

Cost Approach for Valuation of Real Estate



Basis of the **Cost Approach**:

- The cost approach is a method used to determine the **value of real estate properties**.
- It assumes that a potential property buyer should **pay a price equal to the cost of constructing** an equivalent building.



Rationality of the **Approach**:

- It is based on the idea that it doesn't make sense to pay more than the cost of building an equivalent property from scratch.
- It is sometimes referred to as the contractor's valuation method.



Formula for Calculation:

The formula for calculating the cost approach is:

$$\text{Property Value} = \frac{\text{Replacement}}{\text{Reproduction Cost}} - \text{Depreciation} + \text{Land Value}$$

Non-Reliance on Comparable or Revenue:

Focuses on the current construction cost, assuming the existing structure is to be destroyed and rebuilt, considering land value, less any loss in value.



The steps in the **cost approach method** of Real Estate Valuation

- Estimate the reproduction or replacement cost of the structure.
- Estimate the depreciation of the improvements.
- Estimate the market value of the land.
- Deduct the accrued depreciation from the reproduction/replacement cost.
- Add the depreciated cost of the structure to the estimated value of the land.

Result:

This approach ensures that we provide a **fair and a reliable valuation** of real estate properties.



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Valuation Services.**

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valuation needs.**

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