

Market Value (Property Insurance)

What does this mean?

Market Value is the price at which a property could be sold in the real estate market at a given time.

It reflects the total value of the property, including the **building and the land**, based on factors such as location, demand, property age, and market conditions.

In simple terms, market value is the selling price of the property.

Why is this Important?

Represents real estate worth

Market value shows how much a buyer would pay for the property.

Used in property buying and selling

Banks, buyers, and sellers rely on market value during transactions.

Different from insurance value

Insurance usually uses reinstatement value (rebuilding cost), not market value.

Helps understand underinsurance risk

Many people mistakenly insure property based on market value instead of reconstruction cost.

How does it Work in Insurance?

Market value is not usually used to calculate the Sum Insured for buildings.

Insurance focuses on rebuilding cost, not resale price.

However, some policies may settle claims based on market value (especially older properties or depreciation-based policies).

If market value basis is used, depreciation is deducted before claim payment.

What Factors Affect Market Value?

Key factors

Location of the property

Land value and demand

Property age and condition

Nearby infrastructure and amenities

Real estate market trends

Supply and demand

Market value can increase or decrease over time.

Market Value vs Reinstatement Value

Market Value

Includes land value

Based on property selling price

Affected by real estate demand

Used in buying and selling

Reinstatement Value

Excludes land value

Based on rebuilding cost

Used for insurance coverage

Reflects construction expenses

Insurance normally uses reinstatement value, not market value.

Where is Market Value Used?

Market value is used for:

Buying and selling property

Home loan approvals

Property taxation and valuation

Real estate investment decisions

It is not the primary basis for property insurance.

When Should You Know Market Value?

You should know market value:

When buying or selling property

When applying for a home loan

When evaluating property investment

When reviewing overall financial assets

Simple Example

A house has a market value of ₹1.2 crore.

The land value is ₹70 lakh, and the building reconstruction cost is ₹50 lakh.

For insurance, the property should be insured for ₹50 lakh (reinstatement value), not ₹1.2 crore.

Key Points to Remember

Market value is the selling price of property

Includes both land and building

Not usually used for insurance coverage

Insurance uses rebuilding cost instead

Changes based on real estate market conditions

Simple Summary

Market value is the price a property can sell for in the real estate market, including land and building, and is different from the rebuilding cost used in insurance.