

PROJECT WORK GUIDELINES 3RD SEMESTER

Attention 3rd Semester Students – 2009

The current 3rd semester (2009) students are required to submit, on or before the first day of the second contact session beginning on 2.10.2009, the list of three alternative subjects of their choice selected for dissertation taking into consideration the criteria for selecting the subject for dissertation. They should also – (i) identify the study area(s) (ii) identify objectives (iii) define the scope and limitations of dissertations and (iv) state the methodology proposed to be adopted in respect of the three alternative subject selected and submit the same alongwith the list of subjects. The relevant portions of the "Guide Lines for Dissertation" are repeated hereunder for their benefit.

2.1 SELECTION OF THE SUBJECT

2.1.1 Criteria for Selection

The main criteria for selection of a subject for dissertation is that the subject should be such as to add, however small it may be, to the technique, thinking and knowledge in the field of Valuation of Real Estate.

Fortunately for a research work, and unfortunately for practice in valuation, many assumptions are made and many thumb rules are adopted in estimating fair market values of properties. For example percentage of Developers Profit in hypothetical layout or building scheme, percentage increase or decrease assumed for locational differences like locations near the central area & away from the central area, location on the main roads and that in the interior on minor roads, the corner plot & a plot in the same row etc. on the basis of the amount of consideration price or rate of price per unit area. Similarly percentage increase or decrease is often assumed for the time factor on the basis of amounts or rates per unit area of prices paid without considering whether all other factors of comparison are constant or not. It should always be remembered that for arriving at any increase or decrease in market values of properties on account of one single factor of comparison, it

is necessary that all other variable factors of comparison need to be constant. Moreover the amount of consideration price depends on the rate of inflation and other economic conditions i.e. time and the place i.e. town, city, nation etc. with varying relationship of demand & supply etc. In Income Approach the consideration price depends on net income from rent & the Years Purchase (Y.P.) i.e. rate of interest depending on security of investment. The net income or rent, like consideration price, depends on economic conditions, including the rate of inflation, prevailing at the time of transactions, and also on the place or location of a property while the rate of interest, being dependant on the security which is universal & common everywhere, is irrespective of time & place or location (.i.e. town, city, nation etc.) and varies within certain range and according to the type or use of property such as residential, commercial i.e. from daily necessities to occasional requirements. It is therefore suggested that variations in the prices of properties may better be compared in terms of rates of interest rather than on the basis of prices per unit area.

One of the objectives of dissertation should be to replace such adhoc assumptions by findings of the study of real estate market in the area selected for the project work or dissertation.

2.1.1 Some Subjects Suggested.

In view of the criteria for selection of the subject for dissertation discussed above, some subjects are suggested hereunder. This is not an exhaustive list of such subjects and a student / learner can select any other subject for dissertation preferably subject to the selection criteria discussed above.

1. Percentage Variation in land / property values due to location

Percentage variation in values may be due to different locations like (a) Distance from busy Central Area, i.e. nearer to the Central are & away from it. (b) Situation on main or major roads & in the interior (c) Corner Plot and plot in the same row (i) near & away from central

area, (ii) on main road or in the interior etc. Such percentage variation in market values, it is suggested, should preferably be in terms of rates of interest obtained by analysing large number of instances of sale transactions during last 3 to 5 years since generalization based on analysis of only a few instances may not be proper and may be misleading.

2. Estimating fair market values of residential and / or commercial properties by income approach.

In this exercise fair market rent of properties involved in instances of sale will be estimated by comparing them with properties let out at fair rents by total weightage score system and then finding out the rates of interest yielded by properties sold by analysing each of the instances of sale taking into consideration the true price actually paid including unaccounted or black money & not the record price. The rate of interest for capitalisation of net income from property to be valued as on the date of valuation will have to be estimated by comparing rates of interest yielded by properties with various economic indices as on the dates of sale transactions & as on the date of valuation.

3. Valuation of Special Properties viz Petrol Pumps, Cinema Theatres, Residential Hotels etc. by income approach.

In such cases the rate of interest can be estimated by analysing instance of sale of similar properties and by comparison with various economic indices as on the relevant dates. Instances of sale of such special properties are however rare. In absence of such instances of sale the rate of interest yielded by general commercial properties in the study area can first be compared with economic indices for estimating appropriate rate of interest for commercial properties as on the date of valuation and then the rate of interest for capitalizing net income from the special property as on the date of valuation may be estimated by

comparing fluctuations in income from general commercial properties with fluctuations of income from special property under valuation.

4. Effect of Rent Control Acts on Market Values of Properties.

In this connection attention is invited to the study material in Para 5.7, Unit 5, "Valuation of Real Estate I" (Pages 161 to 163). The rate of interest for capitalisation of net income from rent controlled properties can be estimated on the basis of net income from controlled rent or standard rent and net income from fair market rent by comparison with rents fetched by similar properties. Effect of Rent Control Act can be found out by comparing these rates of interest with rates of interest yielded by similar properties in the study area which are not covered by Rent Control Acts.

5. Developers Profit in Hypothetical Layout or Building Scheme.

In this exercise the correct data regarding all items of expenditure (including price of land paid) & all items on income including deposits taken from prospective purchasers from time to time with dates, method of financing, period of the project from plans preparation stage to completion (i.e. sale of the last plot / flat) etc. will have to be collected from developers in respect of at least 6 to 8 layout / building projects, which should then be thoroughly analysed adopting Discounted Cash Flow (D.C.F.) technique. On the expenditure side the interest on capital invested by the developer and the proportionate remuneration of developer, (which are normally not included in expenses) also need to be included.

The developer's profit will depend on (a) total amount of realization by sale of plots / flats as well as on (b) total project period. It will be necessary to collect information of projects with small (Up to Say Rs. 3 to 5 Crores) medium (Say Rs. 6 to 15 Crores) & Large (Say above 20 Crores) turnover (i.e. total amount of realization) & with different time spans say upto 2 years, 2 to 4 years & more than four years. While finding out percentage variation in developers profit due

to one aspect, say total realization, the other aspect i.e. the project period should be constant & Vice-Veca. It would therefore be necessary to collect and analyse data regarding 8 to 10 such projects.

6. Reasons for Changes in Market Values of Properties During a Period.

The subject involves study of real estate market in a selected study area over a long period say of 8 to 10 years when considerable changes in fair market values of properties have been noticed. In addition to data regarding instances of sale & rentals every year during the said period of 8 to 10 years, data is required to be collected about any change in (a) physical aspects like population changes, development activities or development projects undertaken & completed, spread of the town / city etc. (b) Legal aspects i.e. changes in law or rules etc. (c) Policy aspects i.e. changes in fiscal policy & other Govt. policies etc. and (d) Economic aspects i.e. changes in per capita income at National, State and City Levels, gross domestic saving, changes in the pattern of investment of domestic savings, Net Fixed Capital Formation in economic sectors especially in Construction sector (Supply side) & Real Estate sector (Demand side) etc. The student / learner is advised to refer to para 4.9 Unit 4, "Valuation of Real Estate I" (Pages 120 to 129) where he will find detailed discussion in this respect.

7. Effect of Present Economics Recession on Property Values.

This subject will require collection of instances of Sales & rentals in respect of properties in the selected study area before recession and during recession etc. and find out changes in rates of interest yielded by the properties sold by analysing each of the instances of sale. Further in addition to the information & data regarding changes in physical, legal policy & economic aspects including Net Fixed Capital Formation in Construction & Real Estate sectors will be required to be collected & analysed. The data regarding changes in the Foreign Direct

Investment, total and sectoral (economic), especially in Construction & Real Estate sectors, before and during the recession will also have to be collected and analysed.

The student / learner can select any one of the topics suggested above or he can choose any other topic for dissertation keeping in mind the criteria for selection of subject discussed in Para 2.1.1 above.

2.2 OBJECTIVES, SCOPE & LIMITATIONS

2.2.1 General:

After careful selection of the subject for dissertation the first most important task to be undertaken by the student / learner is to define the objectives, scope & limitations of his dissertation.

2.2.2 Objectives :

The student / learner should first of all decide precisely what he intends to find out by undertaking the study of the subject selected for dissertation. Clear, precise and pin-pointed identification / definition of objectives of dissertation will help long way in deciding the strategy, methodology or line of action for proceeding in the dissertation, in collection of necessary information & data and analysis thereof for reaching at fair & reasonable conclusions.

2.2.3 Scope :

A student / learner can not obviously undertake study of real estate market in the entire town / city. He has to select a well defined area for his study in the subject of dissertation – Study Area – and the findings or

conclusions of his study would be applicable to the study area and may or may not be applicable elsewhere.

Further the scope of the study may be limited to a particular type of properties like residential, commercial, industrial or agricultural properties. This needs to be specifically mentioned.

Again the dissertation may have emphasis on a particular aspect overlooking other aspects. For example in dissertation in Urban and Regional Planning in the subject of "Strategy for Development of Resource Regions" emphasis was on the economic aspects only and social & environmental (especially wild life) aspects were not considered. Such exclusion of certain aspect may however be rare in the subject of Valuation of Real Estate.

2.2.4 Limitation :

Limitations in dissertation may be mainly in respect of collection of information & data and / or in analysing information & data. For example thorough inspection of properties may not have been possible due to certain conditions or due to physical obstructions, interventions etc by local residents.

Secondly information and data obtained after inspection, thorough inquiry and personal verification is usually considered as true & correct. This is required to be stated as limitation in the dissertation.

Any other limitations experienced in undertaking and completing the task should be specifically mentioned in the report on dissertation. There is however a definite line of distinction between limitations and disclaimers. No disclaimers are acceptable in dissertations.

2.2.5 Conclusion:

Precise identification of objectives and defining of scope & limitations of dissertation helps in deciding (a) what & how much information & data should be collected & analysed and (b) which information & data need not be collected & analysed. Incidentally it also puts limitations on the

questions which can be asked during oral examination – Viva. Clear & precise identification of objectives & clearly defining the scope & limitations of dissertation are therefore considered as well begun & 50% done achieved.