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Study on Preparation of Building Valuation Report in Construction Industry

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***Abstract*- A valuable techniques is determined in industry sector mainly includes type and source of construction work take place in building work, its infra-structure, strength of materials during site work, size, shape and frontage, width of the road way or boundary, the quality of construction materials during project work and present day utilized cost of materials. Valuation is the technique of determining the fair price such as building, a factory, other engineering structures of various types, land etc. By valuation the present value of a property is defined. . Cost: means original cost of construction work. The valuation calculation mainly accounts on the plinth and building and nature of wall thickness and methods used during floor, roof, doors and, windows etc. The valuation of any work is calculated on working out its price or construction economy at daily day rate and allowing a suitable depreciation property is major external users of multi-commercial valuation report to assess the client perception of quality building in multi-commercial economy of valuation reports. Valuation reports are important key factor in investment decision making during project. Hence, the issue of professional valuation practice standards and its life time of valuation reports are of fundamental sig current marketable economy. A method is to evaluate the property where there is a development in potential, so cost of property during development will be increased more than that of expenditure incurred. Ex: a large portion land is divide into small plots and developed fully so provide plots of land for a residential Colony or a huge complex of multi-storied buildings, housing ownership flats in a Co-operative Housing Society**

***Index terms*- Valuation, Commercial Valuation Report, Sample Report, Valuation Practice**

I.INTRODUCTION

Banking activity means Lending, which by its nature is attached with diverse risks which can be broadly categorised as financial risk, industrial risk and management risk. The lending branches have, apart from assessing the credit requirements of the borrower; the economic and technical viability of the activity has to exercise a high degree of caution in examining, verifying and investigating the title of the mortgagor.

These critical activities have to be entrusted to professionals outside the domain of Bank's albeit to the panel Advocate and panel Valuer.

In this age of liberalization, the concept of security has been relegated to the second line of defense with focus shifting to the viability of the project to be financed and the integration submitted by Advocates and the Valuers. of the Indian Economy with the global market has ushered in newer credit risks which overnight affect the status of a loan account and so the health of the credit portfolio in these stringent times depends on the quality of the reports.

II.SCOPE

This Guidance Note applies to all circumstances in which Valuers are required to advice or report to Banking or Lending Institution or other providers of debt capital when the objective of the valuation relates to loans, mortgages, or debentures.

The valuer should be in compliance with competence as per clause "Competence for Valuers in India" in Indian Valuation Standards Published by PVAI or Section 34 ab of Wealth Tax Act.

In some jurisdictions legislation of financial services requires special licensing or registration when advice is related not only to the value of property, but also to securities issues such as equity, participatory interests, collective investment schemes, or syndicated loans.

The nature and scope of the engagement are particularly important to the Valuer and to the user of the Valuer's services Valuers should be aware that an element of risk is associated with valuations for lending purposes where misunderstanding and/or error may lead to

The term property is used because the focus of these Standards is the valuation of property.

Because these Standards encompass financial litigation between the lender and Valuer. For example, in the event of default by a borrower, the lender sells upon foreclosure and realises only a fraction of the estimated value.

Because of the special fiduciary circumstances involved with most loan security, mortgage, and debenture arrangements, it is particularly important that the Valuer be independent rather than related to one of the parties involved in the actual or proposed financial relationship. It is also important that the Valuer possess or be able to procure appropriate expe- rience with the particular property type and locale for the property involved.

III.SOME ASCRIBED DEFINITIONS OF VALUE

Cost: It is the expenditure to produce a commodity having a value.

Price: It is the cost of commodity plus additional reward to the producer for his labour and capital. Value: It is not inherent in the property itself, but will be determined in the open market by the forces like demand and supply. Value is a function of time, place, and purpose.

IV.COST IS A FACT PRICE IS A POLICY VALUE IS AN OPINION

MARKET VALUE is defined for the purpose of this Guidance Note as follows:

Market Value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Reporting, the term asset may be substituted for general application of the definition. Each element of the definition has its own conceptual framework:

“The estimated amount” refers to a price expressed in terms of money (normally in the local currency), payable for the property in an arm’s-length market transaction. Market Value is measured as the most probable price reasonably obtainable in the market on the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as a typical financing, sale and leaseback arrangements, special con-siderations or concessions granted by anyone associated with the sale, or any element of Special Value .

“between a willing buyer” refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than in relation to an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist.

Highest and Best Use (HABU). The most probable use of a property, which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

Guideline value/ RR Value: It is the value of the land which is recorded at the starting of a financial year in the register of registrar’s office and used for the purpose of determining the stamp duty at the time of registration of the documents.

Book value: It show the original investment of a company on its assets, including properties and machinery less depreciation for the period passed.

Salvage value: Value of machinery realized on sales when its useful span of life is over but still it has not become useless.

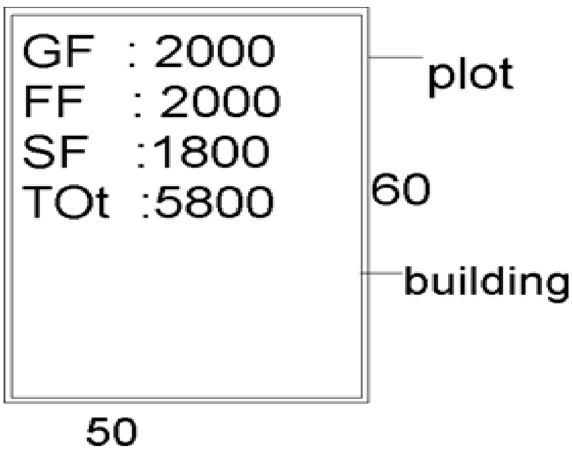
Scrap value: It is also called as junk value or breakup value or demolition value. It will represent the value of old materials in a building less cost of demolition.

Insurances value: It is the value of the building for which the building is insured. Normally the building is insured of the superstructure alone (not for the foundation) – land value is excluded.

Potential value: It is an inherent value which may go on increasing due to passage of time or some other factor which will fetch more return.
Distress value: If a property is sold at a lower price then that which can be obtained for it in an open market, it is said to have "Distress valve" its may be due to :

- Financial crisis for the vendor
- Land locked land
- Sentimental reasons

Speculative value: when the property is purchased so as to sell the same at a profit after some duration, the price paid is known as Speculative value.



Monopoly value: In a developed colony, the value of the plot goes on increasing when number of the available plots goes on decreasing. The fancy price demanded by the vendor for the remaining plots is known as Monopoly value.
Sentimental value: The extra price which is demanded by a vendor when he attaches certain sentimental to his property is known as sentimental value having no relation with the market value.
Fancy value: It is also called as Desired value. If the purchaser wants to have a property somehow since the procurement is an absolute necessity for him due to various reasons, he is prepared to pay more sum when compared with others. He attaches a special desire over the side property. The extra sum he is prepared to pay is called fancy value.
Replacement value: Replacement value is the cost of reproduction of a similar building with similar specification at the current market price on the date of valuation. It is also called as Reproduction Value or Reinstatement Value.
Depreciation value: It is the reduction of value of the property due to age, deterioration, lack of maintenance, obsolescence, decay, wear and tear etc. Depreciation value depends upon the age and its future life.
Present value: It is replacement value less depreciation value.
The other values are liquidation value, intrinsic value, investment value, cost value, warranted value, true value, written down value, going concern value, commercial value, rental value, exchange value, appraisal value, face value, utility value, use value, loss value, tax value, economic value, sale value, condemnation value etc.,

Floor Space index (FSI) & Plot Coverage
Floor Space index (or floor area ratio) is the ratio between the total built up area of building and the extent of land.
Plot Coverage is the ratio between the covered area of the building and extent of the land. (Covered area is the area covered by the building immediately before plinth level)
Example:
FSI = 5800 / 3000 =1.93
Plot Coverage = 2000 / 3000 = 0.67 or 67%

V.PROPERTY CHARACTERISTIC

Any asset has a value in an open market if it possesses four basic economic and legal characteristics Viz:

- Utility
- Scarcity
- Demand and Transferability

Utility:
Utility can be defined as the power of a good or an asset to satisfy human need. Since Value is dependent on degree of satisfaction of need according to perception of an individual, it is subjective and varies from person to person.

Scarcity:
Scarcity is a relative term and must be considered in relation to effective demand and effective supply and the alternate uses, present and / or prospective, to which asset can be put to.

Demand:
Demand implies not only desire to possess a thing in view of presence of need but it must also be supported by efforts to acquire a thing in terms of monetary power. Thus demand must be effective demand and if any of the two i.e. either desire or efforts is lacking, there is no demand.

VI.VALUON METHODOLOGY

Value of a property can be estimated by following different approaches or methods

COST APPROACH
The Cost Approach method is adopted for the purpose of Valuation of assets where factual evidence, neither for estimating net income from the property in the form of instances of rentals nor for estimating capital value of the property in the form of sale transactions of comparable properties in the open market, is available.

Cost of Construction:- The cost of construction, either for reproduction or for replacement, is estimated by 1)estimating quantities of various components of construction by quantity surveying & multiplying them by the scheduled rates of construction or by 2) adopting prevailing rate of construction per unit area (sq.m /Sq ft) or per cubic contents in case of buildings having excessive floor height e.g. factories, Godowns etc. The rate per unit will normally be comparatively lower where room sizes are large (offices, public buildings) than in the buildings where room sizes are smaller (residential buildings).The rate of construction will also vary according to quality & specifications of construction, higher the specifications, higher the unit rate of construction and vice-versa.

Depreciation:- Depreciation is relevant where the property and the improvements or building is to be valued as it is i.e where cost of reproduction is to be considered .Depreciation is due to three major cases viz

1. Physical deterioration
2. Functional obsolescence
3. Economic obsolescence

Physical Deterioration is caused mainly due to wear and tear, action of elements like air, wind, rain, pollution, destruction by termites, pastes etc and age.
Functional Obsolescence is due to faulty or outdated structural or architectural design, inadequacy or super adequacy of facilities and outmoded equipment.
Economic Obsolescence is caused by neighbourhood hazards and nuisances, changes in zoning and permissible uses, shifting of population to other location, recession and slowdown in economy etc.
Depreciation due to Physical deteriotion can measured fairly accurate by different methods of depreciation like Straight line method, Linear method, Years Purchase method etc The values arrived at, will be exclusive of cost of land, water supply, electric and sanitary fittings, etc. and will apply to those buildings only which have been considered as good property or dilapidated property with suitable deduction should be made from the values as deduced above.

VII.BANKING PURPOSES

The objective of Indian Valuation Application is to offer guidance for Valuers preparing valuations for BANK PURPOSES and Value Change as per purpose.

- Loan for the Construction of a New Building,
- Loans for the purchase of Ready Built property from Builder / Developer,
- Housing loans for the construction of upper floor over the existing ground floor or extension of G.F,
- (LAP) Loan i.e Loan Against Property Or Mortgage Loan
- Loan for improvement of property (flat or house),
- Loan for purchase of Plot,
- Top-Up Loan (while increasing the present limit to a higher limit)
- (Balance Transfer Loan) while transferring the existing loan from one Bank to another Bank
- Periodical Revaluation Of Assets
- Loan for Agriculture, Crop, Agriculture Machinery, Farm House, and Agriculture Business
- Loan for the Construction of a New Building

Bank's Requirement:-

To certify the genuineness of the estimate provided by the Applicant, stage value of the construction, total cost on completion.

To advise the bank on any adverse matters like violation, encroachment, stability of the building etc

Loans for the purchase of Ready Built property from Builder / Developer

Bank's Requirement:-

1. To certify the present market value
2. To certify the stability of the building and to advise the further life of the building.

Housing loans for the construction of upper floor over the existing ground floor or extension of G.F.

Bank's Requirement:-

1. To certify the present market value of existing property.
2. To certify the cost of new construction in stages or the cost on completion.

VIII.VALUATION REPORTING

Valuation report Language must be in English.

Ingredients of a good valuation report.

a) Logical structure.
b) Objective / purpose at the beginning.
c) Conclusion at the end.
d) Report to be professional.
e) Check errors in grammar/calculations/spellings.
f) Clear and precise language.
g) Reasoning and analysis of pertinent data. Valuation reports must be having following Documents
h) Location of Village / City [may be sketch plan
i) Location of Asset, Sketch Plan showing nearby Land Mark, Road, & Approaches,
j) Four Boundaries of Asset.
k) Site Plan (Land record Map / Architect Plan)
l) property Ownership Card
m) Photographs of asset Exterior & Interior
n) Presentation of Report should include the following
    1. Colour & Highlight
    2. Paper Size -A4 or Legal (Drawings and attachment may vary in paper size)
    3. Indexing

What are the issues to addressed in the Valuation Report.

- Residual Life of Building
- Property Address (Survey/ CTS / Patta /etc)
- Property owner

a) Free Hold
b) Lease hold
c) Inam Land
d) Govt. Land
e) Forest Land
f) Air funnel Restriction
g) Heritage Plan
h) Nallah/Water Bodies/Dam/Talav/C.R.Z./R.R.Z.
i) Asset is located near Religious importance areas.
j) Asset is located near Notified congested (Gaothan) areas etc.
k) Design of a valuation Report
l) Standard formats to be used wherever possible.
m) Separate formats for rural and urban properties.
n) Separate format for land / land and building.
o) Owner occupied or tenanted.
p) Use of structure and type.
q) Name of property and address and particulars on top.
r) Specific interest in the property Leasehold or freehold.
s) Comparable sale instances.
t) Method of valuation
u) Structural stability and environmental aspects

IX. CONCLUSION

Based on our analysis, this valuation engagement was conducted in accordance within the statement on standards for valuation service. The estimate of value that results from a valuation engagement is expressed as a conclusion of a value.

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