

COMPARATIVE STUDY OF METHODS OF VALUATION WITH RESPECT TO CASE STUDY

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Abstract : The process of determining the market value of real estate properties which may be a residential, commercial, agricultural or residential land is termed as Valuation . Valuation is an inspection which is carried out to know the present value of property. Valuation is a baseline which provides us different ways to improve business and hence carried out for various purposes such as buying and selling of property, rental activities, taxation, compulsory acquisition, security of loan or mortgages, etc. There are several methods of valuation which are adopted in actual field practice are further discussed in detail in this report. This study will be helpful for those who are interested in playing a role of valuer in future. This study will introduce with the method of valuation which are actually adopted in field practice.

Keywords: Buying And Selling, Rental Activities, Taxation, Compulsory Acquisition, Security of loan or mortgages, obsolescence, Systematic, Frontage, Deterioration.

1. INTRODUCTION:

The process of estimating the market value of real estate properties is termed as Valuation. A property valuation is an inspection carried out to help determine the current market value of a property. Value of the property depends on the circumstances of the case such as structure, age, maintenance, location, etc... A property valuation is usually undertaken by an estate agents or an independent valuer, typically acting on the instructions of the vendor or a lending institution. Buyers may also request a property valuation if they are considering purchasing a property, in addition to structural surveys that assess its physical condition. It is usually undertaken by an estate agent or an independent valuer, typically acting on the instructions of the vendor or a lending institution who are considering funding its purchase. Buyers may also request a property valuation if they are considering purchasing a property, in addition to structural surveys that assess its physical condition.

As property valuation is done a report is prepared including the photographs of a property which includes some following information:

1. Physical condition of property.
2. Size of a property.
3. Construction details.
4. Layout maps.
5. Age of a Property
6. Comparative sale of similar property in nearby locations.
7. Details regarding any issue with that assets.
8. Measurement of every aspect including rooms, corridors, etc.
9. Construction approval by municipal corporation.
10. Copy of submission drawing and development plan for future submission.

1.1 NEEDS OF VALUATION:

Selling/Purchasing: In case of selling or purchasing of an asset valuation is done.

Imposition of Taxes: To assess the property tax its valuation is required. Taxes may be a municipal tax, property tax, wealth tax, etc.

Rent Purpose: When it is required to know the rent of property its valuation is required and it is fixed between 6% to 8% of total amount of valuation.

Loans or mortgages Security : When the loans are taken by mortgage valuation is done.

Compulsory Acquisition: The compensation must be paid to owner if asset is acquired by law. To determine the amount of compensation its valuation is required.

2. LITERATURE REVIEWS:

- 1) **Aditi Prashant Bhamare (2020):** The purpose of this study is to introduce people with general field practice of valuation of real estate property. The objective of this study is to identify the market value of properties for bank finance purpose which is situated in urban, semi urban and rural area of Dhule (Maharashtra), India.
- 2) **Akshay V. Patel (2020):** The paper shows the application of value management, it is a decision making tool which works on to remove unwanted things and to improve it by cost reduction as well as increasing the function of that part. It doesn't mean that quality compromise. The main aim of this paper is to optimize the construction cost without compromising the quality and with satisfactory value of client; the project is completed by the removing unnecessary cost.
- 3) **Minal. P. Chaudhari (2019):** Valuation is the technique of estimating or determining the fair price or value of a property such as a building, a factory, other engineering structures of various types, land etc. The present value of a property is determined by valuation. The present value of the property may be decided by its selling price, or income or rent it may fetch. The value of property depends on its structure, life maintenance, location, bank interest, legal control, etc.
- 4) **Dr. N. B. Chaphalkar (2019):** A detailed study of few such acts applicable to Indian real estate sector is carried out. An effort has been made to relate each act with the Supreme Court or High Court case judgments for a better understanding.

3. Methodology:

Valuation is performed using various methods which depend upon circumstances and type of property. Availability of data also plays a vital role in choice of method for certain type of property. Methodology is shown in figure.

SYSTEM OF GENERAL VALUATION PRACTICE FOR PROPERTY:

Document Collection:

- Draw approval by municipal authorities and approved sanction plan.
- Complete schedule of construction including starting date and date of completion.
- Property account details for the determination of development charge and other incurred expenses on property
- Copy of lease deed/sale deed of land for property.

- P.R.Card/ 7/12 certificate
- Certificate of N.A.
- Certificate of Possession

3.1 Types of Method used in Actual Field:

- **Land And Building Method:** Land and building method is the summation of present value of land and building calculated separately that gives the final value of property.

Value of property = Present value of land + Present value of building + Amenities and Services

- **Composite Rate Method:** It is also known as market approach method of valuation and it is most widely used approach to value any type of asset. In such valuation method valuation is performed by comparing the similar properties in nearby location in order to identify the sale prices in that locality.
- **Rent Capitalization Method:** The rental capitalization method deals with the calculation of rental income which a property can produce in its life span. It is done by using following formulas,

Total monthly rent = total plinth area x unit monthly rate

Gross income = Total monthly rent x 12

Total income or Rent = Gross Income – Outgoings.

4. Case Study:

“Samarth Capital” is an existing busy commercial complex at NH 6 Rahatgaon Square, Morshi Road, Amravati. The land 256.28 sq. m. was purchased in the year 2011. In this land, the owner has constructed commercial complex of GF+2 floors.

The plinth area of GF is 158.7 sq. m and for FF 214.73 sq. m and SF is 189.49 sq. m

Calculation By Rent Capitalization Method:

Total Plot= 256.28 sq.m.=2747.81 sq.ft.

Prevailing land rate= Rs. 5000 /- per sq. ft.

Thus, Total cost of land= Rs. 1,37,39,050 /-

Total construction rate = Rs. . ft.

Total B/U =556 sq.m.=5984.73 sq.ft

Thus, total cost of building= Rs. 8,97,70,950 /-

For Rental purpose;

Rent value is Rs. 10000/- per 180 Sq.ft

Thus the unit rate is Rs. 55.55/- per sq.ft.

Gross Rent for G.F

=Rs. 11,38,706.04 /- = **11.38 Lakhs**

Gross Rent for F.F

= Rs. 1540732.56 /- = **15.40 Lakhs**

Gross Rent for S.F.

= Rs. 1315575.00 /- = 13.15 lakhs

Thus, Total Gross Rent

= **Rs. 39,95,013.60/- = 39.95 Lakhs**

Total Net Worth

= Total gross rent- outgoings

=3995013.60-1078653.67

=**Rs. 29,16,359.33/-**

Thus the **Capitalized value** can be calculated as,

(Net worth * 100)/ Avg. Return

= $(2916359.33 * 100) / 2.225$
 =Rs. 13,10,72,329 /-
 Say Rs. 13.10 Crores

Calculation by Composite Rate Method:

Now, let consider the basic rate Rs 15000/- per sq.ft.
 Thus, Rs.20000/- per sq.ft for G.F.
 Rs. 17500/- per Sq.ft. for F.F
 Rs. 15000/- per sq.ft. for S.F

For G.F,
 =Rs. 3,41,64,600/-

For F.F,
 = Rs. 4,04,48,275/-

For S.F,
 = Rs. 2,96,03,400/-

Total value of a building,
 = Rs. 10,42,16,315/-
 Say Rs. 10.42 Crores

5. Conclusion:

This study involves the valuation by conducting case study of commercial building, on that basis we can conclude that,

1. Applying different approaches or methods for valuation for a same asset may leads to fluctuation of rates because of use of different methods.
2. By performing valuation by two methods, the highest value of an asset is derived by rental method of valuation among the two methods.
3. In rental method, the value is calculated by taking rate of 10000/- per 180 sq.ft. at unit rate of Rs. 55.55/- and thus by applying formulas we get the Capitalized value of Rs. 13.10 Crores.
4. In Composite rate method value of building is calculated by Plinth Area x Adopted Unit Rate so that the value obtained is 10.42 Crores.
5. Thus, for consideration of best methods one should know that valuation is always impartial as it neither supports buyer nor seller, but it actually tells us about the market conditions.
6. Also, valuation practice does not permit more than one method and the method is always chosen by valuer in order to carry out the valuation of any asset.

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