

Unit 20: Property Valuation in Construction

NQF Level 3: BTEC National

Guided learning hours: 60

Unit abstract

This unit will provide a sound knowledge base for learners employed or having an interest in the property management sector, including an initial understanding of the nature of the property market, the methods used to make valuations of properties and investments, and the various factors that affect property values.

Learners will develop a basic understanding of the economics of the property market, including the effect on value of supply and demand at the time of valuation. They will explore the reasons for valuing a property, and will learn that the value of a property depends largely on what the prospective owner wishes to do with it. They will develop an understanding of the impact of mortgage and interest rates on funding, of the essential requirements for a mortgage, will be able to perform simple calculations to determine mortgage repayments and the changes to these arising out of fluctuations in the interest rates.

The unit will address the more common method of valuing domestic property, involving a comparison with similar properties for sale or rent in comparable or nearby areas, including the factors that affect such valuations. Learners will have the opportunity to value local properties using this technique. Business properties are far more dependent on investment opportunities, and the unit also addresses the determination of the value for rent for simple commercial properties, by calculation or by use of valuation tables and/or relevant software.

Learning outcomes

On completion of this unit a learner should:

- 1 Understand the economics of the property market and the factors that affect the value of property
- 2 Be able to identify the reasons for valuing property, the methods used to perform such valuations and the roles of the people involved
- 3 Understand how interest rates influence investments and valuations, know the standard requirements for a mortgage and be able to perform the simple calculations used to determine mortgage repayments
- 4 Understand the various procedures used to calculate the value of investments
- 5 Be able to carry out valuations using the comparative method for the sale/rent of residential properties and determine the value for rent of simple commercial properties.

Unit content

1 Understand the economics of the property market and the factors that affect the value of property

Property as an investment: sources for investment eg banks, building societies, private finance; types of investment

Economics: effect of changes in supply and demand on the value of property; elasticity in the market

Government initiatives: property value control; social issues concerning housing

2 Be able to identify the reasons for valuing property, the methods used to perform such valuations and the roles of the people involved

Valuations: tax and insurance purposes; outgoings; service charges; residual method of valuation

Roles and responsibilities: of the valuer in both private and public sectors

3 Understand how interest rates influence investments and valuations, know the standard requirements for a mortgage and be able to perform the simple calculations used to determine mortgage repayments

Interest rates: simple and compound; savings; loans; bank rates

Mortgage requirements: conditions; sources; mortgage repayments; depreciation

Bank of England: role in controlling inflation and deflation; government initiatives eg Individual Savings Accounts (ISAs) and Personal Equity Plans (PEPs); pensions

4 Understand the various procedures used to calculate the value of investments

Mathematics of valuation: valuation tables and associated formulae (amount of £1, present value of £1, amount of £1 per annum, sinking funds); years purchase; in terms of zone A (ITZA); application of these mathematics to practical situations

5 Be able to carry out valuations using the comparative method for the sale/rent of residential properties and determine the value for rent of simple commercial properties

Methods of valuations: value for sale and/or rent; all types of residential dwellings and simple commercial properties; effect of eg location, age and style on value of properties

Grading grid

In order to pass this unit, the evidence that the learner presents for assessment needs to demonstrate that they can meet all of the learning outcomes for the unit. The criteria for a pass grade describe the level of achievement required to pass this unit.

Grading criteria		
To achieve a pass grade the evidence must show that the learner is able to:	To achieve a merit grade the evidence must show that, in addition to the pass criteria, the learner is able to:	To achieve a distinction grade the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
P1 explain the economics of the property market by identifying the common sources of finance for property investment	M1 analyse the effect of government initiatives on investments and how they affect property values	D1 compare the merits of the various types of investment for a special range of situations
P2 describe the factors that affect property values		
P3 calculate simple and compound interest mortgage repayments	M2 demonstrate how changes in interest rates affect mortgages and investments	D2 analyse market forces to determine the rental valuation of a commercial property for investment purposes.
P4 use valuation tables/software/formulae to determine the basic components of a valuation (amount of £1, present value of £1, amount of £1 per annum, sinking funds and years purchase)	M3 apply the valuation process to a practical situation	
P5 carry out a comparative valuation for a residential property.	M4 produce a property sales sheet with all the required information.	

Essential guidance for tutors

Delivery

Tutors delivering this unit have opportunities to use a wide range of techniques. Lectures, discussions, seminar presentations, research using the internet or library resources and the use of personal or industrial experience are all suitable. Delivery should stimulate, motivate, educate and enthuse learners. Visiting expert speakers could add to the relevance of the subject.

A major requirement when dealing with property at any level is to be able to put a value on the investments under consideration. This unit looks at the various methods used by valuers in everyday practice. This is a more specialised unit and should be delivered at a later stage within the programme.

For delivery, it is essential to use up-to-date examples as a basis (information available from estate agents, management companies, via the internet or from the learner's places of work). Up-to-date access to current interest rates is advised, again available from the internet or local building societies.

Although the mathematics of the valuations and use of the tables are based on variations of the compound interest formula, it is worth spending time ensuring the learners are happy with formula transformations, indices and the use of a scientific calculator. There is an obvious link with *Unit 3: Mathematics in Construction and the Built Environment* here. This can be achieved through the use of worked examples at different stages of development.

Finally, it should be integrated into a case study concerning a real property (the learner's own home, or one with which they are familiar, preferably close to the centre where they are studying) and linked closely with the delivery of Unit 20: Property Law, where this unit is being studied alongside it.

Group activities are permissible, but tutors will need to ensure that individual learners are provided with equal experiential and assessment opportunities.

Health, safety and welfare issues are paramount and should be strictly reinforced through close supervision of all workshops and activity areas, and risk assessments must be undertaken prior to practical activities. Centres are advised to read the *Delivery approach* section on page 24, and *Annexe G: Provision and Use of Work Equipment Regulations 1998 (PUWER)*.

Assessment

Evidence for this unit may be gathered from a variety of sources, including well-planned investigative assignments, case studies, simulated valuation exercises and calculations of property values using a range of methods and techniques.

There are other suitable forms of assessment that could be employed. Some examples of possible assessment approaches are suggested below. However, these are not intended to be prescriptive or restrictive, and are provided as an illustration

of the alternative forms of assessment evidence that would be acceptable. General guidance on the design of suitable assignments is available on page 19 of this specification.

Some criteria can be assessed directly by the tutor during practical activities. If this approach is used, suitable evidence would be observation records or witness statements. Guidance on the use of these is provided on the Edexcel website.

Most evidence will be in the form of assignments or projects supported by tables, graphs, computer print-outs and calculations wherever relevant. These will usually be undertaken individually but it is possible to introduce elements of teamwork into simulations of valuation processes such as the comparative valuation method. The evidence must make it clear exactly what was done by each member of the team.

The structure of the unit suggests that the grading criteria may be fully addressed by using three assignments.

The first of these would deal with the factors that have a bearing on the value of property and investments as a whole and cover the P1, P2, M1 and D1. The second would look at the calculations and techniques used to quantify a valuation P3, P4, M2, M3 and D2. The third assignment would deal with the more common, qualitative, comparative approach by which the learner must attempt to value a residential property by investigation of similar properties in the neighbouring area, and cover P5 and M4.

To achieve a pass grade learners must meet the five pass criteria listed in the grading grid.

For P1, learners must be able to explain the economics of the property market by identifying the common sources of finance for property investment. This will necessitate descriptions of the different types of investment available and the sources of loans. Evidence for this criterion could be provided, for example, in the form of a presentation, a report or through oral questioning based on a tutor provided case study.

For P2, learners must be able to describe the factors that affect property values. This must include the sources of finance, and other pertinent factors. Examples of suitable evidencing approaches are as for P1.

For P3, learners must be able to calculate simple and compound interest mortgage repayments. These must be done using standard forms of calculation. The evidence should include the working and the answers must be substantially correct. The odd mistake is acceptable if corrected after feedback from the tutor.

For P4, learners must be able to use valuation tables/software/formulae to determine the basic components of a valuation (amount of £1, present value of £1, amount of £1 per annum, sinking funds and years purchase). The evidence should include all working, and annotated tables and/or computer print-outs as appropriate, and the answers must be substantially correct. The odd mistake is acceptable if corrected after feedback from the tutor.

For P5, learners must be able to carry out a comparative valuation for a residential property. The evidence should take the form of a report including details of comparable properties, the value of those comparable properties and a rationale underpinning the final valuation of the property in question.

To achieve a merit grade learners must meet all of the pass grade criteria **and** the four merit grade criteria.

For M1, learners must be able to analyse the effect of government initiatives on investments and how they affect property values. They must identify the effects of government control and inflation with special regard to house and property prices. The evidence could take the form of a report supported by articles from the quality press and trade magazines and any relevant calculations.

For M2, learners must be able to demonstrate how changes in interest rates affect mortgages and investments.

For M3, learners must be able to apply the valuation process to a practical situation.

For both M2 and M3, learners must extend the calculations to demonstrate how changes in the interest rates affect mortgages and investments and apply them in a practical situation. Examples of suitable evidencing approaches are as for M1.

For M4, learners must be able to produce a property sales sheet with all the required information. They must present the evidence in a format that reflects the current standard property sales sheets issued by local estate agents.

To achieve a distinction grade learners must meet all of the pass and merit grade criteria **and** the two distinction grade criteria.

For D1, learners must be able to compare the merits of the various types of investment for a specified range of situations. The evidence should take the form of a report with supporting tables and calculations.

For D2, learners must analyse market forces to determine the rental valuation of a commercial property for investment purposes. Examples of suitable evidencing approaches are as for D1.

Links to National Occupational Standards, other BTEC units, other BTEC qualifications and other relevant units and qualifications

The learning outcomes in this unit are closely linked with, for example, *Unit 3: Mathematics for Construction, Civil Engineering and Building Services Engineering*, together with similar units at Higher National and degree level.

This unit may have links to the Edexcel Level 3 Technical and Professional NVQs for Construction and the Built Environment. Updated information on this, and a summary mapping of the unit to the CIC Occupational Standards, is available from Edexcel. See *Annexe D: National Occupational Standards/mapping with NVQs*.

The unit provides opportunities to gain Level 3 key skills in application of number and information and communication technology. Opportunities for satisfying requirements for Wider Curriculum Mapping are summarised in *Annexe F: Wider curriculum mapping*.

Essential resources

There are no special resources required for this unit other than calculators and/or valuation tables. Some software is available for assistance with the calculations.

A great deal of current information can be obtained from newspapers and journals (such as *Estates Gazette*, *Chartered Surveyor Monthly*, *The Economist*) and from various internet sites. Up-to-date values of properties require the learner to collect relevant information from estate agents and from the multitude of websites set up to sell property.

Indicative reading for learners

Textbooks

Davidson A W – *Parry's Valuation and Investment Tables* (Estates Gazette, 2002) ISBN 0728203685

Isaac D – *Property Valuation Principles* (Palgrave Macmillan, 2001) ISBN 0333921143

Johnson, Davies and Shapiro – *Modern Methods of Valuation* (Estates Gazette Ltd, 2000) ISBN 0728203464

Millington A F – *An Introduction to Property Valuation, 5th Edition* (Estates Gazette, 2001) ISBN 0728203502

Richmond D – *Introduction to Valuation, 3rd Edition* (Palgrave Macmillan, 1994) ISBN 0333614844

Rees W H and Hayward R – *Valuation: Principles into Practice, 5th Edition* (Estates Gazette, 2001) ISBN 0728203472

Scarrett D – *Property Valuation: the Five Methods* (Spon Press, 1991) ISBN 04191377807

Key skills

Achievement of key skills is not a requirement of this qualification but it is encouraged. Suggestions of opportunities for the generation of Level 3 key skill evidence are given here. Tutors should check that learners have produced all the evidence required by part B of the key skills specifications when assessing this evidence. Learners may need to develop additional evidence elsewhere to fully meet the requirements of the key skills specifications.

Application of number Level 3	
When learners are:	They should be able to develop the following key skills evidence:
<ul style="list-style-type: none"> collecting up-to-date values and interest rates calculating interest and mortgage repayments using tables/formulae to determine the basic investment values carrying out an analysis of the results calculated in order to determine the value of the investment/property. 	<p>N3.1 Plan an activity and get relevant information from relevant sources.</p> <p>N3.2 Use your information to carry out multi-stage calculations to do with:</p> <ul style="list-style-type: none"> a amounts or sizes b scales or proportion c handling statistics d using formulae. <p>N3.3 Interpret the results of your calculations, present your findings and justify your methods.</p>
Information and communication technology Level 3	
When learners are:	They should be able to develop the following key skills evidence:
<ul style="list-style-type: none"> finding up-to-date values of properties and interest rates using the valuations software presenting sales details. 	<p>ICT3.1 Search for information, using different sources, and multiple search criteria in at least one case.</p> <p>ICT3.2 Enter and develop the information and derive new information.</p> <p>ICT3.3 Present combined information such as text with image, text with number, image with number.</p>