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The Market and Economic Perspective of Property Valuation

Valuation is the process of assessing a property's worth by considering various factors, including its location, infrastructure, market demand, resale potential, and utility. It involves evaluating the property in relation to its surroundings to determine its true value.

Valuation helps us understand a property's worth, condition, legal aspects, economic factors, government regulations (GOs), locality classification, and new developments in the area. It provides a comprehensive view of the property's value in relation to its surroundings and market trends.

There are various methods to determine a property's worth, including the Market Approach, Income Approach, and Cost Approach, each providing a different perspective on valuation.

In property valuation, there are different ways to figure out how much a property is worth. Let's talk about **two common methods**: one looks at the **market**, and the other focuses on the **economy**.



THE MARKET PRESPECTIVE:

This method looks at what similar properties are selling for in the area. It's like comparing prices of similar houses or buildings to estimate the value of the property you're interested in.



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The market perspective is widely used in property valuation, especially in residential real estate.

Some of the key elements of Market Perspective are:

- **Common for Residential Properties:** When valuing homes, appraisers and real estate agents often rely on the market perspective. They look at recent sales of similar properties (called "comps" or comparables) in the same area to determine a fair price.
- **Easy to Understand:** This method is straightforward because it's based on actual market data—what buyers are willing to pay for similar properties.
- **Reflects Current Market Conditions:** Since it uses recent sales, it captures the latest trends in the market, like whether prices are rising or falling.
- **Preferred by Buyers and Sellers:** Both buyers and sellers find this method reliable because it's based on real-world transactions.

Potential uses

- **Growing Residential Market:** As India's population grows and urbanization increases, the demand for residential properties will rise. The market perspective will remain crucial for valuing homes, apartments, and plots by comparing them to recent sales in the area.
- **Transparency with Technology:** Platforms like PropTiger, MagicBricks, and Housing.com are already using data analytics to provide accurate market comparisons. In the future, AI and big data will make this method even more precise and accessible.

- **Government Initiatives:** Policies like RERA (Real Estate Regulatory Authority) aim to bring transparency to the real estate market. This will make market-based valuations more reliable and trustworthy.

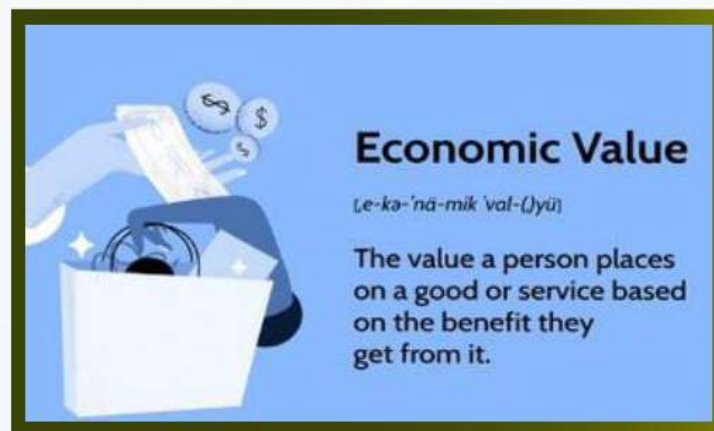
Benefits of Market Approach

- **Fair Pricing:** Buyers and sellers can rely on market data to ensure fair and realistic property prices.
- **Ease of Use:** With technology, comparing property prices will become faster and more accurate, reducing the risk of overpaying or underselling.
- **Boost to Real Estate Market:** Transparent valuations will increase buyer confidence, leading to more transactions and a healthier real estate market.

The Economic Prespective

This method focuses on how much money the property can make, like through rent or future profits. It's about calculating the property's value based on its potential to generate income.

The economic perspective in property valuation is widely used, but its application depends on the type of property and the purpose of the valuation.



Commercial Real Estate:

- **Office Buildings, Malls, and Retail Spaces:** The economic perspective is heavily used for valuing properties that generate income through rent or business operations. Investors and buyers focus on the property's ability to generate cash flow.
- **Hotels and Hospitality:** These properties are valued based on their revenue potential from room bookings, events, and other services.

Industrial Properties:

- **Warehouses and Factories:** These properties are often valued based on their income potential, such as lease income or operational efficiency.

Investment Properties:

- **Rental Apartments and Housing Complexes:** Properties purchased for rental income are valued using the economic perspective to estimate future rental earnings.
- **REITs (Real Estate Investment Trusts):** REITs rely on income-based valuations to assess the profitability of their property portfolios.

Development Projects:

- **Land for Development:** The economic perspective is used to estimate the future profitability of developing land into residential or commercial projects.

Tools and Methods used in Economic Approach

- **Income Capitalization Approach:** Estimates value based on the property's Net Operating Income (NOI) and capitalization rate.
- **Discounted Cash Flow (DCF) Analysis:** Projects future cash flows (like rent) and discounts them to their present value.
- **Gross Rent Multiplier (GRM):** A simpler method that uses rental income to estimate value.

Benefits of Economic Approach

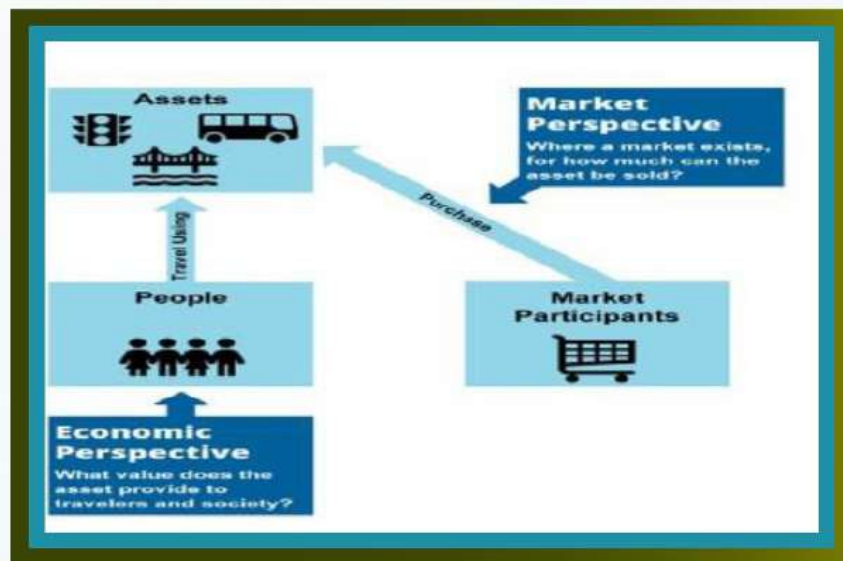
- **Focus on Profitability:** It helps investors and buyers understand how much income a property can generate.
- **Long-Term Planning:** It provides insights into the property's future financial performance.
- **Attracts Investors:** Income-based valuations are critical for attracting institutional investors and funding.

Benefits in the Future

- **Balanced Real Estate Market:** The market perspective will ensure fair pricing for residential properties, while the economic perspective will drive growth in commercial and investment properties.
- **Increased Transparency:** Both methods, supported by technology and regulations, will make the real estate market more transparent and trustworthy.
- **Boost to GDP:** A thriving real estate sector will contribute significantly to India's GDP by creating jobs, attracting investments, and supporting infrastructure development.
- **Empowering Buyers and Investors:** Buyers will have access to accurate valuations, while investors will have reliable tools to assess profitability.

Key Difference:

ASPECT	MARKET PERSPECTIVE	ECONOMIC PERSPECTIVE
FOCUS	Current market sales of similar properties.	Income or profit potential of the property.
USED FOR	Residential properties	Commercial or investment properties.
BASIS OF VALUATION	Comparable sales (what others are paying)	Future income (rent, profits, etc.).
EXAMPLE	Valuing a house based on nearby home sales	Valuing an office building based on rental income.



Conclusion:

The market perspective in valuation ensures that asset prices reflect real-time supply, demand, and comparable sales data. It helps investors, businesses, and property buyers make informed decisions based on actual market trends. However, it is subject to fluctuations due to buyer behavior, speculative investments, and changing trends.

The economic perspective, on the other hand, takes a broader view by considering factors like inflation, interest rates, employment levels, and government policies. Economic conditions significantly impact market stability, asset appreciation, and investment returns.