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INCEPTION & SOME BASICS IN VALUATION

**What is "Valuation " ? What is "Value" ?.
And How are they defined?
How the word "Value " existed in the
Human society Or in the Market ?.**

The word "Value" has been in existence as a part & parcel of our human society in the form of exchange of goods amongst the people right from the starting of civilization, thousands of years back. The humans started exchanging their goods with other goods following some exchange process as was in vogue then i.e adopting some means of measurements and standards. They started analyzing which goods/commodities were having high & less demand or importance.

When the goods/commodities were exchanged in term of commodity, the concept of "Value" came in to existence . The "Value" in the swapping or exchanging of goods depended upon how that particular good/commodity was being used, required in the market and its availability, demand & supply , etc.

The word **VALUE** in valuation plays a major role in deciding the purchasing or selling power of any property. A professional approach is being followed in deciding the Value in terms of money. Valuation report is the result of Technological, Financial, Economical and Legal viability of any asset, & such report makers are called Valuers.

The Valuers should be well versed in the above fields to render professional services with utmost accuracy.

The essential elements of a "Value" are:

Utility , Scarcity, Demand & Transferability.

Lee Coca had once said, " Value has a Value only if it is Valued".

On similar lines, it can be said that" Property has a Value if it is properly Valued by the Valuer".

VALUATION SERVICES OFFERED TO DIFFERENT DEPARTMENTS:

Income Tax department .
Financial Institutions.

As we generally see, majority of the Valuers are rendering services to financial institutions /Banks as the volume of work is more , whereas a few of them are rendering services to income tax departments.

Income Tax Valuation:

In Income Tax Valuations, certain standard procedures have to be followed. Mostly , these Valuations are done by Land & Building method for the cost of the construction cost of the building the capital gain tax .

Financial Institutions/Banks:

All financial institutions are lending loans for different purposes ie, Property purchasing , Residential, commercial & industrial building constructions, working capital, ODs, Mortgage, Business Loans, etc., by taking Movable/ Immoveable properties as securities from its clients.

It is to be noted that while doing the Valuation for financial institutions , all Valuers should focus on mainly one point, i.e., whether it is resalable. If so, what could be the realizable value? The resalability and realizability of any property is very important while doing property valuation for the financial institutions. The Valuation reports issued by the Valuers should be realistic & safe guard the interests of the financial institutions. The properties specially land & building are real properties but not imaginary or futuristic. What is the property value as on date , is important to the financial institutions but not a futuristic value. Other methods may also be adopted to cross check the values of properties.

It is always better to adopt Land& building Method of Valuation for the secured loans to the financial institutions as it is always safe to both parties and is appreciated. What best we can do to arrive at the land and building Values in the open market is very important. Some times, evidence based information relating to the purchase and selling of immovable properties may not be available .

In such cases, we have to derive the market rates, etc, from other methods.

● HOW TO ARRIVE AT A REASONABLE LAND RATE/ MARKET RATE:

Example:

Let us take a shop in a commercial complex on the ground floor, having 875 sq.ft built up area, with a UDL of 16.66 s,yds. and the property is located at Abids.

The shop is fetching monthly rental Rs. 75 /Sft (as prevailing market rate as per the rental agreement). The local open market land rate per Sq.yd on main road is Rs.4 to 5 lakh/Sq.yd in the local enquiry. The prevailing market rates of commercial shops are ranging about Rs.15000/ Sft. The prevailing Rentals are ranging from Rs. 60/Sft to Rs.80/Sft. Generally the yield from the commercial properties lies between 8% to 10%.

BY LAND BUILDING METHOD

Description	Extent of land	Unit	Rate/ unit	Value(Rs.)
UDL	16.66	Sq.yds	4,00,000.00	66,64,000-00
Building	875	Sq.ft	1500	13,13,000-00
Total value				79,77,000-00

BY RENTAL METHOD

Description	Area	Unit	Rate/ unit	Yearly rent	Multiplication Factor	Total value
Shop	875	Sq,ft	Rs.75	Rs.78,75,500	12.5(Y.P)	98,44,000.00

BY COMPARATIVE SALES METHOD

Description	Area	Unit	Rate /Sft	Value of property
Shop	875	Sq.ft	15000	1.31, 25, 000.00

So let us now check the values obtained under three different methods and arrive at a decision.. Generally, for commercial properties, the yield/rate of return is taken between 6% to 8%.

As per L&B Method mentioned above:

Market Value = Rs. 79,77,000/-
 Rate worked out
 (Composite) = $\text{Rs.}79,77,000/875$
 =Rs.9,117/Sft
 Rate of return = 8%(expected)
 Rent
 (worked out) = Rs.60/Sft
 Land Rate
 (Taken) = Rs.4,00,000/Sq.yd

As per Rental Method mentioned above:

Market Value = Rs. 98,44,000/-
 Rate worked out
 (Composite) = $\text{Rs.}98,44,000/875$ =Rs.
 11,250/Sft
 Rate of return = 8%(expected)
 Rent(as per the
 agreement) = Rs.75/Sft
 Land Rate
 (worked out) = Rs.5,12,000/Sq.yd.

As per Comparative Sales Method mentioned above:

Market Value = Rs. 1,31,25,000/-
 Rate
 (Composite) = Rs. 15,000/Sft
 Rate of return = 8%(expected)
 Rent
 (worked out) = Rs.100/Sft
 Land Rate
 (worked out) = Rs.7,10,000/Sq.yd
 (worked out) = Rs.5,12,000/Sq.yd.

From all the above calculations, you can choose a reasonable and near to realistic Rate.

In the present case, as mentioned above:

The Land Rate
 range can be
 taken as = Rs. 4. Lks/Sq.yd to Rs. 5.0
 Laks/Sq.yd
 The Comparative
 Sale Rate can
 be taken as = Rs. 9,100/Sft to,
 11000/Sft
 Rental Rate
 may be taken
 as = Rs. 60/Sft to Rs.70/Sft

INTERMEDIATE ESTIMATION REPORTS :

Generally, when we go for site visit, the buildings are either fully completed or under construction. Let us see, how to calculate on percentage basis, the value of completed portion of the buildings. Banks are lending construction loans and asking the valuers to submit the value of the completed works. Valuers inspect the site and take all required measurements of building works, and issue stage wise reports.

Generally, this stage wise report will be split into following categories.

- ▶ Foundations
- ▶ RCC frame work
- ▶ Brick work / joinery/ Plastering & Finishings
- ▶ Flooring / Dadoing (Tiles wall)
- ▶ Services(water & drainage ,Electrical Connection,)

- ▶ Facilities & Amenities (items such as Compound wall, B/w, Sump, OH tanks, External Water & Drainage works, Pavings & Gate) are coming under extra works, and will not come under plinth area.

The building Expenditure, 60% will be for materials and 40% for the labour.

The cost of each item works roughly as follows:

It shows in the form of percentage of the cost of the building for a single story house as follow.

- ▶ Excavation and concrete foundation, columns, slabs beams = 23%.
- ▶ Plinth completed =5%
- ▶ Superstructure with plastering Complet =25%
- ▶ Flooring completed =6%
- ▶ Joinery works completed =15%
- ▶ Internal internal finishing completed =6%
External finishes is =3%.
- ▶ Water supply plumbing completed =4%
- ▶ Sanitary CP fittings works =8%
- ▶ Electrification is =5% .Total =100%.

VALUATION OF PLOTS /LANDS

In Valuation work, we come across different types of properties. In this, for instance, small open plots to large extent of plots /lands. While doing Valuation for lesser extent of plots, the Rate per sq.yd will be high, when compared to larger extent plots/land. For Smaller extents of plots such as 100 to 300 Sq.yds, the marketability & resaleability will be easy and it will take less time to sell when compared to higher extent of plots. Whereas in larger extent of plots , the Marketability and resalability is not that easier when compare to small plots. This is because , up to 300 square yards plots are normally affordable for maximum buyers and 300 to 500 sq.yds and above are not affordable by maximum buyers, as a result of their financial restrictions, etc.

The affordability depends upon the buyers financial capacity. In general calculations, 60% people are middle class. About 20% are poor and the remaining 20% of people are rich . So, in general , the market transactions (sales and purchase) are maximum targeted by 60% of middle class people/buyers. When the things are going beyond the capacity of a common man, they will migrate to other places to take properties falling in their budget . Hence , when the selling rates are affordable by 60% of public , then the marketability, re-salability & relizability percentage will also be good. So, the Valuer has to

carefully analyze and observe the local conditions , type of inhabitants , rental values, amenities & facilities, business establishments, business type, etc, and then come to a conclusion to consider the land rates and buildings per sq.ft rates.

When the Agricultural lands are converted into Non-Agricultural Lands, normally, the land extents are shown in sq.yds. in the registered documents. Just because of this conversion, we can't straight away adopt per sq.yd rate which may give incorrect /erroneous market value. This is because, there is a difference between a developed land / layout and undeveloped land/layout. Development method should not be taken for undeveloped land & larger extents of land, for Bank Valuation purpose. It is to be noted that the Valuers have to enquire, if any similarly placed open lands (non converted or un-developed) are available for sale in the neighborhood area . If any such sale instances are available, then they have to just add conversion charges to the prevailing land rate, taking all relevant factors in to consideration. Always consider less rates per square yard for the larger extents of lands/plots when compared to smaller plots. Large extent of land in acres , even if converted into non-agriculture land , consider only acre rate, not sq.yd rate. Don't consider 2600 sq.yrds per acre as per HMDA permitted norms area with local market rate of per

sq.yd., which is actually undeveloped physically . Don't consider sale deed rate. Instead, inspect the site and enquire about the local prevailing market rates for Valuation

For example, if a 150 square yards plot/land is being sold for a market rate of Rs.45000 / sq. yd, then the market value will be Rs.67,50,000/-. If the same rate is applied for a plot/land of 5000 sq.yds , the total value of the property becomes 22.50 crores, which is not at all realistic figure/value. The buyers for plots of 150 sq.yds will be more, when compared to 5000 sq.yds plots/lands. So , the marketability, re-salability and realizability will not be that easier for larger extents of lands/plots. Therefore, less buyers will come forward to purchase 5000 square yards land @ 45000/ sq.yd. Hence, suitable deduction shall be made for larger extents of plots/lands. The buyers will calculate for their investment in terms of yield, through property.