

VALUE CONCEPT

Assumptions

An *assumption* is made where it is reasonable for the valuer to accept that something is true without the need for specific investigation or verification

Any such *assumption* must be reasonable and relevant having regard to the purpose for which the *valuation* is required.

‘A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, do not need to be verified by the valuer as part of the valuation process. Typically, an assumption is made where specific investigation by the valuer is not required in order to prove that something is true.’

It will almost always be necessary to couple a *basis of value* with appropriate *assumptions* that describe the assumed status or condition of the property or asset at the *valuation date*.

An *assumption* is often linked to a limitation on the extent of the investigations or enquiries that could be undertaken by the valuer – Any limitations or restrictions on the *inspection*, inquiry and analysis for the purpose of the valuation assignment must be identified and recorded in the *terms of engagement*

It is necessary to consider all *assumptions* that are likely to be included in the report must be agreed with the client and included in the *terms of engagement*. Where it is not possible to include *assumptions* in the *terms of engagement*, they should be agreed in writing with the client before the valuation report is issued.

Some unforeseen event: after *inspection* or investigation, if the valuer considers that an *assumption* agreed in advance with the client is likely to be inappropriate, or should become a *special assumption*, the revised *assumptions* and approach must be discussed with the client prior

to the conclusion of the valuation assignment and delivery of the report for practical application in relation to real property interests.

A *special assumption* is made by the valuer where an *assumption* either assumes facts that differ from those existing at the *valuation date* or that would not be made by a typical market participant in a transaction on that *valuation date*

Where *special assumptions* are necessary in order to provide the client with the *valuation* required, these must be expressly agreed and confirmed in writing to the client before the report is issued

Special assumptions may only be made if they can reasonably be regarded as realistic, relevant and valid for the particular circumstances of the *valuation*.

Special assumptions and/or Significant assumption as per IVS or Significant Assumption as per USPAP When a situation where a bid from a special purchaser has been made.

- When a situation where circumstances mean that the interest being valued cannot be offered freely and openly in the market
- The date of inspection and the date of valuation differs and a significant change is seen in the asset.
- When there was a change the physical circumstances in the past of the property where the valuer has to assume those changes have not taken place.
- When a change in the physical circumstances of the property, for example, a new building to be constructed or an existing building to be demolished, an anticipated change in the mode of occupation in the property.

Special assumption as per IVS and Extraordinary Assumption as per USPAP

- An assumption, , if found to be false, could alter the valuer's opinions.

An assumption, directly related to a specific service, which, if found to be false, could alter the Valuer's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.
- **Hypothetical Condition (as per USPAP)** that which is contrary to what exists but is supposed for the purpose of analysis. A hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.
- *Extraordinary assumptions are defined as assumptions(in USPAP), directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. A comment to the definition explain that extraordinary assumptions presume as fact otherwise uncertain information*
 - *about physical, legal, or economic characteristics of the property,*
 - *or about conditions external to the property, such as market conditions or trends,*
 - *or about the integrity of data used in an analysis.*
- *Hypothetical conditions(in USPAP) are defined as that which is contrary to what exists but is supposed for the purpose of analysis. The comment to the definition explain that hypothetical conditions assume conditions contrary to known facts*
 - *about physical, legal, or economic conditions,*
 - *or about conditions or facts lying outside the observable scope of discussion or analysis but potentially affecting the scope or results of analysis or direction of discussion (such as market conditions or trends known to be contrary to known conditions),*
 - *or about the accuracy, reliability, or integrity of data on which an analysis may be based.*

Some examples of special assumptions are that:

- When planning approval has been, or will be, granted for development including a change of use at the property.
- When the property is vacant when, in reality, at the date & time of valuation it is occupied.
- If it is let on defined terms when, in reality, at the date of valuation it is vacant or
- If the exchange takes place between parties where one or more has a special
- interest or synergistic value, is created as a result of the merger of the interests.

STANDARDS

A standard may be

1. A means of determining and measuring what should be, or
2. Used as a test of quality whether or not formulated as a rule, or principle.

What if we did not have Standards? Let us think about this question in regard to a topic other than valuation. For example, consider the Olympic 200-meter run, with every runner starting at different times and places, and each runner using a different measure of 200 meters. Everyone would be finishing at different times and places, but believing they had won. There would be no way to determine who won the race. With a standard everyone would know how far 200 meters is. Common measures of time ensure that everyone knows not only what a time span is but also how it can be divided into discrete segments of time.

This is true for kilos of coffee, pounds of butter, litres of milk, gallons of paint, or any other standard measure used around the world. Standards are set to ensure that everyone is on the same page in terms of understanding and performing.

Why INTERNATIONAL VALUATION STANDARD As per no. 8 of IBBI Rule the Registered Valuer.

Rule 8. Conduct of Valuation – (1) The Registered Valuer shall, while conducting a valuation, comply with the valuation standards as notified or modified under rule 18:

Provided that until the valuation standards are notified or modified by Central Government, a valuer shall make valuations as per –

- (a) Internationally accepted valuation standards;*
- (b) Valuation standards adopted by any registered valuers organization.*

There are some standards which are adopted throughout the globe. Like, IVS, RICS, EVS USPAP etc.. These all are international standard.

Generally RVO ESMA is following the guideline of IVSC and as a bonafide member all Registered Valuer Members have to follow the guideline prescribed by IVSC. But exceptions are there, one valuer can take departure if any legislative, regulatory or other authoritative requirements permits.

1. A “departure” is a circumstance where specific legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS.

The requirement to depart from IVS pursuant to legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements.

Clause 40 of IVS102 **Compliance with Other Standards**

As noted in the IVS Framework, when statutory, legal, regulatory or other authoritative requirements *must* be followed that differ from some of the requirements within IVS, a *valuer*

must follow the statutory, legal, regulatory or other authoritative requirements (called a “departure”). Such a valuation has still been performed in overall compliance with IVS.

2. As required by IVS 101 Scope of Work, and IVS 103 Reporting, the nature of any departures must be identified (for example, identifying that the valuation was performed in accordance with IVS and local tax regulations). If there are any departures that significantly affect the nature of the procedures performed, inputs and assumptions used, and/or valuation conclusion(s), a valuer must also disclose the specific legislative, regulatory or other authoritative requirements and the significant ways in which they differ from the requirements of IVS (for example, identifying that the relevant jurisdiction requires the use of only a market approach in a circumstance where IVS would indicate that the income approach should be used).

3. But, Departure deviations from IVS that are not the result of legislative, regulatory or other authoritative requirements **are not permitted** in valuations performed in accordance with IVS.

A valuation is not a fact; it is an estimate of the most probable of a range of possible outcomes based on the assumptions made in the valuation process. Market valuations are estimates of the most probable price that would be paid in a transaction on the valuation date.

Different definition of values/ Value concept as per different standards.

Insolvency & Bankruptcy Code has coined the term “**Fair Value**” means the estimated realizable value of the assets of the corporate debtors, if they were to be exchanged on the **insolvency commencement** date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

IBC defined Liquidation value

“**Liquidation Value**” means the estimated realizable value of the assets of the corporate debtor, if the corporate debtor were to be liquidated on the **insolvency commencement date**.

The Fair Value and Liquidation Value shall be determined in the following manner: -

1. the two Registered Valuers appointed under regulation 27 shall submit to the Resolution Professional an estimate of the Fair Value and of the Liquidation Value computed in accordance with internationally accepted valuation standards, after physical verification of the inventory and fixed assets of the Corporate Debtor;

Definition of Fair Value as per Ind AS- 113

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.

Other Basis of Value – Fair Value

(International Financial Reporting Standards)

IFRS 13 defines Fair Value as 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.

It can be seen that the definition of ‘Fair Value’ is identical to the definition given under Ind AS 113.

Value measurement from Ind AS 113 keeping in mind the differences in the fair value as per IBC vs Ind AS 113.

Key aspects of Fair Value as per **Ind AS 113** include:

1. (a) Fair Value is based on the exit price i.e. the price that would be received to sell an asset, not the transaction price or entry price or the price that was actually paid for the asset.

Generally, entry and exit prices are different. The idea of exit price is based on expectations about the sale or transfer price from the perspective of market participants as of the valuation date.

(b) Fair Value measurements should consider characteristics of the assets being valued such as the condition, location, restrictions associated with the sale or use of an asset as applicable.

(c) Fair Value emphasizes the concepts of a “principal market” and the “most advantageous market” with respect to the business/asset being valued. The principal market is defined as the market with the greatest volume and level of activity for the subject asset or liability. Ind AS 113, specifies that in the absence of a principal market, the most advantageous market should be considered. The most advantageous market is the market that maximizes the amount that would be received to sell a given asset after taking into account transaction costs and transportation costs.

(d) The highest and best use of a nonfinancial asset or group of nonfinancial assets is the use by market participants that maximises the value of the nonfinancial assets. This Fair Value concept considers:

- i. the different ways of utilizing the individual asset/liability, i.e. the highest and best use, and
- ii. the valuation premise, whether the maximum value is on a standalone basis or in combination with other assets.

(e) Fair Value measurements should reflect market participant assumptions in pricing an asset. Market participants are assumed to be buyers and sellers in the principal (or most advantageous) market that are knowledgeable independent, unrelated parties willing and able to transact for the asset being Fair Valued without compulsion.

MARKET VALUE as per IVS: a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the valuer as applicable in an appraisal.

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. -IVSC. RICS also has the same definition.

Market value is a *basis of value* that is internationally recognised and has a long-established definition. It describes an exchange between parties that are unconnected and are operating freely in the marketplace and represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the *valuation date*, reflecting all those factors that would be taken into account in framing their bids by market participants at large and **reflecting the highest and best use of the asset**. The **highest and best use** of an asset is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible.

The Value concept which are not "Market Value" ie Non-Market Value - There are several examples of non-market value. Among them are value-in-use; investment value or worth; going-

concern value; insurable value; assessed, rate able, or taxable value; salvage value; liquidation or forced sale value; special value; and marriage value.

These conditions (Market value) may vary from definition to definition but generally fall into three categories:

1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
2. the terms of sale (e.g., cash, cash equivalent, or other terms); and
3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).

Valuers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value. – Appraisal Institute, USA.

European Valuation Standard

EVS 1 Market Value *"The estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion."*

EVS2 Valuation Bases Other than Market Value

The valuer must establish the purpose for which the valuation is required before using any basis of value other than Market Value.

Existing use valuation :

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost." --RICS Valuation Standards – Global and UK, UKVS 1.3, 2011

Valuation can be said to be the art of assessing or appraising the worth / utility of any asset or property. The value-in-exchange differs from value-in-use.

Liquidation Value as per IVSC (other premise of Value ... IVS 2020)

Liquidation Value is the amount that would be realized when an asset or group of assets are sold on a piecemeal basis. Liquidation Value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation Value can be determined under **different premises of value:**

1. **An orderly** transaction with a **typical marketing period**, or *
2. A **forced transaction** with a **shortened marketing** period **

IVS-Defined – Market Rent

Market Rent is the estimated amount for which an interest in real property *should* be leased on the *valuation* date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

EVS-Defined Market Rent

The estimated amount for which the property should be leased on the date of valuation between a willing lessor and a willing lessee on the terms of the actual or assumed tenancy agreement acting independently of each other after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion.”

EVS- Mortgage Lending Value

Definition — The value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the

property, the normal and local market conditions, the current use and alternative appropriate uses of the property.

EVS- Insurable Value

Insurable value is the cost of replacing the damaged property with materials of like kind and quality without any deduction for depreciation.

Appraisers Society of America says

Fair Market Value

An opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, considering market conditions for the asset being valued, independent of earnings generated by the business in which the property is or will be installed, as of a specific date.

Appraisers Society of America says

Orderly Liquidation

An opinion of the gross amount, expressed in terms of money, that typically could be realized from 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 of a specific date.

Appraisers Society of America Says

Forced Liquidation Value

An opinion of the gross amount, expressed in terms of money, that typically could be realized from a properly advertised and conducted public auction, with the seller being compelled to sell with a sense of immediacy on an as-is, where-is basis, as of a specific date.

USPAP itself **does** not contain a citable **definition** of **market value**. It describes **market value** instead.

Reg. §20.2031-1(b). “**The fair market value** is the price at which the property **would** change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.

Fair Market Value (Organisation for Economic Co-operation and Development (OECD))

1. The OECD defines Fair Market Value as the price a willing buyer would pay a willing seller in a transaction on the open market.
2. OECD guidance is used in many engagements for international tax *purposes*.

Fair Market Value (United States Internal Revenue Service) For United States tax *purposes*, Regulation §20.2031-1 states: “The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.”

Now, other definitions

Other Concept of Value as per IVS

IVS-Defined Basis of Value – Equitable Value

“Equitable Value 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.” - IVS

Equitable Value requires the assessment of the price that is fair between two **specific, identified parties** considering the respective advantages or disadvantages that each will gain from the transaction. In contrast, Market Value requires any advantages or disadvantages that would not be available to, or incurred by, market *participants* generally to be disregarded.

IVS-Defined Basis of Value – Investment Value/Worth

Investment Value is the *value* of an *asset* to a particular owner or prospective owner for individual investment or operational objectives.

Investment Value is an entity-specific basis of *value*. Although the *value* of an *asset* to the owner *may* be the same as the amount that could be realised from its sale to another party, this basis of value reflects the benefits received by an entity from holding the *asset* and, therefore, does not involve a presumed exchange. Investment Value reflects the circumstances and financial objectives of the entity for which the *valuation* is being produced. It is often used for measuring investment performance.

IVS-Defined Basis of Value – Synergistic Value

Synergistic Value is the result of a combination of two or more *assets* or interests where the combined value is more than the sum of the separate *values*. If the synergies are only available to one specific buyer then Synergistic Value will differ from Market Value, as the Synergistic Value will reflect particular attributes of an *asset* that are only of *value* to a specific purchaser. The added *value* above the aggregate of the respective interests is often referred to as “marriage value.”

Premise of Value as per IVS

Highest and Best Use

Highest and best use is the use, from a *participant* perspective, that would produce the highest *value* for an *asset*. Although the concept is most frequently applied to non-financial *assets* as many financial *assets* do not have alternative uses, there *may* be circumstances where the highest and best use of financial *assets* needs to be considered.

The highest and best use *must* be physically possible (where applicable), financially feasible, legally allowed and result in the highest *value*.

If different from the current use, the costs to convert an *asset* to its highest and best use would impact the *value*.

The highest and best use for an *asset* *may* be its current or existing use when it is being used optimally. However, highest and best use *may* differ from current use or even be an orderly liquidation.

For example, assume that A house has a value as a house of Rs. 50,00,000.00, and a site value as the particular plot of Rs. 2,00,00,000.00 with a cost to demolish the house and prepare the site at Rs.2,00,000. **The highest and best use** of the site is to demolish the house and sell the site as a commercial lot. The following 4 points are most important.

1. Legally permissible – Which use cases are permissible by law, zoning, and other land use regulations.
2. Physically possible – Constructing buildings on the side of a mountain or in a swamp probably aren't possible.
3. Financially feasible – Does the use case of the property suit the demographics and market of the area well?
4. Maximally productive – Does the intended use optimize the potential of the land?

Premise of Value – Current Use/Existing Use

Current use/existing use is the current way an *asset*, liability, or group of *assets* and/or liabilities is used. The current use *may* be, but is not necessarily, also the highest and best use.

Premise of Value : Orderly Liquidation

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An orderly liquidation describes the *value* of a group of *assets* that could be realised 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.

The reasonable period of time to find a purchaser (or purchasers) *may* vary by *asset* type and market conditions.

Premise of Value – Forced Sale

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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. It *may* also reflect the consequences for the seller of failing to sell within the period available. Unless the nature of, and the reason for, the constraints on the seller

are known, the price obtainable in a forced sale cannot be realistically estimated. The price that a seller will accept in a forced sale will reflect its particular circumstances, rather than those of the hypothetical willing seller in the Market Value definition. A “forced sale” is a description of the situation under which the exchange takes place, not a distinct basis of value.

THE VALUATION CHANGES ON PURPOSE

Examples

Market value as per IVS (International Valuation Standards)

IVS-Defined Basis of Value – Market Value

Definition : 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.

*Market value is a basis of value that is internationally recognised and has a long- established definition. It describes an exchange between parties that are unconnected and are operating freely in the marketplace and represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the valuation date, reflecting all those factors that would be taken into account in framing their bids by market participants at large and **reflecting the highest and best use of the asset.** The **highest and best use** of an asset is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible.*

Valuations based on Market Value (MV) shall adopt the definition, and the interpretive commentary, settled by the International Valuation Standards Committee.

Purpose of valuation : for Finance

Situation : N has a freehold single storied house property with land , the area of the land is 3000sft, the covered area of house is 1200 sft. The building is 25 years old. The land was purchased in 1985.

N given lease to M for 25 years from the year of 2000 @ Rs.10000.00 per month for entire property.

Now, the prevailing rate for similar property in same location is @ Rs. 15000.00 per month. Calculate the interest of Lessor and lessee as on 2016
 If the property not leased out, how to value the property

- **Calculation of interest of lessor**

Solution : lease period is 25 years, then unexpired period of lease is 2025-2016= 9 years. Now to calculate interest of the Lessor/freeholder/owner

The income generates per year = Rs. 10000.00 X 12 = Rs. 1,20,000.00
 Out goings towards tax, insurance, maintenance etc @ 20% = Rs. 24,000.00
 Net income Rs. 96,000.00

Now, taking YP (see valuation table 4) as 6 % for unexpired period of 9 years the multiplier becomes 6.802 (Since the present lease rate is almost 1.5 times we can lower the risk by taking YP as 6 not 8 even we can take 5.5)

Becomes 6.802 X 96000.00 = Rs. 6,52,992.00 1

Now, after the expiry of the lease let us calculate the reversion for perpetuity considering Y.P Table No-4 (Year's purchase (Single Rate) at 6.5 – the multiplier is 15.385

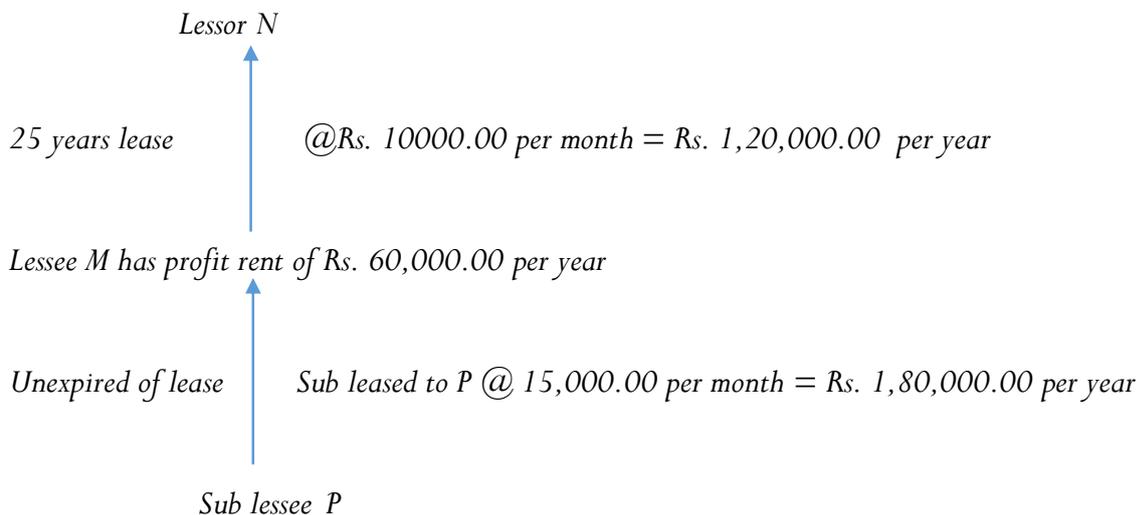
Rs. 15,000.00 (Presently the rent is available for similar property in same location) X 15.385 X 12 months = Rs. 27,69,300.00 2

So, **valuation of freeholders/ lessor interest is 1 + 2 = Rs. 34,22,292.**

Now to calculate the interest of lease (same property)

Solution :M had taken the lease in the year of 2000 at Rs. 10,000.00 per month X 12 = Rs. 1,20,000.00 per year. It is already declared that the **Rack Rent/ present lease rent** is Rs. 15,000.00 X 12 = Rs. 1,80,000.00 per year for similar property in same location. The **profit** rent per year becomes Rs. 1,80,000.00 – Rs. 1,20,000.00 = **Rs.60,000.00** .

(Suppose M can give sublease to third person, he can give sublease to third person for again unexpired period of original lease



(If the Market Rent and original lease rent are same, there will be no interest for the lessee)

Please note that it is sinking asset since the asset will last until the lease expires. Here unexpired period of lease is 9 years.

Allowing sinking fund at the rate of YP (Year's purchase) Table No-5 of valuation table (@ DualRate 2.5%)

7% to redeem capital at 2.5% for 9 years the multiplier is 5.867

Then the interest of lessee is Rs. 60,000.00 X 5.867 = 3,52,020.00 as on 2016

- **If Premium is paid to the lessor by the lessee for the same property**

Solution : If premium paid, the premium amount should be spread throughout the tenure of lease.

Now, if the premium for the same house was Rs. 3,00,000.00 taken by the owner then the lease rent becomes virtual rent

Rs. 10,000.00 X 12 = Rs. 1,20,000.00 + the component of the premium

Here, to calculate the virtual rent, let us take interest rate of 8% now, to spread Rs.

3,00,000.00 to all 25years lease the YP becomes 10.675

The component becomes Rs.3,00,000.00/10.675 = 28,103.04 say 28,103.00 Then the

virtual rent becomes Rs. 1,20,000.00 + 26,103.00 = 1,48,103.00 per year

- **If there was no lease**

Solution : If there is no lessee in the property and to value the property by comparison approach.

Calculation

Land from comparable say 30,00,000.00 for 3000

sft.....1

To calculate the value of the building let us take Rs. 1500.00 per sft to built up the similar building in same area

1200sft X 2000.00 (The rate of construction of a building Rs. 2000.00 is taken as composite rate, this varies from case to case) = 24,00,000.00

The total life of the residential house may be taken as 60 years and if the maintenance is good .

So the depreciation amount per year becomes Rs. 24,00,000.00 X 100/60% = Rs.

39,998.40. Now, total depreciation should be Rs. 39,998.40X 20 years = Rs.

7,99,968.00

So, the value of the building after depreciation computed is Rs.

16,00,032.00.....2 So the total value of the property becomes 1 + 2 =

46,00,032.00

A valuer can say the range of the values of a property, so the **value of the property may be determined as Rs. 46,00,000.00**

- **If the property is tenanted only (not leased out)**

Generally, tenancy does not possess expiry, so to compute the interest of owner, we have to compute for perpetuity. We can take YP @ 6% for perpetuity – the multiplier is 16.667 (Valuation table 4)

The income is	Rs. 10,000.00 X 12 = Rs. 1,20,000.00
Out goings towards tax, insurance, maintenance etc @ 20% =	Rs.
24,000.00 Per year net income	Rs.
96,000.00	

So the **interest of the lessor can be computed** as Rs. 96,000.00 X 16.667 = **Rs. 16,00,032.00**

No reversion should be considered here.

A valuer should ignore the unnecessary embellishment while considering the value of a property for the finance / mortgage.

VALUE Other than market value

- **Pre insurance valuation (same property)**

Purpose : To determine the valuation of the same property for the purpose of insurance
For fire insurance purpose generally land component may not be considered. Only replacement cost of the similar building in same location is considered for the purpose.

So 1200sft X 2000.00 (this varies from case to case) = **Rs. 24,00,000.00** may be the considered as the

value of the same property for the purpose of insurance.

Note : Depreciation should not be considered while computing the value of the property

to get full remedy from the insurance.

- **Valuation of the same property for computing Capital Gain tax** if the same is sold in January 2016.

(i) Profits or gains arising from the transfer by way of conversion by the owner of a capital asset into, or its treatment by him, as stock in trade of a business.

(ii) Profits or gains arising out of a transfer of capital asset by a person to a firm to which becomes a partner or member by way of capital contribution or otherwise.

(iii) Profits or gains arising out of the transfer of a capital asset by way of distribution of capital or on the dissolution of a firm.

There are exemptions such as agricultural land in village are not considered as capital asset etc.

Normal assumption. A normal assumption is It is supposed to be taken as true, it involves fact, conditions or situation. Assumptions must be coupled with the appropriate basis of valuation also this must have link to the limitation on the extent of investigation

The land was purchased in 1985 at Rs. 2,00,000.00.

Note : if the purchase documents are not available, valuer should take the comparison from the records of selling of comparable similar property in nearby location. Best is to take the reference from the office of the local body. After procuring the value of the comparable similar property, a valuer can opine value by adding or subtracting some percentage from the documented value of the comparable similar property.

The building was constructed by N in year of 1991

If N has all the supporting documents of construction - valuer should consider that as the source of computing the cost of the construction in 1991, otherwise valuer may take CPWD/PWD or any other authentic reference of constructing similar building in 1991.

Let us assume the cost of construction of the similar building in 1991 was

$$1200\text{sft} \times \text{Rs. } 200.00 = \text{Rs. } 2,40,000.00$$

Now let us take Cost Inflation Index

Cost Inflation Index (CII) is a measure of inflation that is used for computing long-term capital gains on sale of capital assets. It comes under Section 48 of the Income-Tax Act.

Previously 1981 was kept as base year ie index value is 100 and presently the base is kept in 2001, index value is 100

Here the computation follows, are made keeping base year as 2001.

Financial Year

For the land we can consider financial year 1985-86 ie 133(cost inflation index data)

For the building we can consider financial year 1991-92 ie 199 (cost inflation index data)

The value of the land in 1985 was Rs. 2,00,000.00 , as per income tax rule CII should be applied on this So it will be $2,00,000.00 \times (100/133) \times (1018/100) = \text{Rs. } 15,30,827.00 \dots\dots\dots 1$

The value of the building in 1985 was Rs. 2,40,000.00 , as per income tax rule, CII should be applied on this

So it will be $2,40,000.00 \times (100/199) \times (1018/100) = \text{Rs. } 12,27,739.00 \dots\dots\dots 2$

So the **value becomes** $1 + 2 = \text{Rs. } 27,58,566.00$ after applying CII

If the property is sold in Rs. 42,00,000.00 and the local Government declared value is Rs. 50,00,000.00 The capital gain tax would be Rs. 50,00,000.00 - Rs. 27,58,566.00

= 22,41,434.00

Note : Any expenditure of land filling, boundary walls, repairing etc, even towards registration, lawyer etc. are also considered by IT department.

- **Valuation for the purpose of wealth tax also determines different value**, since the Wealth Tax Act is no longer there – we are not considering that.

- **Existing use valuation :**

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost." --RICS Valuation Standards – Global and UK, UKVS 1.3,2011.

- **Current Use/Existing Use**

Current use/existing use is the current way an *asset*, liability, or group of *assets* and/or liabilities is used. The current use *may* be, but is not necessarily, also the highest and best use.



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