

**VALUATION OF IMMOVABLE
PROPERTIES**

BY

INCOME APPROACH

TOPICS

57 RELATION BETWEEN INCOME AND VALUE

58 VALUATION OF PROPERTY AFFECTED BY 1) RENT CONTROL ACT, 2) LICENSED PROPERTY UNDER THE EASEMENT ACT, 1882 3) LEASEHOLD PROPERTIES UNDER THE TRANSFER OF PROPERTY ACT,

59 DERIVATION OF YIELD RATE FROM MARKET DERIVED DATA. REMUNERATIVE RATE OF INTEREST AND ACCUMULATIVE RATE OF INTEREST. TYPES OF RENT: OUTGOINGS, INCOME, YIELD, YEARS' PURCHASE. DETERMINATION OF MARKET RENT AND STANDARD RENT

60 LEASE: LESSOR & LESSEE: TYPES OF LEASE, LEASE PROVISIONS AND COVENANTS.

61 VALUATION OF LESSOR'S INTEREST, LESSEE'S INTEREST INCLUDING SUB-LEASE IN LEASED PROPERTY. PREMATURE TERMINATION OF LEASE OR SURRENDER OF LEASE.

62 REAL ESTATE AS AN INVESTMENT, YIELD FROM REAL ESTATE VIS-À-VIS OTHER FORMS OF INVESTMENTS- SOUND INVESTMENT COMPARISON. INVESTMENT DECISIONS: DISCOUNTED CASH FLOW TECHNIQUES-INTERNAL RATE OF RETURN (IRR) AND NET PRESENT VALUE (NPV)

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JUSTICE HADLEY STATED THAT, "VALUE IS AN ESTIMATE OF THE PRICE AS IT IS OUGHT TO BE". IT RELATE TO THE PHYSICAL, GEOGRAPHIC, ECONOMIC OR LEGAL CHARACTERISTICS OF AN ASSET. IT IS HIGHLY SUBJECTIVE.

WHEN THE QUESTION OF SELLING OR BUYING AN ASSET, THEN ONLY THE VALUE IS COME IN TO EXISTENCE DEPENDING UPON THE REQUIREMENT OF THE SPECIFIC OWNER OR PURCHASER.

BUT THE VALUE OF THE ASSET IS ASSESSED ON THE NATURE OF THE PHYSICAL, GEOGRAPHIC, ECONOMIC OR LEGAL CHARACTERISTICS AND THE BENEFITS IT ENJOY WITH A DEMAND AND SUPPLY.

BUT THE INCOME OF AN ASSET IS DETERMINED BY REFERENCE TO THE VALUE OF INCOME, CASH FLOW OR COST SAVINGS GENERATED BY THE ASSET.

FOR EXAMPLE THE COMMERCIAL PROPERTIES OR BUSINESS CONTROLLED AREAS WILL FETCH MORE INCOME WITH MORE RATE OF RETURN, AND THE RESIDENTIAL PROPERTIES WILL FETCH LESSER INCOME WHEN COMPARED TO PROPERTY VALUE.

GOVERNMENT ACTS

RENT

RENT CONTROL ACT

LEAVE OR LICENSE

INDIAN EASEMENT ACT, 1982

LEASE

TRANSFER OF PROPERTY ACT, 1882

RENT CONTROL ACTS

THE LAW RELATING TO THE LANDLORD'S / TENANT'S RIGHTS TO FIX THE FAIR RENT OR EVICT THE TENANT ON EXPIRY OF THE NOTICE OF EVICTION. EVICTED RIGHTS: NON-PAYMENT OF RENT. SUB-LETTING BUILDING WITHOUT DUE AUTHORITY AND PERMISSION. BUILDING USAGE FOR PURPOSE OTHER THAN FOR WHICH IT WAS LEASED. COMMITTING ACTS OF PROPERTY VALUE REDUCTION & UTILITY. BUILDING USAGE BY THE TENANT FOR IMMORAL OR ILLEGAL PURPOSES. NUISANCE TO NEIGHBOURS. CEASED TO OCCUPY FOR A CONTINUOUS PERIOD OF MONTHS, WITHOUT REASONABLE CAUSE. LANDLORD REQUIRES THE BUILDING FOR HIS OWN OCCUPATION. BUILDING OCCUPATION EVEN AFTER HIS CEASED EMPLOYMENT CONTRACT. TENANT HAS GIVEN NOTICE TO QUIT, BUT HAS FAILED TO DELIVER VACANT POSSESSION OF PREMISES TO THE LANDLORD IN ACCORDANCE TO SUCH NOTICE. **(NOTE : EACH STATE HAS DIFFERENT TYPE AND NATURE OF RENT CONTROL ACT)**

EASEMENTS ACT - SECTIONS

52. "LICENSE" DEFINED. -WHERE ONE PERSON GRANTS TO ANOTHER, A RIGHT TO DO, IN OR UPON THE IMMOVABLE PROPERTY OF THE GRANTOR, SOMETHING WHICH WOULD, IN THE ABSENCE OF SUCH RIGHT, BE UNLAWFUL, AND SUCH RIGHT DOES NOT AMOUNT TO AN EASEMENT OR AN INTEREST IN THE PROPERTY, THE RIGHT IS CALLED A LICENSE.

53. WHO MAY GRANT LICENSE

54. GRANT MAY BE EXPRESSED OR IMPLIED

55. ACCESSORY LICENSES ANNEXED BY LAW

56 LICENSE WHEN TRANSFERABLE

57. GRANTOR'S DUTY TO DISCLOSE DEFECTS

EASEMENTS ACT - SECTIONS

58. GRANTOR'S DUTY NOT TO RENDER PROPERTY UNSAFE

59. GRANTOR'S TRANSFEREE NOT BOUND BY LICENSE.

60. LICENSE WHEN REVOCABLE.

61. REVOCATION EXPRESS OR IMPLIED.

62. LICENSE WHEN DEEMED REVOKED

63. LICENSEE'S RIGHTS ON REVOCATION

64. LICENSEE'S RIGHTS ON EVICTION

TRANSFER OF PROPERTY ACT

SECTION 105. LEASE DEFINATION

A LEASE OF IMMOVEABLE PROPERTY IS

A TRANSFER OF A RIGHT TO ENJOY SUCH PROPERTY

MADE FOR A CERTAIN TIME, EXPRESS OR IMPLIED, OR IN PERPETUITY

IN CONSIDERATION OF A PRICE PAID OR PROMISED, OR OF MONEY, A SHARE OF CROPS, SERVICE OR ANY OTHER THING OF VALUE

TO BE RENDERED PERIODICALLY OR ON SPECIFIED OCCASIONS TO THE TRANSFEROR BY THE TRANSFEREE

WHO ACCEPTS THE TRANSFER ON SUCH TERMS

TRANSFER OF PROPERTY ACT

105. LEASE DEFINITION

LESSOR - THE TRANSFEROR IS CALLED THE LESSOR

LESSEE - THE TRANSFEREE IS CALLED THE LESSEE

PREMIUM – THE PRICE IS CALLED THE PREMIUM

**RENT - AND THE MONEY, SHARE, SERVICE OR OTHER THING TO BE SO
RENDERED IS CALLED THE RENT.**

TRANSFER OF PROPERTY ACT, 1882 (AMENDED BY ACT 3 OF 2003)

SECTION 105 - DEFINITION OF LEASE, LESSOR, LESSEE, PREMIUM AND RENT

SECTION 106 - DURATION TO CERTAIN LEASES IN THE ABSENCE OF WRITTEN CONTRACT OR LOCAL USAGE

SECTION 107 - LEASES HOW MADE

SECTION 108 – RIGHTS AND LIABILITIES OF LESSOR AND LESSEE

SECTION 109 – RIGHTS OF LESSOR’S TRANSFEREE

SECTION 110 – EXCLUSION OF DAY ON WHICH TERM COMMENCES, DURATION OF LEASE FOR A YEAR, OPTION TO DETERMINE LEASE

TRANSFER OF PROPERTY ACT, 1882 (AMENDED BY ACT 3 OF 2003)

SECTION 111 – DETERMINATION OF LEASE, DOCTRINE OF MERGER STANDS STATUTORILY IN CLAUSE (D),

SECTION 112 – WAIVER OF FORFEITURE

SECTION 113 – WAIVER OF NOTICE TO QUIT.

SECTION 114 – RELIEF AGAINST FORFEITURE FOR NON-PAYMENT OF RENT & RELIEF AGAINST FORFEITURE FOR CERTAIN CASES (SECTION 114 A)

SECTION 115 – EFFECT OF SURRENDER AND FORFEITURE ON UNDER LEASES

SECTION 116 – EFFECT OF HOLDING OVER

SECTION 117 – EXEMPTION OF LEASES FOR AGRICULTURAL PURPOSES

PROPERTY VALUATION AFFECTED BY THE RENT CONTROL ACT

EVERY STATE HAS ITS OWN RENT CONTROL ACT

ONLY LAND MARKET RATE WHICH IS SUBSTANTIATED (IE) GUIDELINE RATE WILL BE THE AUTHENTICATED RATE IN A COURT OF LAW.

RENT WILL BE ON THE PETITIONED DATE AND NOT ON VALUATION DATE. VALUATION MAY HAPPEN IN A TIME FRAME OF 1 OR 2 YEARS AFTER FILING OF PETITION.

EVEN THOUGH THE PROPERTY VALUE INCREASES DURING THIS PERIOD, THE FAIR RENT ADOPTION BY THE COURTS MAY NOT BE EQUAL TO MARKET RENT, SINCE THE TIME TAKEN BY THE COURT FOR FIXING THE RENT MAY OCCUR AFTER YEARS.

FOR RENT CONTROLLED PROPERTIES THE RATE OF RETURN ON RENTS IS FROZEN AS PER THE COURT DECISIONS.

PROPERTY VALUATION AFFECTED BY THE RENT CONTROL ACT

EVICTION OF TENANT - THE PROCESS IS CUMBERSOME AND WILL GET DELAYED.

EVICTION OF TENANT MAY TAKE A LONGER TIME, EVEN THE LANDLORD CITING REASON LIKE BUILDING DETERIORATION, NON-PAYMENT OF RENT, SUB-LETTING BUILDING WITHOUT DUE AUTHORITY AND PERMISSION, USING THE BUILDING FOR PURPOSE OTHER THAN FOR WHICH IT WAS LEASED, COMMITTING ACTS OF PROPERTY VALUE REDUCTION & UTILITY, TENANT FOR USING BUILDING FOR IMMORAL OR ILLEGAL PURPOSE, NUISANCE TO OTHERS OF THE SAME BUILDING OR NEIGHBOURHOOD.

EVEN THE TENANT AFTER GIVEN NOTICE TO QUIT, BUT HE MAY NOT DELIVER VACANT POSSESSION OF PREMISES TO THE LANDLORD IN ACCORDANCE TO SUCH NOTICE.

HENCE, THE MARKET VALUE OF THE RENT CONTROLLED PROPERTIES WILL HAVE LESSER VALUE WHEN COMPARED TO FREEHOLD PROPERTIES

OWNERSHIP RIGHTS FOR RENT

OWNERSHIP RIGHTS ARE NOT TRANSFERRED IN RENTAL AGREEMENTS.

HE HAS TO PAY RENT PERIODICALLY AND CANNOT PLEDGE THE PROPERTY.

HE HAS NO POWER TO MAKE IMPROVEMENTS IN THE PROPERTY.

HE HAS ONLY THE RIGHT TO LIVE DURING THE TENANCY PERIOD.

THE RENT CONTROL ACT WILL NOT BE APPLICABLE TO LICENSED BUSINESS PREMISES.

TO AVOID COMPLICATIONS AND RELIEF FROM THE RENT CONTROL ACT, THE PROPERTIES ARE GIVEN UNDER THE TYPE OF LEASE AND LICENSE. THE PROPERTY RIGHT OF ENJOYMENT IS NOT TRANSFERRED TO THE LICENSEE.

THE VALUE OF LICENSED PREMISES WILL DEPEND UPON NET PROFIT OF THE BUSINESS

**PROPERTY VALUATION AFFECTED BY THE EASEMENT ACT AND TRANSFER
OF PROPERTY ACT**

BOTH ACTS HAVE A SIMILAR IMPLICATIONS IN MOST OF THE SECTIONS.

IN LONG TERM OR PERPETUAL LEASES, THE LEASEHOLD PROPERTIES CAN HAVE A MARKET RENT IF REGULAR INCREASE IN RENTAL PATTERN IS DEFINED IN THE LEASE TERMS AND CONDITIONS. OTHERWISE, LEASE RENT RETURN WILL BE LESS WHEN COMPARED TO MARKET RENT.

TERMS AND CONDITIONS OF A LEASE MAY AFFECT THE RATE OF RETURN ON LEASE RENT UNLESS FUTURE PROJECTION OF MARKET VALUE IS PROPERLY JUDGED. EVEN A FIXED LEASE RENT IN SHORT TERM LEASE MAY NOT MATCH WITH MARKET RENT.

LESSEE CANNOT BE EVICTED UNLESS THE LEASE PERIOD IS EXPIRED OR SURRENDERED.

AGAIN, THE LEASEHOLD PROPERTIES HAVE TO UNDERGO IN COURT OF LAW FOR ANY DISPUTE ARISING BETWEEN THE LESSOR AND LESSEE.

OWNERSHIP RIGHTS FOR LEASE

AN AGREEMENT WHEREBY A LESSOR GRANTS THE RIGHT TO USE AN ASSET FOR AN AGREED PERIOD OF TIME TO A LESSEE IN RETURN FOR A PAYMENT OR SERIES OF PAYMENTS.

THE RIGHT OF ENJOYMENT OF THE LESSOR IS TRANSFERRED

THE LESSEE HAS THE ENJOYMENT RIGHT OF THE PROPERTY

THE LESSOR AND THE LESSEE, POSSESS THE RIGHTS AS WELL AS LIABILITIES AS PER THE TERMS AND CONDITIONS OF THE LEASE

THEY CAN PLEDGE THEIR RIGHTS AND CAN MORTGAGE

TILL THE EXPIRY PERIOD OF LEASE BOTH THE LESSOR AND LESSEE ENJOY THE RIGHTS AND CAN MORTGAGE THEIR RIGHTS.

LESSEE CANNOT, WITHOUT THE LESSOR'S CONSENT, CONSTRUCT ANY PERMANENT STRUCTURE, EXCEPT FOR AGRICULTURAL PURPOSES

LESSEE CANNOT USE, OR PERMIT ANOTHER TO USE, THE PROPERTY FOR A PURPOSE OTHER THAN THAT FOR WHICH IT WAS LEASED.

UNLESS IT IS STATED IN THE TERMS AND CONDITIONS, THE LESSEE CANNOT SUB LEASE THE LEASED PROPERTY WITHOUT THE CONSENT OF THE LESSOR.

UNLESS IT IS STATED, THE LESSEE HAS TO SURRENDER THE LEASED PROPERTY AS PER THE TERMS AND CONDITIONS (AS AND WHERE IT IS OR REMOVE THE ADDITIONS AND ALTERATIONS DONE IN THE PERMANENT STRUCTURE)

THE LEASE AGREEMENT HAS TO BE REGISTERED - ANY DISPUTE ARISING OUT BETWEEN THE LESSOR AND LESSEE, THAT BEING A STATUTORY REQUIREMENT OR OTHERWISE THE LEASE AGREEMENT WILL BE NULL AND VOID.

RENTAL AGREEMENT

THE RENTAL AGREEMENT NEED NOT BE REGISTERED.

INCOME APPROACH METHOD

A VALUATION APPROACH THAT PROVIDES AN INDICATION OF VALUE BY CONVERTING FUTURE CASH FLOWS TO A SINGLE CURRENT CAPITAL VALUE.

INCOME APPROACH METHOD IS USED WHEN THE INCOME-PRODUCING ABILITY OF THE ASSET IS THE CRITICAL ELEMENT

THE INCOME GENERATION OF THE ASSET IS THE MAIN FACTOR AND ONLY ONE OF SEVERAL FACTORS AFFECTING VALUE

REASONABLE RENT / INCOME PROJECTIONS OR SIGNIFICANT UNCERTAINTY REGARDING THE AMOUNT

TIMING OF FUTURE INCOME OR SIGNIFICANT UNCERTAINTY TIMING OF FUTURE INCOME

LACK OF ACCESS TO INFORMATION ON THE ASSET LIKE A MINOR OWNED OR ENCUMBERED PROPERTY). OR ASSET HAS NOT YET BEGUN GENERATING INCOME, BUT IS PROJECTED TO DO SO.

WHEN USING THE INCOME APPROACH, CONSIDER WHETHER ANY OTHER APPROACHES CAN BE APPLIED

INCOME APPROACH METHOD

A FUNDAMENTAL BASIS FOR THE INCOME APPROACH IS THAT INVESTORS EXPECT TO RECEIVE A RETURN ON THEIR INVESTMENTS AND THAT SUCH A RETURN SHOULD REFLECT THE PERCEIVED LEVEL OF RISK IN THE INVESTMENT. GENERALLY, INVESTORS CAN ONLY EXPECT TO BE COMPENSATED FOR SYSTEMATIC RISK (ALSO KNOWN AS “MARKET RISK” OR “DIVERSIFIABLE RISK”).

THE METHOD UNDER THE INCOME APPROACH ARE EFFECTIVELY BASED ON DISCOUNTING FUTURE AMOUNTS OF CASH FLOW TO PRESENT VALUE. THEY ARE VARIATIONS OF THE DISCOUNTED CASH FLOW (DCF) METHOD AND THE CONCEPTS APPLY IN PART OR IN FULL TO ALL INCOME APPROACH METHODS.

ANNUITY

NET ANNUAL INCOME (RETURN ON INVESTMENT) DERIVED FROM THE INVESTMENT MADE.

A SERIES OF ANNUAL PAYMENTS MADE OR RECEIVED AT INTERVALS EITHER FOR LIFE OR FOR A FIXED NUMBER OF PERIODS.

CAPITAL INVESTMENT

AMOUNT INVESTED / TO BE INVESTED AT PRESENT TO HAVE A RETURN IN FUTURE

RETURN FROM THE INVESTMENT

INTEREST OR PROFIT RECEIVED ON INVESTMENT. AN AMOUNT OF INCOME AND/OR CHANGE IN VALUE REALIZED OR ANTICIPATED ON AN INVESTMENT.

CAPITALIZED VALUE

CAPITAL INVESTMENT + INTEREST OR PROFIT RECEIVED ON INVESTMENT

YIELD RATE

THE RATE AT WHICH THE INCOME OR PROFIT WHEN COMPARED TO THE CAPITAL VALUE OF THE ASSET. THE RETURN ON AN INVESTMENT. USUALLY EXPRESSED ANNUALLY AS A PERCENTAGE BASED ON AN INVESTMENT'S COST, ITS CURRENT MARKET VALUE OR ITS FACE (PAR) VALUE.

REMUNERATIVE RATE OF INTEREST

THE RETURN REPRESENTED BY THE INCOME PRODUCED BY AN INVESTMENT, EXPRESSED AS A PERCENTAGE. THE RATE OF CAPITALIZATION AFTER DUE CONSIDERATION TO YIELD RATES COMPARING OTHER TYPE OF INVESTMENTS AT THE RELEVANT PERIOD OF TIME IS CALLED THE REMUNERATIVE RATE OF INTEREST. INCOME FROM LONG TERM INVESTMENTS AND PERPETUAL IN NATURE, THE YIELD RATE ON SUCH INVESTMENT.

ACCUMULATIVE RATE OF INTEREST

TOTAL INTEREST PORTION RECEIVED ON ACCUMULATION

DERIVATION OF YIELD RATE FROM MARKET DERIVED DATA

THE NET INCOME FROM THE ASSET IS TREATED AS INTEREST YIELDED AT A CERTAIN INTEREST RATE ON THE AMOUNT OR CAPITAL INVESTED IN BUYING THE ASSET.

THE RENTAL INCOME OR THE YIELD RATE OF THE IMMOVABLE ASSETS IN PERPETUITY, IS COMPARED WITH VERY SIMILAR GOVERNMENT BONDS YIELDS.

IF THE UPWARD REVISION OF INCOME YIELD RATE WHEN COMPARED THE PREVAILING YIELD FROM GOVERNMENT BONDS, IT IS TREATED AS SYSTEMATIC RISK AND RETURN ON INVESTMENT IS A FAIR RETURN.

BUT IF THE DOWNWARD REVISION OF INCOME YIELD RATE WHEN COMPARED THE PREVAILING YIELD FROM GOVERNMENT BONDS, IT IS TREATED AS FOR HIGH RISK WITH LOWER YIELD RATE.

SECURITIES

SECURED SECURITIES

LONG TERM GOVERNMENT BONDS

GILT SECURITIES

BANK FIXED DEPOSITS

IMMOVABLE PROPERTIES

UNSECURED SECURITIES

SHARES & STOCKS

LONG TERM GOVERNMENT BONDS, GILT SECURITIES, BANK FIXED DEPOSITS

CAPITAL IS SECURED - FINE ASSET QUALITY

HAVE YIELD RATE AS CONSTANT AND GUARANTEED

FIXED RATE OF RETURN & REGULARITY OF INCOME WITH MINIMUM RISK MANAGEMENT.

IT IS TREATED AS SYSTEMATIC RISK

CAPITAL SAFETY IS ASSURED IN ALL CASES.

THE INFLATION RATE IS NOT COVERED UNDER THESE TYPES OF INVESTMENT.

LIQUIDATION PROCESS IS EASY ON ABOVE SECURITIES AND INSTANT. COST OF TRANSFER WILL BE NIL OR MINIMUM.

NO SCOPE FOR CAPITAL APPRECIATION

IMMOVABLE PROPERTIES

CAPITAL IS SECURED - ASSET QUALITY IS GOOD

HAVE YIELD RATE MAY BE FLUCTUATING AND NOT CONSTANT.

IRREGULAR INCOME (RATE OF RETURN) WITH LOW RISK MANAGEMENT.

**THE INFLATION RATE IS COVERED UNDER THIS TYPE OF INVESTMENT.
SCOPE FOR CAPITAL APPRECIATION.**

LIQUIDATION PROCESS IS NOT EASY ON THIS SECURITY.

**FURTHER TO THIS, FOR LIQUIDATION OF IMMOVABLE PROPERTY, THERE
WILL BE SOME EXPENDITURE ANTICIPATED, DEDUCTION DUE TO MONEY
MARKET FLUCTUATION AND TIME DURATION FOR DISPOSAL MAY BE
EXTENDED.**

**ANY GOVERNMENT ACT (RENT CONTROL / TRANSFER OF PROPERTY ACT,
CAPITAL GAIN TAX, ETC.) MAY HAVE A NEGATIVE FACTOR ON PROPERTY
DISPOSAL**

RENTS

STANDARD RENT

NET RENT

CONTRACT RENT

RACK RENT

VIRTUAL RENT

HEAD RENT

PROFIT RENT

MARKET RENT

GROSS RENT

SCARCITY RENT

DIFFERENTIAL RENT

MONOPOLY RENT

ECONOMIC RENT

QUASI-RENT

**GROUND RENT – SECURED GROUND RENT AND
UNSECURED GROUND RENT**

STANDARD RENT (FAIR RENT)

RENT COLLECTED IN ACCORDANCE TO THE RENT CONTROL ACT - FAIR RENTS DETERMINED IN A COURT OF LAW

RACK RENT

FULL RENT (MARKET RENT) OF PROPERTY INCLUDING BOTH LAND AND IMPROVEMENTS. (i.e.) RENT FOR LAND + INTEREST ON CAPITAL IMPROVEMENTS + DEPRECIATION AND MAINTENANCE

VIRTUAL RENT

RENT RECEIVED UNDER LEASE AGREEMENT WHICH INCLUDES THE PREMIUM AMOUNT & ANY AMOUNT INCURRED FOR IMPROVEMENTS BY THE LESSOR OR THE LESSEE

GROUND RENT

LEASE AMOUNT RECEIVABLE FROM VACANT GROUND GIVEN UNDER LEASE IS THE GROUND RENT. (TYPES - SECURED GROUND RENT AND UNSECURED GROUND RENT)

SECURED GROUND RENT

A VACANT GROUND GIVEN UNDER LEASE AND THE LESSEE DEVELOP THE LAND AND MAKE IMPROVEMENTS AND LEASE OUT THE BUILDING HE HAS CONSTRUCTED. HE MAINTAINS THE BUILDING AND PAY STATUTORY TAXES.

UNSECURED GROUND RENT

VACANT GROUND GIVEN UNDER LEASE & THE LESSEE LEASES THE VACANT LAND FOR VEHICLE PARKING, MATERIALS STORING WITHOUT ANY CONSTRUCTION OR MAKING ANY IMPROVEMENTS.

PROFIT RENT

EG: HEAD LESSEE SUB LEASES THE PROPERTY. RENT RECEIVED BY HIM WILL BE MORE THAN THE RENT PAID BY HIM TO LESSOR. THE INCREASED RENTAL IS CALLED IMPROVEMENT RENT. THE DIFFERENCE BETWEEN THE RENT RECEIVED AND RENT PAID BY THE HEAD LESSEE IS THE PROFIT RENT

HEAD RENT

RENT PAID BY THE MAIN LESSEE TO THE LESSOR

CONTRACTUAL RENT

RENT MUTUALLY AGREED UPON BETWEEN THE LANDOWNER (LESSOR) AND THE TENANT (LESSEE). IT MAY BE EQUAL TO THE ECONOMIC RENT (MARKET RENT).

PREMIUM

PREMIUM IS THE AMOUNT PAID BY THE LESSEE TO A LESSOR AT THE TIME OF COMMENCEMENT OF LEASE AGREEMENT OR WHILE RENEWING THE LEASE AGREEMENT.

IT IS THE PRICE, A NON-REFUNDABLE AMOUNT PAID UNDER SECTION 105 OF THE TRANSFER OF PROPERTY ACT, IN RETURN TO THE TRANSFER OF RIGHTS IN THE ASSETS, IN ADDITION TO THE REFUNDABLE DEPOSIT AND ANNUAL LEASE RENT AGREED UNDER THE LEASE AGREEMENT.

THE ACTUAL ANNUAL RENT IS ADDED WITH, BY DIVIDING THE PREMIUM OR OTHER AMOUNT BY THE NUMBER OF YEARS OF THE PERIOD OF THE LEASE.

GROSS MAINTAINABLE RENT

GROSS MAINTAINABLE RENT = LEASE RENT + PREMIUM AMOUNT / NO OF YEARS + INTEREST ON DEPOSIT AMOUNT.

AS PER INCOME TAX ACT, THE INTEREST ON REFUNDABLE DEPOSITS NOT BEING ADVANCE PAYMENT TOWARDS RENT FOR A PERIOD OF 3 MONTHS OR LESS @ 15% P.A. ON THE AMOUNTS OF DEPOSITS OUTSTANDING FROM MONTH TO MONTH BASIS FOR THE PERIOD DURING WHICH DEPOSIT WAS HELD BY THE OWNER IN PREVIOUS YEAR.

THE VALUE OF BENEFITS OR PERQUISITE AS CONSIDERATION FOR LEASING OF THE PROPERTY OR ANY MODIFICATION OF THE TERMS OF LEASE.

OUTGOES

MUNICIPAL TAXES

REPAIRS AND MAINTENANCE CHARGES

GROUND RENT

INSURANCE COVER

MANAGEMENT & COLLECTION CHARGES: THIS DEPENDS UPON THE NUMBER OF TENANTS, TYPES, LEGAL DISPUTES IN COLLECTING THE RENT.

SERVICE CHARGES: EXPENDITURE -SWEEPER, LIFTMAN, COMMON LIGHT POINT ELECTRICAL ENERGY

SINKING FUND: DEDUCTIONS FOR SINKING FUND FOR MACHINERY EQUIPMENT AND FOR BUILDING. (FOR IT PURPOSES BUILDING SINKING FUND IS NOT CONSIDERED)

ADDITIONS IN CASE OF OUTGOINGS FOR COMMON SECURITIES

NET MAINTAINABLE RENT

NET MAINTAINABLE RENT = GROSS MAINTAINABLE RENT - OUTGOES

PROFIT RENT OF THE LESSEE

PROFIT RENT = RACK RENT-GROUND RENT-PREMIUM SHARE-OUTGOES

COVENANTS OF LEASE DEED

NAMES OF THE PARTIES OF THE AGREEMENT

STARTING DATE AND DURATION OF THE AGREEMENT

IDENTIFICATION OF THE SPECIFIC ASSET BEING LEASED

CONDITIONS FOR RENEWAL OR NON-RENEWAL

PREMIUM FOR GRANTING THE USE OF THIS ASSET.

PROVISIONS FOR SECURITY DEPOSIT & TERMS FOR ITS RETURN

ADDITIONAL DEFAULT CONDITIONS & SPECIFIC REMEDIES

PERMISSION FOR SUBLETTING / SUB LEASING TO OTHERS

OTHER CONDITIONS - INSURANCE, RESTRICTIVE USE, LESSEE'S OR LESSOR'S MAINTENANCE RESPONSIBILITY

TYPES OF LEASE

BUILDING LEASE

OCCUPATIONAL LEASE

FULL REPAIR LEASE

LIFE LEASE

SUB LEASE

BUILDING LEASE

A VACANT GROUND GIVEN BY LESSOR UNDER LEASE WITH GROUND RENT AND LESSEE DEVELOP THE LAND AND MAKE IMPROVEMENTS AND LEASE OUT THE BUILDING HE HAS CONSTRUCTED. HE MAINTAINS THE BUILDING AND PAY STATUTORY TAXES.

THE LEASE AMOUNT COLLECTED BY THE LESSOR IS GROUND RENT, WHICH IS HERE TERMED AS HEAD RENT. IF THE BUILDING IS RENTED OUT (SUB LEASE) BY THE HEAD LESSEE, THE AMOUNT COLLECTED BY HIM IS CALLED RACK RENT.

OCCUPATIONAL LEASE

A BUILDING PROPERTY GIVEN ON LEASE TO THE LESSEE, WHICH MEANS, BOTH LAND AND BUILDING IN PART AND PARCEL HAS BEEN LEASED OUT. THE RENT COLLECTED IS TERMED AS RACK RENT. THE LESSOR HAS THE RIGHT OF EVICTING THE LESSEE. EG: RESIDENTIAL HOUSE, APARTMENTS, SHOPS.

FULL REPAIR LEASE

IF THE LEASE AGREEMENT STIPULATES THE LESSEE TO UNDERTAKE ALL OUTGOINGS APART FROM HIS HEAD RENT, THE LEASE IS CALLED FULL REPAIRING LEASE

LIFE LEASE

THE LEASE PERIOD IS FIXED TILL THE DEATH OF LESSEE. THE LEASE PERIOD EXPIRES ON THE DEATH OF THE LESSEE.

SUB LEASE

IN THE LEASE AGREEMENT IF THE LESSEE IS PERMITTED TO GIVE THE LEASE HOLD PROPERTY TO OTHER OCCUPANTS FOR A SHORTER TIME LESS THAN HIS LEASE PERIOD, WITH AN ENHANCED LEASE AMOUNT, THEN THE LEASE AGREEMENT ENTERED BY THE LESSEE WITH THE INCUMBENTS IS CALLED A SUB-LEASE.

THE MAIN LESSEE IS CALLED THE HEAD LESSEE. OTHER SUB LEASE HOLDERS ARE CALLED SUB LESSEE. THE MAIN LESSEE RETAINS HIS REVERSION OF LEASE UNDER HIS CONTROL.

PERPETUAL / LONG TERM / SHORT TERM LEASE

WHERE THE LEASE PURPORTS TO BE 100 YEARS OR EXCEEDING 100 YEARS, WITH RENEWABLE CLAUSE THE LEASE IS CALLED PERPETUAL LEASE.

A LONG TERM LEASE IS FOR OVER 50 YEARS AND ABOVE UP TO 100 YEARS. BUT NOWADAYS, LEASE PERIOD FOR EVEN 30 YEARS AND ABOVE IS CONSIDERED AS A LONG TERM LEASE.

ANY LEASE PERIOD ENTERED UPON BELOW THE LONG TERM LEASE PERIOD ARE DELIBERATED AS SHORT TERM LEASE PERIOD

ASSIGNMENT

IF THE LEASE AGREEMENT STIPULATES THAT, THE LESSEE IS PERMITTED TO SELL HIS LEASEHOLD RIGHTS TO ANOTHER PERSON, THEN THE TERM IS CALLED ASSIGNMENT.

EG: THE GOVERNMENT BARREN, MINES AND QUARRIES LANDS GIVEN ON ASSIGNMENTS.

SHARE IN UNEARNED INCREASE

WHEN THE GOVERNMENT BARREN, MINES AND QUARRIES LANDS GIVEN ON ASSIGNMENTS, IT IS PERMITTED TO THE TRANSFER OF THE ASSIGNMENT AND WILL BE CHARGED WHILE SELLING THE LEASEHOLD RIGHTS.

THE AMOUNT THUS RECEIVED AS A PREMIUM FOR TRANSFER OF LEASEHOLD RIGHTS AND IT IS KNOWN AS SHARE IN UNEARNED INCREASE.

THE MAIN LESSEE CANNOT RETAIN HIS REVERSION OF LEASE UNDER HIS CONTROL.

WHEN WILL BE LESSOR'S RIGHTS WILL BE MORE?

IF THE LEASE PERIOD IS LESS AND NO RENEWAL CLAUSE

SURRENDER OF DEVELOPMENT BY THE LESSEE AT FREE OF COST ON EXPIRY OF LEASE PERIOD

PERIODICAL RENT REVISION IN CORRELATIONS TO MARKET RENT

WHEN WILL BE LESSEE'S RIGHTS WILL BE MORE?

IF THE LEASE PERIOD IS A LONG LEASE (i.e.) THE LAND CAN BE TREATED A FREEHOLD

NO RESTRICTIVE CONDITIONS

PROFIT RENT RECEIVED IS MORE AND BALANCE LEASE PERIOD IS MORE

WHAT WILL BE LESSOR'S INTEREST?

CAPITALIZED VALUE OF LEASE RENT FOR THE UNEXPIRED PERIOD OF LEASE

PRESENT VALUE OF THE REVERSION IN THE PROPERTY AT THE EXPIRY OF LEASE PERIOD

WHAT WILL BE LESSEE'S INTEREST?

DIFFERENCE IN CAPITALIZED VALUE BETWEEN ECONOMICAL RENT AND LEASE RENT FOR THE UNEXPIRED LEASE PERIOD

REVISED VALUE IN THE PROPERTY DUE TO IMPROVEMENTS

POTENTIAL BALANCE VALUE AVAILABLE TO THE LESSEE

DISCOUNTED CASH FLOW (DCF) METHOD

UNDER THE DCF METHOD THE FORECASTED CASH FLOW IS DISCOUNTED BACK TO THE VALUATION DATE, RESULTING IN A PRESENT VALUE OF THE ASSET.

IN SOME CIRCUMSTANCES FOR LONG-LIVED OR INDEFINITE-LIVED ASSETS, DCF MAY INCLUDE A TERMINAL VALUE WHICH REPRESENTS THE VALUE OF THE ASSET AT THE END OF THE EXPLICIT PROJECTION PERIOD.

IN OTHER CIRCUMSTANCES, THE VALUE OF AN ASSET MAY BE CALCULATED SOLELY USING A TERMINAL VALUE WITH NO EXPLICIT PROJECTION PERIOD.

THIS IS SOMETIMES REFERRED TO AS AN INCOME CAPITALIZATION METHOD.

FORECAST PERIOD

FOR AN ASSET WITH A SHORT LIFE, IT IS MORE LIKELY TO BE BOTH POSSIBLE AND RELEVANT TO PROJECT CASH FLOW OVER ITS ENTIRE LIFE.

(A) THE LIFE OF THE ASSET

(B) A REASONABLE PERIOD FOR WHICH RELIABLE DATA ON WHICH TO BASE THE PROJECTIONS

(C) THE MINIMUM EXPLICIT FORECAST PERIOD WHICH SHOULD BE SUFFICIENT FOR AN ASSET TO ACHIEVE GROWTH AND PROFITS, AFTER WHICH A TERMINAL VALUE CAN BE USED

(D) IN THE VALUATION OF CYCLICAL ASSETS, THE EXPLICIT FORECAST PERIOD SHOULD GENERALLY INCLUDE AN ENTIRE CYCLE

(E) FOR FINITE-LIVED ASSETS, THE CASH FLOWS WILL TYPICALLY BE FORECAST OVER THE FULL LIFE OF THE ASSET.

FORECAST PERIOD

IN SOME INSTANCES, PARTICULARLY WHEN THE ASSET IS OPERATING AT A STABILIZED LEVEL OF GROWTH AND PROFITS AT THE VALUATION DATE, IT MAY NOT BE NECESSARY TO CONSIDER AN EXPLICIT FORECAST PERIOD AND A TERMINAL VALUE MAY FORM THE ONLY BASIS FOR VALUE (SOMETIMES REFERRED TO AS AN INCOME CAPITALIZATION METHOD).

THE INTENDED HOLDING PERIOD FOR SHOULD NOT BE THE ONLY CONSIDERATION IN SELECTING AN EXPLICIT FORECAST PERIOD AND SHOULD NOT IMPACT THE VALUE OF AN ASSET.

TERMINAL VALUE

WHERE THE ASSET IS EXPECTED TO CONTINUE BEYOND THE EXPLICIT FORECAST PERIOD, VALUERS MUST ESTIMATE THE VALUE OF THE ASSET AT THE END OF THAT PERIOD. THE TERMINAL VALUE IS THEN DISCOUNTED BACK TO THE VALUATION DATE, NORMALLY USING THE SAME DISCOUNT RATE AS APPLIED TO THE FORECAST CASH FLOW.

SALVAGE VALUE / DISPOSAL COST

THE TERMINAL VALUE OF SOME ASSETS MAY HAVE LITTLE OR NO RELATIONSHIP TO THE PRECEDING CASH FLOW.

EXAMPLES OF SUCH ASSETS INCLUDE WASTING ASSETS SUCH AS A MINE OR AN OIL WELL. IN SUCH CASES, THE TERMINAL VALUE IS TYPICALLY CALCULATED AS THE SALVAGE VALUE OF THE ASSET, LESS COSTS TO DISPOSE OF THE ASSET. IN CIRCUMSTANCES WHERE THE COSTS EXCEED THE SALVAGE VALUE, THE TERMINAL VALUE IS NEGATIVE AND REFERRED TO AS A DISPOSAL COST OR AN ASSET RETIREMENT OBLIGATION.

DISCOUNT RATE

A RATE OF RETURN USED TO CONVERT A FUTURE MONETARY SUM OR CASH FLOW INTO PRESENT VALUE. THE RATE AT WHICH THE FORECAST CASH FLOW IS DISCOUNTED. IT SHOULD REFLECT NOT ONLY THE TIME VALUE OF MONEY, BUT ALSO THE RISKS ASSOCIATED WITH THE TYPE OF CASH FLOW AND THE FUTURE OPERATIONS OF THE ASSET.

DISCOUNT RATE METHOD

VALUERS MAY USE ANY REASONABLE METHOD FOR DEVELOPING A DISCOUNT RATE. WHILE THERE ARE MANY METHODS FOR DEVELOPING OR DETERMINING THE REASONABLENESS OF A DISCOUNT RATE, A NON-EXHAUSTIVE LIST OF COMMON METHODS INCLUDES:

THE CAPITAL ASSET PRICING MODEL (CAPM)

A MODEL IN WHICH THE COST OF CAPITAL FOR ANY STOCK OR PORTFOLIO OF STOCKS EQUALS A RISK-FREE RATE PLUS A RISK PREMIUM THAT IS PROPORTIONATE TO THE SYSTEMATIC RISK OF THE STOCK OR PORTFOLIO.

THE WEIGHTED AVERAGE COST OF CAPITAL (WACC)

A DISCOUNT RATE ESTIMATED BY THE WEIGHTED AVERAGE, AT MARKET VALUES, OF THE COST OF ALL FINANCING SOURCES IN A BUSINESS ENTERPRISE'S CAPITAL STRUCTURE.

DISCOUNT RATE METHOD

THE OBSERVED OR INFERRED RATES/YIELDS

THE ANNUAL RATE OF RETURN ANTICIPATED ON AN ASSET IF IT IS HELD UNTIL THE MATURITY DATE TAKING INTO ACCOUNT THE CURRENT MARKET PRICE, THE PAR VALUE, COUPON INTEREST RATE AND THE TIME TO MATURITY.

THE INTERNAL RATE OF RETURN (IRR)

THE DISCOUNT RATE AT WHICH THE PRESENT VALUE OF THE FUTURE CASH FLOWS OF THE INVESTMENT EQUALS THE ACQUISITION COST OF THE INVESTMENT.

THE WEIGHTED AVERAGE RETURN ON ASSETS (WARA)

A DISCOUNT RATE ESTIMATED BY THE WEIGHTED AVERAGE, AT MARKET VALUES, OF THE COST OF ALL FINANCING SOURCES IN A BUSINESS ENTERPRISE'S CAPITAL STRUCTURE.

PROFIT METHOD

IN THE CASE OF HOTELS, MOTELS, CINEMAS, PUBLIC HOUSES WHICH FALLS UNDER THE CATEGORY OF THE LICENSED PREMISES, THE MARKET VALUE DEPENDS PRIMARILY ON THE EARNING CAPACITY OF THE PROPERTY. THE MARKET VALUE OF SUCH PROPERTIES IS DETERMINED BY APPLYING PROFIT METHOD PROVIDED, IF

(I) THE OWNER RUNS HOTEL, CINEMA HIMSELF.

(II) THE OWNER GIVES HOTEL OR CINEMA ON LEASE AGREEMENT TO A LESSEE.

THE MARKET VALUE OF THE PROPERTY IS DETERMINED BY CAPITALIZING THE NET PROFITS (70% TANGIBLE + 30% INTANGIBLE) AT CERTAIN RATE OF EXPENSES, OWNERS RISK AND OTHER OUTGOINGS FROM THE GROSS INCOME.

PROFIT METHOD

1. GROSS INCOME (EXCLUDING ENTERTAINMENT TAX)

THE GROSS INCOME IS ESTIMATED ON THE BASIS OF FULL HOUSE CAPACITY LESS NORMAL VACANCIES MULTIPLIED BY THE NUMBER OF SHOWS IN A YEAR. THE VACANCIES CAN BE DETERMINED EITHER FROM THE ACTUAL SALE OF TICKETS DETAILS OF WHICH ARE AVAILABLE WITH THE OWNER. THUS THE SOURCE OF GROSS INCOME ARE:- REGULAR AND MORNING SHOWS, SODA FOUNTAINS, ADVERTISEMENT SLIDES/FILMS, SHOW CASES, ANY OTHER INCOME.

AS THE GROSS INCOME MAY NOT BE CONSISTENT, SO THE GROSS INCOME & EXPENSES SHOULD BE BASED ON THE AVERAGE OF LAST 3 PRECEDING YEARS.

PROFIT METHOD

OPERATING EXPENSES

ENTERTAINMENT TAX IF INCLUDED IN GROSS INCOME, TOTAL SHOW TAX, HIRE CHARGES, OTHER TAXES PERTAINING TO CINEMA BUSINESS, FREIGHT CHARGES, PUBLICITY, TRAVELING EXPENSES, PRINTING & STATIONARY, SALARIES & BONUS, GRATUITY, PROVIDENT FUND, WELFARE FUND OF STAFF, TELEPHONE BILLS, ELECTRICITY BILLS, POSTAGE & TELEGRAMS, INSURANCE FOR BUILDING AS WELL AS PLANT & MACHINERY, REPAIR & MAINTENANCE NOT EXCEEDING 3% OF BUILDING VALUE, GROUND RENT, IF ANY, PROPERTY TAX, SINKING FUND FOR FURNITURE, EQUIPMENT AND PLANT & MACHINERY.

PROFIT METHOD

OWNERS RISK & ENTREPRENEURSHIP

15% OF GROSS INCOME IN THE CASE OF OWNER RUNS THE CINEMA HIMSELF OR 15% OF CONDUCTING CHARGES RECEIVED BY THE OWNER FORM THE CONDUCTOR LESS THE OWNER'S LIABILITIES SUCH AS REPAIRS & MAINTENANCE, GROUND RENT, MUNICIPAL TAXES, COLLECTION CHARGES ETC., IF ANY BORNE BY THE LESSEE.

NET PROFIT

THE NET INCOME IS WORKED OUT BY DEDUCTING THE EXPENSES FROM THE GROSS INCOME.

PROFIT METHOD

RATE OF CAPITALIZATION

THE NET PROFIT IS REQUIRED TO BE DIVIDED INTO TWO PARTS.

(A) ONE DUE TO LAND, BUILDING, FURNITURE, EQUIPMENT ETC. CALLED AS TANGIBLE PROFIT AND GENERALLY TAKEN AS 30 TO 25% AND IS CAPITALIZED AT INTEREST RATE 2% HIGHER THAN THE RATE OF INTEREST FOR TANGIBLE PROFITS.

(B) OTHER DUE TO GOOD WILL MANAGEMENT, LICENSE CALLED INTANGIBLE PROFIT AND GENERALLY TAKEN AS 30 TO 25% AND IS CAPITALIZED AT AN INTEREST RATE 2% HIGHER THAN THE RATE OF INTEREST FOR TANGIBLE PROFITS.