

Study of Valuation of Residential and Commercial Property – Case Study

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Abstract – Valuation is the analytical process of determining the current worth of an asset such as residential, commercial, industrial, agricultural land. Value is determined on basis of its selling price and rent or income it can fetch. The purpose of this study is to introduce people with general field practice of valuation of real estate property. The objective of this study is to identify the market value of properties for bank finance purpose which is situated in urban, semi urban and rural area of Dhule (Maharashtra), India. This study is carried out under the guidance of government approved valuer.

Key Words: Real estate property, Valuation, Distress value, Realisable value, Market value, Finance, Bank, Lending institutions

1. INTRODUCTION

Valuation can be defined as the process of estimating the market value of real estate properties. Value of the property depends on the circumstances of the case such as structure, age, maintenance, location, etc.. Valuation is carried out basically for financial activities in the economy i.e. Investment, buying and selling, loan and mortgage etc.

A property valuation is usually undertaken by an estate agents or an independent valuer, typically acting on the instructions of the vendor or a lending institution. Buyers may also request a property valuation if they are considering purchasing a property, in addition to structural surveys that assess its physical condition. Before providing a mortgage or refinancing, a lending institution (such as a bank) may request a valuation to ensure the loan can be covered by the security value of the property. This gives them with the confidence to lend the capital, knowing that if the mortgage goes unpaid, they can recover any outstanding amount by re-selling the property.

In order for the valuation to be as fair and accurate as possible, a property will typically be compared with other similar properties in the local area. Valuers will examine planning restrictions, by-laws, council zoning, and so on. Factors such as local infrastructure, reputation and attractiveness of the neighbourhood, market demand, and amenities (e.g. schools, hospitals, green spaces, and so on), will also be taken into consideration.

Valuers also refer to data provided by the Land Registry, which updates house prices across different areas on a monthly basis.

1.1 Definition

Market value = "Market value" is the price that a willing buyer would pay to a willing seller for a property, having due regard to its existing conditions, with all its existing advantages and its potential possibilities when laid out in its most advantageous manner.

Guideline value = "Guideline value" is the value of the land which is recorded in the Register of Register's Office and used for the purpose of determining the Stamp Duty at the time of Registration of the documents.

Fair market value = "Fair market value" is the estimated price which any asset in the opinion of Valuation officer would fetch, if sold in the open market on the valuation date.

Salvage value = "Salvage value" is the estimated resale value of an asset at the end of its useful life. It is subtracted from the cost of a fixed asset to determine the amount of the asset cost that will be depreciated. Thus, salvage value is used as a component of the depreciation calculation.

Distress Value and Realisable Value = The distress value is crucial and banks are normally expected to advance loans, giving consideration to the distress Value.

Realisable value is the net amount of money that you will get from selling one of your assets. In other words, realisable value is equal to the sale price of an asset less any applicable fees. As a General principle we can take **Distress value** 80% to 90% of fair market value. While fixing your fair market value you should keep in mind that at least 80% of fair market value should fetch at distress sale and realisable value should be 90%.

2. LITERATURE REVIEW

Abhishekh Golcha et. al. (2016) the aim of this work was to study the market value of building for bank finance purpose which is situated in urban, semi urban and rural area of Chhattisgarh, India. This study helps to bank to know the actual condition of building and simplify the bank finance amount to owner of the property. The valuation of property helps to both owner of the property and the bank to know the actual rate of the property.

Sneha Sudhir Mokalkar (2017) the aim of this work was to focus of this paper is to study the current rate variation for commercial properties in different areas of the Pune city, India

and to find out the factors affecting the commercial property valuation. Commercial property is referred to as property used for revenue generation. Many studies have been analysis of commercial property valuation parameters that affect their value. This study not only identifies the factors affecting commercial property value but also identifies zones or areas in Pune city that have seen a drastic change in terms of commercial property value trend. This study would help the prospective buyer to make the best buying decision so as to gain maximum returns in future.

Minal P. Chaudhari (2019) the aim of her research paper is to investigate valuation of residential and commercial building by conduction a case study. Various factors affecting the value of an asset are stated. She also adds comparison between market rates and government rates.

3. RESEARCH METHODOLOGY

The research work initiated with study of various valuation techniques and past valuation report data collected from government authorized valuer to find the market value of the property for bank finance purpose. Documents related to property like occupation certificate, municipal approved architectural drawings, sale deed, 7/12 extract, CTS extract, declaration deed, etc. are studied. For our study of valuation of residential and commercial properties we have used the **LAND AND BUILDING** method for calculating the fair market value of properties. Land and building method is the summation of present value of land and building calculated separately that gives the final value of property.

Value of property = Present value of land + Present value of building + Amenities and services
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This method is generally adopted in the following situation:-

- (a) In the case of self occupied property.
- (b) In the case of property partly self occupied (i.e. more than 60%) and balance tenanted.
- (c) In the case where it is not possible to obtain fair and maintainable rent.

There are some factors which affect the land value of property such as size, shape, location, frontage, amenities, facilities, FAR / FSI, road width, also negative factors like slum area, dumping yard, nala, etc.

Depreciation - With the passage of time, the value of building decreases and after economic life of the building, its value becomes equal to its salvage value. The depreciation will be provided in following ways:

Age of building	Depreciation
Up to 10 years	No depreciation
10 to 20 years	5%
21 to 30 years	10%
More than 31 years	20-25%

The following represents, steps to be used for calculation of fair market value of property in practice,

- 1) Ascertain from the applicant the exact purpose of valuation.
- 2) Collection of documents
- 3) Verification of documents on site by measuring all plot dimensions, four sides of plot, margin, etc
- 4) Find the unit land rate by RRR (Ready Reckoner Rate) and b/up rate by comparing similar properties in that area and from infrastructure and amenities provided.
- 5) Calculate fair market value.
- 6) Prepare valuation report.
- 7) Submit that report to respective bank.

4. CASE STUDY

A. Property detail

- Location of property : - Survey no. / Gat no. : S. no 15/2
- Block / Plot : Plot no. 35
- Taluka, Dist.: Walwadi Shivar, Tal. Dist. Dhule
- Type of Property : RCC Structure

Description	Area (Sq. Ft)	Market Rate (Rs.) (per Sq.Ft)	Estimated Market value (Rs.)	Govt. Guideline Rate (Rs.) (per Sq.Ft)	Guideline value (Rs.)
Land	1614	Rs. 1200/-	Rs. 1936800/-	Rs. 325/-	Rs. 524550 /-
B/up	790.86	Rs. 1000/-	Rs. 790860/-	Rs. 1748/-	Rs. 1382423/-
Total value	-	-	Rs. 2727660/-	-	Rs. 1906973/-
Realisable value (90%)	-	-	Rs. 2454894/-	-	-
Distress value (80%)	-	-	Rs. 2182128/-	-	-
State the source for arriving at the market value			Well Developed & Good Locality		

5. RESULT AND DISCUSSION

This study aims to investigate valuation of residential and commercial building by conducting a case study on the basis of this study the results are drawn below;

1. The total value of the property is depending on Locality of the building, Frontage of building, Age of the building and the Appearance of the building.
2. The land rate is always increasing as the days goes on but b/up rate is always decreasing because of its wear and tear, etc. this concept called depreciation.
3. The market rate of the property is totally differing from the government rate.
4. The age of building plays important role in the valuation of building.
5. The value of the building is also depending on the development of surrounding area.
6. The verification of documents of property on site is very necessary.

6. CONCLUSION

So from this study we come to know how valuation of real estate is done practically. As the real property is taken as security against the loan advances, it is very important for the money lending institutions to know real market worth of the security pledged for mortgage. Valuers of Real Estate do the work of estimating market value of the property. It is advisable that the financial institutions are aware of basic valuation methods and are also conversant with the various terminology used in the Valuation Report.

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