Review Article

Realistic View on Property Market and Market Value

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PROPERTY VALUATION PERSPECTIVE:

Value of a commodity is often mentioned in a market context. In our everyday life, we feel inquisitive of value of many commodities every now and then. In fact, whenever we make an attempt to purchase a commodity, we try to be judicious as regards the price to be paid for it and look back to the market as regards information on its value. As we collect information for different parts of the market we get the same answer or nearly the same answer in most cases. But this is not always true with the property market. Answers form the market is only rarely directly available. And even when answers are obtained they attract further questions for clarification. To explain this we must first check up what is the target of a property valuer. What we get as an answer is that his task is the as with other valuers of good and commodities i.e. to estimate the price. But why a person with as much of skill and experience is needed for this job? Primarily, this is due to the peculiar nature of the landed property itself - the peculiar aspects of durability, non – transferability and fixity of supply. Durability makes a valuer conscious of not only of the current circumstances of the property but also of the fact that the property will last much longer than perishable goods like a packed of Amul butter or even an ambassador car and its demand as well as supply may change at any point of time in future. Both recent and remote depending upon so many factors. Similarly non transferability and fixity make him conscious of the risks are well as the monopoly advantages.

PROPERTY MARKET ASPECTS:

What we mean is that a person's choice of property is more influenced by his personal and social connections, such as, place of work, Childers schooling and how much he is bound with his inherited or acquired community connection he is unlikely to move away beyond his horizon of known world because of an advantageous price. His market is therefore largely local in character. Again absence of an organized information system gives insufficient information on suitable properties beyond a person's community enclave. So these two reasons taken together set geographical limits of the real property market. Hence at any point of there exists a large number of local property market operating side by side.

THE COMMODITY IN THE REAL PROPERTY MARKET.

Although we say that we purchase land and buildings in fact what actually changes hands in real property market is nothing but a bundle of rights associated with property. "The paradox of the land market is that it does not deal in land the subject matter of valuation in a property market is proprietary land units each composed of rights in and over a volume of space which may be above or below the land surface. What is being sold or purchase in a market is an interest in land an abstract thing over a certain building and fixtures having erected on the land. What we buy therefore is preparatory right in the space stated above and over any building that is included in it. The commodities dealt with property market are therefore nothing but proprietary "rights", There exist a number of such rights starting from the occupational right of a monthly tenant protected by statute against eviction by landlord up to fee simple absolute freehold right in possession. There may be right wide and varied in nature each having its different value over the same physical land and building. For example, a leasehold right, When we value a property, we must be careful enough to recognize the bundle of rights and their variations that are being marketed. So the abstract – the "rights and their variations that are being marketed, So the abstract – the " rights" and the physical entity – the " land

and building" together form the proprietary unit and what is transferred is a bundle of right.

FACTORS AFFECTING SUPPLY OF LANDED PROPERTY:

Having thus examined the factors affecting demand of landed property that in turn go to influence its value, we shall now examine the supply side. We shall take into consideration the basic fact that property is valued generally in a market context, That is, at any point of time there is always a given supply of market context. That is, at any point of time there is always a given supply of properties and the buyers shall have their choice or selection in the given property stocks before they express their willingness to pay. If it were possible to increase supply at a point of time price changes could have been kept low to increase supply at a point of time price changes could have been kept low to increase supply at a point of time price changes could have been kept low. We will therefore have a closer examination of the factors governing the supply side.

THE FOLLOWING ASPECTS ARE TO BE NOTED ON THE SUPPLY SIDE:

1) It is noted that in the short run supply of property cannot be increase. This is because development of real property cannot be increase. This is because development of real property is a time consuming process. So if demand rises suddenly price rise is steep in the short run, as the gap between demand and supply suddenly widens.

2) Even in the long run there is a limit up to which property supply could be augmented. This is because supply of land in an area is fixed and increase in demand gives rise to more intensive sue of land but because supply is ultimately fixed price rise in the long run too.

3) On the other hand, once property has been constructed and demand suddenly recedes away then supply cannot be reduced. Property is a durable capital asset and is consumed slowly over time. The fall in demand has the effect of a fall in property value as existing stock cannot be reduced in the short run excepting by demolition. This may result in capital risk in property investment as property might have to be sold off at reduced price to prevent further loss in a falling market.

4) Supply of landed property is dependent upon availability of finance for property development. Imperfections in capital market causing hindrances to flow of und in the property sector may give rise to inadequate response in supply for a change in demand.

5) Due to unfavorable legislation property development may be unattractive to investors. As for example, rent control act may shy away fund form development of rental accommodation because of a chance of fall in real value of income. As a result price may rise in the new lettering sector.

6) Planning decision is one of the chief devices by which normal supply of property in the land market could be highly interfered with. The development plant that allocates different extent of land to different uses, prescribes use zoning or density zoning. Thus if restriction are imposed on commercial development, price of existing commercial properties might be increased and this might give rise to intensive development of permitted commercial land. Again if liberal permission is granted for any use, say for residential, that may bring competitive projects for residential accommodation leading to fall in price.

A LITTLE OF DEMAND, SUPPLY AND THE MARKET:

Demand and supply are the basic tools for studying an economic market Demand and supply can be demonstrated by a demand schedule and a supply schedule by relating quantity to price. Alternatively, they may be demonstrated pictorially again relating quantity to price. Alternatively, they may be demonstrated pictorially again relating quantity to price. We intend to explain how the demand and supply tools work in an economic study in a goods and commodities market first and then extend their domain in understanding the behavior of the property market.

DEMAND:

A demand schedule of rice may be demonstrated by the following chart.

Price Quantity Relationship for Demand of Rice:

Observations	Price (Rs. Per Kg)	Quantity demanded (Thousand Kgs per month)
	P	Q
1	25	20
2	20	25
3	15	32
4	10	42
5	5	55

The chart relates quantity to price and is called the Demand Schedule of rice; It is evident from the demand schedule that at higher prices the quantity demanded falls whereas lower the price the quantity demanded goes up. This is true at any point of time in respect of any market –price existing at that point of time. This definite relationship between a quantity demanded and its market –price is called schedule of a commodity.

SUPPLY

The demand schedule or curve demonstrated the relationship between quantities of goods or commodity the purchaser intends to buy the market price at various point of time.

By the Supply schedule or curve it is intended to show the relationship between the quantity the suppliers are willing to supply and the market prices existing at various point of time,

THE SUPPLY SCHEDULE OF RICE IN A MARKET CAN BE DEMONSTRATED BY THE FOLLOWING CHART

Price Quantity Relationship for Supply of Rice

Observations	**Price Rs. Per Kg**	**Quantity supplied (Thousand Kg per month)**
	P	Q
1	25	42
2	20	38
3	15	32
4	10	22
5	5	0

The supply schedule can also be explained pictorially by a curve, as shown below by relating quantity to price. The curve is called the supply curve.

The supply Schedule or curve demonstrates an inverse relationship between price and quantity as with a demand curve or schedule. As price go down supplier are less and less inclined to supply a commodity. Whereas they are able to supply more of a commodity when prices go up. The supply curve therefore moves upwards form left to right in the opposite direction of the demand curve as shown in the picture.

So far we have studied separately the demand schedule' and the supply schedule. That is, we can say that if price is Rs. 20 Kg (point No.2 in demand schedule) the quantity demanded is 25 thousand kilograms per month or if the price is Rs. 10 per kg the quantity demand is 42 thousand kilograms per month (Point No. 4 in demand schedule). Similarly, if price Is Rs. 20 per kg point No. 2 in supply schedule) the amount the suppliers will bring in the market for sale is 38 thousand kilograms per month. And at Rs. 10 per kg they will bring for sale 22 thousand kilograms per month. So what will be actual competitive equilibrium market price?

For this to understand we are now to cause the demand schedule and the supply schedule combine in a single box first in the following manner.

Price Quantity Relationship for Demand and Supply of Rice

Observations	Price (Rs. Per kg)	Quantity Demanded (Thousand kg per month)	Quantity Supplied (Thousand kg per month)	Trend of price
1	25	20	42	Downwards
2	20	25	38	Downwards
3	15	32	32	Stationary
4	10	42	22	Upwards
5	5	55	0	Upwards

It will be seen that at any price above point No. 3 the supply exceeds demand and therefore in order to sell their products, to minimize losses, the suppliers must allow a concession in price, thus the seller will compete among themselves to bring down the price.

Whereas at any point below No.3 the purchaser want more than what the supplier are able to supply at any price, So in order to satisfy their demand the purchasers will compete among themselves to off higher price – those who can afford. There will thus be an upward trend of price due to competition of the demanders.

MARKET ANALYSIS – HOW IMPORTANT IN PROPERTY VALUATION?

In any exercise of property valuation an analysis of the market is indispensable the valuer must keep it in the background of his mind that the property to be valued is one of the commodities offered for sale or demanded amongst a number of competitive properties. The market analysis includes an analysis of the neighborhood where the property is situated as well as the region in the broader context of which several such neighborhoods are located.

A specific analysis of the neighborhood would mean to identify the number of properties that are on sale or sold in the market. The physical, external circumstantial and environmental features of the competing properties are compared with the subject property. Again the study of the region and other macroeconomic forces may help sorting out the potentialities of the property what are the future trends and how the property could be made to adjust or be redeveloped in response to the changes, many such regional factors are discernible form major Government policies, population movement and large investment decisions. The valuer has to remain alert on all these issues to come to a decisive answer of his market analysis. The methods of valuation operate under this overall background.

HOW EFFICIENT IS THE REAL PROPERTY MARKET?

A market helps allocation of scarce resources in an economy through the price mechanism. The price acts as both an indicator and an incentive of demand and supply of goods and commodities in the market. When the price of a commodity rises at one part of a market the purchasers flee to other parts to commodity rises at one part of a market the purchasers flee to other parts to buy. By doing so they cause the demand of the commodity to fall at the costly part of the market, As a consequence price falls. Again when purchasers rush to part of the market where price of a commodity is low the demand rise due to competition amongst purchasers and if the number of demanders is too many the commodities indicates, a shortage of supply as compared to the demand. Its price then begins to rise. As soon as the price rises it is now the suppliers' turn to enter the market to take advantage of high prices. The suppliers are eager to supply in such a market. Their competition now injects a huge flow of the commodity and that may exceed the demand. Eventually the price falls.

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