MSUNDUZI MUNICIPALITY IMMOVABLE PROPERTY MARKET VALUATION GUIDELINES AND POLICY

REAL ESTATE & VALUATIONS DEPARTMENT

1. Background

Property valuation in South Africa is a chartered profession that is statutorily regulated by the
Property Valuers Profession Act of 2000. In terms of the Act, the SA Council for Property Valuers Profession (SACPVP) was formed. The Valuation Council has adopted the International Valuation
Standards (IVS) for compilation of valuation reports. The International Valuation Standards Committee (IVSC) ensures harmonious compilation of valuation practice for its members. For that matter, the Real Estate & Valuation Department of Msunduzi Municipality has a professional duty to ensure that the Municipality adheres to international code and standards which are in line with global counterparts.

The purpose of the Msunduzi Municipality immovable property market valuation guidelines and Policy is to lay down a procedural and management framework for valuation of all municipally owned Immovable assets in accordance with the Local Government: Municipal Financial Management Act 2003 and associated regulations (Municipal Asset Transfer Regulations, Municipal Supply Chain Management Regulations).

Msunduzi Municipality has a Real Estate & valuation unit. The unit provides market valuation services.

Property valuations are required in respect of:

1.1 Property acquisition decisions (the acquisition of property for operational and service delivery purposes require a Property Valuation as a basis for negotiations);

1.2 Property disposal decisions (all disposals of non-viable or non-strategic- property) require a Property Valuation to be performed);

1.3 Property investment decisions (to gauge the effect of proposed capital expenditure on a property);

1.4 Property performance evaluation (the evaluation of the return on a property portfolio, being made up of income return and capital return, requires a Property Valuation to be undertaken);

1.5 Financial Statement purposes (the market value of property assets is required to be updated on a regular basis for Msunduzi Municipality's annual financial statements);

1.6 Management decisions regarding the operational use of property (the real impact of the ownership and use of property cannot be properly evaluated without a Property Valuation of the property concerned);

2. Purpose of the Msunduzi Municipality Immovable Property Market Valuation Guidelines and Policy

This policy excludes municipal valuations. Municipal valuations are regulated by Municipal Property Rates Act (MPRA) and are done for the purpose of assessment rates. This policy is about market valuations, which are done for the purposes of acquisitions, disposals, exchange, leasing, etc.

The purpose of this document is to set out the Msunduzi Municipality Immovable Property Market Valuation Policy and to provide guidance to relevant Msunduzi Municipality stakeholders as to the business rules and the associated procedures to be adhered to when embarking on property valuation projects relating to properties owned by Msunduzi Municipality and to assist the Msunduzi Municipality with decisions in relation to acquisition, disposal, [transfer], investment, performance evaluation and operational use of immovable properties as well as the financial reporting of the value of all immovable properties owned by the Msunduzi Municipality.

3. Objective of the Guidelines

This document seeks to ensure a consistent framework is applied to property valuation that allows all stakeholders to be privy and have confidence in the consistency of the valuation process. The Immovable Property Valuation Guidelines and Policy is intended to augment existing good business practices and operating procedures.

4. Definitions

Unless otherwise stated:

4.1 "Policy "means The Msunduzi Municipality Immovable Property Valuation Policy, commencing on the date upon which it is approved;

4.2 "Market Value" means the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

4.3 "Premises" means The property, or portion of a property, let to a tenant in terms of a lease;

4.4 "Property" means The land and (where appropriate) buildings that are the subject of the valuation, comprising an Erf or a number of erven, with all improvements thereon;

4.5 "Property Valuation/s" means The process used in order to establish the open market value of a property;

4.6 "Relevant stakeholders" means The parties who are affected by the property Valuation process;

4.7 "Rental Valuation" means A rental valuation of premises that are, or are to be, let to a tenant in terms of a lease;

4.8 "Valuation" means The process of estimating the value for a specific purpose of a particular interest in a property at a particular moment in time and the outcome or result of that process in relation to property valuation or rental valuation, as is appropriate in the context of the reference;

4.9 "Valuation Certificate" A summarised valuation report;

4.10 "Valuation Report" means The report prepared by a valuer comprising a property valuation or rental valuation.

4.11 "Valuer" means A person who is registered with the South African Council for the Property Valuers Profession in terms of the Property Valuers Profession Act, No. 47 of 2000.

4.12 "**Desktop Valuation" means** valuation that does not involve a physical inspection.

5. Legislative and Policy framework

This policy must be read in conjunction with the latest versions (including amendments) of the following legislation and regulations:

- Constitution of RSA, 108 1996
- Local Government: Municipal Finance Management Act No, 2003 (MFMA)
- Municipal Assets Transfer Regulations No_2008 (MFMA ATR)
- Municipal Supply Chain Management Regulations No, 2005 (MFMA SCMR)
- Local Government: Municipal Systems Act No, 2000
- Local Government: Municipal Structures Act No, 1998
- Expropriation Act, 1975 No. Act 63 of 1975

This guidelines and policy must be read in conjunction with the latest versions (including amendments) of the following Msunduzi Municipality policies:

- Land Disposal Framework and Guidelines
- Msunduzi Municipality Supply Chain Management Policy,
- Valuation policy and guidelines for the acquisition of land for the Greater Edendale Vulindlela Development Initiative

6. Scope

The guideline and policy applies to all Msunduzi Municipality owned immovable properties including properties earmarked for acquisition. The portfolio will consist of a variety of different types of properties based on the usage.

7. Guideline and Policy Statement: Introduction

The need for the Valuation of immovable Property is to ensure that the interests of the Msunduzi Municipality and its stakeholders are not prejudiced when making decisions in relation to acquisition, disposal, [transfer], investment, performance evaluation and operational use of immovable properties as well as the financial reporting of the value of all immovable properties owned by the Msunduzi Municipality.

All Property Valuations and Rental Valuations will be subject to the parameters set out in this paragraph 7, together with those in paragraphs 8 and 9 below.

Property Valuations and Rental Valuations undertaken must be initiated through the issuing by the party requiring the Valuation of clear and concise instructions to the Real Estate & Valuations unit containing the following information:

7.1 clear instruction/ Request for Valuation with copies of all relevant documents and plans, including;

7.1.1 The location of the Property (site plans);
7.1.2 A copy of the Title Deed (where applicable and available);
7.1.3 The identity of the Property to be valued (e.g. Erf number);
7.1.4 The purpose for which the Valuation is required;
7.1.5 The date upon which the Valuation is required to be undertaken;
7.1.6 The use to which the property may be put;
7.1.7 Lease details where the property is let.

7.2 Any special instructions relating to the Valuation Report.

7.3 All Market Valuations are to be undertaken by registered valuer.

7.4 The valuation of generally invaded land that is acquired by the municipality for public and redevelopment purposes must be initiated through the issuing by the party requiring the Valuation of clear and concise instructions to the appointed registered property valuer/ valuer firm containing the following information:

7.4.1 The location of the Property (site plans);
7.4.2 A copy of the Title Deed (where applicable and available);
7.4.3 The identity of the Property to be valued (e.g. Erf number);
7.4.4 The purpose for which the Valuation is required;
7.4.5 The date upon which the Valuation is required to be undertaken;
7.4.6 The use to which the property may be put;
7.4.7 Lease details where the property is let.

8. Guideline and Policy Statement - Valuation Report

8.1 Subject to 8.3 below, all Property Valuations are to be supported by a written Valuation Report which will contain at least the following information:

8.1.1 The identity of the party requesting the Valuation Report;

8.1.2 Disclaimers and assumptions;

8.1.3 The purpose for which the Property Valuation is required;

8.1.4 The date upon which the Valuation Report is applicable;

8.1.5 The legal description of the Property;

8.1.6 The physical address of the Property;

8.1.7 The town planning conditions applicable to the Property;

8.1.8 The municipal value of the Property;

8.1.9 A description of the physical attributes of the site, any improvements erected on the site and the locality;

8.1.10 The Highest and Best Use of the property

8.1.11 Replacement value (where applicable)
8.1.12 Expropriation value (where applicable)

8.1.13 Any value-adding or value-reducing title deed conditions, including servitudes and other registered benefits and impediments;

8.1.14 All other information taken into account by the Valuer in arriving at the Market Valuation;

8.1.15 The method of valuation used by the Valuer in arriving at the Market Valuation of the Property;

8.1.16 A summary of the calculations undertaken in arriving at the Market Valuation of the Property;

8.1.17 The Valuer’s opinion of the Market Value of the Property at the date of the Valuation Report;

8.1.18 Declaration of interest;

8.1.19 The Valuer’s signature.

8.2 Subject to 8.3 below, all Rental Valuations are to be supported by a written Valuation Report which will contain at least the following information:

8.2.1 The identity of the party requesting the Valuation Report;

8.2.2 Disclaimers and assumptions;

8.2.3 The purpose for which the Rental Valuation is required;

8.2.4 The date upon which the Valuation Report is applicable;

8.2.5 The legal description of the Property;

8.2.6 The physical address of the Property;

8.2.7 A description of the Premises;

8.2.8 Information in support of the Rental Valuation arrived at for the Premises;

8.2.9 The Valuer’s opinion of the Rental Value of the Property at the date of the Valuation Report;

8.2.10 Declaration of interest;

8.2.11 The Valuer’s signature.

8.3 In order that it may render an efficient and economically feasible valuation service to Msunduzi Municipality, the Valuer may deem it necessary to issue a Valuation Certificate rather than a full Valuation Report on certain assignments. This decision will be at the discretion of the requesting party but the Valuer may also advise on which type of valuation report is suitable under the circumstances. The Valuation Certificate must contain at least the following information (where applicable):

8.3.1 Summary of the requesting party’s requirements;

8.3.2 Legal and physical description of the property;

8.3.3 Description of the property and its location;

8.3.4 Permitted and potential use;

8.3.5 Lease details;

8.3.6 Valuation method and parameters;

8.3.7 Date of valuation;

8.3.8 Assessed open market value or rental value (with negotiation limits);

8.3.9 The Valuer's signature.

Notwithstanding the above, all Valuations required for the alienation, acquisition, expropriation or development of Property must be undertaken through a fully motivated and informed Valuation Report.

8.4 Valuers must adhere to the restrictions appropriate to their professional registration status and must at all times ensure that this registration is valid.

9. Guideline and Policy Statement - Methods of Valuation

9.1 Introduction

The Property Valuations or Rental Valuations to be undertaken would be for the following purposes:

9.1.1 Market Valuations to reflect the open market value of a Property at a certain date;

9.1.2 Rental Valuations to determine the market rental value of Premises at a certain date;

The approach used in the valuation of Msunduzi Municipality properties should be subject to the:

9.1.3 Norms of the Valuations Standards set by the South African Council for the Property Valuation Profession (which norms are aligned to the valuation standards of the International Valuation Standards Council);

9.1.4 Applicable legislation and regulations; and

9.1.5 South African valuation case law as to the selection of the method of valuation to be employed, subject to any special requirements of any applicable Msunduzi Municipality policies.

9.2 Methods of Valuation – Market Valuations

9.2.1 The methods of Valuation used assume the definition of Market Value to be "the estimated amount for which a property should exchange on the date of Valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

9.2.2 The Valuation method selected to value a particular Property will depend on the type of Property to be valued. In the case of Msunduzi Municipality various categories of Property have been identified, these being, Completed Properties, Properties in the Course of Development and Vacant Land. Further, considering the large component of specialized property and infrastructure held by Msunduzi Municipality, other appropriate and recognised valuation methods may be adopted.

(a) Completed Property

This category of Property includes properties that are fully developed and are either let out to tenants to earn an income or are occupied by Msunduzi Municipality for operational purposes.
Three methods of Valuation are currently used in the property market:

- The Direct Comparison Method
- The Discounted Cash Flow Method
- The Income Capitalisation Method.

Specialised property and infrastructure such as depot, sports and recreation facilities form a large component of Msunduzi Municipality's property portfolio. These properties are normally valued by means of the Depreciated Replacement Cost method of valuation.

The Direct Comparison Method relies on recent sales evidence from transactions involving similar properties to the one being valued. While it is theoretically possible to value developed non-residential property using this method, in practice it is seldom practical, due to the lack of suitable data. Thus, this approach is normally reserved for the valuation of a residential property. The basis of valuation is the comparison of the property being valued with recent comparable sale transactions, taking into consideration differences in the location, size, zoning, type and quality of improvements and tenancies (where let). This is the method that is readily accepted by our courts as default method. Other methods are used if this one may not work.

The Discounted Cash Flow Method (DCF Method) values properties by discounting the anticipated net cash flow over a specific period (normally 5 years or such period as is required to enable all existing leases which are at rentals above or below market rentals to expire and a market rental to be applied to the premises) at an appropriate discount rate, and adding to this the residual value of the property.

The Income Capitalisation Method (IC Method) values properties by capitalising the current market related normalised net income into perpetuity using a suitable capitalisation rate. This value is adjusted to take account of any above or below market related rents receivable in terms of existing leases.

The IC Method values properties by capitalising the current market related normalised net income into perpetuity using a suitable capitalisation rate. This value is adjusted to take account of any above or below market related rents receivable in terms of existing leases.

The operating costs of the property are then calculated, being made up of the assessment rates, insurance premiums, maintenance costs, management fees, security, cleaning, municipal service charges and any other costs incurred in running the property. These are escalated at a suitable rate going forward. In addition, where any leases terminate, allowance is made for a vacancy period (included in the cash flow as a zero income period), as well as a tenant installation allowance and lease commission payment (included as an expense).

The net income is then arrived at by deducting the operating costs from the gross income. This net cash flow is then discount back to the date of valuation. The discount rate applied to the cash flow will depend on a range of input factors. The starting point would be the long bond interest rate (the so-called "risk free" rate of return), which would be adjusted to reflect the risk profile of property as an asset class and also of the particular property being valued.

To this the residual value of the property (based on an IC Method valuation) is added as at the end of the cash flow period – being the assessed market value of the building at that date. This is calculated by taking the net income at the end of the cash flow period and capitalising it at a suitable rate; the resulting value is then discounted back to the valuation date.

(b) Properties Being Developed

The accepted practice is to use the development potential in valuing this category of property. This involves considering the sale value of the completed property less the cost of land and the development costs incurred. Various assumptions are made. Costs include construction costs, professional fees, etc.

Investment Property buildings in this category are to be valued on this basis for a suitable period after practical completion so as to allow a reasonable period for the letting of the building to be completed and for any outstanding construction work to be finalized. This method is only acceptable if the Valuer can prove that comparable sales method could not be suitable.

(c) Vacant Land

The appropriate method of valuation would be the Direct Comparison Method, in terms of which properties would be valued by reference to comparable sites which have been sold on the open market.

(d) Specialised Properties and Infrastructure (Sport facilities, Community facilities)

The most appropriate method to value specialised properties and infrastructure would be the Depreciated Replacement Cost method of valuation. This method entails the calculation of the current replacement cost of the improvement or structure where after an appropriate depreciation factor is applied to derive the present value of the improvement or structure.

To this value a comparable land value is added to reflect the current market value of the site. The depreciation factor is a combination of economical, physical and functional obsolescence of the improvement or structure.

(e) **valuation of generally invaded land that is acquired by the municipality for public and redevelopment purposes.**

- **Acquisition of generally and extensively invaded land;**

  - Where the land is illegally occupied; and
  - Where the land is required by Municipality to redevelop a specific area and/or undo past discriminatory practices in an attempt to secure and improve land tenure for the inhabitants of the identified area;

Then the land should be valued as vacant since it is common cause that when land is extensively and illegally occupied the market value of that land or property is dramatically errored and the Municipality is usually the only willing buyer.

- **Where the landowner of the invaded land occupies a portion of the land or existing dwelling on the property and requires to retain what she occupies:**

  - The valuer shall value the property to include all permanent improvements on the property;
  - The land value on the basis that it is deemed to be vacant, as per paragraph 1 above, shall be determined and recorded separately;
  - The value of the permanent structures shall be determined and recorded separately;
  - The Municipality shall acquire the vacant land excluding permanent structures and the Deed of Sale shall make provision for servitude to be registered in favour of the landowner until such time a subdivision of the property has been done.
  - The cost of the subdivision shall be borne by the Municipality;
  - The valuation should also determine a market rental to be paid by the landowner during the time she occupiers the land prior to subdivision.

A solatium not exceeding 10% of the determined market value shall be added to the compensation due and payable to the landowner.

Where the subject property is not illegally occupied then the general valuation provisions applicable to that specific type of property in terms of this policy shall apply.

9.3 Property Acquisition (Private properties required by Council)

Valuer must determine the market value of the property taking into account the following critical information; Determine market based on three distinct values (Market, Replacement and Expropriation Value) as follows if applicable:

9.3.1. Being the market value of the affected/required land

- The Market Value of land reflects the actual value of the land that is required (i.e. what a willing buyer would pay for such land in the open market to a willing seller). The offer of compensation that will be made by the Valuer, will fundamentally be based on the results of the Acquisition Plan.
- It is important to note that the potential and best use of affected land is identified and hence, also compensated for if such potential and best use is –
  - financially feasible;
  - economically feasible;
  - practically feasible; and
  - legally feasible

9.3.2 Reimbursement for any financial losses that may be suffered by affected landowners (only if applicable)

- Real Financial Losses represent all direct losses that a landowner will actually suffer, but does not include the value of land. Such real losses must be a direct and quantifiable loss to which the landowner is legally entitled. The potential loss of income, however, becomes extremely complex, and in most cases is considered to be an indirect and unquantifiable loss for which no compensation is payable.

- The principle that is applied as a rule of thumb is to attempt to always place or reinstate the landowner or rights holder into the same or a similar position as the one he or she was in before the acquisition of the land.

- Real Financial Losses for which landowners or rights holders must be compensated that must, are –
  - replacement cost of affected water troughs, boreholes, structures, infrastructure, immovable improvements, etc;

  - relocation cost of irrigation pipes, people, fences, etc; and

  - planning cost, such as Professional Fees relating to the appointment of Consulting Engineers, Architects, Town Planners, etc.

  - Any other value that the Valuations unit may deem to be a fair value appropriate to be considered for acquisition/lease/disposal. Provided that where disposal is concerned, a final decision on the price shall be made by Council.

9.3.3 Affected Rights

- The issue affecting the finalising of a transaction that is the most time consuming to deal with, is encountered where Rights in or to a property are held by juristic persons other than the registered landowner.

- In some cases, these Rights prohibit the landowner from agreeing to the alienation of the required land (such as where a Deed of Constraint is registered against the property or landowner). In such instances, any negotiations with the landowners are actually fruitless. More importantly, in such instances the acquisition and compensation payable must be negotiated simultaneously with all relevant Rights Holders, which often or mostly result in time delays in finalising the negotiation process, those rights must be valued accordingly. the Rights which may be relevant are :-

    - Lease Agreement or Servitude;
    - Pre – empitve to acquire property
    - Water rights
    - Usufruct

9.4 Validity of a Valuation Report

The valuation report shall remain valid for a period not greater than 15 Months from the date of valuation**.** Between 15 and 24 months, the valuation shall be reviewed where only a desktop review may be required. On exceptional cases, the department may ask for a full report. After 24 months, a full new valuation shall be required.

9.5 Enforceability of a valuation

a) In terms of s14(2)(b) of MFMA, read with Regulation 13(b) of ATR, council may resolve to dispose of the property after it has considered a fair market value of the asset and the economic and community value to be received in exchange of an asset.

b) Even where council resolves to accept a donation or exchange, a market value of the property in question shall be required.

c) The above shall also apply where council wants to donate to a third party.

d) Msunduzi Municipality shall have a discretion to dispose of/lease its properties at a consideration below market value, where the plight of the poor dictates otherwise and such disposal/lease is deemed to be in the public interest.

e) In case of disposals and rentals of council property, the valuations unit is authorised to negotiate favourable rates which are higher than what is contained in the valuation report.

f) In case of acquisition of privately owned property, valuations unit is authorised to negotiate favourable rates which are lower than what is contained in the valuation report.

g) Rentals may also be lowered in lieu of a potential tenant who undertakes to refurbish the property at his/her own cost. The Municipal Manager may decide to accept a reduced rental.

h) Private property shall be acquired at market value. Valuations unit shall first conduct a valuation and base its first offer on its valuation. Where the offer is not accepted by the seller, the seller shall be asked to render his/her own valuation. Where the two valuations differ, the valuations unit shall endeavor to act in the best interest of Msunduzi Municipality by proposing a settlement price that takes into account the two differing values. Any agreement between the two parties shall be contained in the Offer to Purchase and be subject to council approval (depending on delegated powers at the time of the transaction).

i) The Valuations unit shall decide whether or not to accept the valuation method, in which case the Valuer shall be requested to review or a new Valuer appointed.

9.6. General

Value is an opinion of the practicing Valuer; the Valuer must motivate his/her conclusion of the researched market evidence. The value so determined must be defendable in a court of law.

10. Guideline and Policy Statement - Frequency of Valuations

Property Valuations required for property acquisitions, property disposals, investment decisions, operational use evaluations, performance evaluation purposes, rating purposes, Rental Valuations and any other purpose will be undertaken on an ad hoc basis, as and when the need arises.

11. Review and Monitoring

This Policy shall be reviewed as and when required.

12. Short title and Effective date

This document shall be called the "**PROPERTY MARKET VALUATION GUIDELINES AND POLICY FOR MUNICIPAL OWNED IMMOVABLE PROPERTY**" and will take effect from the date of its approval by Council.