

# A COMPARATIVE ANALYSIS OF RENTAL YIELDS VARIATION IN RESIDENTIAL AND COMMERCIAL PROPERTIES IN NASIK CITY

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**ABSTRACT:** The shelter is a basic need of life a person can meet this requirement by taking possession of his own (owner's) property or by renting out another person's property. In our traditional society, the need for shelter responds above all to the first option of being the owner's business. The situation has changed due to emergencies in urban centres. Difficulties in land acquisition and the high cost of building construction will prevent many people from taking possession of the property. Therefore, they are sheltered from the option of leasing out other people's property. This led to the emergence of two classes of urban developers, landlords, and tenants, who are popularly known as tenants if the tenant pays the landlord a certain amount for the use of his home. Valuation is the method of defining the value of an asset such as commercial, residential, agricultural land, and industrial. The value is determined based on its selling price and rent or income get from that property. The purpose of this research is to apprise people with simple field practices of real estate assessment. This study is grounded on rational research in the field of valuation. It will be obliged to all the users as well as specialists who want to work as a valuer. This includes procedures verified by the government-recognized valuer and relevant field experts. The discovery of this paper is likely to have significant consequences evaluation business. This study introduces users directly to actual studies evaluated in the field that they can compare theory and actual practice. As a result of this study, we know the variation of rental yield on residential and commercial properties in Nasik, (India). We also try to find out what are the reasons responsible for the higher rents of commercial properties compared to residential properties in urban, semi-urban, and rural areas. The advantage of location (e.g., main location) is that some properties are leased due to the type of use that may give the property more for commercial and residential use than others.

**Key Words:** Rental Yield, Methodology, Real estate property, Field practice, Valuer, Valuation.

## 1. INTRODUCTION

Valuation is the procedure of defining the worth of properties such as residential, commercial and agricultural land. The motivation for this study arose from the examination of students' general surveys, which is their knowledge of the field practice of assessment. This study details basic knowledge of valuation practice and actual working method. The evaluation of companies and projects is the main subject of business and finance. Evaluation is basically done for the economic functions of the economy i.e. investments, purchases, sales, loans and mortgages etc. Real estate typically includes residential, commercial, and vacant lots. Understanding the location of financial assets is a difficult idea. While the prime purpose of commercial property is for economic gain, although residential property is for settlement, housing and comfort, the demand for land is a replication of the profit or usefulness of its use. Will be willing to pay as much rent as possible for the benefit of a particular use. As population and urbanization increase, so does the demand for housing, both for owner-occupancy and for rent. However, with the development of technology people are pushed into a busy life so that they prefer to buy built-in homes already

## 2. AIM

This research aims to check the best investment in residential and commercial properties. This study helps us to find the factors that affect the difference in rent of residential and commercial properties according to their important location. In our study, we also underlined the advantages and

disadvantages of investing in residential and commercial property.

### 3. OBJECTIVE

- To identify the percentage of net rental yields from investment in residential and commercial property in Nasik city Maharashtra.
- To Compare the Average Rental Yields of Nasik city with respect to other metro cities in Maharashtra.
- To identify the level of rents for commercial and residential properties in the study area.
- To ascertain if there is disparity in rental values for residential and commercial properties in the study area.
- To ascertain and examine the factors influencing the rents being commanded by these properties.
- To determine or examine whether the income of prospective buyers/tenants affect their decision to acquire properties.
- To find out the rate of demand between commercial and residential properties.
- To determine or examine whether the income of prospective buyers/tenants affect their decision to acquire properties.

### 4. LITERATURE REVIEW

"Housing is the most representative use in any urban area. Presently, leasing houses instead of buying is an important issue in the housing marketplace. The ultimate goal of acquiring a rental property is to make a profit with a little extra effort. Due to the absence of guidelines, landowners arbitrarily assess property and charge ineligible values. Since there is no alternative, tenants should accept it as needed. On the other hand, since each piece of property is unique, it is difficult to determine the rent."

"This approach can also be beneficial in the procedure of deriving a non-market value of a assets (market value). Calculating the fair market value with the usage of the subject technique means

appraising the market value of the accurate to get unbounded revenue flow. However, the accuracy of the calculation depends on accurate estimates of rental rates, capitalization rates, discount rates, and other parameters representing the market segment represented by the asset."

"Commercial assets are referred to as the property used for income generation. Several studies have observed at the analysis of commercial property valuation parameters that disturb their value. in which there has been a massive change in the trend of commercial assets value. Trend exploration in diverse areas is performed to appraise the result of the recognized parameters on the value trend. This trend helps the potential buyer to make the best purchase decision so as to get maximum income in the future."

"Due to the increasing purchasing power of the subjects, the demand for property continued to rise and eventually property prices rose. However, it should be worthwhile to look for price fluctuations."

This study aims to compare the values obtained by three different methods of valuation and identify the one most suitable for the property under consideration. Approval methods are used in the process: land and construction method, rental method and composite rate method. Depreciation is also important in all systems. In the method of land and building, the value of space and the value of building. Rent is income earned using the right interest rate. Composite rate methods are also used to determine the current value based on the prevailing market rate. The break-up rate of the aggregate rate for the building under assessment is calculated based on the breakup of the aggregate rate of the building for the individual residential home and commercial shops

"The density of the neighborhood and the level of infrastructure development play an important role in the gaps between the rented values. However,

the Pearson correlation coefficient showed that there was a relatively positive correlation between the rental values of the two community properties."

## 5. RESEARCH METHODOLOGY

Following flowchart shows the different work phases of this research work.



### I. SITE VISIT, DATA COLLECTION AND ANALYSIS:-

**Site visit:** We reviewed 15 properties, from which we selected two different properties in same location. Our first example is a residential apartment flat and the second is a commercial shop, both properties are located in Mahatmanagar, Nasik, and India. We collected information in the following ways.

#### Primary Sources:

- a) Questionnaire b) Oral interview
- c) Field survey d) Physical survey

**Secondary Sources:** Secondary sources were taken from various magazines, newspapers, seminar

materials, textbooks, past projects and some other documented material, some of which were published and some were not.

### II. FIND OUT VALUATION BY LAND AND BUILDING METHOD

After collecting data of both the properties, we calculate fair market value of properties by land and building method of valuation.

#### LAND AND BUILDING METHOD:-

By this method, the value of the land and its Constructed building are evaluated separately and added to get the current value of the property. The latter is considered for proper depreciation.

$$\text{Value of property} = \text{Current value of land} + \text{Current value of building (including building depreciation value)}$$

### III. FIND OUT RENTAL YIELD PERCENTAGE OF PROPERTIES W.R.T. FAIR MARKET VALUE OF PROPERTIES

**RENTAL YIELD:**-Rental yield is defined as the rate or the percentage of returns from the rental income of an investment property. It can be better explained as the rate of returns from an investment. Real estate brokers and sellers often calculate the yield before they put the property on sale in the market. There is two ways to look at rental yield:

- a) Gross rental yield    b) Net rental yield.

a) **Gross rental yield:** Gross rental yield is the yearly rental income from the assets value, which does not take in the charges you pay to the repairs of this property or the amount that you pay in taxes. It simply is the money you earn as rent annually.

$$\text{Gross rental yield} = (\text{annual rental income} / \text{property value}) \times 100$$

b) **Net rental yield:** You can arrive at the net rental yield after deducting the annual expenses from the annual rental income.

$$\text{Net rental yield} = \frac{(\text{Annual rental income} - \text{Annual expenses})}{\text{Total property cost}} \times 100$$

#### IV. COMPARE RENTAL YIELD OF NASIK CITY W.R.T. OTHER METRO CITIES.

The result comes from our study is compare by other metro cities in Maharashtra to know the exact comparison. We try to calculate rental yield percentage comparison between residential property and commercial property on their fair market valuation property.

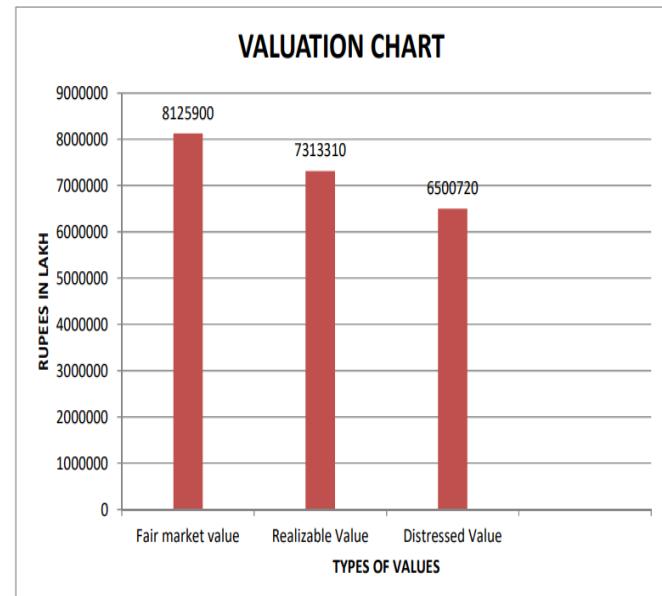
#### 6. CASE STUDY

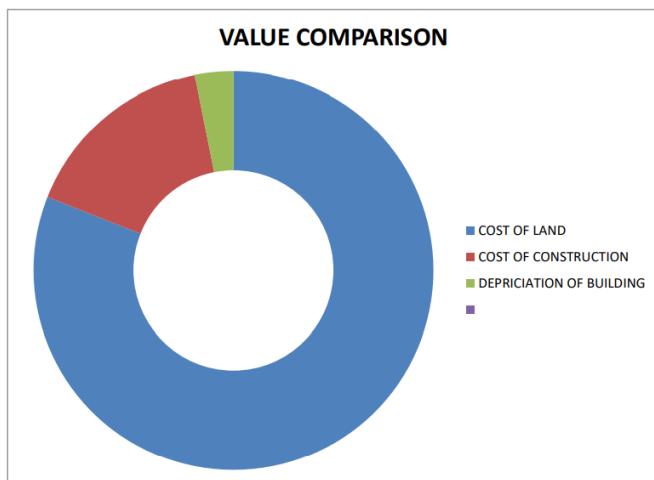
##### CASE STUDY I – RESIDENTIAL PROPERTY (APPARTMENT FLAT)

For ascertaining the Fair Market Value of the immoveable property residential flat located in Nasik city .The property located in "SAHYADREE HEIGHTS", FLAT-10, Mahatma Nagar, Near ABB Circle, Nasik-422001, DIS-NASIK, MAHARASHTRA, INDIA. This residential flat area is 106.83 M<sup>2</sup>. Contains one living room, kitchen, attached (W.C. + Bath) and Two Bed room. The name of property owner is Mr Samir Prabhakar Joshi.This information is use for calculation of fair market value of property and what percentage of rental yield from their investment

**STEP 1** –Calculation of Fair market value of property by land and building method.

SR.	DESCRIPTION	AREA M <sup>2</sup>	MARKET RATE M <sup>2</sup>	VALUE OF PROPERTY ₹
1	COST OF LAND	106.83	65640	7015000/-
2	COST OF CONSTRUCTION BUILDING	106.83	16140	1380000/-
3	DEPRICINATION  Age of building is 13 year			₹ 1110900/-
	FAIR MARKET VALUE OF PROPERTY			₹ 8125900/-
	Realizable Value  (90% of Fair market value)			₹ 7313310/-
	Distressed Value  (80% of Fair market value)			₹ 6500720/-





### STEP II- Calculation of rental yield percentage w.r.t. fair market valuation

\* Rent per month paying by lessee = ₹ 17000/-P.M.

\* Gross rent P.A.=  $17000 \times 12 = ₹ 204000/-$  P.A.

\*Allowing a nominal 10% deduction for Annual maintenances, Municipal taxes, and small repairs from gross rent p.a. = ₹ 20400/-

\*Net rent P.A. = Gross rent- taxes and maintenances

$$= 204000 - 20400$$

$$= ₹183400/-$$

\* Net Rental yield percentage on fair market value of flat.

$$\text{Rental yield} = \frac{\text{NET RENT PER ANNUM}}{\text{FAIR MARKET VALUE OF PROPERTY}} \times 100$$

$$= \frac{183400}{8125900} \times 100$$

$$= 2.26\%$$

### CASE STUDY II - COMMERCIAL PROPERTY (CAFÉ SHOP)

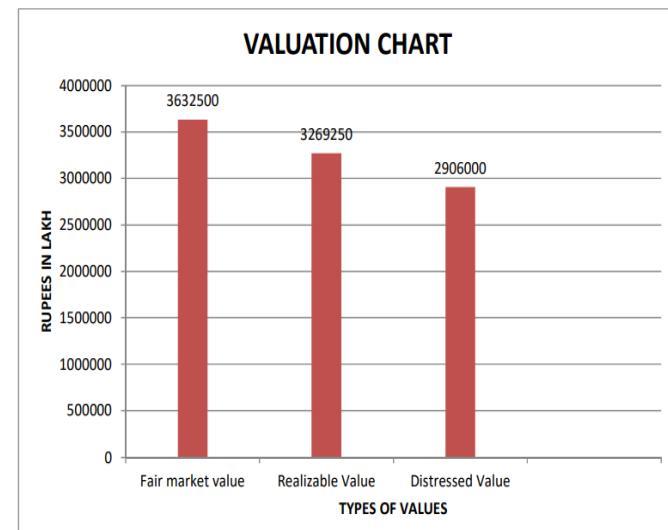
For ascertaining the Fair Market Value of the immoveable property (commercial shop) located in Nasik city. The Property area is 18.58 M<sup>2</sup>. The

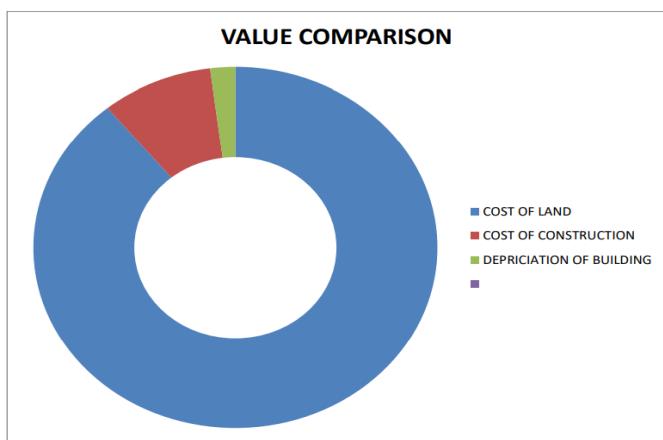
property is place in centre of city and easily reached by customers for growth of their business.

The property located in "TALWALKARS TOWER", Shop-3, Mahatma Nagar, Near Bhonsala Military school, Nasik-422001, MAHARASHTRA, INDIA. The name of property owner is Mr Ramesh Patil.

**STEP 1** -Calculation of Fair market value of property by land and building method

SR.	DESCRIPTION	AREA M <sup>2</sup>	MARKET RATE M <sup>2</sup>	VALUE OF PROPERTY ₹
1	COST OF LAND	18.58	1,82,920	701500/-
2	COST OF CONSTRUCTION BUILDING	18.58	16140	300000/-
3	DEPRICATION  Age of building is 15 year			67500 /-
4	Cost of building including depreciation			=₹ 232500/-
	FAIR MARKET VALUE OF PROPERTY			₹ 3632500/-
	Realizable Value  (90% of Fair market value)			₹ 3269250/-
	Distressed Value  (80% of Fair market value)			₹ 2906000/-





## STEP II- Calculation of rental yield percentage w.r.t. fair market valuation

\* Rent per month paying by lessee = ₹ 22000/-P.M.

\* Gross rent P.A. = 22000 X 12 = ₹ 242000/-P.A.

\*Allowing a nominal 15% deduction for Annual maintenances, Municipal taxes, and small repairs from gross rent p.a. = ₹ 29040/-

\*Net rent P.A. = Gross rent-taxes and maintenance

$$= ₹ 212960$$

### \*Net Rental yield percentage on fair market value of Shop.

$$\text{Rental yield} = \frac{\text{NET RENT PER ANNUM}}{\text{FAIR MARKET VALUE OF PROPERTY}} \times 100$$

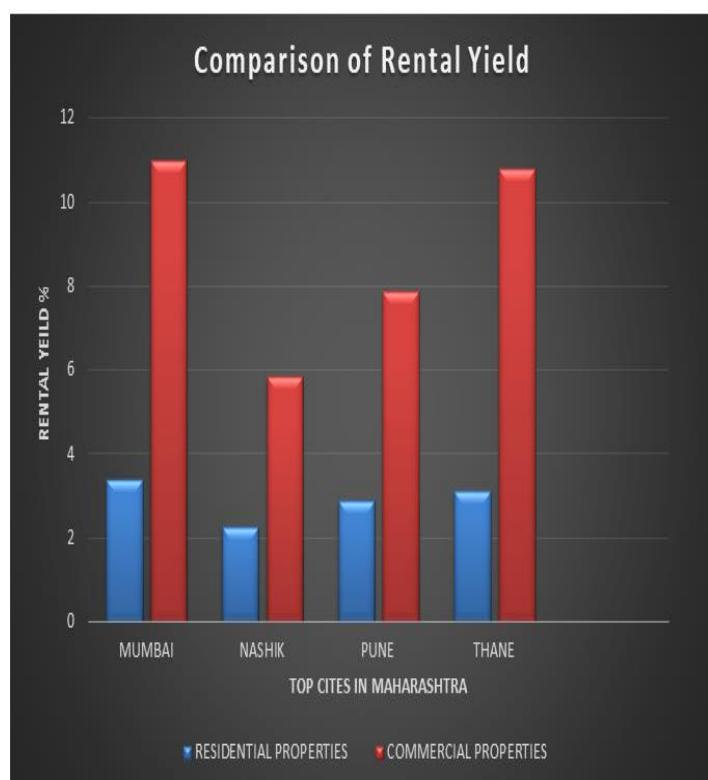
$$= \frac{212960}{3632500} \times 100$$

$$= 5.86\%$$

## 7. RESULT AND DISCUSSION

- This study aims to investigate on rental yield percentage in Nasik city. We try to calculate rental yield percentage comparison between residential property and commercial property on their fair market valuation property.

- The result of this study shows that rental yield percentage on residential flat is 2.26% while commercial shop has 5.86% rental return.
- This study shows that if an average investor invests in residential and commercial property simultaneously then he get a higher percentage of rental yield in commercial property
- The result of our study shows gross rental yield in Nasik city compares to other metro cities in Maharashtra like Mumbai, Thane and Pune is slightly low or equal to that. (The rental yield refers from housing.com , magic bricks)



**Here are some of the pros of buying commercial real estate over residential property.**

- i) Income potential
- ii) Professional relationships.
- iii) More objective price evaluations
- iv) Public eye on the property
- v) Public eye on the property

## Here Is The Downside Of Investing In Commercial Property.

- i) Time commitment.
- ii) Professional help required
- iii) Bigger initial investment.
- iv) More risk

## 8. CONCLUSION

The reality of the overall result of this work is that there are certain factors that affect the rent paid on the property. These factors determine the rent or increase charged by the landlord. From this it is not probable to say that the rent cost of an asset is the particular rent charged on the property as there are numerous factors that disturb the rental charges. Similarly, not all properties in a particular area ask for the same rent because the same factors that affect one property do not affect another. In each property, a person finds out the surrounding elements of what they can rent. Considering these factors, now the rent paid for one property cannot be the same for another owner. The important thing that makes the difference in rent is how the property is used. Collectively, the results of the analysis show that renting out commercial property is more expensive than renting out residential properties.

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## BIOGRAPHIES



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