

VALUATION OF RESIDENTIAL BUILDING FOR BANK LOAN APPROVAL

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Abstract

The valuation of residential buildings is a fundamental process in the real estate and banking sectors, particularly in the context of housing finance and loan approval mechanisms. Accurate property valuation ensures that financial institutions can assess the true market worth of a property offered as collateral, thereby minimizing financial risk and promoting responsible lending practices. This review paper presents a comprehensive and critical analysis of residential building valuation by integrating theoretical principles, standard valuation methodologies, influencing factors, regulatory frameworks, and practical insights derived from real valuation reports. The study evaluates the applicability of major valuation approaches, including the cost method, sales comparison method, and income method, with particular emphasis on their relevance to residential properties. Furthermore, it examines the impact of key determinants such as location, infrastructure, construction quality, and market dynamics on property value. The role of depreciation and government-prescribed benchmark rates is also critically analyzed. In addition, the paper incorporates findings from multiple real-world valuation case studies to bridge the gap between theoretical concepts and practical implementation. The study concludes that property valuation is a multidisciplinary and dynamic process that requires technical expertise, market awareness, and professional judgment. It emphasizes that standardized and accurate valuation practices are essential for ensuring transparency, reducing financial risks, and supporting sustainable growth in the housing finance sector.

Keywords

Residential Property Valuation, Bank Loan Approval, Cost Method, Sales Comparison Method, Depreciation, Real Estate Market, Ready Reckoner Rates, Loan-to-Value Ratio, Civil Engineering Valuation, Housing Finance

1. INTRODUCTION

The real estate sector plays a vital role in economic development, and residential properties form a significant

component of this sector. The valuation of Residential buildings is an essential process that determines the economic worth of a property by considering its physical characteristics, location, utility, and prevailing market conditions. In the banking sector, valuation assumes even greater importance as it directly influences loan approval decisions and financial risk assessment. Financial institutions rely on valuation reports to determine the adequacy of collateral and to establish the maximum loan amount that can be sanctioned against a property.

Property valuation is not merely a process of estimating construction cost; rather, it is a comprehensive analytical exercise that integrates engineering principles, economic considerations, and market trends. With rapid urbanization, population growth, and increasing demand for housing, the need for accurate and reliable valuation has become more significant than ever. Inaccurate valuation can result in over-financing or under-financing, leading to financial losses for banks and borrowers alike. Therefore, professional and standardized valuation practices are essential for ensuring transparency, efficiency, and stability in real estate transactions and housing finance systems.

This review paper aims to provide a detailed and systematic understanding of residential building valuation for bank loan approval by synthesizing theoretical knowledge, research findings, and practical case study insights.

2. OBJECTIVES OF THE STUDY

1. To study residential property valuation methods
2. To analyze factors affecting property value
3. To compare guideline value and market value
4. To evaluate valuation reports used by

3. METHODOLOGY

This study is based on a comprehensive review of secondary data obtained from standard textbooks, research journals, government publications, and real valuation reports. The methodology involves a descriptive and analytical approach to evaluate existing valuation methods and principles. Case study analysis has been carried out using actual valuation reports to understand practical applications and variations in valuation procedures. Comparative analysis is also used to assess the effectiveness of different valuation techniques.

4. LITERATURE REVIEW

The concept of property valuation has been extensively discussed in civil engineering and real estate literature, where it is defined as the process of estimating the present worth of a property based on its physical, economic, and legal attributes. According to Dutta [1], valuation is a systematic procedure that combines engineering knowledge with economic judgment to determine the fair market value of land and buildings. Rangwala [3] further elaborates that valuation is a dynamic and time-dependent process influenced by changing market conditions, infrastructure development, and socio-economic factors.

Research studies published in reputed engineering journals highlight that modern valuation practices have evolved significantly from traditional cost-based approaches to more comprehensive and data-driven methodologies [7], [8]. The integration of digital tools, geographic information systems, and online property databases has improved the accuracy and reliability of valuation. The cost method, sales comparison method, and income method are widely recognized as the primary approaches used in property valuation, each with specific applications and limitations [9].

Literature also emphasizes the importance of various factors affecting property value, including location, infrastructure, construction quality, and economic conditions. Studies indicate that properties located in well-developed urban areas with better connectivity and amenities tend to have higher market value [10]. Depreciation is identified as a significant factor that reduces building value over time, although land value generally appreciates due to increasing demand [12]. Government guidelines such as Ready Reckoner rates and financial regulations play a crucial role in standardizing valuation practices and ensuring transparency in property transactions [13], [15].

5. PRINCIPLES OF VALUATION

Property valuation is governed by several fundamental principles that provide a theoretical basis for determining property value. The principle of supply and demand

explains the variation in property prices based on market conditions and availability. The principle of substitution states that a buyer will not pay more for a property than the cost of acquiring a similar property, thereby ensuring price rationality [3]. The principle of highest and best use emphasizes that the value of a property is determined by its most profitable and legally permissible use [11]. The principle of anticipation highlights that future benefits, such as infrastructure development, significantly influence present property value.

6. METHODS OF VALUATION

The cost method involves estimating the current cost of constructing the building and deducting depreciation to determine its present value. This method is widely used for residential properties due to its simplicity and reliability [4]. The sales comparison method estimates property value by comparing it with similar properties recently sold in the same locality, providing a realistic market-based valuation [9]. The income method calculates property value based on expected rental income and is generally used for income-generating properties [11]. Each method has its own advantages and limitations, and the choice of method depends on the nature of the property and availability of data.

7. FACTORS AFFECTING PROPERTY VALUE

Property value is influenced by multiple factors, among which location is the most significant. Properties situated in urban areas with developed infrastructure and better connectivity tend to have higher value [10]. Infrastructure facilities such as roads, water supply, electricity, and public amenities significantly impact property prices. Construction quality also plays a crucial role, as buildings constructed with superior materials and workmanship have higher durability and market value [3]. Additionally, plot size, shape, and market conditions such as interest rates and economic stability influence property valuation.

8. ROLE OF DEPRECIATION

Depreciation refers to the reduction in value of a building over time due to physical deterioration, functional obsolescence, and economic factors. It is an essential component of property valuation, as it affects the present value of the building. According to Dutta [1], depreciation is calculated based on the age and expected life of the structure. Proper maintenance can reduce depreciation and extend the life of the building [12].

9. ROLE OF VALUATION IN BANK LOAN APPROVAL

Property valuation is a critical step in the loan approval

process, as it determines the value of collateral offered by the borrower. Banks use valuation reports to calculate the loan-to-value ratio and assess the risk associated with lending. According to regulatory guidelines [15], financial institutions typically sanction loans based on a percentage of the property's market value. Accurate valuation ensures fair lending practices, reduces financial risk, and protects both lenders and borrowers.

10. CASE STUDY ANALYSIS

The analysis of real valuation reports provides practical insights into the application of valuation principles and methods. The case studies considered in this paper demonstrate detailed calculations of land value, building cost, depreciation, and final market value. The findings indicate that location, infrastructure, and construction quality are the most influential factors in determining property value. The case studies also highlight the importance of professional judgment and adherence to standard guidelines in valuation practices [17]–[20].

11. RESULTS AND DISCUSSION

The study reveals that the cost method is the most commonly used approach for residential property valuation due to its simplicity and applicability. However, the sales comparison method provides more accurate results in areas with active real estate markets. The findings also indicate that location and infrastructure are the most significant factors influencing property value. The integration of theoretical concepts with practical case studies enhances the reliability and accuracy of valuation.

12. CHALLENGES IN VALUATION

Despite advancements in valuation techniques, several challenges remain, including lack of reliable market data, variation in property rates, subjectivity in valuation, and rapidly changing market conditions. These challenges can affect the accuracy and consistency of valuation reports. The adoption of advanced data analysis tools and standardized procedures can help overcome these limitations [8].

13. CONCLUSION

This review paper concludes that residential building valuation is a complex and multidisciplinary process that requires a combination of technical expertise, market knowledge, and professional judgment. Accurate valuation is essential for ensuring transparency, reducing financial risks, and supporting efficient functioning of the real estate and banking sectors. The study emphasizes the importance of standardized valuation practices and highlights the need for integrating modern analytical tools to improve accuracy. The inclusion of practical case studies strengthens the understanding of valuation processes and their real-world applications.

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