

A Review on “Study of Practices of Valuation Methods with Respect to Case Study”

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Abstract— Valuation is the technique of determining the value of a property such as commercial, residential agricultural land and industrial. Valuation is an art of process of estimating value, depending on the circumstances of the case, Purpose for which valuation is needed, at a given time, place and market condition. Value is determined on basis of its selling price and rent or income it can fetch. A property valuation offers benefits to both buyer and seller. The valuation of real estate is a central tenet for all businesses. Land and property are factors of production and as with any other asset, the value of the land flows from use to which it is put. This study is based on systematic research in the field of valuation. It will be helpful to all the users as well as professionals who want to work as a valuer. This study directly introduces users with actual practice of valuation carried out in the field so that they can compare the theories and actual methodology.

Keywords: Real Estate Property, Valuation, Valuer, Methodology

I. INTRODUCTION

Valuation is the process of determining the value of properties such as residential, commercial and agricultural land. Motivation for this study emerged from the examination of general survey of students about their knowledge about field practice of valuation. Valuation of firms and projects is the core topic in business and finance. Generally real estate covers residential, commercial and vacant land. The valuation of real estate is therefore required to provide a quantitative measure of the benefit and liabilities accruing from ownership of the real estate. Valuation can be defined as the process of estimating value. Valuation depends on the circumstances of the case. For the purpose in which conclusions about value are arrived at by a scientific analysis of the available data, valuation is an art requiring judgment and forecast. Valuation is essentially an interdisciplinary exercise. Identification of interest in the property to be valued, the nature of the right to be valued and the special factor to be taken into consideration with reference to the need of the client or owner. Value is a function of time, place and purpose. Valuation are required, and often carried out, by a number of different players in the marketplace. These may include real estate agents, appraisers, assessors, mortgage lenders, brokers, property developers, investors and fund managers, lenders, market researchers and analysts, shopping Centre owners and operators, other specialists and consultants.

II. LITERATURE REVIEW

T. Parmar, H. Mori, D. Poriya, V. Vanani, S. Chauhan, Y. Bhagat, (2018): studied “Identification of methodology used in real estate property valuation” This study contains details

about field practice of valuation so that students come to know hours of discussion on valuation with valuer. Students can study this information and can research for further improvements required in execution and its interpretation as well. This study contains information about what are the factors affecting valuation and its extent. Exact methodology is explained by the experienced valuer so there will be more beneficiary to all users for study. [1]

Y. Sari, P. Setijanti (2015): studied “Value management perception by practitioners in real estate development process” in this paper they determine how the application of value management by practitioners of real estate development in Surabaya and how their perspective is about value management. Statistic descriptive analysis is used to achieve the research objectives. Results of research in this paper are the level of application of practitioners in Surabaya on value management and their perception of value management based on their position in their real estate development process. [2]

A. Golchha, Dr. S. S. Pimplikar (2016): studied “a survey on valuation for immovable properties: agricultural land” in this survey they studied on the basis of objectives which identify the market value of Agriculture land and guidelines to follow the calculation for land which is situated in semi urban and rural area of Chhattisgarh, India. This study helps to property owners, farmers to know the actual condition of land and future scope of the land. The valuation of agricultural land helps to plan the future growth of the city, approach to the city and improve the present condition of land. [3]

F. Baldi (2013): studied “valuing a greenfield real estate property development project: a real options approach” this case study analysis highlights that flexibility in real estate development may create additional value enabling real estate developers or funds to react to market trends as new information arrives and uncertainty on fundamental factors (e.g. property prices) unfolds; the extra value added by managerial flexibility is neglected by DCF/NPV techniques; contrary to the common criticism on its lack of rigor, option valuation theory is suitable for appraising real estate assets; a portfolio approach is crucial when multiple real options exist. [4]

M. Misra, G. Katiyar and A.K. Dey (2013): studied “Consumer perception and buyer behavior for purchase of residential apartments in NCR” The case is quite useful for incumbent builders as well as new entrants to operate successfully in this highly competitive but high growth real estate industry in the National Capital of Delhi. The study highlights the gap in the present offerings and helps the builders to design their offerings according to the changing needs and wants of the customers which will help them to provide a competitive edge. This research also helps in analyzing the differences in perceptions of buyers about the

three important locations for residential apartments in NCR, viz. Gurgaon, Noida and Greater Noida based on parameters such as business opportunities, law and order situation, medical/educational facilities, etc. [5]

A. Adair, N. Crosby, L. C. Lim, and C. Watkins (2015): studied "Valuation of Property Assets: an international research agenda" The main threads of valuation research encompass investment valuation methods, lease pricing, alternative finance based approaches, computer assisted appraisal, behavioral influences, valuation standards and valuation accuracy. The agenda is applied specific in nature and does tend to be closely related to problem issues in professional practice. This may reflect the fact that a number of research teams and individuals come from the built environment tradition of real estate, more so than those operating in the investment, finance and market analysis research areas. However, there are signs that appraisal research is widening its base. There is evidence that in the investment methods and lease pricing areas, there is increased involvement of academics from other disciplines, such as finance, in these multi-authored papers. [6]

E. Pagourtzi and V. Assimakopoulos (2003): The valuation of real estate is a central tenet for all businesses. Valuation of real estate requires to provide a quantitative measure of the benefit and liabilities accruing from the ownership of the real estate. In this paper they reviewed the methods that have been used for estimating real estate property's value. The method in this paper allows to focus on selection, evaluation and registration of the value element that is very important in appraisers.

Dr. L. Armitage, Prof. M. Skitmore (2003): In this paper market analysis in valuation process is carried out. A major function of market analysis in the appraisals process is to identify key factors of value. The principal finding of the study was that, whilst valuers' views on the nature of the property market accord closely with those of the literature, when questioned further on the factors they consider important when undertaking a valuation, their focus is relatively narrow, retrospective and property based.

L. Mukhlynina, K. G. Nyborg (2018): There is little systematic knowledge that informs on how valuation professionals actually go about the business of valuation. In this paper, they use a survey approach to fill that gap. The survey design allows us to control for a respondent's professional subgroup education, experience, and valuation-purpose characteristics. They conducted survey and questions relating to what methods the professionals use and how they implement these methods. These findings support what we call the sociological hypothesis, namely that there are different valuation cultures within the different subgroups of valuation professionals.

III. METHODOLOGY

Market approach/Composite rate method: Market approach to value the property is most important and widely used approach to value any type of asset. It may be consumer goods, shares and stocks, plant and machinery or real estate viz. open land or land with building. All these assets can be valued by this approach provided the asset is marketable.

We are also aware of haggle and bargaining system prevalent at such market place and manner in which deal is finalized. Real estate market also has most of these phenomena except that it does not have a common market place as we have in case of consumer goods. In this method valuation is carried out by the comparison with similar properties nearby in this method first identify the similar property then analyze the sale prices and determine the value of the certain property.

Income approach or rental approach: The income approach considers the income that an asset will generate over its remaining useful life and estimates value through a capitalization process. The income stream may be derived under a contract or contracts, or be non-contractual, e.g. the profit generated from either the use of or holding of the asset. Two commonly used methods that fall under the income approach are income capitalization, where an all risks yield is applied to a fixed income stream, or discounted cash flow where the cash flows for future periods are discounted to a present value. The income approach can be applied to liabilities by considering the cash flows required to service a liability until it is discharged. In this method valuation is calculated as per net income that property may fetch. Identify the exact purpose of applicant for what valuation is supposed to be carried out.

Cost approach/land and building method: the cost approach applies the basic economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. Often the asset being valued will be less attractive than the cost of a modern equivalent because of age or obsolescence; where this is the case, adjustments will need to be made to the cost of the modern equivalent. This adjusted figure is known as the depreciated replacement cost. On particular date of valuation, the land and building method of valuation envisages the determination of the replacement cost of the building less depreciation. In this method the present value of land and building calculated separately and summation of this is final value of the property.

IV. EXPECTED CONCLUSION

This research work results into identification of procedure involved for the valuation of properties. In this study the methods of valuation used in actual practice are described briefly. For consideration of best method one should know that valuation is always impartial. Neither had it supported to buyer or seller. It must reflect the actual market conditions. Actually valuation practice does not permit more than one method. The best applicable method has to be decided by the valuer with reason and has to execute the valuation. Methods given in this study are the methods followed by the most of the valuers. Outcome of this study is that every work is designed and executed as per valuer's personal opinion and experience so same work may be done by different task.

ACKNOWLEDGMENT

I wish to extend my full thanks to my guide Dr. Leeladhar S. Pammar, Department of Civil Engineering, G.H. Raisoni University, Amravati. And a special thanks to Wankhade sir

(Wankhade associates) who provide the required data and guide me during the survey. I am indebted to him for sharing the expertise, as well as for the honest and valuable guidance and encouragement I receive.

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