VALUATION OF A RESIDENTIAL FLAT
BY THE COST, MARKET AND INCOME APPROACHES

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Question

A residential flat purchased in 2009 for ₹9,00,000 is now under valuation in 2026 for the purpose of selling. The following details are available:

• Super plinth area of flat	:	704 sq.ft
• Undivided share of land of flat	:	342 sq.ft
• Prevailing market rate of land near the subject flat	:	₹5,000/sq.ft
• Replacement rate of construction including services	:	₹2,750/sq.ft
• Year of construction	:	2003
• Age of the flat	:	23 years
• Total life of the flat	:	60 years
• Salvage value assumed	:	10%
• Composite market rate of new flat nearby locality	:	₹6,300/sq.ft
• Monthly rent	:	₹7,000/-
• Yield rate estimated	:	2.75% per annum
• Maintenance and house tax	:	₹500/- per month

What is the fair market value of the flat as on 2026 under:

1. Cost Approach
2. Market Approach
3. Income Approach

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1. Cost Approach

Principle

Present Value = Land value + Depreciated value of building(Replacement value – Depreciation value)

Step 1: Land value of flat

Undivided share of land	:	342 sq.ft.
Prevailing market rate of land near subject flat	:	₹5,000/sq.ft.
Value of land	:	₹17.10 Lakhs

(342 sq.ft. X ₹5,000/sq.ft.)

Step 2: Replacement value of flat

Super plinth area of flat	:	704 sq.ft.
Replacement rate of construction including services	:	₹2,750/sq.ft.
Replacement value	:	₹19,36,000/-

(704 sq.ft. x ₹2,750/sq.ft.

Step 3: Depreciation value of flat

Age of the flat	:	23 years
Total life of the flat	:	60 years
Depreciation percentage assuming salvage value as 10%.	:	(Age/Total Life)×(100–Salvage %) (23/60) x 90= 34.5% ≈ 35%
Depreciation value	:	₹19,36,000 x 0.35 ₹6,77,600

Step 4: Present value of flat

Present value of flat	:	₹19,36,000 - ₹6,77,600=₹12,58,400

Value of flat by cost approach

Value of land	:	₹17,10,000
Present value of flat	:	₹12,58,400
Fair market value of flat	:	₹29,68,400
	Say	**₹29,68,000/-**

2. Market approach (Composite rate analysis)

Given composite Rate: ₹6,300/sq.ft

Includes 20% development cost.

Step 1: Remove development cost.

6,300 ÷ 1.20	=	₹5,250/sq.ft

Step 2: Floor space index

Floor space index	=	704 / 342 = 2.05848

Step 3: Land component

Land component	=	Land rate/F.S.I.
	=	5,000/2.05848= ₹2,429/sq.ft

Step 4: Building component (before depreciation)

	=	5,250 - 2,429 = ₹2,821/sq.ft

Step 5: Depreciated building component

Depreciation percentage	= 35%
Building component after depreciation	= 0.65 x ₹2,821/sq.ft =₹1,834/sq.ft.

Step 6: Depreciated composite rate

Land component	:	₹2,429/sq.ft.
Building component after depreciation	:	₹1,834/sq.ft.
Total	:	₹4,263/sq.ft
Development cost	:	₹1,000/sq.ft
Depreciated composite rate	:	₹5,263/sq.ft
Modified composite rate for subject flat (0.80* x 5,263)	:	₹4,210/sq.ft

* As the value derived under this method does not reflect a realistic market figure, the depreciated composite rate adopted for the subject flat requires suitable adjustment to align it with its true market position.

Value of flat by Market Approach

Super plinth area of flat	:	704 sq.ft.
Depreciated composite rate	:	₹4,210/sq.ft.
Present value of flat	:	₹29,63,840/-say,₹29,64,000/-

(704 sq.ft. x ₹4,210/sq.ft)

3. Income Approach

Net monthly rent	:	₹7,000 - ₹500 = ₹6,500/-
Net annual rent	:	₹6,500 x 12 = ₹78,000/-

Capitalisation

Capitalised value adopting a yield of 2.75%: = ₹78,000 x 100/2.75

= ₹28,36,364/-

Say ₹28,36,000/-

Yield Rate (r) = Net annual income x 100
Capital value

= 78,000 x 100 = 2.75%
28,36,000

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4. Comparative analysis

Method	Value (Lakhs)
Cost Approach	29.98
Market Approach	29.64
Income approach (net)	28.36

Considering the above, in my opinion, the cost Approach gives the most realistic indication of value.

Fair market value of flat **:** ₹29.98,000/- **say** Rs. ₹30,00,000/-

5. Cost escalation

Historical cost as of 2009	:	₹9,00,000/-
Fair market value as on date(2026)	**:**	₹30,00,000/-
Number of years	:	2026- 2009 =17 years
R =Rate of escalation		
Fair market value	:	$P(1+r/100)^n$
30,00,000	=	$9,00,000(1+r/100)^{17}$
(30,00,000 / 9,00,000)	=	$(1 + r/100)^{17}$
3.3333	=	$(1 + r/100)^{17}$

$(3.3333)^{1/17}$	=	(1 + r/100)
1.07339	=	1 + r/100
0.07339	=	r/100
r	=	7.339%
Rate of escalation of flat per year(r)	=	7.339%

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