

Working Reserve Price/ Average land development Cost

The Methodology of working out of Reserve Price Average Development Cost of Saleable Land

The Methodology adopted by CIDCO till 1983-84, for working out the Average Development Cost/Reserve Price of land of each Node was through “Absolute Method” i.e. by considering all the Balance expenditure to be incurred in the Project (towards land development only) and this absolute figure divided by the Saleable Area, the Average Development Cost of Saleable Area is works out. This called Absolute Method.

However, in order to develop a full-fledged Township the Balance expenditure incorporating in the Project Report do not occur at a single point of time but to spread over to several years.

Though the periodical evaluation of the projected Expenditure and the Receipts will help us to find out the Over all Cost of development at a point of time, but this method suffers from the basic flow of eluding the time elements which is not taken into account adequately while fixing the Reserve Price.

In such a situation well established method which is been suggested by Dr. Kasbekar (Ex. Chief Secretary of Maharashtra Government), who had formulated a New Approach to the pricing of land i.e. to use the Present Worth Concept.

The Present Worth Concept

The method based on the present worth approach will be more suitable and appropriate to ascertain the correct cost of development and thereby the land price at any point of time. This means at a given point of time it is necessary to add up compounded value of all the net yearwise past expenditure, and adding there to the discounted value of the estimated yearly future cost. Both sets of calculation are carried out at CIDCOs Average borrowing rate.

Dividing the present worth of the Total Recoverable Cost so arrived by the Balance Saleable Area, at any point of time will give the Reserve Price of the land of any node.

Hence, Reserve Price is the Break Even cost of Land and Land Development Cost / its present worth divided by its Saleable Area / Balance Salable Area at any point of time. This is in other words, Average Land Development Cost without profit.

Since 1985 CIDCO had been following this method of Present Worth Concept for fixing the Reserve Price of land through Revision of Reserve Price in each Node periodically

RESERVE PRICES OF ALL NODES ARE UPDATES EVERY YEAR AS A MARKETING STRATEGY ALSO.