How to Record 'Rationale for Valuation' in Bank Valuation Reports

– Property-wise Illustrations

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Several banks have introduced a separate column titled "Rationale for Valuation" in their valuation formats. The objective is to understand the basis and reasoning adopted by the valuer in arriving at the market value. This article discusses the significance of recording a proper rationale and provides illustrative formats for different classes of properties.

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1. Introduction

Traditionally, valuers used to mention only the final market value. However, modern banking practices demand transparency, consistency, and justification for the value adopted.

The "Rationale for Valuation" should explain:

- Why has a particular rate been adopted
- Factors influencing value
- Market evidence considered
- Advantages and disadvantages of the property
- Basis of professional judgment

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2. Objectives of Recording Rationale

The rationale helps:

- Banks understand the basis of valuation
- Auditors verify the reasonableness of value
- Peer reviewers assess professional judgment

- Reduce allegations of arbitrary valuation
- Defend the valuer in legal proceedings

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3. General Factors to be Considered

The rationale should consider:

Location Factors

- Prime/Semi-prime/Peripheral location
- Residential, commercial, industrial or agricultural zone

Physical Factors

- Size and shape
- Frontage and depth
- Topography
- Access road width

Legal Factors

- Title
- Approvals
- Encumbrances

Market Factors

- Prevailing market trend
- Comparable sale instances
- Demand and supply

Infrastructure Factors

- Water
- Electricity

- Drainage
- Connectivity

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4. Property-wise Illustrative Rationale

A. Vacant Residential Plot

Sample Rationale

The subject property is a vacant residential plot situated in a developed/semi-developed residential locality having good road access and availability of basic infrastructure such as electricity, water supply and drainage facilities. The locality exhibits moderate to good demand for residential use. The value has arrived after considering the prevailing market rates in the vicinity, recent sale instances, guideline value, location advantages, plot dimensions, frontage, accessibility and marketability of the property.

B. Independent Residential House

The property comprises land and a residential building situated in a developed residential area. The land value has been adopted based on prevailing market rates, comparable sales and guideline value prevailing in the locality. The building value has been assessed adopting the replacement cost approach considering type of construction, specifications, age, condition and applicable depreciation. The property enjoys good accessibility and adequate civic amenities, resulting in good marketability.

C. Commercial Building / Shop / Office

Illustrative Rationale

- Located in a commercially active area.
- High footfall and visibility.
- Good frontage on main road.
- Strong demand for commercial usage.
- Comparable market transactions considered.

Suggested Wording

The subject property is situated in a commercially important locality with good frontage, visibility and accessibility. The area enjoys sustained demand for commercial activities. The valuation is based on prevailing market rates, comparable sale transactions, income potential, location advantages and marketability of the property. Due consideration has also been given to building age, quality of construction and present physical condition.

D. Industrial Property / Factory

Suggested Wording

The subject property comprises industrial land and factory buildings situated in an industrial zone having satisfactory connectivity for movement of raw materials and finished products. The land value has been adopted based on prevailing industrial land rates and comparable market evidence. Building value has been assessed using replacement cost approach considering construction specifications, age, utility and depreciation. The valuation also considers location, accessibility, infrastructure availability, industrial demand and overall marketability.

E. Flat / Apartment

Suggested Wording

The subject property is a residential flat situated in a multistoried apartment complex located in a developed residential area. The value has been assessed considering prevailing market rates for similar apartments in the locality, undivided share of land, age and condition of the building, amenities provided in the apartment complex, floor level, accessibility, occupancy status and market demand for similar properties.

F. Agricultural Land

Suggested Wording

The subject property comprises agricultural land situated in a rural area having access through an existing village road. The valuation is based on prevailing market rates of similar agricultural lands in the vicinity, soil characteristics, irrigation facilities, access, extent, shape, cultivation pattern and marketability. The value has also been cross verified with recent sale instances and guideline values prevailing in the locality.

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5. Common Mistakes by Valuers

- Writing only "As per market rate."
- Repeating the same rationale for all properties.
- Ignoring negative factors.
- Not to mention comparable market evidence.
- Not considering marketability and accessibility.

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6. Suggested Standard Format

Sl. No.	Property Type	Suggested Rationale
1	Vacant Plot	Market comparison approach considering location, accessibility and market evidence.
2	Residential House	Land comparison approach plus depreciated replacement cost method for building.
3	Flat	Comparable market approach considering UDS, amenities and apartment demand.
4	Commercial Building	Market and income potential approach considering commercial importance.
5	Industrial Property	Market approach to land and cost approach for structures considering industrial utility.
6	Agricultural Land	Market comparison approach considering soil, irrigation and agricultural potential.

7. Conclusion

A well-documented rationale reflects the professional competence of the valuer and provides transparency in the valuation process. Every valuation report should clearly explain the basis and reasoning adopted while arriving at the market value instead of merely stating the final figure. This practice will enhance the credibility, defensibility and acceptability of valuation reports in the banking system.

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