

Valuation principles and terminology

Free study notes · 1 note · 25 Oct 2026

Free study material from Medha AI. For notes, practice, mock tests and previous papers for your exam, start free at **app.medhaai.in**.

1 Valuation: definition, purposes and the role of the valuer

Valuation is the art and science of estimating the present worth of a property on a stated date and for a stated purpose; it is done for sale, mortgage, taxes, acquisition, rent fixing, insurance, partition and court matters, by a valuer who must be independent and well informed.

Core facts

- **Valuation:** estimating the **value** (fair price) of a property at a **particular time**, for a **particular purpose**.
- It finds **present** value — **not** future value. A future figure is a forecast.
- It is called both an **art** (judgment) and a **science** (data and methods).
- **Every valuation states:** the **property**, the **interest** valued, the **date**, the **purpose** and the **basis of value**.
- **Main purposes:**
 - **sale or purchase;**
 - **mortgage / loan** security;
 - **taxation** — property tax, **stamp duty**, capital gains, earlier wealth tax and gift tax;
 - **compulsory acquisition** (compensation);
 - **rent fixation;**
 - **insurance** (building only);
 - **partition** and **succession / probate;**
 - **auction** reserve price;
 - **court cases**, company accounts, insolvency.
- Not a purpose: items like "safety charges" or the **scrutiny fee** for building permission (worked on area, not value).
- **Valuer:** a person qualified and experienced in estimating property values.
- **Registered valuers** for company and insolvency matters: **Companies Act 2013, s.247**, registered with the **IBBI**.

Explained

How the purpose changes the approach

Purpose	Basis / emphasis
Sale, purchase	Market value between willing parties
Mortgage	Conservative value; forced-sale risk; future life of building
Property tax	Rateable / annual letting value fixed by the local body

Purpose	Basis / emphasis
Stamp duty (Maharashtra)	Market value as per ASR or consideration, whichever is higher
Compulsory acquisition	Market value under s.26 , plus multiplier, assets, solatium
Fire insurance	Building reinstatement or depreciated cost; land excluded (it cannot burn)
Rent fixation	Return on capital value plus outgoings
Partition	Fair value of each share

Valuation and estimating are different

- An **estimate** gives the probable **cost** of constructing a proposed work.
- A **valuation** gives the present **worth** of an existing property, which may be more or less than its cost.

Qualities of a good valuer

- Knowledge of **building construction, costs, law** (tenure, acquisition, rent, stamps) and **local market**.
- **Impartiality** — the value must not depend on who pays the fee.
- **Records** of sales, rents and rates; ability to judge **genuine sale instances**.
- Clear reasoning in the **report**, so that a court or authority can follow it.

Contents of a valuation report

1. Purpose and date of valuation; name of the client.
2. Description: location, area, boundaries, title and tenure, FSI and zoning.
3. Building details: age, construction, condition, remaining life.
4. Data used: sale instances, rents, ASR rate, costs.
5. Method(s) adopted and calculations.
6. Final value, with assumptions and limitations.

Common traps

✗ "Valuation determines the future value of a property." ✓ It finds the **present** value on a stated date (MPSC 2023 key).

✗ "For fire insurance, land is valued along with the building." ✓ Only the **building**; land is not destroyed by fire.

✗ "Estimating and valuation mean the same thing." ✓ An **estimate** is the cost of a proposed work; **valuation** is the worth of an existing property.

✗ "Mortgage valuation uses the highest possible value." ✓ It is **conservative**, because the lender may have to sell in a hurry.

✗ "Registered valuers are registered under the Income-tax Act." ✓ For company and insolvency work, under **Companies Act s.247** with the **IBBI**.

Quick revision

- Valuation = present worth on a date, for a purpose.
- Art (judgment) and science (data, methods).
- Purposes: sale, mortgage, tax, acquisition, rent, insurance, partition, probate, auction.
- Mortgage: conservative; insurance: building only.
- Stamp duty in Maharashtra: ASR market value or consideration, whichever higher.
- Estimate = cost; valuation = worth.
- Report: purpose, date, description, data, method, value.
- Registered valuer: Companies Act 2013 s.247, IBBI.
- Wealth tax and gift tax abolished.