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VALUATION OF REAL ESTATE – ENVIRONMENT, SUSTAINABILITY & NATURAL HAZARD RISK

India, blessed with diverse landscapes and climatic conditions, is prone to a wide range of natural disasters, including floods, earthquakes, cyclones, and landslides. These catastrophes not only cause immense human suffering but also have far-reaching implications on various sectors, including Real Estate.

We are living in Information era of development, where the human wants connectivity as well as peace. Talking about Peace, we mostly look to Upside & search for isolated places at Heights. In last one or couple of decades, we have explored the unexplored part of the country. Subsequently, we have constructed Roads, Communication towers, Tourist villas, Hotels, Restaurants, Shops, and other utilities in our hilly area, i.e., Himalayan ranges located in the state of Himachal Pradesh, Uttarakhand, and Jammu & Kashmir.

The visuals emerging from Shimla, Kullu, Hamirpur & other districts are horrifying. Just like humans have razed the mountains to plains, now the mountains have started pummeling their encroachments into fields. To fulfil this demand, more houses will be built, setting aside all rules & regulations. Even in July, there was severe destruction by rain in Himachal Pradesh, August too has proved dreadful in its passing. While many parts of the country are experiencing below-average rainfall, Himachal Pradesh has been hit with extremely heavy rainfall.

In just 54 days, the state has received as much rainfall as it normally does in 90 days of the monsoon season. In July alone, the state received 115% more rainfall than usual, with a record-breaking 354 mm compared to the average of 165 mm. These heavy rains have caused significant destruction, with residents reporting that they haven't seen such rainfall in decades. Reportedly, residents have seen such rains after many decades. The July rainfall has broken 50-year records. On July 9, Manali, Solan, Rohru, Una, Ghamroor, Hamirpur & Kyelang broke all the old records of a single-day rainfall. Between July 7 and 10, Himachal Pradesh received 223 mm of rain, more than five times the normal amount of 41. mm for those four days. In the past 19 years, except for three separate years, rainfall in the state has been below normal. However, this time, the rains have caused havoc.

According to media reports, over 361 people have died in Himachal Pradesh this year due to the rains. More than 2,000 houses have been completely destroyed, and about 10,000 houses have been partially damaged. Additionally, 300 shops and over 4,700 cowsheds have been destroyed. Between 2017 and 2022, over 8,000 houses were damaged during the monsoon season. On average, Himachal Pradesh receives 730 mm of rain between June 1 and September 30. However, this time, the state has already received 742 mm of rain in just the first 54 days of the monsoon season.

When such a large amount of rainfall occurs in such a short period of time, destruction becomes inevitable. Numerous roads have collapsed in some places, while cracks have appeared in others. Many roads have caved in, and landslides have caused large debris to block roads, leading to closures. In August alone, hundreds of roads had to be closed, with severe destruction occurring in Mandi, where over 200 roads were blocked. The condition of traffic in Himachal Pradesh during this time and the challenges people face in reaching hospitals can only be imagined. Media reports suggest that over thousands of trees have been uprooted. These trees, which play a crucial role in holding the soil together, have become a symbol of the destruction, caused by the rainfall in the state capital.

Natural calamities cannot be simply called 'a curse from above', as the hills have been weakened by construction works bypassing all rules in the name of "development" across the state. We have exploited the natural wealth of the mountains to the hilt. Building pucca houses, people think they will compete with the water flow, but they are now seeing the condition of these cement houses against the stream.

IMPACT OF NATURAL HAZARDS IN REAL ESTATE VALUATION

Physical Damage and Property Loss:

When a natural disaster strikes, it often results in significant physical damage to buildings and infrastructure. This damage directly affects Real Estate Valuation, as the overall condition and structural integrity of properties are compromised. Affected properties may require costly repairs or even complete reconstruction, leading to a decrease in their market value. Property owners and investors can experience significant financial losses as a result.

Disrupted Market Dynamics:

Natural disasters disrupt the normal functioning of Real Estate markets, causing turbulence in buyer-seller transactions and investment patterns. Post-disaster, potential buyers may hesitate to invest in regions prone to such events, resulting in reduced demand and a subsequent decline in property prices. Additionally, the absence of a stable market environment coupled with uncertainties can make it difficult for sellers to accurately price their properties, further impacting overall real estate valuation.

Economic Impact and Infrastructure Constraints:

Natural disasters have severe economic consequences, as they not only destroy physical infrastructure but also disrupt the economic activities of the affected regions. The recovery process entails significant costs, diverting funds away from real estate development and investment. Scarce resources may be prioritized towards rebuilding basic infrastructure rather than enhancing real estate market potential. This slowdown in construction and development projects can lead to a stagnation of property values.

Demand-Shift and Relocation:

In the aftermath of a disaster, some regions may experience a significant population shift as people relocate for safety or economic reasons. This relocation alters the demand-supply dynamics in the real estate market, causing property prices to fluctuate based on the influx or exodus of potential buyers. Areas severely affected by natural disasters may witness a declining population, reduced economic activity, and a subsequent drop in Real Estate valuation.

Addressing the Challenges and Mitigating Potential Risks:

The Indian Government, alongside Real Estate professionals and developers, should adopt effective measures to mitigate the adverse impact of disasters on Real Estate Valuation. Strategies could include:

Enhancing disaster preparedness and risk management, incorporating resilient building designs and promoting the use of eco-friendly materials.

Establishing robust insurance mechanisms to cover property loss and encouraging property owners to insure their assets against natural disasters.

Conducting thorough risk assessments before investing in real estate, considering the vulnerability of the location to natural disasters.

Promoting sustainable urban planning and development practices to reduce the risk and vulnerabilities of buildings and infrastructure.

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We as valuer should keep an eye of following points while estimating market value of any property:

- Analyze the land-level of the properties with respect to the nearby water bodies.
- Study the Geological & Hydrological data to understand about the natural course of river in the area (including seasonal rivers) to identify whether Real Estate property location is in course of river or not.
- Availability of proper Water Drainage system & rain water conservation near the Real Estate area.
- Type of Earth strata & suitability of building structure on it.
- Factors in the impact of the natural hazard in property value instead of relying on only available market deals.