Valuation of Multi storied Building for Bank Finance Purpose

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Abstract - Valuation is an art of process of estimating value, depending on the circumstances of the case and purpose for which valuation is needed, at the given time, place and market condition. The objective of this study is to identify the market value of building for bank finance purpose which is situated in urban, semi urban and rural area of Chhattisgarh, India. This study helps to bank to know the actual condition of building and simplify the bank finance amount to owner of the property. The valuation of property helps to both owner of the property and the bank to know the actual rate of the property.

Key Words: Market value, Valuation, Building, Value, Finance, Bank.

1. INTRODUCTION

Valuation can be defined as the process of estimating value. Valuation depends on the circumstances of the case. Purpose in which conclusions about value are arrived at by a scientific analysis of the available data, Valuation is an art requiring judgement and forecast. In valuation, mathematical certainty is neither demanded nor possible. Replacement value is the cost of reproduction of a similar building with similar specification at the current market price on the date of valuation and reduction of value of the property due to age, lace of maintenance, decay, wear and tear. Depreciation value depends upon the age and future life.

This study has reviewed the concept of valuation for the building and the specific nature and challenges for valuer, engineer and surveyor to calculate the market value of the building.

In this research the guidelines given by government of Chhattisgarh are studied and to simplify the valuation purpose for bank and to calculate the market value of the building for bank finance for which valuation is needed, and the given time place and market conditions prevailing on the date as which valuation is required.

2. LITERATURE REVIEW

D.Krishnaraja, November (2013), tells about methods for valuation of different floors of a building. Depreciation of a building with several floors constructed in different periods need to be analyzed in a way different from conventional method. In the conventional method there are two formulae one straight line method and the other is declining balance method. This type of calculations of depreciation based on the age of the building as a whole do not consider the enhanced value of salvages of upper floor as they are either new or less than the age of ground floor.

Khazan Chandra,(2015) tells about valuation for cost of construction by CPWD plinth area rates. The assessment of investment cost in the building is called the valuation of construction cost. This is generally required by financial institute's income tax department to compare with the investments shown by the owner in their account and sometimes for the other purpose as family disputes or other reasons. Thus the derivation of the construction cost should be as nearer as possible to the actual cost. Here the author is dealing with the valuation of investment cost for the purpose of income tax.

Harish Tahilramani, (2015) tells about the real estate market experience fluctuations in market values for residential as well as commercial properties. To study variations in values of commercial properties, i.e shops study was carried out in the Sayajigunj area of Vadodara city, Gujarat for the period 2001 to 2010. The variations in the values of shops were studied with respect to the variations in the rate of interest on investments.

3. RESEARCH METHODOLOGY

The research work initiated with study of few valuation techniques and past valuation reports data study of municipal approved drawing for the calculation of market value of the property for bank finance purpose. As per the requirement of the technique with reference data was collected from site and various government bodies like district registrar, Municipal Corporation, Patwari and old valuation reports of valuer in Rajnandgaon, Chhattisgarh, India. This study helpful dividing the whole property into different areas as per the municipal approved drawing and calculates the area of building and land to get the market value of the property.
4. QUANTITATIVE ASSESSMENT OF MULTI STORIED BUILDING

4.1 Construction rate of different class of construction:

With the help of survey and site visit there are different class of construction where constructed with the help of construction rate. We can calculate the building value.

4.1 Valuation of building:

The Valuation of building can be quantified and considered by following:

1. Land situated up to 20 m in depth from main road will be assumed to be in main road and valuation will be done according to the rate fixed as per market value of main road per square meter But if any party purchases any land of more than 20 m. in depth then the complete land will be considered in main road and valuation will be according to the market value.

2. Any diverted / nazul land greater than 0.405 hectare Under municipal co-operation or municipal council then criteria for calculation of market value is

<table>
<thead>
<tr>
<th>Table 4.1 Criteria for calculation of diverted land</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upto 4048 sqm. (0.405 hectare) 100% of the approved rate of the plot of that land</td>
</tr>
<tr>
<td>2. Greater than 4048 sqm, (0.405 hectare) then in the remaining area 90% of the approved rate of the plot of that land</td>
</tr>
</tbody>
</table>

3. If two or more storied building (other than falling under ownership acts (prakoshtha act)) is sold to a same buyer through single document, than calculation of market value of constructed building will be as follows, 100% on ground floor, 10% will be deducted on first floor and 20% will be deducted on second and other floor. And addition of land value than Total market value will be calculated together.

4. On the basis of permission letter issued by municipal corporation, municipal council, city council, gram panchyat, if the building becomes old it has to be certified and concerned authority will inspect the building on the basis of its condition and depreciation will be provided in following ways:
   A. For the building constructed for the period up to 10 years no depreciation.
   B. For the building constructed for the time period of 10 to 20 years depreciation @ 5%
   C. For the building constructed for 21 to 30 years depreciation @ 10%.

For the building older than 31 years, depreciation @ 20-25%

4.2 Steps to be followed for the valuation of building:

1. Measure the plinth area; observe the specification and other factors which affect the value.
2. Adopt suitable Replacement Rate of construction (for building portion alone) depending upon the existing conditions and specifications.
3. Multiply the plinth area by the unit rate to get the replacement value of the building.
4. Ascertain the age of the building.
5. Estimate suitable total life of the building.
6. Assume suitable percentage for salvage value. If the age of the building has crossed its service life, estimate future life and calculate the depreciation by using

\[ D = \frac{\text{Total life} - \text{Future life}}{\text{Total life}} \times (100 - \text{Percentage Salvage value}) \]

7. Depreciation percentage multiplied by the replacement value will be the Depreciation value.
8. Present value = replacement value – Depreciation value. This is the value of building
9. Add suitable deprecation value separately for services like amenities, extra work depending upon the actual specifications.
10. To get the total values add the land plus the building value and service provided to get the market value.

4.3 Construction rate of different class of construction:

With the help of survey and site visit there are different class of construction where constructed with the help of construction rate. We can calculate the building value.
Table 4.2 construction rate for different class of construction

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of Colony, society</th>
<th>Use of land</th>
<th>Column system, R.C.C/ marble granite first class construction</th>
<th>Column system / Piling / R.C.C type construction</th>
<th>Without column R.C.C. type construction</th>
<th>R.C.B with chiper gudder type construction</th>
<th>Tin shed / asbestos sheet, English tile construction</th>
<th>Country tile roofing with brick masonry wall construction</th>
<th>Old country tile roofing with brick masonry mud / mortar construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>All ward/ rural area</td>
<td>Residential</td>
<td>1400-1500</td>
<td>1000-1100</td>
<td>800-950</td>
<td>600-700</td>
<td>600-700</td>
<td>350-450</td>
<td>280-250</td>
</tr>
<tr>
<td>4.</td>
<td>Office</td>
<td></td>
<td>1600-1700</td>
<td>1400-1500</td>
<td>1200-1300</td>
<td>800-900</td>
<td>650-750</td>
<td>450-550</td>
<td>280-250</td>
</tr>
<tr>
<td>5.</td>
<td>Godown</td>
<td></td>
<td>-</td>
<td>1300-1400</td>
<td>1100-1200</td>
<td>400-600</td>
<td>450-550</td>
<td>250-350</td>
<td>280-250</td>
</tr>
</tbody>
</table>

Example:

Help of exact data collection from the site:

The property of triple storiad residential building with developed open land is situated in about 40 m. inside from Stadium – Basantpur main road in Sahdeo nagar side road, very near to S.B. tower building & Anupam nagar colony kourinbatha, ward no. 22, Rajnandgaon, Chhattisgarh, India.

1. Purpose of valuation:
   To determine the valuation of the property for Bank finance purpose in Bank of India

2. Type of building:
   Multi storiad building.

3. Type of Construction:
   R.C.C. framed structure.

4. Year of construction:
   Ground floor const. were constructed in year 1992, first floor construction were constructed in the year 2000, Second floor const. were constructed in the year 2003.

5. Total diverted plot area:
   3.50 Decimal = 30’ x 50’ = 1500.00 sft. = 139.35 sqm.

6. Total built up area :-
   As per municipal approved drawing measurement:-

   A. Ground floor, R.C.C. roofing residential construction.  
      \[(46' x 25'9") + (4' x 13'3")\]  
      \[= 1237.50 \text{ sft.} = 115.00 \text{ sqm.}\]

   B. First floor, R.C.C. roofing residential construction:  
      \[(33'9" x 29'9") + (16'3" x 13')\]  
      \[= 1215.31 \text{ sft.} = 112.95 \text{ sqm.}\]

   C. Second floor, R.C.C. roofing residential construction:  
      933.06 sft. = 86.68 sqm.

7. Value of built up area :-

   The valuation of building is determined by plinth area method. For computation, market rate of materials & wages for Rajnandgaon town have been followed. The data collected at site & information supplied by the owner have been compiled in this report. Value, thus determined by reproduction rate of structure is subjected to the appropriate depreciation.

Market value of the property : As per Guide line available in District Registrar office, Rajnandgaon, for the year 2015 – 16 are as follows :-

a) Land value:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Area</th>
<th>Rate in square meter</th>
<th>Amount in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>139.35 Square meter</td>
<td>Rs. 15,500.00</td>
<td>Rs. 21,59,925.00</td>
</tr>
</tbody>
</table>

b) Building value :

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>No. of floor</th>
<th>Area (Sqft.)</th>
<th>Depreciation (%)</th>
<th>Construction rate Per sqft.</th>
<th>Amount Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ground floor construction</td>
<td>1237.50</td>
<td>0.90</td>
<td>Rs. 1000.00</td>
<td>Rs. 11,13,750.00</td>
</tr>
<tr>
<td>2.</td>
<td>First floor construction</td>
<td>1215.31</td>
<td>0.95</td>
<td>Rs. 1000.00</td>
<td>Rs. 11,54,544.00</td>
</tr>
<tr>
<td>3.</td>
<td>Second floor construction</td>
<td>933.06</td>
<td>0.95</td>
<td>Rs. 1000.00</td>
<td>Rs. 8,86,407.00</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>Rs. 31,54,701.00</td>
</tr>
</tbody>
</table>

TOTAL ABSTRACT OF THE ENTIRE PROPERTY

a) Land value: Rs. 21,59,925.00
b) Building value: Rs. 31,54,701.00

Total: Rs. 53,14,626.00
Say Rs. 53,15,000.00
(Rs. Fifty three lacs fifteen thousand only)

5. CONCLUSION

For valuation of multi storied building, the use of the above presented quantitative valuation technique could help the financial institute, bank and valuer for the calculation of market value. Financial institutes will know the actual condition of the building for the bank finance purpose, district registrar know the value of the building at the time of selling and owner can also know the current market condition for his property.

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