEREFORE the Appearer, renouncing all the Rights and Title the TRANSFEROR heretofore had to the premises, did, in consequence, also acknowledge the TRANSFEROR to be entirely dispossessed of and disentitled to, the same, and that, by virtue of these Presents, the said TRANSFEREE, his/her Heirs, Executors, Administrators, or Assigns now and henceforth, shall be entitled thereto, conformably to local custom, the State, however, reserving its Rights; and finally acknowledging the purchase price amounting to the sum of R118 700,00 (One Hundred and Eighteen Thousand, Seven Hundred Rand)

Thus done and executed at the Office of the REGISTRAR OF DEEDS at PRETORIA on

In my presence

SIGNATURE OF APPEARER

REGISTRAR OF DEEDS
Africa is predicted by the International Monetary Fund to have six of the world's top ten fastest growing economies in 2014 (including DRC 10.5%, Mozambique 8.5%, Nigeria 7.4% and Mali 7.4%) and is increasingly being targeted by local and international companies for its investment potential, a modern day equivalent of the colonial ‘scramble for Africa’ in the making. South Africa (given its good infrastructure, relatively high living standards and first world financial institutions), represents a good base for multinational companies to move into the rest of Africa. The result is that South Africa is likely to see an upsurge in expatriate movement, something which won't have gone unnoticed by tax authorities, locally and abroad.

The global tax environment we find ourselves in is one in which tax revenues are down and tax authorities are under increasing pressure to increase the tax base. Fiscal authorities no longer act in isolation, but actively engage one another, a prime example being the reciprocal exchange of tax information agreement signed between South Africa and the US in June 2014. Local departments are also working together, for example tax departments are able to access immigration information obtained through electronic scanning of passports.

One area on which tax authorities are focusing more and more is the business traveler. Short term (ST) assignments, in particular, are often neglected by human resource (HR) departments within companies. Long term relocations are easier to monitor. Appropriate policies and systems are in place and HR or tax departments take care of the expatriates’ tax and compliance. However ST travelers often ‘fly under the radar’. Travel is often booked by secretaries and can be changed at a moment’s notice. The number of days spent abroad is seldom accurately monitored, flights are changed, trips are cancelled and new ones made at short notice. All of this makes it increasingly difficult for HR, without dedicated internal resources or external advisors, to monitor staff movements accurately.

Increasing corporate expatriate movement, both long and ST, is creating a minefield for HR resources, with significant risks, including:

- corporate tax and non-compliance: the presence of short-term assignees creating a permanent establishment (PE), with the unsatisfactory outcome of all profits attributable to the business operations in the host country becoming subject to tax in that country;
- personal tax and non-compliance (income tax and social security): repeated ST business trips inadvertently creating a tax liability for the employee in another region, not to mention penalties and interest (probably for the company’s account), together with possible criminal sanctions and obstacles to doing business in that country again;
- reputational risk: for example senior executives inadvertently not complying with tax obligations in the home or host country, resulting in the wrong type of headline for the company concerned.

In this increased risk environment, companies looking to expand into Africa need to ensure that adequate resources are dedicated to monitoring staff movement and planning relocations, including a thorough investigation of tax implications. Revenue authorities talk to one another and relief is not always available to expatriates through double taxation agreements, which, notably, South Africa does not have in place with a number of other African countries.

Africa represents an exciting prospect for investors but care must taken to avoid the pitfalls alluded to in this article.

By Shane Price, associate partner, Shepstone and Wylie: 031 575 7517 or sprice@wylie.co.za
Appraiser news online reports risk of property valuation fraud is on the rise.

The risk of property valuation fraud increased during the first quarter of 2014, and indicators suggest that the rise of properties being appraised well above traditional valuation thresholds in order to create ‘equity’ is a contributing factor, analytics firm Interthinx reported in its 1Q 2014 Valuation Fraud Risk Index.

The report noted that in addition to high property appraisals, individuals purchasing and listing multiple properties in the same neighbourhood to control prices artificially to their advantage also is a contributing factor to the rise in property valuation fraud risk.

“This quarter’s report is a reminder that lenders need to be aware of emerging fraud risks,” Jeff Moyer, president of Interthinx, said in the report. “The rise in property valuation risk is troublesome because collateral values are a critical element in making sound lending decisions. To make lending decisions with increased confidence in the loan’s quality, we recommend that lenders use automated tools early in the valuation process to double check opinions of value, quality of work and regulatory compliance on issues such as licensing.”

The Property Valuation Fraud Risk Index is 128 (the mean is 100), up 27% from last quarter and 17% from a year ago.

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Appraisal Institute news

Al lauds FHA for green valuation

The AI and the American Society of Farm Managers and Rural Appraisers recently lauded the Federal Housing Administration’s proposal to allow appraisers to use residual techniques - such as cost and income approaches - to analyse market reaction to green and energy-efficiency improvements in the absence of comparable sales. The joint AI and ASFMRA comments were submitted in response to a draft Appraisal Handbook issued by the FHA that intends to serve as an update to the current Handbook 4140.2 and will aggregate all agency appraisal polices in one place.

Under the draft handbook, appraisers would be required to analyse and report the local market acceptance of special energy-related building components and equipment, including solar energy components, high-energy efficiency housing features and components such as geothermal systems and wind powered components. The draft explains that in the absence of sufficient data to perform a paired sales analysis, the appraiser must consider the cost or income approach to calculate an appropriate adjustment.

Al and ASFMRA also suggested that the FHA take a stronger stance on appraiser competency issues, incorporating an approach used by Fannie Mae in its seller/servicer guidelines that requires competency before taking the assignment.

AI discusses valuation standards at REIT conference

Representatives of the Appraisal Institute’s Washington office attended the Global REIT conference sponsored by iGlobal Forum in New York City, where industry leaders in real estate investment trusts, appraisers and other experts discussed the non-listed REIT industry and recent efforts to improve transparency in that market, including valuation standards that rely on external valuations.

Of particular interest, the Investment Program Association, a trade group for non-listed REITs, discussed the ‘Valuations for Publicly Registered Non-Listed REITs’, a set of guidelines they developed that call for annual external valuations completed by appraisers who hold the MAI designation from the Appraisal Institute.

Registered representatives who sell non-traded REITs and direct participation programs that invest in real estate are awaiting release of a final rule from the Financial Industry Regulatory Authority that will require new disclosures relating to the value of the securities. The disclosures were proposed to address concerns about the use of offering prices as the per-share estimated value during the offering period, which can continue as long as seven and a half years. Under the proposed rule, REITs would have the option to perform and disclose independent valuations in developing the value of the REIT or DPP.

AI addresses US Green Building Council on ‘green’ valuations

Al President-Elect M. Lance Coyle, MAI, SRA, addressed the US Green Building Council in Washington in September, on valuation methods and techniques used by appraisers to value high-performance buildings and about AI’s leadership role in green and energy-efficient valuation and provided an overview of AI’s professional development program on the Valuation of Sustainable Buildings.
Nadia Lottering – our accounts and admin lady comes from Randfontein, a mining town west of Johannesburg and is the youngest of four siblings. After school, Nadia studied Business Management at the Westcol College and then worked for various companies and obtained experience in graphic design, administration, accountancy and other fields.

Nadia married in September 2007 and a little girl named Mia was born in November 2008. Sadly her husband passed away in June 2013.

In January 2014 Nadia relocated to Pretoria and started working for the Institute in March. She feels “truly blessed” to be working for the SAIV as she is able to use so many of the skills that she has acquired over the years and can contribute to the accounts, administration and seminars that she is involved with. “I look forward to many years with the Institute and the fulfilling employment that I have enjoyed thus far. It is great for me to correspond with the members on a daily basis and help them to resolve their queries.”

As reported in April, Branch Secretaries will in future fulfil more of a PR role with general administration functions such as the processing of membership applications, being moved to the GS office. The downscaling of the Branch Secretaries’ functions is in line with the concept of centralising more of the administrative functions of the SAIV in order to serve our members on a more efficient, professional and ‘one-stop’ basis.

This matter will receive the necessary serious consideration during the November 2014 mini-Natex meeting.

Melanie N Vallun
General Secretary.
PRACTICAL WORKSCHOOL 2014

The Practical Workschool held from 21 to 25 July at the St George Hotel was attended by 65 students, including two students from Botswana. It is wonderful to know that the SAIV’s Practical Workschool has established itself firmly in the valuation profession.

Our congratulations to the following students who obtained a pass mark of 65% plus:

Jethro Manuel
Martin de Klerk
Mathew Bezuidenhout
Arbee Arbee
Izak Buys
Darrin Boucher
Marnand Strydom
Wessel Coetzee
Pieter van der Colff
Andries Fick
Sydney Lukhele
Brett Mills
Njabulo Nkwanyana
Chadwynn Karsten
Atika Mustappa
Vusi Zote
Curtis Mugari
Jean Swart

Thank you for a great workschool – it assisted me with a lot and I learned a lot.

Very well run programme and very beneficial to persons interested in the property valuation field.

Thanks for a well-organised workschool with outstanding lecturers and applicable topics. You kept to time perfectly – congratulations!

The workschool is great and the SAIV is a good supportive institution which assists in keeping future valuers in touch with industry requirements.

The overall pass rate is slightly up by 0.61% on 2013, or a pass rate of 70.77% was obtained this year compared with 2013’s pass rate of 70.16%.

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The decline in the number of students who attended the Practical Workschool is, however, alarming. In 2012 we had 150 students; in 2013 the workschool was attended by 124 students with a significant decline to 65 this year. This is alarming because fewer and fewer people are entering the profession.

It would not have been possible for eight students to attend the Workschool without the generous sponsorships from Rates Watch, Niel de Klerk (Pty) Ltd and Manco Aurecon. Our sincere appreciation for your contributions/investments in the future of the valuer profession.
UPCOMING EVENTS

NOVEMBER 14 & 15 SOUTH BUILDING BRIDGES COUNTRY SEMINAR
NOVEMBER 19 SOUTH BRANCH EX MEETING
NOVEMBER 20 NORTH BRANCH EX MEETING
NOVEMBER 21 KZN ONE DAY SEMINAR

SAIV MEMBERSHIP STATISTICS

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Total per category 1/9/2014 847 850
Total per category 1/10/2014 944 948
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Ms J L Falck: BCom (Hon), FIVSA, MRICS, Professional Valuer, Appraiser •

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Mogano: Candidate Valuer

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