

Methods of valuation

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1 Methods of valuation: classification and choosing a method

All methods of valuation fall into three approaches — market (comparison), income (capitalisation) and cost — plus development/residual methods for land with potential; the valuer picks the one for which reliable evidence exists and which matches how the property is normally bought, let or used.

Core facts

- **Three approaches** (international usage):
 - **Market / comparison:** value from **sale instances** of similar properties.
 - **Income / capitalisation:** value = **net income** × **YP**.
 - **Cost:** value = **land + depreciated cost of the building**.
- Methods usually listed in Indian texts:
 1. **Rental (investment) method**
 2. **Direct comparison** with capital value (sales method)
 3. **Profits method**
 4. **Cost method** — contractor's / land and building method
 5. **Development method** (hypothetical layout / building; residual)
 6. **Depreciation method** (for the building part)
 7. Land-only techniques: **belting**, frontage and corner adjustments.
- **Income capitalisation branches** (ATP 2025): **rental method, profits method and rateable value method**.
- **Typical match** (ATP-style):

Property	Method
Let-out office / flats	Rental (investment)
Hotel, cinema, petrol pump	Profits
Temple, school, public library	Contractor's (cost)
Land ripe for development	Development / residual
Plots in an active market	Comparison

Explained

Classification of property for valuation (ATP 2025)

- **Investment property** — let to tenants for income (shops, offices, flats on rent). Income approach.

- **Marketable non-investment property** — bought and sold, but usually owner-occupied (houses, flats). Comparison approach, cross-checked by cost.
- **Non-marketable, non-investment property** — seldom sold or let (temples, hospitals, schools, government buildings). Cost (contractor's) approach.
- A **petrol pump** can fall into any class depending on tenure and use (ATP 2025 key: all three).

How to choose — ask four questions:

1. **Are there genuine sale instances** of similar properties nearby, close in time? → comparison (best where the market is active and data good, ATP 2013).
2. **Does it earn rent?** → rental method.
3. **Does its value depend on a business carried on in it**, often with a licence or monopoly? → profits method.
4. **Is it never sold or let?** → cost (contractor's) method (ATP 2013, 2023).
5. **Can it be developed** to a higher use? → development / residual method.

Approach summary

Approach	Basis	Key input
Market	What buyers pay	Comparable sales, adjusted
Income	What it earns	Net income, rate (YP)
Cost	What it costs to replace	Land value, replacement cost, depreciation
Residual	What it can become	GDV – costs – profit

Purpose also matters

- **Stamp duty**: the Annual Statement of Rates (ASR) gives the minimum market value (see VAL-AS-01 to AS-06).
- **Acquisition compensation**: RFCTLARR s.26 — sale-deed average, ASR and consent-award rates (see VAL-CM-01).
- **Property tax**: rateable (annual letting) value or capital value (VAL-VM-02).
- **Insurance**: reinstatement cost of the building only; land is not insured.
- **Mortgage**: conservative value, as a forced sale may follow.

Common traps

✗ "A temple is valued by the rental method." ✓ Temples, schools and public buildings use the **contractor's (cost) method** (ATP 2023).

✗ "Hotels and cinemas are valued by comparison." ✓ Trading properties use the **profits method**.

✗ "Cost of construction is an element of comparison in the sales method." ✓ Cost belongs to the **cost approach**; comparison adjusts for time, location, size, shape and tenure.

✗ "The branches of income capitalisation are rental, comparison and cost." ✓ They are **rental, profits and rateable value** methods (ATP 2025).

✗ "Cost and value are always equal." ✓ Value can be **above or below** cost; land value comes from the market, not cost.

Quick revision

- Three approaches: market, income, cost (+ residual).
- Let property → rental; trading property → profits.
- Public/religious buildings → contractor's method.
- Development land → development/residual.
- Active market with good data → comparison.
- Income branches: rental, profits, rateable value.
- Property classes: investment, marketable non-investment, non-marketable non-investment.
- DCF = PV of future returns; leverage = trading on equity.
- Highest and best use guides the choice.