

CASE STUDY (IBBI)

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Part 4 - Exercise 4.10 (Revised)**Problem :**

A fully rented fully developed building in a plot has a total of 4 floors. Total plot area is 1,000 sq.m. and total builtup for area of the building is 250 sq.m / per floor. Permissible FSI is 1.00. There are 4 tenants per floor and tenants of lower 2 floors pay a rent of Rs. 750 / month / tenement. which includes property tax. Top 2 floors are occupied by the owners of the property itself. Total property taxes are Rs. 25,000 / 6 months for 4 floors.

Tenant's rent includes 50% of total tax, Non agricultural tax of the plot is Rs. 800 / year and Building insurance premium is Rs. 1,000 / year.

Assume repair cost at 6% of the gross rent and collection & management charges at 3% of the gross rent. Stamp duty paid at the time of purchase is Rs. 9,000/-. The land is of freehold tenure. Prevalent land rate of freehold land in the locality at present is Rs. 8,000/ sq.m. The rate of ownership flats in the locality for similar construction as on today is Rs. 30,000/sq.m.

Questions :

1. What will be the total annual rent receivable by the landlord from all the tenants?

a) Rs. 6,000/-	b) Rs. 72,000/-
c) Rs. 1,44,000/-	d) Rs. 12,000/-

2. What will be the total outgoings including repairs allowance & collection charges for the tenanted portion of the building?

a) Rs. 32,380/-	b) Rs. 57,380/-
c) Rs. 33,280/-	d)

3. What will be the present market value of the tenanted portion of the building if rental income is assumed to be in perpetuity & rate of capitalisation is adopted @ 8%

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|--------------------|----------------------|
| a) Rs. 9,90,500/- | b) Rs. 1,50,00,000/- |
| c) Rs. 77,50,000/- | d) Rs. 4,95,250/- |

4. What will be the present market value of the owner occupied portion of the building?

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|--------------------|----------------------|
| a) Rs. 75,00,000/- | b) Rs. 1,50,00,000/- |
| c) Rs. 10,00,000/- | d) Rs. 78,00,000/- |

5. Which of the following is not considered as outgoing for computing net rent received by the landlord?

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|--------------------|-----------------------|
| a) Property tax | b) Repair cost |
| c) Stamp duty paid | d) Management charges |

6. What is the market value of the balance potential in the property?

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|-------------------|-----------------------------------|
| a) Rs. 1,50,000/- | b) Rs. 15,00,000/- |
| c) Zero | d) Reversionary value of the land |

Data :

Property tax for 4 floors	=	Rs. 25,000 / 6 months
Non Agricultural tax for Mumbai	=	Rs. 800 / year
Building insurance	=	Rs. 1,000 / year
Repair cost & maintenance	=	6% Gross rent
Rent collection charge	=	3% Gross rent
Market rate of land	=	Rs. 8,000 / sq.m.
Prevalent unit rate of flat	=	Rs. 30,000 / sq.m.

Opinion :

1. *Rent received by the owner :*

Tenants occupied portions	=	GF & FF
Number of tenants in each flat	=	4
Total number of flats in all flats	=	2 x 4 = 8
Monthly rent for each flat	=	Rs. 750/-
Monthly rent for all flats	=	750 x 8 = Rs. 6,000

$$\text{Yearly rent for all flats} = 6,000 \times 121 = \text{Rs. 72,000/-}$$

The answer is "b".

2. *Outgoings :*

Property tax	=	Rs. 50,000
N.A. (Non-Agricultural tax)	=	Rs. 800
Insurance premium	=	Rs. 1,000
	=	Rs. 51,800

Since the tenants are bearing 50% of the above expenses, the actual outgoings of the owner = Rs. 25,900

$$\text{Maintenance charges 6\% of gross rent} = \text{Rs. 4,320}$$

$$0.06 \times 72,000$$

$$\text{Rent collection charge 3\% of gross rent} = \text{Rs. 2,160}$$

$$0.03 \times 72,000$$

$$\text{Total outgoings} = \text{Rs. 32,380/-}$$

The answer is "a".

3. *Capitalisation amount :*

Gross income	=	Rs. 72,000
Outgoes	=	Rs. 32,380
Net income	=	Rs. 39,620
Yield	=	8%
Capitalised amount	=	$39,620 \times (100 / 8)$
	=	Rs. 4,95,250/-

The answer is "d".

4. *Value of the building - free holder (land owner) :*

FSI	=	1
Area of the flat 2 x 250	=	500 sq.m.

$$\begin{array}{lcl} \text{Unit rate of flat} & = & \text{Rs. 30,000/sq.m.} \\ \text{Value } 500 \times 30,000 & = & \text{Rs. 1,50,00,000/-} \end{array}$$

The answer is "b".

5. While computing net rent received by the landlord, Stamp duty is not to be considered.

∴ The answer is "c".

6. The market value of the balance potential in the property is zero.

∴ The answer is "c".

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Note :

1. Kindly correct me if I am wrong.
2. For the available data, only the outlines have been discussed here. Depending upon the situation and the probable options given, the participant must be able to take judicious decision.

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