

Property Valuation in Bangladesh as a Mortgage Instrument : The Engineer's Critical Role

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Engr. Mohammad Anwar Hossain : In Bangladesh's fast-growing real estate and banking sectors, property valuation has emerged as a cornerstone of mortgage financing. Whether for home loans, commercial investments, or industrial development, banks rely heavily on accurate property assessments before approving credit. At the heart of this process are professional engineers, whose technical expertise ensures that lending decisions are grounded in reality.

Why Property Valuation Matters

When a borrower seeks a loan using land or a building as collateral, financial institutions must determine how much that property is worth. This valuation directly influences the loan amount, typically a percentage of the property's market value. In Bangladesh, lenders are guided by regulations from the Bangladesh Bank, which emphasize risk management and prudent lending practices.

Without proper valuation, banks face the risk of over-lending, while borrowers may either be denied fair access to credit or take on unsustainable debt. Accurate valuation thus serves as a safeguard for both parties.

Engineers at the Center of Valuation

In Bangladesh, property valuation is often conducted by civil engineers enlisted with banks or affiliated with professional bodies like the Institution of Engineers Bangladesh. Their role extends beyond simple estimation—they perform detailed site inspections, analyze construction quality, and evaluate structural integrity.

Engineers also consider factors such as location, accessibility, land classification, and market trends. Their technical training allows them to assess not only the current condition of a property but also its long-term durability and value.

How Valuation Is Done

Valuation in Bangladesh generally combines three approaches. The market comparison method examines recent sales of similar properties in the area. The cost approach calculates the value of land plus construction cost, minus depreciation. For income-generating properties, such as rental buildings, the income approach estimates value based on expected returns.

In practice, engineers often use a hybrid method, balancing these approaches to arrive at a realistic figure.

Market Value vs. Forced Sale Value

A key concept in mortgage valuation is the distinction between market value and forced sale value. Market value reflects the expected price under normal conditions, while forced sale value assumes a quick sale under financial distress. Banks typically lend based on the lower forced sale value to minimize risk, ensuring that the loan can be recovered even in adverse situations.

Documentation and Legal Verification

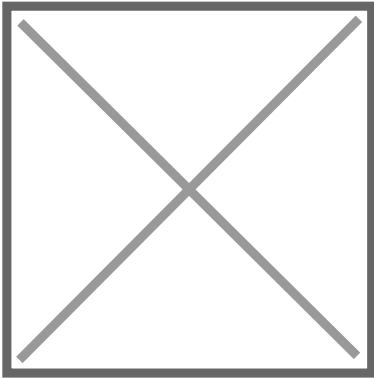
Valuation is not limited to physical inspection. Engineers also review critical documents such as title deeds, mutation records, and approved building plans. Given the complexities of land ownership in Bangladesh,

verifying legal authenticity is an essential part of the process.

Challenges in the System

Despite its importance, property valuation in Bangladesh faces several challenges. There is no centralized database for property prices, making market comparisons difficult. Land records are sometimes inconsistent or disputed, and valuation practices can vary between professionals.

These issues can lead to discrepancies in property values, affecting both lenders and borrowers. Experts have long called for standardized guidelines and digital land management systems to improve transparency.



The Way Forward

As Bangladesh's economy continues to expand, the demand for reliable mortgage systems will only grow. Strengthening the valuation process—through better training, regulation, and data availability—will be key to sustaining this growth.

Engineers, with their blend of technical knowledge and practical insight, will remain central to this effort. Their role ensures that property valuation is not just a financial exercise, but a disciplined, evidence-based process that underpins trust in the country's banking system.

In the evolving landscape of real estate finance, accurate property valuation stands as both a shield against risk and a bridge to opportunity.

Property Valuation as the Backbone of Mortgage Lending

In the banking sector, property valuation is not just a procedural requirement—it is a strategic financial tool. Banks depend on valuation reports to determine how much loan can be safely issued against a property. This forms the basis of the **Loan-to-Value (LTV) ratio**, which ensures that lending remains within acceptable risk limits.

When valuations are accurate and market-reflective, banks can confidently extend credit, businesses can invest, and individuals can access housing finance. However, if valuations are inflated or inconsistent, it can lead to excessive lending, asset bubbles, and ultimately financial instability.

Link Between Valuation and Economic Stability

Property valuation in Bangladesh is influenced by several economic and structural factors: The Bangladesh Bank serves as the central bank, responsible for maintaining monetary stability, managing foreign reserves, and regulating the financial sector to foster economic growth. The bank has been actively working since 2017 to develop a Residential Property Price Index (RPPI) to better assess risks in the real estate market and its linkages to financial soundness. The Bangladeshi economy has experienced varying growth rates, with GDP increasing by 1.66% to US\$459 billion in FY24. However, recent data indicates a slowdown in growth to 3.49% for the 2024-2025 fiscal year, transitioning from a frontier to an emerging market status.

A well-functioning valuation system contributes to economic health in several ways:

1. Credit Flow and Investment Growth

Accurate property valuation enables banks to extend loans efficiently. This promotes investment in housing, infrastructure, and commercial development—key drivers of economic growth in Bangladesh.

2. Risk Management in Banking

Proper valuation protects banks from non-performing loans (NPLs). In the event of borrower default, the bank relies on the collateral's real market value to recover funds. Overvaluation increases the risk of financial loss, weakening the banking sector.

3. Market Transparency and Confidence

Standardized valuation practices improve transparency in the real estate market. This builds trust among investors, developers, and financial institutions, encouraging both domestic and foreign investment.

4. Prevention of Asset Bubbles

Unchecked or manipulated property values can inflate real estate prices beyond their true economic worth. A disciplined valuation system helps prevent such bubbles, safeguarding the broader economy.

Regulatory and Institutional Framework

In Bangladesh, property valuation for mortgage purposes is guided by regulatory and professional standards. The central bank plays a vital role in ensuring financial discipline, while valuers follow both national and international guidelines.

Key frameworks include: Guidelines and supervision by Bangladesh Bank, Compliance with BNBC-2020 for building safety and classification, Adoption of international valuation principles (IVS), Oversight by local development authorities such as RAJUK, CDA, KDA, and RDA

These institutions collectively ensure that valuation practices remain consistent, reliable, and aligned with economic realities.

Common Valuation Approaches Used by Banks

Banks in Bangladesh typically rely on three internationally recognized valuation approaches:

1. Market (Comparative) Approach

This is the most commonly used method, where valuers compare the subject property with recently sold similar properties. It reflects actual market conditions and is widely accepted for residential mortgage valuation.

2. Income Approach

Used mainly for commercial or rental properties, this method evaluates the property based on its income-generating potential. It is particularly relevant for shopping complexes, office buildings, and mixed-use developments.

3. Cost Approach

This method estimates the cost of rebuilding the property, minus depreciation, and adds the land value. It is useful for new buildings or specialized properties where comparable sales data is limited.

Challenges Affecting Economic Health

Despite its importance, the property valuation system in Bangladesh faces several structural challenges: Lack of a centralized and transparent property transaction database, Variations in valuation standards and practices, Influence of informal market pricing, Legal disputes and unclear land ownership records. These

challenges can lead to inconsistent valuations, affecting loan quality and increasing systemic risk in the banking sector.

The Way Forward

To strengthen the link between property valuation and economic health, several measures are essential: Development of a national property price database, Digitalization of land records and ownership systems, Standardization of valuation practices across institutions, Continuous training and certification of professional valuers, Stronger regulatory monitoring and compliance enforcement

Conclusion

Property valuation is far more than a technical exercise—it is a critical economic instrument that underpins the mortgage system and supports the entire banking sector in Bangladesh. The health of the economy depends significantly on how accurately and transparently properties are valued.

A robust valuation system ensures prudent lending, reduces financial risk, and promotes sustainable development. As Bangladesh continues its journey toward economic growth, strengthening property valuation practices will be essential to maintaining financial stability and building long-term investor confidence.