**CAAV Examinations 2016**

**Written Board - Examiners Report on Questions**

**Paper 1**

**Paper 1 - Question 1 – The Multi-Part Question**

Candidates answered: 155

Average mark: 71.73%

Percentage passed: 78%

Top Mark: 97

Bottom Mark: 44

The question was a multi-choice one with candidates to answer 5 out of 8 questions covering a wide range of surveying topics. This was answered by most candidates with varying success.

I wish to be positive in this report and for the most part feedback is positive. However, I must again confirm my feelings in respect of many scripts being unplanned in terms of answer layout.

Many answers had too much essay content rather than keeping the answers short and punchy. In consequence, with long essays, the handwriting suffered which in turn does not help the candidates.

The best candidates of course knew the facts in detail but also presented them in an informative yet brief manner with bullet points and short paragraphs in a logical, well thought-out layout. This obviously makes the examiner’s task much easier.

The best answered questions were on greening, succession, professional conflicts and client money. The succession question did however throw up some misunderstandings, with some candidates mixing up eligibility and suitability criteria for example.

The Red Book question was in the examiner’s mind a potential banker question for candidates as an obvious core area of business/professional knowledge. However, a good proportion did not state the full principle of the valuation basis but confused it with methodology. The silver lining was that most knew the exceptions to the Red Book requirements.

Only five candidates prepared any real plans which, in my view, would have helped layout and presentation.

Congratulations to a fair number of candidates who did follow the basic ground rules stated above and so regularly scored over 80%. It is important to remember in this particular exam that a mark of that level helps, standing a candidate in good stead for the remaining four questions, to ensure an overall pass mark.

It is really important for those who have done less well to try again but to realise that presentation and ordering their answers in logical sequence (after reading the question thoroughly and ascertaining what it requires on account of this) will bring a far more successful outcome.

It is important to put down all salient facts, of course, but expanding beyond the question’s remit is not necessary on the whole. The motto “less is more”, assuming all the relevant information is included in the question, is a good one to use.

**Paper 1 - Question 2 – Bank Valuation**

Candidates answered: 142

Average mark: 71.25%

Percentage passed: 67%

Top Mark: 100

Bottom Mark: 35

This question proved popular being answered by 142 candidates, many of whom scored well. It concerned a bank valuation instruction with additional knowledge required on a number of side issues. It was clear from the answers which candidates were experienced in carrying out valuations, particularly for secured lending, and those who were less so.

|  |  |
| --- | --- |
| a) | Most candidates were aware that the RICS Valuation - Professional Standards 2014 edition (as amended) / Red Book covered the content and format of the report, along with the bank’s specific instructions.The basis of valuation of valuation was Market Value for which the Red Book definition was required. A number of candidates incorrectly gave “open market value” or an out of date definition.  |
|  |  |
| b) | The question asked for the main headings in the report (description of the property, access, services, planning, market commentary valuation etc), not the preliminaries which are covered in the letter of instruction (but then repeated in the report). Many candidates provided every likely heading as “a belt and braces” approach. It was surprising that some were unsure of what would be in appendices, again reflecting lack of experience in preparing formal valuations. |
|  |  |
| c) | The presence of the Bed and Breakfast business could affect the value of the property if it broadened its appeal to the market and if comparable evidence could be found to show this. However, the income from the B&B could not be used as security for the bank – it is not guaranteed and cannot be valued as such. Some candidates correctly identified that it might help to meet payments for a loan but that is not within the valuation instruction for capital value for secured lending.The agricultural occupancy condition was likely to restrict the value of the farm cottage since it limits who can live in it. The best answers confirmed that the value would be reduced within a range of 20 – 40%, with the exact figure dependent upon the specific wording of the condition and actual demand from agricultural / forestry occupants in the area. Some candidates also mentioned it could be possible to remove the condition which could be relevant to the bank in the event of sale after a default on the loan. |
|  |  |
| d) | Valuation uncertainty covered Brexit, Mr Trump’s election, impact on currency exchange and interest rates, commodity prices and how all these may affect supply / demand for property and thus values over the coming months. |
|  |  |
| e) | Many candidates answered this well, giving details of where to obtain comparables and how to analyse them. Key points were local and recent sales evidence – above guide prices or historic evidence. The best answers referred to the hierarchy of evidence.  |

**Paper 1 - Question 3 – Arrangements for a Farm following Farmer’s Death**

Candidates answered: 29

Average mark: 54.41%

Percentage passed: 21%

Top Mark: 76

Bottom Mark: 32

Surprisingly few candidates tackled this question. While most that did recognised the various options for the medium and long-term, very few dealt well with the issues facing Ann in the short term.

A large number recommended that a farm manager should be employed and did not question the viability of this on an 80 ha, poorly equipped, heavy land holding. Very few mentioned the farm machinery and how it might be dealt with and the tax issues that would flow from a disposal.

Most candidates realised the potential BPS issues. Fewer dealt with the cash flow problems and the potential problems that could arise with the Bank on John’s death. Almost all the candidates considered a sale of the holding. Surprisingly few pointed out that the farm provided not only a home but a workplace for Ann.

**Paper 2**

**Paper 2 - Question 1 – Capital Taxation**

Candidates answered: 62

Average mark: 62.54%

Percentage passed: 48%

Top Mark: 90

Bottom Mark: 25

Mostly, the question appeared only to be attempted by those with a grasp of the Capital Tax regimes and there was, within most answers, a clear element of comprehension of the basics. There were a few strong answers from what were probably candidates with more direct experience and there were few howlers. The better answers picked up on technical and relevant peripherals demonstrating a deeper understanding, whether learned for the purpose of the Exam or picked up from experience.

It was evident, though, that a fundamental understanding of the basics of how the tax is defined and what reliefs may be applicable does not mean that the delivery of this knowledge into a practical “tax account” calculation follows. Many candidates became muddled in producing a calculation as to how CGT **(Part a)** actually bites in the scenario presented. Perhaps candidates have little exposure to producing such sums as Solicitors/Accountants more often to that part of the work in these situations.

There was confusion as to how to deal with the £2.5m mortgage in the CGT account with some even adding it to the total to be taxed rather than (as with many) deducting it before tax, Neither is correct. Too many candidates didn’t introduce Entrepreneurs’ Relief effectively or understand that 28% is now applicable to gains on residential property only.

Layout is important in such questions and those who used tabulation showed better clarity and the calculations flowed more logically.

**Part b)** was an SDLT question which was quite well answered across the board, other than by a few who failed to realise it was an SDLT question and not a CGT based one.

**Part c)** was an IHT question and a few candidates simply brain-dumped “everything I know about IHT” including a raft of case references but, again, largely this part of the question was well answered.

In summary the Question was readily understood for the most part and well answered by those who had prepared best for a tax question which, arguably, should go for the whole candidate group every year.

**Paper 2 - Question 2 – Property Sale and Lotting**

Candidates answered: 123

Average mark: 62.32%

Percentage passed: 46%

Top Mark: 89

Bottom Mark: 20

This question concerned the potential sale of a 540 acre farm including a farmhouse, cottage and farm buildings. It sought to assess candidates’ knowledge and understanding of “pitching” for the sale instruction as well as how they would market the property for sale. This was a popular question with 123 candidates attempting it and generally it was well answered. There was however a clear division between those who have undertaken agency work and those who have had less involvement in property sales.

Part a) asked candidates to set out what they would include in their follow up/market appraisal letter. Less experienced candidates mixed this up with what to include in sales particulars which actually fell within part d). Most candidates correctly identified the important issues such as method of sale, lotting, guide price, marketing strategy, fees, money laundering etc. Higher scoring answers also including viewing arrangements, termination/cancellation details and “cooling off” period.

Part b) sought to assess candidates’ knowledge of relevant legislation and regulations and this part was well answered. Most candidates were aware of the Estate Agents Act 1979, the Money Laundering Regulations 2007 and the Consumer Protection from Unfair Trading Regulations 2008. Surprisingly, several candidates referred to the Property Misdescription Act 1991 which was repealed in 2013! The best answers also referred to other legislations such as the Data Protection Act 1998 and the Energy Act 2012.

Part c) essentially asked for a check list of information needed to prepare the sales particulars and covered a wide range of property details. Most candidates demonstrated a reasonable grasp of details that would be included within the sales particulars although it was surprising that some candidates did not specifically refer to basic items such as a property description and location details. All candidates referred to the private water supply and septic tanks and a small number identified possible TUPE implications in connection with the employed worker.

Part d) required an understanding of Stamp Duty Land Tax together with the more recent second home surcharge. The vast majority of candidates answered this part of the question well and in detail and were marked accordingly. A small number of candidates demonstrated a wider understanding by referring to VAT/option to waiver and ATED.

**Paper 2 - Question 3 – Options for Development Land**

Candidates answered: 41

Average mark: 57.78%

Percentage passed: 37%

Top Mark: 87

Bottom Mark: 18

The question called for candidates to identify different methods for the promotion and sale of land for development together with the risks and rewards. The principle methods being sought were for the client to obtain the planning permission and sell, enter into an option agreement or enter into a promotion agreement. Some candidates identified sale with an overage and the good ones, a hybrid scheme. Some candidates concluded that the wording of the question excluded an option agreement; the examiners decided this interpretation was possible and marked accordingly.

The second part of the question required candidates to provide a breakdown of the potential return to the client of the various methods they had identified.

The best candidates understood how to arrive at the net figure with deductions for the promoter’s share of profit or the developer’s discount to open market value.

The standard of answers varied enormously from the very poor to the excellent. Generally candidates were better at answering the first part of the question. There was quite often not enough understanding of the difference between a promotion and option agreement. Few candidates noted the alternatives available to the client who wished to manage the project themselves in that they could see either outline or full planning permission before selling.

In the second part, there was a huge difference in values with many not understanding gross as compared to net developable values. There was also a lack of sense checking, with the worst candidates arriving at the land being worth more without planning as opposed to the net receipts from either an option agreement or promotion agreement.

**Paper 2 – Question 4 – Compulsory Purchase**

Candidates answered: 52

Average mark: 54.76%

Percentage passed: 35%

Top Mark: 82

Bottom Mark: 22

This question tested the statutory basis and process and required candidates to understand the difference between mitigation of property claims through accommodation works and, separately, how the partnership can be put into a position to claim. The question appeared to be understood by all.

Statutory basis – caused some confusion on title and dates of Acts.

Process – generally understood and stages defined in order.

Property – needed an understanding of the need to object and negotiate and the type of accommodation works suitable for the holding.

Business – requirement to keep good records sometimes overlooked.

As with most technical papers, those that are involved answer it well with a good structured answer; others appear to have taken it as a last resort and missed basic information.

Only one candidate identified that often the best outcome can be achieved by securing variations early in the design process and work to fully record facts to justify the claim.

Overall, the paper gave a fair balance of technical knowledge backed up by experience, noting that the latter may be limited by the stage of a candidate’s career.

**Paper 2 – Question 5 – Surrender of AHA Tenancy and End of Tenancy Compensation**

Candidates answered: 94

Average mark: 51.97%

Percentage passed: 19%

Top Mark: 75

Bottom Mark: 5

A very disappointing overall standard – considering this is a core subject areas of AHA tenancy and end of tenancy compensation for fixtures and improvements and landlord’s claim for dilapidations. This should trot off the pen for candidates - but few did! Several confused basis of compensation, muddling of fixtures and improvements.

Not enough gave general, practical and tactical advice which the question wanted and asked for and instead just giving text book definitions (if they knew them!)

Very few gave examples of levels of surrender payments in value/quantum and not many stated how this might be arrived at.

The question asked for NOTES and most gave blocks of text – unbroken! Lack of ‘white space’ between sections. Usual high proportion of poor/illegible handwriting. The few typed scripts were a joy to mark – shorter and well formatted and laid out.

Very few answered part e) well – ‘how to document the surrender’ – not recognising the need for solicitors to draft and formalise Deeds of Surrender etc. The majority did not identify a role for the agent to negotiate agree and prepare Heads of Terms before sent to solicitor to draft Agreement to Surrender and Deed of Surrender.

Very few had question ‘plans’ at start although well laid out and spaced out bullet point notes would have allowed candidates to give well considered answers. The shorter/punchy answers focussing on key facts and matters generally scored well – covering key points = quick and efficient scoring.

Too many candidates were determined to write about model clauses rather than addressing the matter of repairs in the written agreement.

Some candidates were determined to give too much detail about succession rights, as if this was a succession question which was relevant only for the strength bargaining position.

No candidates identified the possible issue to the tenant who may want to live in his new bungalow but would probably have a residency clause in tenancy which would need to factor in his decision to leave.

**Paper 2 – Question 6 – Agreement and Heads of Terms for 5 Year Storage Agreement**

Candidates answered: 117

Average mark: 67.183%

Percentage passed: 60%

Top Mark: 93

Bottom Mark: 32

**Part A**

This asked if, as a valuer, you could draw up the agreement for the intended arrangement.

For England and Wales, many candidates correctly identified that the lease is a disposal of an interest in land which should be made in writing, describe itself as a Deed and signed by the parties in the presence of a witness and signed as a Deed. The best identified the Law of Property Act 1925 as a relevant legislation for England and Wales. Many correctly identified that as a valuer they could prepare the lease if it is for a term of three years or less. Some correctly mentioned they would only do this if they had the relevant experience of preparing such leases and some that they would check with their professional indemnity insurers that they were comfortable with the preparation. Many identified that if the lease term was for over three years then it had to be prepared by a solicitor (Legal Services Act 2007).

Some candidates seemed shy of the Landlord and Tenant Act 1954 (for England and Wales) and went for a licence arrangement which caused them considerable confusion later in the question.

Candidates providing the different answers applicable under Scottish law gained marks.

**Part B**

This asked for the tax implications of the lease for five different types of tax:

*Income Tax*: The rent would be treated as property income taxable at the marginal rate. Limited ability to offset costs and losses against other profits but not liable to National Insurance. Many candidates caught the basics of this.

*Rates:* Candidates should have identified that they were national non-domestic rates. The rateable value will be assessed by the Valuation Office Agency but typically the rates would be paid by the occupier and it was important to include a provision within the lease to ensure this. The best identified that if the property was empty then the liability for NNDR on empty property would fall back to the landlord.

*Capital Gains Tax:* Many candidates identified that this would be payable on the sale or transfer of the landlord's interest. The best identified that there was a likely increase in value as a result of the building being commercial and not agricultural. Some identified Entrepreneurs Relief as potentially available if the circumstances were structured correctly although this might be difficult.

*VAT:* The best candidates identified that there may be works to do to the building and by opting to tax the landlord may be able to reclaim VAT on the repairs. If he had opted to tax on the building, then the landlord would have to charge VAT on the rent which a commercial occupier would be likely to recover provided he was registered for VAT. On any sale VAT would be chargeable on the sale price.

*Inheritance Tax*: Many candidates identified that if the building was changed from being agricultural to commercial then it would lose agricultural property relief. There was the possibility of business property relief if the overall business proved not to be wholly or mainly investments (as per the analysis in the Farmer and Balfour cases).

**Part C**

This requested comments on security of tenure.

Many candidates from England and Wales identified the Landlord & Tenant Act 1954 as being the relevant legislation and the sections relevant for security of tenure were sections 24-28 (in Part 2).

The mechanism for contracting out of these provisions was generally well answered. The best candidates also identified that the lease should contain reference to the landlord’s Warning Notice or the tenant declaration within the agreement to exclude the rights to renew.

**Part D**

This requested detailed heads of terms.

Many candidates did very well on the heads of terms element where 60% of the marks for the whole question were available. The best had clearly learnt a detailed set of heads of terms but were prepared to adapt them for the particular circumstances. The best added in practical arrangements concerning hours of operation, limits on vehicle size, access maintenance issues, security matters such as who would provide and maintain gates and lighting. This was an area where candidates could score well by knowing some basic information and many took full advantage.

The best candidates gave realistic lease terms and commentary on the alternatives available

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