Market Appraisal and Valuation Relating to Residential Estate Agency (MAVREA)

Sample Questions and Answers

propertymark
QUALIFICATIONS

MARKET APPRAISAL AND VALUATION RELATING TO RESIDENTIAL ESTATE AGENCY (MAVREA) SAMPLE QUESTIONS AND ANSWERS

The unit starts by looking at aspects of market forces and the valuation process. It explores the use of comparables and the process of appraisal, including a consideration of the range of factors needed to appraise residential property and advise customers. It examines the three principal methods of valuation and their application, concluding with an overview of aspects of statutory evaluation and compulsory purchase.

Questions, and answers where provided, are correct as at time of publishing.

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ASSESSMENT INFORMATION

Assessment Method	Short essay style exams 2 hours
Availability of assessment	Set times of the year as identified within the qualification page on the **Propertymark Qualifications website**

Examinations are manually marked by an examiner and moderated by an experienced and qualified moderator.

The pass mark for each unit is **45%.**

The successful achievement of all units will result in either a final certificate showing a Pass or Distinction Grade.

In order to obtain an overall grade of Distinction, you need to achieve an **overall average mark of 70% across all examinations.**

SCENARIO 1

An established client who is a regular investor in residential property has asked for general advice.

Question 1

How would you explain to your client the difference between market value and projected market value?

Answers may include:

Market value definitions

- Estimated amount
- Willing buyer/willing seller
- Arm's length transaction
- Market value assumes marketing period completed prior to the date of valuation

Projected market value (PMV)

- PMV is used when giving advice to lenders on taking property into possession
- Future value
- On future date specified by the valuer
- Allows for suitable marketing period
- Marketing period assumed to start at date of valuation
- Takes account of market changes during the marketing period
- PMV is in effect used by estate agents when carrying out valuations for client

Credit can be given by markers for any other valid answer(s).

SCENARIO 1 (CONTD.)

Question 2

Your client has expressed concern about future changes in market conditions. Use demand and supply theory to predict what you might expect to happen in the housing market if interest rates start to rise.

Answers may include:

- Increase in borrowing cost results in fall in demand
- Short term left shift of demand curve, fixed supply, results in price fall
- Longer term may result in reduction in supply as developers etc respond to fall in demand
- Resulting in new equilibrium price
- In practice the market is more complex
- Change in rates unlikely to be the only factor affecting demand and supply in the market
- Not all areas of the market and locations will be affected in the same way

Credit can be given by markers for any other valid answer(s).

SCENARIO 2

A client is considering purchasing a detached house constructed 15 years ago, as part of a large development on the site of a former industrial estate. The house has been extended to include a double garage, a fifth bedroom, and an en suite bathroom.

Question 1

Outline the contamination issues that need to be explored before undertaking such a purchase.

Answers may include:

- Large range of possible historic contaminants - give examples
    - o Hydrocarbons, arsenic, asbestos, cyanides, lead, pesticides etc
- Depending on type of previous use – give examples
    - o Chemical manufacture, tanning, refining, scrap yards, etc
- The nature and extent of clean up undertaken
- Possible ongoing responsibility and risk
- Possible residual stigma
- Impact on value
- Long term effect on saleability

Credit can be given by markers for any other valid answer(s).

SCENARIO 2 (CONTD.)

Question 2

On checking your records, you note that you sold the house five years ago just after the extensions were carried out. The only other sales evidence on the development relates to houses with three and four bedrooms. How would you approach a market value appraisal?

Answers may include:

- Previous sale price might be a guide
- Consider change in value over last five years
- Property price indexes
- Establish general 'tone' for five bedroom houses in the wider locality and the difference due to the additional accommodation
- Consider cost of improvements
- Are the additions 'excessive' and out of character for the location
- This would limit marketability and possibly impose a price ceiling

Credit can be given by markers for any other valid answer(s).

SCENARIO 3

You have been instructed to value a number of Victorian terraced houses let on long leaseholds at nominal ground rents.

Question 1

Explain why leasehold interests are generally considered to be less valuable than freehold interests.

Answers may include:

- Leaseholds are considered to be wasting assets
- Due to the reducing period of the lease
- Value will reduce as the lease gets closer to the end
- Leases with less than 80 years will be difficult to sell
- More difficult to attract mortgage funding
- Need 50 + years remaining at end of mortgage
- Long leases (999 years for example) will be virtually indistinguishable from freeholds
- Covenants in the lease

Credit can be given by markers for any other valid answer(s).

SCENARIO 3 (CONTD.)

Question 2

Define what is meant by a long lease for the purpose of the Leasehold Reform Act 1967 and outline the qualifying conditions affecting the property and the tenant.

Answers may include:

Definition of Long Lease

- 21 years plus, when granted
- Less than 21 years but with a right of perpetual renewal
- A lease terminable on death, marriage or an unknown date
- Holding over at the end of a long lease where the freeholder has not served notice to terminate
- Shared ownership lease where the leasehold share is 100%

Definition of House

- Vertical division separating it from other properties

Case law interpretation:

- House split into flats
- Shop with flat over
- Office with flat over
- Flying freeholds don't comply

Definition of Tenant

- Has owned the lease for two years
- Residency test abolished by Commonhold and Leasehold Reform Act 2002

Credit can be given by markers for any other valid answer(s).

SCENARIO 4

You have been asked to value a three bedroom semi-detached house located on a large suburban estate built between the wars.

Question 1

A search of your office records reveals a number of potential comparables. Other than price and date sold, what information do you need to know, and how might you present this?

Answers may include:

- Similar house
- Address
- Type
- Age
- Number of beds and other main rooms
- Garage
- Central Heating
- Extras such as extensions, extra bathrooms etc.
- Condition
- Any other features adding or reducing value such as large garden or need for modernisation

Presentation of information

  - Comparable grid
  - Adjustment to comparables
  - Taking account of client needs/wants

Credit can be given by markers for any other valid answer(s).

SCENARIO 4 (CONTD.)

Question 2

Your client is considering purchasing the property as a buy to let investment. Explain the characteristics of property as an investment when compared with other investment classes such as gilts or equities.

Answers may include:

Negative characteristics:

- Cost and difficulties associated with sale and purchase (lack of liquidity)
- Lack of divisibility
- High management costs
- Potentially complex capital and income tax implications
- high level of government interference

Positive characteristics:

- Security of capital (growth)
- Security of income
- Inflation proof
- Potentially high yield

Credit can be given by markers for any other valid answer(s).

SCENARIO 5

Your client owns a large house on the edge of a village. It has extensive grounds including a large paddock to the rear. The house is close to a proposed relief road scheme. There are two possible routes.

<u>**Route A**</u> runs within 100 metres of the edge of the paddock but would not require the acquisition of any land from your client.

<u>**Route B**</u> is closer and would take 550 square metres from the rear corner of the paddock.

Question 1

What are the main heads of claim for compensation if route A goes ahead?

Answers may include:

- No land taken
- Possible claim under Section 10 of the Compulsory Purchase Act 1965 for execution of works
- Rules difficult to meet (McCarthy Rules)
- Diminution caused by action authorised by Act of Parliament
- Actionable in court if no statutory powers
- Physical interference with legal right needed to make a claim e.g., closing right of way
- Diminution due to execution not use

- Claim under Part 1 of the Land Compensation Act 1973 for diminution in value due to use of works
- Qualifying owner occupiers; freehold or leasehold with three years to run
- Physical factors:
    - o Noise, vibration, smell, fumes, smoke, artificial light
    - o Discharge of solid or liquid substance
- Valuation date and claim day/period – one year after works opened is valuation date and claims must be made within six years of that date
- Before and after valuation to assess diminution in value due to use of works

Credit can be given by markers for any other valid answer(s).

SCENARIO 5 (CONTD.)

Question 2

What are the main heads of claim for compensation if route B goes ahead?

Answers may include:

- Land is taken
    - o Three elements - value of land taken, disturbance because of that and severance/injurious affection to retained land
- Value of land taken
    - o Subject to six valuation rules (Section 5 of the Land Compensation Act 1961)
    - o Market Value
    - o Would include potential development value
    - o Planning assumptions (Sections 14-17 of the Land Compensation Act 1961)
- Disturbance possible e.g., fencing to retained area boundary
- Severance and injurious affection to retained land/property
- Before and after valuations
- Material detriment (unlikely)

Credit can be given by markers for any other valid answer(s).