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DETAILS OF LEASEHOLD PROPERTIES VALUER SHOULD KNOW FOR VALUATION

1.0 Introduction A Property has a bundle of rights. lease is a part of bundle of rights. Lease can be defined as rightful separation of ownership and possession.

The Lease hold property given on rent for a certain period of in which Tenant has limited right i.e. to use the property for a limited period of time. For Using the property Tenants(lessee) has to pay in the form of Lease rent or ground rent which may also include Service/maintenance charges as per terms of lease.

Total part of Valuation of leasehold properties is to be discussed in 6 - 7 parts, So This time we will discussing Part II & rest Later on.

2.0 Part –II Details of leasehold properties Valuer Should Know

To understand lease we must understand relationship between the landlord and the tenant.

2.01 Lesser: owner of the land or the land with building, who give away possession of his property, on certain terms and condition.

2.02 Lessee: Tenant of the property which belonged to lesser. He holds and uses the property for period stated in Lease Agreement at the agreed terms and conditions set out in Lease Agreement.

2.03 Sub Lessee: When in Lease Agreement right is given by lesser to the lessee for subletting of land or land with building to the third person this **subtenant is known as sub-lessee**. Main lesser in such a case is called head lesser & main Lessee is called head lessee.

3.0 Interests of lesser, lessee, sub-lessee:

Depending upon the terms and conditions of the lease or sub lease, value of the interest of the different right holders of the property can be estimated. Thus, in a leasehold property, there will be two right holders, lesser and lessee.

4.0 Four Types of Leases

There are basically four types of leases, which are mentioned below:

4.01 Building Lease: These types of leases are most common in which open plot of land is given on lease by lessor to the lessee for the construction of the building & then for using it. lease period maybe 30 years, 60 years, 99 years or even 999 years. 99 years and more period is called Long Term lease or lease in perpetuity. short terms leases are also popular.

4.02 Occupational lease: This lease is for use of land and building together, which belongs to lesser. The lease Period is normally short i.e., 3, 5 or 10 years. There is usually a clause for renewable lease for further periods.

Difference between Building Lease and Occupational lease

Building Lease	Occupational lease
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Vacant land is leased Out.	Land and building are leased out.
Rent so collected is called ground rent.	Rent so collected is called Rack rent
Lessee have to spent on the construction	Building already constructed then leased
Here Reversion to lesser after long period.	Reversion to lesser after shorter Period.

4.03 Sub-lease: In this type of lease head lesser leases land to head lessee for a fixed lease rent for a fixed period. Head lessee is given right to sub-lease as and when required. Head lessee sub leases the land to sub-lessee for enhanced lease rental but for shorter duration than the period of head lease. Head lessee enjoys the profit rent.

4.04 Lease for Life: Under this type of lease, period of lease is fixed as the remaining lifespan of the lessee. The lease period ends on the date of death of the lessee. This type of lease creating life interest is not common in India.

5.0 Advantages of being a lessee

Practically he is the one, who enjoys the property. There are several reasons for this enjoyment because instead of paying the entire price for the land he just has to pay a agreed lease rent by doing that he is able to save substantial capital investment on land. Not only this, he also saves a lot of money on stamp duty. The land is his property for the lease period so he can develop the property as per his requirement of course within building bye laws and he can enjoy the further benefits of the land or the property. If required lessee can extend the lease period with a mutual understanding with lesser. Last but not the least benefit is that if the locality gains more importance, then the lessee's interest goes on increasing with advancement of lease period.

6.0 Points to be considered before proceeding with valuation

- whether the lease deed is duly registered.
- Total period of lease and unexpired period.
- Weather lease is renewable on maturity of lease period.
- The property would revert back to lesser on what condition.
- Covenant concerning status of buildings constructed on the plot.
- Lease rent payable by the lessee and if there periodical increase in lease rent.
- On renewal of lease what will be next period of lease.
- On maturity of lease structure vested with lessor will it be free of cost or on payment of depreciated cost of building or to be demolished.
- Amount of unearned increase in premium in case of transfer/ assignment of the property during lease period.
- Purpose of the Valuation
- Whether value is required for Lesser, Lessee or sublessee.
- If for check what the right Lessor, Lessee or Sublessee has.
- If for Lessee check what the right he has.
- Rate of capitalization for lessor and lessee & single rate or dual rate is to be adopted.

7.0 **Conclusion:** With all the above knowledge we (valuer) can perform our professional work with more precision.

Reference:

- (i) Principal of valuation (for Master of Valuation of Shivaji University Kolhapur