

Problems and solutions of real estate valuation in terms of divided ownership rights of land and buildings”

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Abstract

Real estate valuation is comparatively new field of professional activity and all related questions in Latvia have been under-examined, especially those regarding to divided land and building valuation. This matter has become current only in the last years. As the real estate tax, land cadastral value and rent charge of land increase, the contradictions in situations of divided real estates have intensified due to mistakes made while reforms of land and privatization took place years ago.

In Latvia divided ownership rights are regulated by law “About reform of land in the cities of the Republic of Latvia”, and law “About reform of land in the countryside of the Republic of Latvia”, and regulations of the Cabinet of Ministers No.735 “Terms about national and municipal land rent”. Although in the field of real estate valuation discussions constantly take place and new solutions are being researched regarding the cases of valuation of divided ownership rights, however opinions of various experts still differ and the viewpoint of the Association of Real Estate Valuation in Latvia is disunited. In cases of divided ownership rights in Latvia lack unified real estate valuation system, so the real estate evaluators in Latvia in their work depend on their own experience and subjective point of view.

Keywords: real estate, valuation, divided ownership, municipal land rent, real estate tax, cadastral value

Introduction

In any situation, including separate ownership rights, a calculation of market value is made by one of the three generally accepted methods – comparative precedent method, income method or expenses replacement method. The valuation of real estates in Latvia is based on these three calculation methods.

There have been only few researches made concerning the matters of separate ownership rights of land and buildings. And this matter has become current only in latest years by the increase of the real estate tax, land cadastral value and rent charge of land. As well as the contradictions in situations of separate real estate have intensified due to mistakes made while reforms of land and privatization took place years ago. In Latvia separate ownership rights are regulated by law “Law On Land Reform in the Cities of the Republic of Latvia” and “Law On Land Reform in the Rural Areas of the Republic of Latvia”. There are constant discussions in the field of real estate valuation and new solutions are being researched regarding the cases of valuation of separate ownership rights, however opinions of various experts still differ and the viewpoint of the Association of Real Estate Valuation in Latvia is disunited.

Methodology of Research

The comparative method, historical approach method, data analysis and expert assessment method have been used in the study. The scientific research literature, scientific articles have been analysed, as well as the work with statistical databases.

Findings/Results

In Latvia, there is a lack of unified real estate valuation system regarding the cases of separate ownership rights, so the real estate evaluators depend only on their own experience and subjective point of view. Lack of ownership rights of the land under the building is considered a major encumbrance and such objects are not marketable, therefore a number of transactions of such objects are limited. To apply identical coefficient of the lack of land`s ownership rights in a calculation of

flat's market value would be inaccurate, because in the same housing estate the rent charge of land for the flats with a similar dwelling space may differ despite the lack of land's ownership rights. In calculation of the market value of dwelling houses the lack of land's ownership rights is included in evaluation with externals or economical depreciation that is made by the real estate evaluator and based on his own subjective opinion, because there has not been developed up a unified system regarding the evaluation of such objects. The problems arise in nonstandard situations, when the real estate evaluator has to resolve individually on the particular object and make a decision about the land's actual market value's assessment or regarding it as equal to a standard market model.

Conclusions

To examine real estate valuation problems in case of divided ownership rights of land and buildings, create suggestions by analyzing several real estate situations the author of this Paper faced in practice, and to analyze and calculate the value using the appropriate market value calculation methods in the particular situation.

Although in the field of real estate valuation discussions constantly take place and new solutions are being researched regarding the situations of valuation of divided ownership rights, however opinions of various experts still differ and also viewpoint of the Association of Real Estate Valuation in Latvia is disunited. In situations of divided ownership rights in Latvia lack unified real estate valuation system, so real estate evaluators in Latvia in their work depend on their own experience and subjective point of view. In Latvia separate ownership rights are regulated by law "Law On Land Reform in the Cities of the Republic of Latvia" and "Law On Land Reform in the Rural Areas of the Republic of Latvia".

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