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IMPROVING THE PRACTICE OF REAL ESTATE VALUATION TAKING INTO ACCOUNT THEIR PROFITABILITY

Abstract: *During the years of independence, huge changes have taken place in our country. An important step has been taken from a tightly centralized economy of raw materials orientation to a multi-layered economy oriented to the market. This made it possible to stabilize the macroeconomic situation, increase industrial production, reduce inflation, achieve economic independence for vital types of products and create favorable conditions for the development of free enterprise. The process of development of market relations in the republic has led to the emergence of the need for specialists who possess the skills to ensure the full functioning of market structures. This led to the emergence of a number of new professions, one of which was the profession of an appraiser - an expert in assessing the value of various property objects. This article discusses the theoretical aspects of the application of the income approach in the evaluation of commercial real estate.*

Key words: *market value, commercial real estate, investment object, real estate, economy, approaches to cost determination, profitable approach.*

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Introduction

Commercial real estate is currently an important investment object. The expansion of the private property sector in the Republic of Uzbekistan has led to an increase in the number of real estate transactions, which also indicates that the valuation of real estate is becoming increasingly important. Commercial real estate is considered from the position of an object potentially capable of generating income, being competitive, "working" with a return.

The assessment of commercial real estate by a profitable approach is that it largely reflects the investor's idea of real estate as a source of income, that is, this quality of real estate is considered as the main price-forming factor.

Main part

The study of real estate that can generate income has allowed us to identify two groups into which it is advisable to divide it. The target criterion for the allocation of two groups is the method of generating income [1]. So, the first group includes "classic" types of profitable real estate, or so-called typical. From the point of view of a way to generate income, it is enough for owners or owners of this type of real estate to have the right of ownership or lease, respectively. Managing such an object does not require much effort, that is, it is the properties of the real estate objects themselves that make it possible to generate income. Such objects include office premises, warehouses, shopping centers.

The situation with atypical profitable real estate is different. Having studied the market of this real estate, it was revealed that the fundamental factor of the ability to generate income is the quality management of the real estate object itself. Thus, these objects are carriers of a business that needs to be managed qualitatively in order to get results. Vivid examples of such real estate with business potential are hotels, fitness centers, car dealerships, etc. And since this is a business, it means that the sources of income are differentiated in contrast to the classic profitable real estate, where the main parameters are the rental area and the rental rate. Multiplying these indicators, we get the main source of income for a typical profitable real estate [2].

Within the framework of the income approach, the appraiser has the right to use both the capitalization method and (if the object brings stable, approximately equal income streams) and the discounted cash flow method (in the opposite case). The recurring recessions and crises of the economy, the desire for a developed real estate market - all this provokes its participants to constantly improve their tools for analyzing the formation of real estate value and its evaluation, as well as to study the influence of direct and indirect factors influencing the real estate market, present both in the market itself and in related areas [3]. At the same time, the development of the real estate market is accompanied by a large number of concluded purchase and sale transactions, and making decisions about investing in real estate. Objective results of determining the value of real estate, thus, become more relevant and in demand. The cost benchmarks of real estate objects require segmentation of the real estate market [4].

The economic content of the income approach and its methods applied to the assessment of commercial real estate. The income approach is fundamental when evaluating commercial real estate. The income approach is a set of valuation methods based on determining the expected income from the object of valuation. The income approach is based on an assessment of the investor's expectations regarding the future economic benefits of owning the assessed object. The income approach is based on the principle of expectation. The expectation principle states that an investor purchases real estate in anticipation of receiving income [5]. Thus, the higher the income potential of an asset, the greater its value. The second principle of the income approach is substitution. The maximum value of the real estate purchased by the investor should not exceed the minimum value of an analog with an equivalent yield [6].

The income approach in relation to a commercial real estate object is a procedure for estimating the value of a real estate object using the assumption that the market value of a real estate object is related to the current value of future net income that this object will bring. In other words, it is assumed that an investor purchases commercial real estate with today's money in exchange for the right to receive income from renting it out in the future. The profitable approach to the evaluation of commercial real estate is represented by two methods [7]:

1) income capitalization method – when using this method, the value of real estate is calculated based on the current annual income from its operation, using special coefficients reflecting the relationship between the values of real estate values and the level of their income on the market.

2) the method of discounting cash flows. When using this method, forecasts of income for a certain period in the future and the probable sale price of a commercial real estate object at the end of the period are made.

Then the current values of all future incomes are calculated and summed up using a special coefficient that reflects the risks associated with investing in this property [8].

Discounted cash flow settlement procedure:

- the revenue stream from the object of assessment is predicted.
- the discount rate is calculated.
- the residual value is determined in the post-forecast period
- the projected net income stream and the residual value are brought to the current point in time using the discount rate.
- the market value is equal to the current values of future income and residual value.

As part of the discounted cash method, it is necessary to build a forecast of cash flows for a given future period of ownership.

The following factors affect the duration of the forecast period:

- the probability of termination of the economic, physical and legal life of the object
- decrease in the reliability of the validity of calculations as they move away from the evaluation date
- the possibility of the estimated real estate object reaching a stable amount of income
- the presence of negative cash flows within the forecast period.

According to research, the average period of ownership of commercial real estate is 8-21 years. Different countries use different forecast periods: a 20-year forecast period is common in the Netherlands, a 10-year forecast period is common in the USA, and a 5-year forecast period is common in Russia [9]. The forecast includes the construction of econometric models based on the property market and includes the construction of econometric models that require certain skills [10]. To achieve an objective forecast, a high-quality source of information about the positions used in the calculations is needed. For example, when evaluating office real estate, information is needed on such parameters as GNP, employment, unemployment, operating expenses – all these are economic variables covering economic circumstances affecting the office market. If we take commercial real estate as an example, gross national product and retail sales will be the most significant indicators.

Discount rates, cash flows should be expressed considering inflation – in real or nominal terms. In practice, it is recommended to use nominal indicators [11].

The calculation of net income from the operation of commercial real estate objects begins with the calculation of potential gross income. It is necessary to determine the amount of total income that a commercial real estate object can bring, provided that the area is fully loaded. Then the actual gross income is calculated. It is also necessary to deduct losses from underutilization of areas. Since there are no specific standards for determining these losses in valuation activities, the most appropriate way to obtain information is to consider a similar commercial real estate object for which there is data on rental payments for a fairly long period of time, from which you can find out the level of losses in practice. However, this is possible only if there is a significant database of information on comparable objects [12].

Having analyzed international and national practice, we can offer the following types of contracts with an indication of the type of rent:

1) the rent is "all inclusive", that is, the owner of the property bears all operating costs, assuming the possible risk of an increase in these costs;

2) net rent, which, in turn, is subdivided:

- for the net rent of the first type, that is, the tenant pays the basic rent and his share of some operating expenses for the maintenance of the building;

- for double net rent – in this case, the tenant pays the same as in the first case, plus the costs of current repairs and maintenance of the building;

- for triple net rent – the tenant bears all operating expenses, including the costs of major repairs of the building.

Thus, if these types of rent are chosen, it is possible for the owner of the property to shift some of the variable costs associated with renting it out;

3) rent with a limit of expenses. In this case, the tenant and the owner of the property share the costs between themselves – the owner pays a certain fixed amount, and the tenant bears any costs in excess of it.

The choice of the type of rent, a detailed description of the obligations of the tenant and the owner of the property are prescribed in the lease agreement, which is signed by both parties and has the same legal force for them [13].

Conclusion

Real estate market risk reflects the likelihood that changes in supply and demand for a particular type of property may significantly affect the market level of rent, load factor and, accordingly, the amount of net operating income.

In the case of an assessment of atypical profitable real estate with business potential, the object of assessment is no longer a classic real estate with one source of income, but a complex of businesses with differentiated sources of income. And since this is a business, it means that the assessment methodology should consider the features of such real estate objects with business potential.

The assessment of commercial real estate by a profitable approach is that it largely reflects the investor's idea of real estate as a source of income, that is, this quality of real estate is considered as the main price-forming factor. Commercial real estate is currently an important investment object. The expansion of the private property sector in Uzbekistan has led to an increase in the number of real estate transactions, which also suggests that the valuation of real estate is becoming increasingly important. Commercial real estate is considered from the position of an object potentially capable of generating income, being competitive, "working" with a return.

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