

## Valuation / Appraisal

The process of establishing the value of an asset or liability or the amount representing an opinion or estimate of value.

## Real Estate

Land and all things that are a natural part of the land, e.g. trees and minerals, things that have been attached to the land, e.g. buildings and site improvements, all permanent building attachments, e.g. mechanical and electrical plant providing services to a building, that are both below and above the ground.

**An identified parcel or tract of land, including improvements, if any.**

## Real Property

The interests, benefits, and rights inherent in the ownership of real estate.

The formal definition of real property describes the rights in realty. Appraisers do not appraise real estate; they appraise real property.

## Cost

Actual expenditure to create/manufacture **or** amount required to reproduce, build, or assemble an improvement

## Price

Price can be the amount of money a purchaser actually pays or seller receives **or** amount of money agreed upon by buyers and sellers for the transfer of real estate

## Value / Market Value

Value is used to describe worth. In the appraisal profession, the word **value** is never used alone; it always appears with a modifier as in market value, fair value, insurable value, and so on.

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

## Fair Value

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## Valuation Method

A specific technique or model used to estimate value. All valuation methods fall within a valuation approach.

## Income Approach

A valuation approach that provides an indication of value by converting future cash flows to a single current capital value.

## Market Approach

A valuation approach which provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.

## Cost Approach

A valuation approach based on the 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.

## Value in Use

The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

## Highest and Best Use

The use of an asset that maximizes its potential and that is physically possible, legally permissible and financially feasible. (IFRS Definition from IAS 36)

## Type of Value

### 1 Annual Letting Value

It is rental value of the property assessed by the component authority for levy of property tax

### 2 Accommodation Value

Land with null degree of utility to owner, but degree of utility to others

### 3 Auction Value

An estimation of the price the property would realize in the open market under private or public auction.

### 4 Book Value

It is written down value of an asset as shown in books of account of the owner.

**Historic Cost:** The purchase price paid at the initial time of acquiring the asset plus additions made subsequent to purchase.

#### 5 Break Value

Separate value of each asset like land, building, machinery on closed down of production unit.

#### 6 Environmental Value

Incremental / Decremental value due to surrounding environment

#### 7 Equitable Value

It is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. **(as per IVS 2017)**

#### 8 Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. **(As per Ind As 16)**

The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. **(as per RICS 2014)**

#### 9 Fear Value

It is the value fetched in the public auction of the property belonging to a person considered dangerous by the society.

#### 10 Force Sale Value

The term 'forced sale' is often used in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible and buyers may not be able to undertake adequate due diligence. The price that could be obtained in these circumstances will depend upon the nature of the pressure on the seller and the reasons why proper marketing cannot be undertaken.

#### 11 Going Concern Value

It is an estimate of the price the running business of an industrial or commercial establishment, in an open market, with its all tangible and intangible assets as well as all liabilities of the enterprise on the date of valuation.

#### 12 Hope Value

Expecting increment in value of the property in the near future due any reason.

#### 13 Intrinsic Value

It is the intrinsic worth or true value of the property as distinct from agreement value.

#### 14 Investment Value

It is the value of the specific property, to the specific purchaser, who intends to purchase the said property with sole motive of investment and anticipated yield.

The value of an asset to the owner or a prospective owner for individual investment or operational objectives. **(as per RICS 2014)**

#### 15 Liquidation Value

It is the amount that would be realized when an asset or group of assets are sold on a piecemeal basis. It should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. **(as per IVS 2017)**

An orderly liquidation describes the value of a group of assets that could be realized in a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis. **(as per IVS 2017)**

#### 16 Lucrative Value (profitable/beneficial)

There are certain type of assets which are considered by the market as Lucrative assets and such assets commands special extra price over normal price fetched by similar type of asset.

#### 17 Synergistic Value

An increase in the value of the property, due to the merger of two different interests, held by two different people (entities) in the same property.

An additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values. **(as per RICS 2014)**

#### 18 Market Value

Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. **(as per IVS 2017)**

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. **(as per RICS 2014)**

#### 19 Monopoly Value

A certain property may command an excellent situation in highly developed area of enjoying unique advantages not enjoyed by any other property in the locality / vicinity.

## **20 Mortgage Lending Value**

It is the value of the property determined by prudent assessment of future marketability of the property, taking account long term sustainable aspects of the property, the normal and local conditions and the current use and alternative appropriate use of the property.

## **21 Mortgage Value**

It is an estimation of mortgage loan amount that could be safely advanced by the mortgagee to the mortgagor against the prime security or collateral security offered by the mortgagor.

## **22 Net Present Value**

It is the present day value of the building / machinery derived by deducting depreciation amount from the current replacement cost of the building / machinery.

## **23 Notional Value**

It is an estimated value of the property worked out on notional (theoretical) concepts for special purpose like taxation may be for wealth tax or capital gain tax.

## **24 Potential Value**

It is an estimate of the price of a property with existing inferior use or under utilized developments; that would fetch in an open market by putting it to the highest and best use instead of its existing inferior use.

## **25 Prestige Value**

It is an estimate of the price likely to be paid by the buyer to acquire a property next adjoining to the property owned by a celebrity.

## **26 Realizable Value**

Net money likely to be realized by owner by the sale of property (sell price – disposal cost)

## **27 Reported Value**

It is an estimated price that is finally arrived at by a valuer after full scrutiny of the document, physical survey of the site, inquiries and study of relevant facts and circumstances of the case.

## **28 Reserve Price**

It is an estimate of the minimum price that property is likely to fetch under properly advertised public auction.

## **29 Salvage Value**

It is the price expected for a whole property whose service / useful life is

over but is still in continued use and in working condition.

The value of an asset that has reached the end of its economic life for the purpose it was made. The asset may still have value for an alternative use or for recycling.

## **30 Scrap Value**

It is estimated price of the dismantled materials of the property which has become completely useless for any further use.

The amount indicated in terms of money that could be realized from the property if it were sold for its material content, not for a productive use.

## **31 Sentimental Value**

It is a value of the property to the buyer or seller as the case may be, who determines price on sentimental grounds rather than considering market force.

## **32 Speculative Value**

It is the value of a property to a speculator who invests in the property with the sole motive of selling the property at a profit within a short period of time.

## **33 Special Value**

This is a personal value because it is a value to a particular buyer or purchaser.

An amount that reflects particular attributes of an asset that are only of value to a special purchaser. **(as per RICS 2014)**

## **34 Statutory Value**

It is a value of the property estimated in accordance with the provisions of the considered statute like wealth tax worked out as per Rule 3 / Schedule III of W. T. Act

## **35 Stigma Value**

It is an estimate of the price of the property based on assumption of unwilling purchaser for such a property.

## **36 Surrogate Value**

When the value is worked out on the non market base concept, i.e. on the basis of cost and when such aggregate cost is adopted as market value of the property, such value is named by some valuer as 'Surrogate Value'.

## **37 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.

### 38 Value in Use

It is worth of asset to specific user and therefore it is subjective and usually measured by cost of replacing the property less depreciation. It is considered as non market based value.

We may say that 'Going Concern' value is non market based value or Value in Continued use or Value in Use.

### 39 Value in Exchange

It is price that would tend to prevail in a free, open and competitive market on the basis of equilibrium, set forces of demand and supply.

It is objective as it is based on observable economic force.

Highest and use or alternative use of property is also considered while estimating value.

We may say that Fair Market Value is Value in Exchange.

### Property

There is a specific valuation method relevant for each of the categories of property. Therefore, properties are categorized in the following manner.

**Investment properties** are those that produce net monetary return either in the flow of net income or as a capital gain, or both.

**Non-Investment Properties** have the characteristic of generating monetary returns to its owner but they yield benefits in the form of use and/or consumption.

Investment Properties	Non-Investment Properties
<ul style="list-style-type: none"> <li>• Trading enterprise</li> <li>• Theatre business</li> <li>• Industrial plant</li> <li>• Public utility enterprise</li> <li>• Hotel building constructed on freehold land</li> <li>• Office building with several tenants constructed on freehold land</li> <li>• Multi-storied residential premises</li> <li>• Car parking space given on rent</li> <li>• Multi-tenant building constructed on lease-hold land</li> <li>• Distributor's franchise</li> <li>• Motion pictures (for rent)</li> <li>• Vacant land held for future sale</li> </ul>	<ul style="list-style-type: none"> <li>• Freehold single-family owner occupied residential house constructed on freehold land.</li> <li>• Lease-hold single-family owner-occupied residential house constructed on lease-hold land.</li> <li>• Religious Property</li> <li>• Public School</li> <li>• Jail, City Hall etc.</li> <li>• Private Vehicle</li> <li>• Non-profit making Hospital</li> <li>• Stamp Collection</li> <li>• Personal Clothing</li> <li>• Furniture</li> <li>• Office Equipment</li> <li>• Furs</li> <li>• Germs and Jewelry</li> </ul>

### Property Classification, Value Characteristics, Elements of Value

Property Classification	Value Characteristics
Investment Property	<ul style="list-style-type: none"> <li>• Monetary yield to the owner</li> <li>• Marketability</li> <li>• Recovery of invested capital</li> </ul>
Marketable Non-Investment Property	<ul style="list-style-type: none"> <li>• Usefulness to the owner without direct monetary yield</li> <li>• Marketability</li> <li>• Non-recovery of original cost in general</li> </ul>
Service Property	<ul style="list-style-type: none"> <li>• Usefulness to the owner without direct monetary yield</li> <li>• Non-marketability</li> <li>• Non-recovery of original cost in general</li> </ul>

Property Classification	Primary Element of Value
Investment Property	Investment Value (Income Approach)
Marketable Non-Investment Property	Market Value (Market Approach)
Service Property	Owner Value (Cost Approach)

### Basic Elements of Value

#### Utility

With few exceptions, **an item will have value only if it is useful**. Real estate that performs no useful function will usually have no value. The function of land may be subtle and sometimes it is noneconomic. For example, sometimes the only utility a plot of land can claim is its ability to provide insulation from other properties and uses, for which many buyers will pay good money. If a parcel of land in an agricultural area is too wet to cultivate, it may have little value. On the other hand, if it is too wet to plow but grows grass well, it may be perfect grazing land.

#### Scarcity

**Scarcity is the basis of demand.** If an item is ample, it will have less value than it would if it were scarce. Iron ore and gold both have utility. However, one is worth a lot more than the other, primarily because of its relative scarcity. *Air is an absolute necessity, but it is so plentiful that it has no value.* The

same substance can be much more scarce, and much more valuable as a result, in some markets as compared to others. For example, water is nearly free in some parts of the country but must be trucked in to other areas.

### Marketability/Desire

To have value, **an item must be desired by potential purchasers.** If a feature of a property has utility and scarcity and is desired by the market, it will have value. If there is no desire, there is no value. For example, a house is put up for sale, and it is the only house in the neighborhood with a swimming pool. That pool has utility and is scarce in that market, but it will only add value to the real estate if potential buyers want it. Home buyers in Minnesota would probably have less desire for a swimming pool than home buyers in Georgia.

### Effective Purchasing Power

The entire population of a county may want to buy Rs.1.00 Crore home, but only a few people may be able to pay for one. To have value, an item must appeal to a market that can afford to buy it. If a Rs. 1.00 Crore house is built in an area where the highest per family income is only Rs.1,50,000 per year, it is doubtful that anyone could afford to buy the property, and as a result it would not sell for the anticipated price.

### Transferability

## VALUE OF REAL ESTATE IS CONDITIONED BY FOLLOWING FACTORS

• Physical	• Marketability
• Legal	• Transferability
• Social	• Scarcity
• Economic	• Present worth of future benefits
• Utility	• Intangible rights or factor

### Example

**Physical** Size, Area, Access, Location, Amenities, Facilities, Engineering or Architectural Aspects, etc.

**Legal** Zoning and Land Use, Central & State Government Legislations, Building and Safety

Regulation, Environmental Laws, etc.

### Social

Characteristic and custom of people like Shape of Land, Direction of Main Gate, Family Size, Neighborhood, Life Style, etc.

### Economic

Income Level, Employment Opportunity, Level of Wages, Availibility of Credit, Price Level, Taxes, etc.

### Utility

Degree of render a services

### Marketability

Potential of being or fit to be sale / Degree of demand of identical or similar asset

### Transferability

Prospect of changes of Ownership / Rights / Possession, etc.

### Scarcity

Limited availability

### Present Worth of Future Benefits

Prospect of future

### Intangible Rights or Factor

Attached historical value, emotional value, social value, etc.

## FACTOR AFFECTING VALUATION

### 1 Economic Factors

- Demand & Supply of Properties
- Income Fetching Capacity of The Property
- State & Central Govt. Policies for Land Development
- Economic & Taxation Policies of Government
- Income & Wage Level of Residents, Trends for Saving & Paying Capacities of People in the Locality
- Money Market Situation
- Cyclical Boom & Recession Periods in Real Estate Market
- Expected Rental Yields & Returns on Investment in Real Estate
- Maintainability of High Rental
- Inflation or Deflation in Nations Economy
- Availability Of Money (Loan) on Credit from Banks & other Institutions & Interest Rate Offered for such Loan Advances

- Burden Alternative Use Against Current Inferior Use
- Employment Opportunities & Development Potential in Area
- Availability of Alternative or Substitute Assets in the Market

## 2 Physical (Technical) Factors

- Land Characteristics
- Infrastructure Facility
- Prominence & Placement
- Building Characteristics
- Functional Aspect
- Amenities
- Environmental Aspect
- Natural Calamity
- Soil Conditions

## 3 Social Factors

- Locality
- Neighborhood
- Civic Amenities
- Population
- Means of Communication
- Prestige Aspect
- Political Factor
- Racial Habitation
- Religious Factor
- Personal Factors
- Stigma Aspects

## 4 Legal Factors

- Social Legislation like The Rent Control Act 1948 (Frozen Rent)
- Land Reform Legislation like The Urban Land Ceiling Act 1976
- Ecological Restriction Like Coastal Regulations (500 M From High Tide Line Restricted Development)
- Transfer of Property Act with Lease Provisions

- Covenants Under Lease or Conveyance Deed
- Indian Easement Act for Licensees
- Civil Procedure Code for Claim for Damages
- Land Acquisition Act
- Laws Governing Building Construction like Development Control Rules / Building Bylaws / Town Planning & Zoning Regulations (FSI Norms, Open Space Regulations, Height Rules, User Restrictions)
- Laws Governing Land : Town Planning Act / Municipal Corporation Act / ULC Act / Rent Act
- Wealth Tax Act / Income Tax Act
- Law on Earthquake Resistant Building
- Reservations under Different Acts
- Safety Distance From Industrial Belt, Hazardous Store Etc
- Height Restriction Rules Near Air Port Area
- Safety Distance Rules From High Tension Lines, Railway Tracts, Highways, Water Courses and Nallahs

## TYPE OF OWNERSHIP AND POSSESSION

### 1 Type of Ownership

- Individual or Sole Ownership
- Joint Ownership
- Co-ownership
- Ownership held by Firm
- Ownership by Limited Company
- Ownership by The Trust
- Ownership by Hindu Undivided Family (H.U.F.)
- Government or Municipal Ownership
- Ownership by Co-Operative Society
- Ownership by a Condominium
- Ownership of Wakf Property
- Ownership by Temple Board or Religious Trust
- Ownership by Military
- Ownership by State Government Development Board

- Ownership by Mortgagee
- Vested or Contingent Ownership

## 2 Types of Possession or Occupancy

- Physical Possession
- Symbolic Possession
- Juridical Possession
- Legal Possession
- Illegal Possession
- Adverse Possession
- Constructive Possession

### Urban Infrastructure & its influence on Value of Real Estate

The basic physical and organizational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise.

The state of urban infrastructure is an important indicator of the status of any urban area.

Urban infrastructure is a critical agent for the socio-economic development of any urban area. It places an important and indispensable role in the economic social and environmental aspect of life of an urban setting. It has a manifest impact on the quality of life. It is a back bone of any economy. Industry needs it to effectively and efficiently drive their production process. Urban infrastructure covers a wide range of facilities namely electricity, water, road, waste disposal, drainage, communication, primary health services, school housing, as the key ones, which are more often provided by government.

It is also been as a wide range of economic and social facility crucial to creating an enabling environment for economic growth and enhances quality of life which include housing, electricity, pipe-borne water, drainage, roads sewage, health, education, telecommunication and institutional structures like police station, fire fighting station, banks and post office.

Real estate has no value if it has no utility, if it is not scarce and if it is not effectively demanded. Real estate has significance only as it satisfies man's needs and desires. It is this man's collective desire for property that gives rise to value. Thus, the ability of a property to satisfy man's needs and desires together with its degree of scarcity and utility compared with others

makes man to ascribe value to it.

*Where urban infrastructure is adequately provided and efficiently managed, productive uses through better rent offers this competition for location with good urban infrastructure usually results in an increase in land and housing values, either sales or rentals.*