



FEATURES OF ASSESSING THE VALUE OF COMMERCIAL REAL ESTATE AND FACTORS AFFECTING IT

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Abstract:

The article reveals the specifics and practical and methodological issues of assessing the value of non-residential commercial real estate, which is considered as the most effective method among the mechanisms of effective management of non-residential commercial real estate objects. Also, the approaches and methods used in assessing the value of real estate are described, and the factors affecting the value of non-residential commercial real estate objects are studied systematized.

Keywords: Assessment activities, real estate, non-commercial real estate, price, value, factors, object of assessment, national assessment standard, assessment approaches, approach methods.

Introduction

A solid legal framework for the promotion of appraisal activities has been formed in Uzbekistan, extensive work has been carried out to develop the appraisal services market, increase responsibility for the results and objectivity of the appraisal work carried out. Currently, about one and a half thousand appraisers with an appraisal qualification certificate and more than two hundred and thirty appraisal organizations in which they work operate in the appraisal services market [1]. In this regard, as an example of the reforms being carried out in our country in this regard, the Resolution of the President of the Republic of Uzbekistan No. 3764 "On measures for further development of the valuation services market", the adoption of the Law of the Republic of Uzbekistan "On privatization of non-agricultural land plots", the adoption of the "Single National Valuation Standard of the Republic of Uzbekistan" in order to develop valuation activities, increase confidence in valuation organizations and eliminate shortcomings are examples. We can cite the re-issue of the revised edition on December 28, 2023. Because the development of any industry in any country, the level of international standards in which each of its segments operates, and the potential of its personnel, certainly require great attention. In this regard, the priority areas and tasks set out in the Concept for the Development of the Valuation Services Market in Uzbekistan, in particular, confirm our opinion.

Based on the rapidly developing real estate market and its changing conjuncture, the diversity of properties being evaluated, and the specific characteristics of each one, objective and fair evaluation requires sufficient attention and research into the practical and methodological issues of evaluating the value of real estate objects.

As a result of the development of business activity and the service sector, as well as the growth of real savings, the demand for commercial real estate is also increasing. In such situations, including in the processes of buying and selling real estate, securing it as collateral for renting and obtaining loans, there



is a need to determine the price and value of various types of property. It should be noted that in world practice, the valuation of real estate is considered one of the most effective methods of effective property management.

Commercial real estate valuation is an orderly, objective process of determining the monetary value of a real estate property based on current and expected income at a specific point in time.

Literature Review

Scientific-methodological foundations and practical issues of real estate valuation from foreign economists-scientists DJ Friedman, Nick. Ordway, Joseph K. Eckert, Henry S. Harrison [2-4] widely covered in scientific research. Among the scientists from the CIS countries who studied the problematic aspects and relevance of the topic and cited them in their scientific research and studies are Gribovsky S.V., Kasyanenko T.G., Makhavikova G.A., Esipov V.E. [5-6] We can also list the theoretical and methodological foundations and practical issues of managing real estate objects and assessing their value in Uzbekistan by Ganiev G.B., Ganieva G.I., Abdurakhmanov I.Yu., Kravchenko A.N., Yodgorov V.U., Shokha'zami Sh.Sh., Khomitov K.Z. [7-12] and studied and further developed by others.

Research Methodology

During the research, methods such as systemic analysis, the method of analogues, mutual comparison and comparative analysis were used, based on the national model of socio-economic development implemented in the Republic of Uzbekistan..

When determining the specific features of assessing the value of immovable property, it is necessary to analyze the socio-economic situation in the region where they are located, taking into account the natural and climatic characteristics of the region, key macroeconomic indicators, key indicators by economic sectors, their dynamics of change and their impact on the market position of the valuation object.

The main problem in assessing the value of immovable property is to determine information about the past and present condition of the object and to determine reasonable forecasts for its future condition. These approaches to valuation are not mutually exclusive, but rather complementary, and each of them combines several methods [13].

Analysis and Results

Currently, appraisers use the average market prices of bids to estimate the value of real estate. Many firms in our republic maintain databases of real estate offered for sale. However, in many cases, the analysis of purchase and sale prices is complicated by the lack of sufficiently reliable information about the transactions carried out. Therefore, it is quite difficult to use the cost and income approaches. The situation can be resolved by using a comparative approach to the analysis of bid prices, including by determining their dependence on various factors and the relationships between other types of prices (purchase and sale prices, etc.). As a result, it is possible to determine the dependence of these types of



prices on the factors that determine them, which cannot be directly statistically analyzed, and to solve the problem of estimating the value of real estate.

Regardless of whether a real estate object is residential or non-residential, the comparative sales method of the comparative approach is often used to assess its value.

As comparison elements, only the elements that determine the price and are able to significantly affect the price of analogues are taken from among the following (Table 1):

Table 1 Elements of Comparison in Real Estate Valuation*

Group of factors	Comparison elements for sales transactions
1. Property rights	1.1. Additional charges of the facility under the lease agreement 1.2. Easements and social surcharges 1.3. Rights to the plot of land within the object
2. Financing conditions	2.1. Preferential crediting of the seller to the buyer 2.2. Payment in cash equivalents
3. Special conditions	3.1. Non-market relationship between sales price and rental rate 3.2. Subsidies or incentives for development
4. Market conditions	4.1. Price changes over time 4.2. Difference between the bid price and the deal price
5. Location	5.1. Prestige of the area 5.2. Proximity to work activity and life support centers 5.3. Ease of access to the object (by transport and on foot) 5.4. Environmental quality (recreation and ecology) 5.5. The condition of buildings around the object
6. Physical Descriptions	6.1. Description of the land plot 6.2. Size planning and structural description 6.3. Deterioration of buildings and the need for their repair
7. Service and additional items	7.1. Provision of communications and utilities 7.2. Possibilities of land plot connection to engineering and energy communications 7.3. Availability of parking space and (or) garage for motor vehicles 7.4. Security system status 7.5. Availability of additional equipment in real estate

*Source: developed by the author.

When conducting an appraisal using this method, the appraiser may also consider other elements that affect the final value of the property. The appraiser must reflect this in the appraisal report and take it into account when determining the final value of the property.

This method uses percentage and value adjustments. Percentage adjustments are made by multiplying the selling price of the analogue by a correction factor that reflects the degree of difference in the characteristics of the object of valuation with the analogue.



Value adjustments are made by changing the price of the analogue to a certain estimated amount of the difference in the characteristics of the object of valuation with the analogue. Value adjustments are made to the price of the comparison unit or to the total price of the analogue.

The final adjusted selling prices of the comparables may not be the same. Therefore, the selection of the adjusted selling price is based on the adjusted price of the analogue(s) with the lowest value or amount of adjustments.

Non-permanent tradereal estateWhen determining the market value of the properties, initial target prices are used to pre-select promising options from the proposals contained in the database. In this case, it is necessary to use the information available in this database. The final assessment is carried out after the inspection of the property and the collection of relevant documents. At this stage of the assessment, the propertyreal estateYou should use complete information about.

At the same time, the valuation of immovable commercial real estate has its own unique features. For commercial real estate, the value type is the market value of the existing use.

"Real estate objects valued according to their commercial potential are valued based on the income that can be received (before interest, taxes, and depreciation of tangible and intangible assets) using the discounted cash flow method or the direct capitalization method."

The value of real estate, which is assessed based on its commercial potential, may also include equipment and fixtures attached to the real estate, as well as goodwill (in addition to inventories).

Transferable goodwill is an intangible asset that arises due to a unique name, business reputation, customer preferences, location, service products and other similar factors that produce economic effects.[14].

In some cases, if the intangible asset component is involved in the identified form, the appraiser must comply with the requirements of MBS No. 11 "Valuation of Intangible Assets and Intellectual Property Objects".

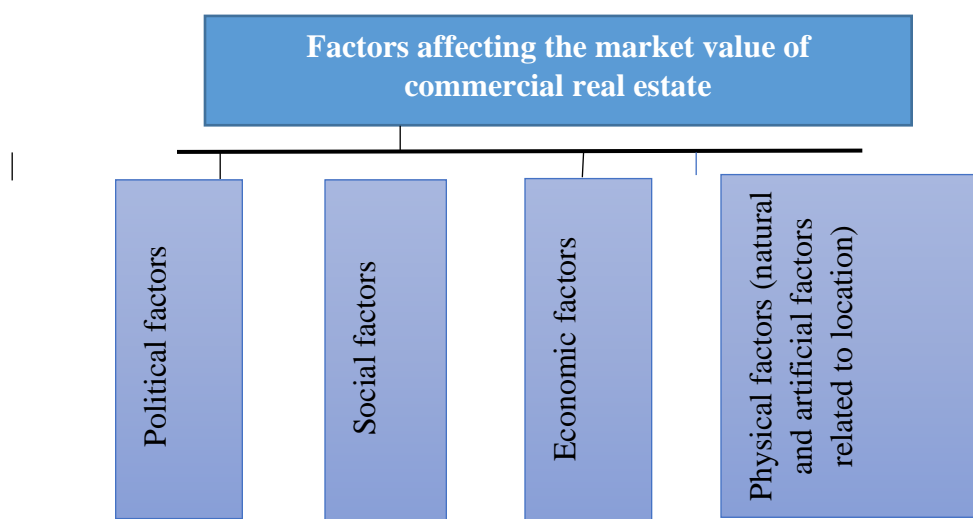


Figure 1. Key Factors to Analyze in Commercial Real Estate Appraisal*

*Source: developed by the author.



The factors presented in the figure above are reflected in the value of property by influencing the real estate market. World economists have determined that economic factors such as GDP growth, employment levels, and inflation directly affect the demand and supply of property. In addition, demographic changes, including population growth, internal and external migration, also have an impact on real estate prices. Another such factor is interest rates. Changes in interest rates affect the cost of borrowing for real estate, which in turn can change both the purchasing power of buyers and the decisions of investors. Factors related to government policy can create opportunities or constraints for the real estate market. These include tax incentives and infrastructure development.

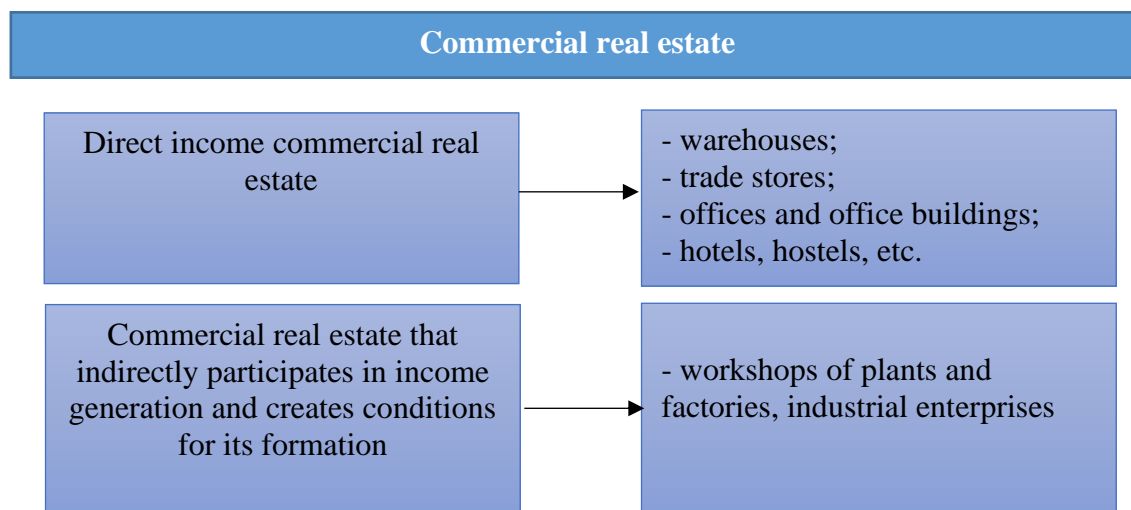


Figure 2. Classification of commercial property according to the object of assessment*

*Source: developed by the author.

The above factors can affect the four elements of property value - demand, utility, competitiveness, legal freedom to property. As an object of evaluation, commercial real estate is divided into 2 groups:

- property that brings direct income;
- real estate that indirectly generates income, that is, creates conditions for obtaining material benefits (Figure 2).

Commercial real estateThe time factor is important for assessing the value of a property and making appropriate adjustments to prices. This factor can be taken into account by including the valuation date in the set of indicators to be taken into account and using the methodology for forecasting the average annual change in housing prices.[16].

ObjectvalueThe algorithm for evaluating is manifested in:

1. Purpose of assessment: Main taskcommercial real estateIt involves determining the market value of an object (including the income it can generate) in order to decide on its best possible use.Commercial real estateIt is necessary to determine which optimal form of use of the object will bring the owners the highest net income over a certain period of time (excluding all costs).



2. Assessment steps: Last two years commercial real estate study the price situation of the facilities and rental market and conduct an analysis of current and expected development.

The evaluation results should be formalized in the form of an evaluation report containing the professional opinion of the evaluation organization based on the collected information and calculations on the value of the evaluation object, prepared in accordance with the legislation on evaluation activities [14].

In general, commercial real estate The assessment of the value of objects is carried out using three traditional approaches.

Cost approach. Presented to the real estate market commercial real estate The actual market value of non-residential premises is 3-4 times higher than the book value. In this regard, there is no need to consider the methodology for determining the book value of non-residential premises carried out by state bodies.

In the cost-based approach, to determine the cost of reconstruction, data on the total cost of reconstruction of 1 sq. m. of space in an old building can be used.[8] The calculations made on the basis of this data should be considered accurate and reflect the state of construction work over the next six months.

The restoration value of the non-residential premises is as follows[9]:

$$S = C \times E, \quad (1)$$

where, S - is the recovery value;

C- total area of non-residential premises;

E- construction cost of 1 sq.m.

Income approach. The main stages of evaluating non-residential objects, which are currently used in the approach from the point of view of income in our republic, are as follows:

- assessment of the annual gross potential of income based on the analysis of current rates and tariffs in the rental market for similar objects.
- assessment of built-up losses due to incomplete use (rental).
- calculate the cost of using the object based on the analysis of the costs of maintaining the object.
- determining the market value, taking into account capitalization rates.

The above-mentioned stages of valuation of non-residential premises according to methodological approaches do not have significant features and practically do not differ from the methodological principles of conducting valuation work in the income approach using the direct capitalization method. The valuation of residential properties using the discounted cash flow approach from an income perspective is currently underdeveloped in the republic.

Comparative approach. Several valuation methods can be used to determine market value using a comparative approach. One of these methods is based on the use of average statistical data on the sale



price per square meter of similar residential properties over the past two to three months. This data can be used to study trends and directions in the price changes of non-residential properties in a given region, and to calculate price indices.

Based on this method, the assessment of the value of a particular real estate object has an averaging nature. If we logically proceed to consider the absolute prices of non-residential premises, then it becomes clear that the difference in prices is very large.

Therefore, the requirements of objectivity require a detailed consideration of the specific characteristics of the objects sold. It is necessary to take into account not only information about past sales transactions, but also to include information about the objects put up for sale in the analyzed data.

Conclusion/Recommendations

In short, the value of non-residential commercial real estateBefore starting the appraisal process, the appraiser is required to collect all the information related to the object. The completeness and accuracy of the information serves to increase the accuracy of the object assessment.

To draw a well-founded conclusion about the market value of the valuation object, the appraiser must collect and objectively analyze information about the socio-economic situation in the region that affects the value of the object, in particular, the level of development of small business and private entrepreneurship and the public service sector, the real estate market situation, the location of the valuation object, and all relevant characteristics of the valuation object.

All factors affecting property value should be thoroughly analyzed when evaluating non-residential commercial real estate objects. This allows to determine the real market value of the property that is in line with the interests of the parties.

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