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IVS 410: Development Property, Simplified

By CA RV Ankit Goel

In the valuation of many Land and Building Assets, the understanding of the applicability and methodology prescribed by IVS 410 is extremely important for Valuers to arrive at the correct value of Land and Building Assets.

Applicability: The standard applied to “Development Property”. As stated in Para 20.1 of IVS 410, development properties are defined as interests where redevelopment is required to achieve the highest and best use, or where improvements are either being contemplated or are in progress at the valuation date and include:

- (a) the construction of buildings,
- (b) previously undeveloped land which is being provided with infrastructure,
- (c) the redevelopment of previously developed land,
- (d) the improvement or alteration of existing buildings or structures,
- (e) land allocated for development in a statutory plan, and
- (f) land allocated for a higher value uses or higher density in a statutory plan.

Some examples of Development Property in Indian scenario, will include:

1. A Residential Housing Project with
2. A Freehold Land with One Storey building constructed on the same when 4 floors are permitted to be constructed as per latest Building bye-laws

Valuation Approaches and Methods prescribed: IVS 410 mentions two main approaches for valuation of Development Property, which are:

- a) Market Approach
- b) The Residual Method

Market Approach as also mentioned in IVS 105 is advised to be followed for assets having Homogeneous nature and availability of Market Comparable. The Residual Method is a Hybrid of

Market Approach, the Income Approach and the Cost Approach and finds specific mention as a Method/ Approach which may use by a Valuer to estimate the Value of a Development Property.

Residual Method

In simple terms, the Residual Method requires the valuer to compute the Residual value which will be available with the Developer/ Owner of Land & Building Assets anticipating the completion of development of the property asset, and is computed in the following manner:

Value realisable from sale of Developed Property computed using Market or Income Approach
Less: Development cost for pending development using Cost Approach
Less: Developer's expected return for the risk & effort for the said development using Market Approach
All the above values are required to be adjusted for Time Value of Money using Income Approach, due to

As per Para 90.6. of the IVS, The following basic elements require consideration in computation of Value of any Development Property using Residual Method:

1. Value of Completed Property
2. Construction Costs
3. Consultant Fees
4. Marketing Costs
5. Timetable
6. Finance Costs
7. Development profit
8. Discount Rate

Para 90 of the IVS provides detailed guidance for estimation of value of Development Property under IVS 410 and the same is very important to be understood by Valuers for accurate computation of Value of Assets under the said Method.

Practical Examples: Builder is constructing a Residential Complex with 100 Units. Value realisable from sale of Units may be estimated based on the Market Value of completed flats in the said market along with estimates of time value of the said realisation. Various costs required to be incurred may be estimated and reduced from the estimated realisation from sale of units. A 10-20% Developer profit margin may also be reduced from the above value to arrive at the value of Land. The said Value is what any competing builder should be ready to pay for the said land as well.

1. Valuation of Land in a Plotted South Delhi Colony can be done using Market Approach where comparative deals are available. It is also possible to compute the Estimated Value using Residual Method by estimating the value realisable from various Floors which may be constructed on the said Land based on the existing bye-laws, the estimated cost of construction of the said building and the Developer Margin for the undertaking the Development effort.

Conclusion - Deep Understanding of IVS 410 is very important for any Land & Building Valuer for accurate computation of value of Immovable Property with Development Potential.