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APPLICATION OF THE INCOME APPROACH IN THE ASSESSMENT OF COMMERCIAL REAL ESTATE

Abstract: During the years of independence, huge changes have taken place in our country (the Republic of Uzbekistan). 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. This article analyzes the regulatory legal acts in the field of real estate valuation Republic of Uzbekistan and 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

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. The importance of the role of this profession in the formation of a market economy has been repeatedly emphasized by the head of state. The development of appraisal services today has become one of the main directions of the formation of the service sector in the Republic of Uzbekistan along with legal, consulting, banking, financial, insurance and leasing services (resolutions of the President of the Republic of Uzbekistan PD-325 "On measures to accelerate the development of the service sector in the Republic of Uzbekistan in 2006-2010" dated 17.04.2006; PD-843 "On further improvement of the activities of appraisal organizations and increasing their responsibility for the quality of services rendered" dated 24.04.2008). The formation of assessment as a special type of activity has become an integral part of the overall process of reforming the economy and creating a democratic state governed by the rule of law.

Main part

As an independent type of appraisal activity in our country appeared with the beginning of the privatization of state facilities. In the future, the active development of privatization processes, the emergence of the domestic stock market, the development of the insurance system, the transition of

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commercial banks to issuing loans secured by property required the formation of a new service - a market valuation of property.

For the first time, an attempt to systematize the evaluation procedure, the requirements for the appraiser and the evaluation report, accounting for cost factors was made in the Regulation on the Procedure for Evaluating Intellectual Property Contributed as a Share to the Authorized Capital of an enterprise with Foreign Investments, registered by the Ministry of Justice on 20.01.1997 [1].

In the future, the systematization of the appraiser's activities was reflected in the valuation standards, which in 1997-1998, on the instructions of the State Property Committee of the Republic of Uzbekistan, within the framework of innovative programs of the State Committee for Science and Technology of the Republic of Uzbekistan, were developed and registered under the single name "National Property Valuation System" [2].

The use of market techniques for assessing property in these years can also be found in the instructions for determining the customs value of goods imported into the territory of the Republic of Uzbekistan, registered by the Ministry of Justice.

In accordance with this document, the determination of the customs value of goods should be carried out through the consistent application of methods based on the use of information on prices for identical or similar goods [3].

An important stage in the development of valuation activities and its harmonization with international rules and standards of market valuation was the adoption of the law "On Evaluation activities" dated 08.19.1999 [4]. At the same time, the law became the methodological basis for the activities of appraisers, introducing a number of fundamental concepts of market valuation, requirements for its procedure, and the preparation of an assessment report. The law established a transparent system of state regulation of activities through its licensing and standardization. It is also important that the law, regulating the rights, duties and responsibilities of appraisers, at the same time ensured their protection, granting the right to create professional associations and unions [5]. The first such professional public association "Society of Appraisers of Uzbekistan" was established in 1999.

Subsequently, before the approval of mandatory state standards, a number of regulatory documents regulating the evaluation procedure for special cases were adopted [6].

In 2001, the procedure was approved, according to which the estimated value of the property of denationalized (privatized) enterprises and privatized state assets was determined in accordance with the standards of the "National Property Valuation System of the Republic of Uzbekistan". The procedure established that the assessment should be carried out, as a rule, by three approaches: cost-based approach, income approach and comparative sales. This document took an important step towards the beginning of market valuation and the abandonment of regulatory (index) valuation methods, the only ones used up to that time for the valuation of state assets [7].

Commercial real estate is currently an important investment object. The expansion of the private property sector 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 [8].

The role of real estate in the economy is twofold: on the one hand, it serves as a resource for both business and social community, on the other hand, it is an object of investment by investors.

The study of real estate capable of generating 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 [9]. 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 [10]. 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 [11].

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 [12]. Multiplying these indicators, we get the main source of income for a typical profitable real estate.

The classical methods of the income approach for evaluating typical real estate generating income are the method of direct capitalization and the method of capitalization of income according to the rate of return on capital (the method of discounted cash flows - the DCF method). Both methods are based on the calculation of the net operating income associated with the assessed object [13].

The essence of the DCF method is as follows: the cost is determined by summing up the estimated future net cash flows of the object. The procedure for

bringing future cash flows to the valuation date is called "discounting" and it is carried out on the basis of market data on the availability of alternative investments.

In accordance with the theory of the value of money in time, mathematically speaking, the discount rate is the interest rate that considers the current market situation in the market, considering a set of risks and converts future profits to the current price level [14].

In economic terms, the discount rate is the minimum rate of final return that an investor claims when investing in profitable real estate, an object.

The size of the discount rate is associated with investment risk, and it is assumed that all investments are in the interval between full confidence in the payback of funds (zero risk) and complete uncertainty in their payback (infinite risk). Being at the moment of choice, an investor usually prefers investments with the lowest degree of risk or, on the contrary, expects higher returns on investments with a higher degree of risk [15].

The essence of the process of determining the value of an object by this method of capitalization of income is as follows: the value is determined by dividing the net cash flow of the object of valuation in the first year after the valuation date by the so-called "capitalization coefficient", which is determined according to market data or calculated by adjusting the discount rate by an amount depending on the change in the value of the object (the so-called "compensation fund factor").

The capitalization coefficient acts, in fact, as a parameter characterizing the difference between the valuation object and the market.

This method is actually a "collapsed" method of the income approach. In practice, it is most often used under the assumption that the discount rate is constant and the cash flow changes over time according to a certain scheme

In practice, this method is used as a universal method for calculating the current value of future cash flows.

As for the forecast, within the framework of the DCF, it is necessary to make a forecast of cash flows during a given future period of ownership. Studies show that the average period of ownership of a typical income-generating property is on average 8-12 years. Although, for example, in Germany, the average period of office ownership is 23 years, and in the UK, it is less long – 10 years.

The initial stage of real estate valuation using the income approach within the framework of two methods is the calculation of income from its operation. The most widespread and typical form of this type of income for objects of classic profitable real estate is rent.

Conclusion

In conclusion, we would like to note that evaluation activities in the Republic of Uzbekistan and its regulatory and legal regulation have developed quite actively in the republic. The sequence of accepted documents and their contents characterize the state and understanding of the theory and practice of market valuation by the society at the date of adoption of each document.

Today, more than a hundred appraisal companies operate in the republic, in which there are about six hundred professional appraisers who have received special training in educational centers and have state certification.

When applying the income approach, the possibility of extracting income from the use of a real estate object is evaluated, and the analysis of the most effective use of valuation objects is also carried out. At the beginning, the income stream from this real estate object is calculated, then the level of operating expenses arising from the operation of the assessed property is determined. The disadvantages of the method include the complexity of application in the evaluation of non-commercial real estate, the problematic forecasting of future income due to the large number of risks and the frequently changing situation in the real estate market.

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