IJDIAS International Journal of Discoveries and Innovations in Applied Sciences
| e-ISSN: 2792-3983 | www.openaccessjournals.eu | Volume: 1 Issue: 5

Determination of the Composition and Amount of Costs When Evaluating Real Estate Objects, the Sequence of Determining the Cost of New Construction

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ABSTRACT:

The article presents the system of pricing for construction and the main tasks of determining the composition and size of costs in the evaluation of real estate, the approximate cost of construction. Other costs include the costs of construction and maintenance of temporary buildings and structures, the costs of technical control, other work and costs, as well as the sequence of determining the cost of new construction.

KEYWORDS: cost, estimate, price, Estimated cost, construction, estimated norms, Local estimates, Object estimates, Consolidated estimated calculations of the cost of construction

The cost approach of evaluating real estate properties is based on the assumption that the cost of a property should be equal to the cost of building a similar property from scratch. The cost of building a real estate property includes the value of the underlying land and the value of site improvements and constructions, less the depreciation cost of the improvements.

The main objectives of the pricing system and estimated rationing in construction are:

- formation of contractual (free) prices for construction products, their economic optimization and state regulation through prices for certain types of resources;
- providing a complete set of estimated standards (piecemeal and enlarged) and various conditions for their application;
- determining the cost of construction at various stages of the life cycle.
- Construction cost estimation is carried out at :
- development of pre-project or project estimate documentation by order of investors – investor estimates (calculations, cost calculations);
- preparation for the conclusion of a contract for capital construction by the contractor or by its order by the project organization on the basis of the tender documentation announced by the investor – estimated and normative calculations (estimates, production costs) of the contractor.

In the practice of real estate valuation, the cost structure depends on the stages of the life (investment) cycle of the construction object and is divided into the costs of the contractor and the customer (investor).

The estimated cost of construction is the amount of costs required to create an object in exact accordance with the project. On the basis of the full estimated cost, capital investments are distributed over the years of construction, sources of financing are determined, and free (contractual) prices for construction products are formed.

The basis for calculating the cost of construction:

- Project and working documentation (RD);
- current estimated (including resource) standards, as well as selling prices for equipment, furniture and inventory;
- individual decisions of the central and other public administration bodies related to the relevant construction project.

If there are no necessary estimated standards in the available regulatory and information base, then in some cases it is possible to make individual estimated standards.

ISSN 2792-3983 (online), Published under Volume: 1 Issue: 5 in October-2021

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The estimated cost of construction includes the following elements

- construction works;
- installation of equipment (installation work);
- costs for the purchase (manufacture) of equipment, furniture and inventory;
- other costs.

To determine the estimated cost of construction, the estimated documentation is compiled, consisting of local estimates and local estimates, object estimates and object estimates, estimated calculations for certain types of costs, summary estimates of the cost of construction, cost summaries and other documents.

Local estimates are primary cost estimates that are compiled for individual types of work and costs for buildings and structures, as well as for general site work on the basis of developed working documentation.

Object estimates accumulate data from local estimates and allow you to form consolidated (contractual) prices for construction products.

Summary estimates of the cost of construction are made on the basis of object estimates and estimates for individual types of costs.

The structure of the estimated cost of new construction as part of the draft working documentation includes mainly the costs of the contractor and consists of five components:

Sstr. = PZ + NR + MON + Zt + PrZ, (1).

where Sec. - estimated cost of new construction;

PZ-direct costs;

HP-overhead costs;

MON-estimated profit (planned savings);

Zt-costs for the purchase of technological equipment, furniture and inventory;

PrZ – other costs associated with additional costs in the production of construction and installation works in the winter, the cost of construction of temporary buildings and structures, etc.

Direct costs are costs that include the basic wages of workers, material costs (materials, structures and products, energy resources, transport services), the operation of construction machines and mechanisms, and other costs.

Overhead costs include administrative and managerial expenses, expenses for servicing construction workers, expenses for organizing work on construction sites, and other overhead costs, including payments for mandatory risk insurance.

In the practice of estimated calculations, direct costs are determined by the formula:

$$PZ = \sum_{i=1}^{n} Vi \times ERi \ ,(2).$$

where: Vi - volumes by type of work;

ERi - single prices for certain types of work.

In contrast to direct costs, overhead costs are normalized indirectly as a percentage of the selected calculation base:

- the wage fund as part of direct costs;
- estimated cost of direct costs (base cost).

And their size depends on the type of construction (industrial, civil, agricultural, large-panel, water management, energy, and other industries).

The costs associated with the implementation of this decision correspond to the lost profits that could have been obtained as a result of the implementation of the best possible alternative solutions.

The measure of this cost is:

ISSN 2792-3983 (online), Published under Volume: 1 Issue: 5 in October-2021

1. The replacement cost, or total replacement cost, is the cost of replacing a given asset. Possible determination of the replacement cost:

- based on the original cost;
- based on the residual value.

2. Liquidation value-represents the income / loss possible in the event of sales of this asset:

- at a favorable market price with a profit for the seller;
- forced sale (below the price requested by the seller, and sometimes below the purchase price).
- Since this estimate is not realistic under normal circumstances, it is only applied in two cases:
- when assets have lost their usefulness, become obsolete, or do not find normal demand;
- when the company expects to cease operations in the near future, losing the ability to sell its assets on the regular market.

3. Economic value – the income /loss received when using this asset as a result of the implementation of the best possible alternative solutions. The economic value can be calculated:

- based on the revenue or profit received from the use of the asset;
- for "alternative" income that may be derived from other uses of the asset.

Since real estate is nothing but a commodity that is exchanged for money, it is obvious that market prices (exchange prices) should be relevant to the external reporting of the enterprise.

Market prices are determined by markets, but the enterprise always operates in two markets and, therefore, deals with two types of prices-buying and selling, each of which can be expressed in three temporal aspects.

Table 2 shows the six main types of market prices.

Table 2 Evaluation bases

	Evaluation time.	Type of exchange	
		Purchase price.	Cost of disposal.
	2	3	4
	The past	Asset value	Last sale price
	Present	Cost of asset replacement	Current selling price
	The future	Expected future costs associated with asset replacement	Expected cost of implementation

In practice, each of the six listed price types is used at its own time.

Cost – the aggregate price paid by an enterprise for the acquisition of ownership and ownership of an asset, including all payments for its delivery, installation and commissioning.

The cost price as a real estate valuation has a significant advantage, consisting in the fact that it represents the price of a real transaction, that is, it can be verified.

One of the main disadvantages of the cost price is that the value of the property can change over time: after a long period of time, it may lose its value as an estimate of the potential or as the current market price. This is due to the length of the asset's useful life: the larger it is, the stronger the cumulative result of the price change since the acquisition.

The direct costs of the developer are equal to the estimated cost of construction (contractor) and include all the components of the formula (1).

Indirect costs are costs that arise in the pre – investment and investment phases of the project and are necessary for the organization and maintenance of the construction process. These include:

- costs associated with pre-investment use and project planning (feasibility study);
- remuneration for the development of design and estimate documentation;
- expenses related to obtaining a permit for construction and installation and special works;
- tendering and contracting for contract work and equipment supply;

ISSN 2792-3983 (online), Published under Volume: 1 Issue: 5 in October-2021

- costs of registration of ownership and other expenses;
- legal services;
- insurance costs;
- the cost of servicing the loan for construction and installation works;
- advertising and sales clearance costs;
- overhead costs of the developer and others.

The entrepreneur's profit is a function of the customer's risk and depends on the type of project and the specific market situation. The entrepreneur's profit comes in the form of a premium that he expects to receive for using his risk capital invested in a construction project.

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ISSN 2792-3983 (online), Published under Volume: 1 Issue: 5 in October-2021