Publication: Times Of India Mumbai; Date:2009 Sep 19; Section:Times Property; Page Number: 49

Real value

How do you judge the true worth of a property? Archana Sinha finds out

Buying a home is often topmost on the list of things to do for most young professionals who have been working for at least two years and are earning a decent income. One reason is the availability of home loans. However, sometimes the buyer could suffer a setback on the issue of valuation, if there is a vast difference between the quoted price and the assessment of the property's value by the designated professional valuer of a bank. The bank may refuse to grant the loan if the valuation is less than the quoted price.

What are the issues that are taken into consideration, when assessing the value of a property?

Sanjay Sinha, Vice-President (Credit Risk), Axis Bank Ltd. says "There are many methods/approaches towards valuation of the property - the cost approach, the sales comparison method, the income approach, market value approach. Banks usually go by the market value of the property, which is a fair and conservative estimate for the property, should the exchange take place between a willing buyer and a willing seller in an arms-length transaction. This method is generally the most acceptable. Banks have their own empanelled valuers in place for arriving at the value."

Milan Kothary, MD, GVA Intercapitalis, reiterates the view saying, "The current realistic price trends are based on the location, the age of the property, upkeep and maintenance of the property, and the layout of the premises in terms of space utilisation, value-added features, connectivity, convenience, infrastructure, among others."

He says, "Valuers are generally qualified and are expected to give an unbiased, objective and accurate property valuation for specific purposes of mortgage and insurance."

R. Karthik, Vice-President, Marketing, Lodha Group says, "In the case of a new construction, banks these days tie up with reputed builders after assessing the credibility of the project. That makes the process easy. But in the case of second sale problems do not arise in case the building is not too old and the value of the property is ascertained in terms of intangible collaterals like the location and the amenities."

Advising the buyer, Akash Deep Jyoti, Head, Corporate and Infrastructure Ratings, CRISIL, says, "A prospective buyer should first assess the value of a property, through a rated certified valuer or from the bank itself. Such valuation will be useful as an official document with the bank for loan as well as in negotiation with the seller."

Along the same lines, **Kothary**, advises, "Since there is no designated authority to determine a ceiling limit on the 'prices', the buyer must do his own research of the market and the premise in question in which he or she is buying the property. The 'price' for which a similar property was recently sold by checking the data collected at the office of the Sub-Registrar's office and the current ‘advertisement price’ for a similar property could also be a good idea."

On the other hand, Ashok Mohanani, Chairman, Ekta World says, "These days there is a trend of banks tying up with projects based on their own study and that makes the project credible. In case of second sale the buyer has no control as the seller fixes his price based on his assumption. Hence the buyer must be prepared to take the risk if the bank has a drastically different opinion. Ideally he or she must make an alternate arrangement of funds."

Also it needs to be understood that the value of the property is not the sole criterion for deciding the loan component. Sinha says, "It is equally important to analyse and understand the buyer's own financial strengths, his sources of regular income to support margin, repayment obligations, amortization period of loan, and other issues."

With real estate moving towards professionalism, a need for some amount of uniformity is felt. The Royal Institution of Chartered Surveyors (RICS) had recently organised a conference in Delhi called "Valuations: The Emerging Road Map for India" with Confederation of Indian Industries (CII).

Speaking on the occasion, Sachin Sandhir, MD and Country Head, RICS said, "This conference is an endeavour to spread awareness on what's happening in valuations across

the globe and also ascertain imperatives for our country.
While the developed countries indulge in a more sophisticated and complicated debate surrounding market value and fair value, India has its unique issues to focus on while being aware of the happenings in the international arena."

Mr. Anshuman Magazine, CMD, CB Richard Ellis South Asia Private Ltd also felt that in a globalised economy, valuations form the backbone that helps determine where to put in money and make investments. It is necessary to make valuation practices more robust to instil investor confidence in the system, which will drive capital investments to India.

However, this would be applicable to large transactions. But for the individual buyer, going by some common rules suffice, say experts.

Quick BYTE

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The right assessment

Sujit Joglekar demystifies valuation methods

1

The valuation report should clearly define the purpose - as values will differ with purpose: The valuation of property for negotiations with a developer exploring the possibility of redevelopment will be different than valuation of the same property when offered as security to the Bank.

The reasons of differences:

a

The purpose of valuation in the first instance is to negotiate for the best possible price, exploring the highest and best use of the property, whereas in case of later the valuation is on as-is-where-is basis disregarding the hypothetical condition of the proposed redevelopment.

b

The end user of the report in the first instance is the owner of the property looking for maximum bargain out of the negotiations with the developer and hence the report is from the owner's perspective, whereas valuation for banking purposes is prepared from the lenders' perspective, who are concerned with the available collateral security in its as-is condition.

2 The report should address the carpet to saleable area conversion factor:

C Saleable area is not an appraising / valuation terminology but is coined by the developers to recover the costs of amenities and facilities provided. In order to price the properties attractively the rates per sq.ft do not alter, but the conversion factors vary.

d Since there is no standard conversion ratio between carpet and saleable area, which varies depending on the extent of amenities provided, the report should address two area concepts:

i

The carpet area, which is a verifiable fact measured as inner wall to wall measurement,

ii

The saleable area identified by the trade practice prevalent in the building where rates are quoted and transactions entered into. This could be the area as recorded in the agreement, or maintained by the society to levy transfer fees, maintenance charges etc.

e

Reports should be prepared to reflect the market and hence should price the property the way market prices it. The report should document the Trade Practice prevalent in that building/similar buildings in the neighborhood and record the conversion factor used to quote the rates.

-Sujit Joglekar, of Best Mulyankan Consultants, is an accredited senior appraiser