MARKET APPROACH TO VALUE

PREPARED BY:
Mr. Vimal K. Shah
(9426159641)
vimalkshah1@gmail.com
Mrs. Kavvita N. Choksi
(9512333666)
kavitachoksi21@gmail.com
This approach is generally recommended for the **non income fetching but marketable properties.**

Market Approach to value the property is most important and widely used approach to value any type of asset.

Market approach is basically operating on the “**Principle of substitution**”. Valuer has to find out from the market about the availability of identical property or nearly similar property to the property which is under valuation. He should also find out actual sale price or offered sale price of such similar property. Then valuer has to compare both properties and arrive at fair value of subject property after making appropriate adjustments, based on available evidence.
Various Methods Under Market Approach

Under this approach there are two principle methods of valuation.

(a) Sale Comparision Method
(b) Development Method or Residual Method.
Sales Comparision Method: (Direct Market Comparision Method)

i. Adhoc Comparision Technique.
ii. Adjustment Grid Model.
iii. Price Quality Regression Technique.
iv. Weightage Score System.
Sales Comparison Method is based on principle of comparison and Substitution.
It is human tendency to compare and select.
A customer intending to buy consumer product will compare quality and price of such a product available in one shop with quality and price of substitute similar product, may be of other brand, available in same shop or other shop in the market. He would finally select the product only after comparison of both products from all angles including price and quality. It is said that ‘to err’ is human. Likewise we can also say that “to compare” is human.
Story of the king and his minister
tenali raman
Valuation results by tenali raman

• First doll valuation: NIL

• Second doll valuation: 100 gold coins

• Third doll valuation: Invaluable but he said 1 lac Gold Coins

Why ???????
Conclusion derived from above story:

• The similarity of the property may be deceptive.

• Valuer should not immediately jump to conclusion.

• End users of report should ask for reasons for given valuation and valuer should support and prove his valuation by giving demonstration or supporting evidence.
Sales Comparison Procedure

The procedure of comparison of sale instances with property under valuation, under all methods, involves following steps.

i. Collect data of sale instances from different sources and weed out non genuine sales.

ii. Analyse and work out rate of sale in each sale instance.

iii. Select comparable and genuine (may be five or six) sales which are proximate from time angle as well as proximate from situation angle with property under valuation.

iv. Visit physically, site and location of all these sale instances and record all favourable and unfavourable aspects of these sales. Formula for success in any valuation assignment is “Inspect before you value”. Inspection of subject property and sale instance properties is a must.

v. Select genuine (undoubtful) and most comparable sales (3 or 4). For the purpose of deciding genuineness of sales, obtain sale document copies of these sales and examine for any unusual covenants or precarious conditions. Contact or enquire with seller or purchaser to find out that sale was not a forced sale or distress sale but was executed in normal business like circumstances.
• vi. Compare each sale with the subject property and give appropriate weightages to the rate of sale of each sale for favourable and unfavourable factors. Also assign weightages for major four or five attributes like time factor, size or area of property, situation and location aspects, specification or age factor for building, other factors. Care should be taken by the valuer to assign weightages according to the importance of the priorities attached by the local residents (Population) in which the subject property is situated. Priorities for size of flat factor or the specification factor would be quite different in poor class locality and posh area locality.

• vii. Arrive at final adjusted value for each sale by adhoc comparision technique or by detailed adjustment grid model (Balance sheet of weighted values).

• viii. Form final opinion for the fair rate for the subject property.

• Each of these steps needs further detailing. But before we discuss the same it is necessary to learn other connected issues such as source of collecting data, areacorrection etc
Data Collection Sources

• There are several sources from which sale instances of a particulars locality can be collected.
• i. Sales recorded at the Registrar’s office of the concerned district.
• ii. Information from local brokers/residents (Local Enquiry).
• iii. Advertisements in Newspapers.
• iv. Land Acquisition cases data.
• v. Auction sale information of different authorities.
• vi. Valuers own Data Bank.
Adhoc Comparison Technique

Under sales comparison Method, most popular comparision technique is “Adhoc Comparison Technique” This adhoc comparison technique is very well known and it has been in use for several years. In fact even today, many valuers adopt this technique to save time and to do quick reporting of valuation to the clients. This method is also known as Hedonic Pricing Model. Under this model , price of the property is expressed by the formula.

\[ P = f (STLA) \]

P = Price of the property in the market.
f = Stands for function of
S = Size or covered area of the premises.
T = Time factor at which asset is traded in the market.
L = Location of the property.
A = Age or physical conditions of the property.
Under this adhoc comparison method the valuer normally follows steps as detailed below.

i. Valuer first collects data of sale instances in the locality for the relevant period of time. Non genuine instances of sales are excluded.

ii. Rates and attributes of genuine sales are compared with the attribute of subject property. All relevant factors and weightages applicable are recorded.

iii. Valuer then arrives at a concluding overall effect of these comparison. It may be positive weightage over sale instance rate or negative weightage over said rate.

iv. Valuer then finally estimates the final rate for the subject property based not only on his experience and expertise but also on the basis of overall impression. Hence it is called adhoc analysis.
## Weightages for Land Comparison

<table>
<thead>
<tr>
<th>Subject Property Attribute</th>
<th>Sale Instance Property Attribute</th>
<th>Weightage To be Applied to Sale inst. Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Double frontage</td>
<td>Single frontage</td>
<td>+ 15% to +20%</td>
</tr>
<tr>
<td>Large size plot</td>
<td>Small size plot</td>
<td>- 15% to -40%</td>
</tr>
<tr>
<td>Time Factor (current year)</td>
<td>12 months before</td>
<td>+ 5% to +15% Per year</td>
</tr>
<tr>
<td>Main Road</td>
<td>By-lane</td>
<td>+ 15% to +30%</td>
</tr>
<tr>
<td>Plot without access road (i.e. Landlocked land.)</td>
<td>Plot abutting road</td>
<td>-75% to -80%</td>
</tr>
<tr>
<td>Joint ownership</td>
<td>Single ownership</td>
<td>- 5% to -15%</td>
</tr>
<tr>
<td>Low lying land</td>
<td>Level ground</td>
<td>Deduct for cost of earth filling</td>
</tr>
<tr>
<td>Sea front plot</td>
<td>Away from sea</td>
<td>+ 20% to +30%</td>
</tr>
<tr>
<td>Pending litigation (Stay of Court against sale)</td>
<td>No litigation</td>
<td>- 30% or more</td>
</tr>
<tr>
<td>Forced Sale by Authority</td>
<td>Normal Market Sale</td>
<td>- 15% to -30%</td>
</tr>
</tbody>
</table>
Following qualities of buildings must be examined during comparision.

i. **Specification** of building, workmanship, Structural and Engineering Aspects.

ii. **Architectural aspects**, planning of rooms and passages, elevation features and aesthetics.

iii. **Age of building** and its upkeep/maintenance.

iv. **Ownership history** of building and stages of construction.

v. **Income fetching capacity** of building and occupancy. In case of rented building annual yield to be considered. In case of vacant or owner occupied building, market rent and long term capital appreciation of building has to be considered.

vi. **Present condition**. Structural soundness and repair works.

vii. **Amenities**: Lift, security system, parking facilities, communication system, Gymnasium, society meeting hall etc.

viii. **Environmental aspects**: Garden, Swimming pool, Landscaping, Jogging Track.
• **Adjustment Grid Model**
  - Evaluation of rate under this model is also similar to approach under Hedonic Model. However under this model working is less adhoc and more scientific. In this method also 4 to 6 comparable and genuine sales are first selected out of several sales collected by valuer in a locality.

• For comparision with subject property, 4 or more major attributes are decided by the valuer.
• There after for each attribute ranks are given.
• Rank (5) for Best Quality attribute.
• Rank (3) for Medium Quality attribute.
• Rank (1) for Poor Quality attribute.
• If sale instance flat has best specification Rank (5) is given where as flat having medium quality or poor specification are given Rank(3) or (1) respectively.
• Let us see how ranks are given for different attributes of the properties.
  - **Location Factor**: Rank (5) if civic amenities are closeby.
  - Rank (3) if amenities are at moderate distance.
  - Rank (1) if amenities are far off say at 1 KM distance.
  - **Size Factor**: Rank (5) if flat area is 75 sq.mts. or less.
  - Rank (3) if flat area is 75 sq.mts. to 150 sq.mts.
  - Rank (1) if flat area is 150 sq.mts. or more.
  - **Age Factor**: Rank (5) Building less than 10 years age.
  - Rank (3) Building having age 10 – 30 years period.
  - Rank (1) Building having age 30 years or more.
  - **Specification Factor**: Rank (5) Delux specification.
  - Rank (3) Standard specification.
  - Rank (1) Poor specification.
Development Method (Residual Technique)

Development Method or residual technique is an *indirect manner* of deriving land rate from sale transaction. Like direct sale comparision method discussed before, in this technique there is no direct comparision. The land value is derived indirectly from sale instance of developed property.
Limitations of Market Approach

Methods under market approach have following limitations.

1) Sales comparison method has its own limitation due to comparison of properties. Like human beings, there are no two exactly identical properties available in the market. Valuer has therefore to identify number of attributes of each property which do not compare well but differ. Valuer has to make adjustments for this difference and this task is very difficult.

2) Due to lack of scientific and correct market data, it is very difficult to assess and arrive at correct and precise positive or negative weightages for difference in attributes of two sales under comparison. Market study and statistical results of study of sales, are necessary for accuracy of weightages.

3) Wide range of rate difference is noticed in same locality during same year. This disparity in rates offers great difficulty in selecting correct sale instances for comparison. It is difficult to find out distress sales or special price sales from the sale data list of several sales that has taken place in the locality during relevant period of time.

4) This method of comparison of sales is not useful for non marketable properties like school, college, temple etc.
5) The sales available in the locality may not only differ in land characteristics but it may also differ from view point of time angle and situation angle calling for further adjustments in the rate.

6) Intentions of transacting parties and circumstances prevalent at the time of sale are never known unless valuer knows seller or purchaser personally.

7) Sometimes there are no sales available in the concerned locality or ward for the required year of valuation. Valuer has to then adopt sales on adjoining wards of same year or adopt sales of prior period or later period of relevant year of valuation. These variations also make adjustment of rates more difficult.

8) Many sale instances are found unreliable or obscured due to presence of black money in the deal. Consideration shown and declared in document may be 40% or 60% of the total actual price paid to the vendor. Difference in amount is paid in cash by unaccounted money. These sales give untrue picture of actual market.

9) Great field experience and assessment expertise of the valuer is needed to analyse sales and to find out overall effect of all attributes of sale property on the market rates prevalent in the locality.

10) Many a times due to inadequate description and lack of property plan in sale deed or transfer deed, it is difficult to locate the property physically on site. This makes comparison difficult as characteristics of sale instance property are not known.
11) Under all hypothetical building scheme, there are too many assumptions. In fact entire method is based on assumption. Probable sale price or rent is estimated, building plans and layout are assumed to be best possible solution, property taxes and other outgoings are estimated and building specifications and cost are also estimated. Developer’s profit, time for projects etc. are all assumed. There are hardly any factual data except area of the plot. There is therefore great risk in adopting final values derived under this method. Supreme Court has therefore advised to adopt Hypothetical Scheme Method as LAST RESORT.

12) Under hypothetical building scheme (ownership concept) also there are many assumptions. It is assumed that all existing tenants in the plot would readily accept the proposal of developer for alternative and free accommodation in the new building.

13) In case of sales with plot and under utilised building construction, some times help of land and building method of valuation is necessary.

14) Use of Sale Comparision Method for rental property is very difficult due to frozen rent (Rent Act provision) of premises in most of the urban areas of India.

15) In case of large property with isolated tenanted building in corner, help of Income Approach (Rental Method) is required along with Sale Comparision Method to arrive at its true market value.
Land Characteristics

Land possesses innumerable characteristics. Some attributes of land are good and it enhances value of land in the open market. Some attributes of land are bad in nature and it reduces the value of the land in the property market.
• Situation.
• Location.
• Infrastructure amenities.
• Neighbourhood.
• Frontage.
• Depth.
• Accessibility.
• Size (Plot area).
• Shape.
• Road width.
• Orientation
• Topography.
• Vista/View aspect.
• Stigma Effect
• Tenure of land.
• Covenants in title.
• State & Central Laws on land.
• Building Bylaws
• Status of land.
• Encumbrance.
• Soil condition.
• Climatic condition.
• Natural forces.
• Land use (Zoning).
• Topography.
• Vista/View aspect.
• Stigma Effect
• Ownership pattern
• Environmental aspects
• Prestige Aspect
• T.D.R.
Situation (Economic Angle)

- Central business district
- Mid town area
- Out-skirts
- More demand of land in CBD area
- Less demand in suburban area or the outskirts area of the town
- Life style and living standards
Location (Social Angle)

• Location-location-location
• Located closer to center of economic activity of town
• Location from point of view of availability major link road in posh locality
• Location from point of view of availability of civic and infrastructure amenities.
Infrastructure Amenities

- Utility Infrastructures (Services): Water supply system, sewerage and drainage mains, electrical and power supply systems, Tele communication links.

- Transportation Infrastructure: Good net work of roads, proximate railway stations or bus terminals, city bus, public transport facility, other forms of vehicular facility like taxis and auto rickshaws.
• **Social Infrastructure** : Schools and colleges, Hospital, Nursing home, Health center, Gymnasium, Clubs, Community Hall, Temples and place of worship, Parks and playground, Banks and Post office, Swimming pool, Sports stadium, Burial ground, Cremation ground.

• **Commercial Infrastructure** : Shops and market, Malls and Shopping centers, Cinema and drama theatre, Trade centers.
Neighbourhood

• Nearness of airport or railway track
• Cremation ground or burial ground
• School or college on next adjoining plot
• Factory operation in vicinity
• Slum on next adjoining plot
• Community hall or cinema on next plot
• Location of garden, lake or sea beach
• Proximity of hindu temples, jain derasar
Size (Land area)

- Large
- Medium
- Small
• Frontage/Depth
• Road Width
• Climatic Condition
• Natural Forces
• Ownership Pattern
• ‘Vastu Shashtra’ Aspect
• ‘Feng Shui’ Aspect
Accessibility

• Land locked land
• Tandem plots
Shape

- Irregular shape plots like triangular shape, curved shape or plot with several offsets and notches
If a great national leader or a famous film star or a well known sportsman or any such known celebrity is staying next door i.e. in immediate neighbourhood or on next adjoining plot, value of such adjoining land and flat shoots up in the market due to prestige aspect.
• The open unobstructed view in front of the building is known as Vista.
• Rashtrapati Bhavan in New Delhi, is an excellent example of building enjoying excellent Vista.
• ‘T’ junction plots are another example of plots having a Vista.
• T’ junction plots in certain areas of India like Andhra Pradesh, Tamilnadu are considered inauspicious.
View Aspect

• This is also similar attribute like ‘Vista’.
• Plot overlooking public garden or a river or a lake or a hill or sea command some extra price in the market due to pleasing view aspect.
State or Central Laws

• State laws or Central laws which restricts or regulates development on land and sometimes regulates even holdings of land.

• Rent Control Act

• National Highway Act and Railway Act

• Civil Aviation Authority

• Coastal Regulations restricts

• Indian Electricity Act
Status of Land

• Virgin status of land and Married status
Environmental Aspect

• Obnoxious industries like chemical or cement factories, slaughter house and tanneries, textile mill or a cigarette factory.
• Bhopal tragedy
• Garbage dumping ground of municipality or dumping yard of chemical wastes
• Stone quarry operations
Stigma Effect

• Burial ground
• It was an atomic reactor site in the past
• Some crime or murder story is linked with such land or property.
Community Aspect

• Parsi colony, Hindu colony, Brahmanwada, Harijanwas, Catholic society, Mohmedan locality
• Proximity of Church, Masjid, Jain Temple (Derasar), Gurudwara
VASTU APECTS

VYAGRA MUKHI PLOT

GAUMUKHI PLOT
THEORIES OF LAND VALUATION

Recessed Land Concept

PART A = RECESSED LAND

FIGURE - 6
Land locked land concept
Belting Theory
Hypothetical Plotting Scheme