VALUATION OF LARGE EXTENT OF LAND

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1.0. Preamble

Large extent of land used to describe the land that is larger in size or area, in comparison with the smaller extent of land area, sale price, and importance of usage.

Due to demand in real estate sector and rapid urbanization, larger plots hold immense potential on investment and development. The value of large extent of land has always been a subject of maneuvering and guesswork.

The land can be under

Ownership - Single /HUF / joint / divided / undivided / trust / company.

Located in urban / rural /forest area / rocky area /hill area.

It can be any type depending on the usage of land and land extent.

Sale price depends upon the nature of land and utility purpose.

Based on the classifications, various factors influence on the property value.

2.0. Land classification

Land classification is basically providing information on the type of activity taking place on the land and categorizing it.

- The land uses are of different types such as for
- industrial use,
- residence use,
- rural,
- urban,
- water reserves,
- Agriculture area, etc.

2.1. Kerala can be divided into 3 Geographical regions.

1) Highlands, 2) Midlands and 3) Low Lands.

The High lands slope down from the Western Ghats, with many number of peaks. This is the area of major plantation cultivable lands.

2.2. Kerala Land Reforms Act

- An individual can hold 7.5 acres.
- Family of 2 to 5 members: 15 acres.
- Trust, company, or body of individuals: 15 acres.
- Only an agriculturist can buy agricultural land and the maximum ceiling limit for such land is 54 acres.

3.0. Land classifications

Land classifications - Agricultural land in both urban and rural areas

3.1. Wet (Nilam) dry (Purayidam), and plantation lands.

The property remains classified as 'Nilam' in the revenue records and title deed. These lands cannot be used for any purpose other than agricultural.

Kerala Wet Land and Paddy Land Act, 2008: The conversion of land from paddy land to dry land or garden land is not permissible under this Act. There is no provision in the Land Utilization Order, 1967 that presumes paddy land converted without specific permission.

3.2. Plantation crops: Perennial crops that are grown on a large scale under any ownership. They are also known as cash crops. Examples are rubber, tea, coffee, oil palm, coconut, and spices like black pepper, cardamom, and cloves.

BTR stands for Basic Tax Register in real estate, kept in the village office to know the nature of property and who is the land owner. From BTR the valuer can know it's a agriculture land or residential land to avoid issues in future.
Kerala Revenue Land Information System

ReLIS is a web application devised by Kerala Revenue department for enabling online integration with Registration and Survey departments thereby creating an electronically enabled backbone for the effective management of land records in the state.

Remember: These are referred to as large extent lands. Locked land principle cannot be applied. Valuation will be based on income fetching mode only as well as on sale comparable method.

3.3. Non-agricultural lands in both urban and rural areas

Non-Agricultural land can be classified into residential, industrial or commercial or Institutional such as hospitals, schools, libraries, auditoriums, and office complexes.

3.4. Wasting assets lands: Brick kiln lands, prawn fish culture lands, tannery lands, mines and quarries.

3.5. Market value

For developing a Non-Agricultural land (residential, industrial or commercial or Institutional such as hospitals, schools, libraries, auditoriums, and office complexes), a large extent of land is required.

And when the large extent of lands are offered for sale in an open market, NO willing prudent purchaser would come forward to purchase that vast extent of land on sqft or sqm basis.

Reasons

❖ Sale of bigger plot fetches less consideration than smaller piece of land.

❖ The nature of soil and location of land, infrastructure availability, zoning regulations, situation and size and shape of the land, the rise of fall in the value of the land in the locality, adaptability, advantages, and the purpose for which the land can be used in the most lucrative way affects the market value.

❖ Present potential - Demand & supply, future market trends, Investor sentiment / influence, and the locality are the relevant factors that affect the market value.

4.0. General Factors considered for land valuation purpose

Economic/ social/ legal aspects

- Micro & Macro: Economic growth, population demographics, migration pattern
- Investor sentiment/influence
- Present potential-demand & supply, and future market trends
- Zoning regulations
- Environmental considerations
- Permissible land use/ building rules/ restrictions
- Legal constraints & Encumbrance
- Change in the Government Policy
- Political uncertainty

Physical / technical aspects

- ❖ Location - Proximity to a road
- ❖ Situation of the asset rural/urban
- ❖ Infrastructure availability/ accessibility
- ❖ Proximity to urban centers - schools/ colleges/commercial zones/ transportation)
- ❖ Size/shape/frontage/return frontage/landlocked/narrow strip
- ❖ Nature of land – Topography & Soil quality
- ❖ Development expenditures for roads, sewerage, electricity, parks (OSR), water, etc.

5.0. Valuation requirements

- ❖ As a going concern status (Premises with existing use) – When the asset is mortgaged to the bank as primary / collateral security
- ❖ On liquidation process (As-is, where-is basis) or Forced Sale - when the borrower becomes a defaulter, the asset mortgaged turnoff in to a NPA.
- ❖ Proposed Project feasibility Report (HABU status) - for Financing the project. (Physically possible, financially feasible and legally permissible - Zone classification, checking the proposed building plan & viability of the proposed project according to land classification, location, cost of construction and income projection on completion – all three valuation approaches)
- ❖ Stage Inspection & Completion Report - Periodical distribution of loan, which requires stage inspection as well as on the completion status of the project and, on the cost overrun on the project (all the 3 valuation approaches).
- ❖ Taxation purposes – Income tax & Companies Act

6.0. Method of Valuation

6.1. Market direct comparison method

This method is feasible, when the sale instances of similar open large piece of land in the locality is available, for direct comparison purpose.

6.2. Belting method

The belting method is a widely used valuation technique that divides a land parcel into concentric belts perpendicular to the road frontage.

6.3. Development method

This method is possible, if a property is not fully developed or under-utilized or of inferior use, to get best and high use and where no prior sale instances available.

6.3a. Residual method - Hypothetical plotting scheme

This method is viable, where the sale instances of similar open large piece of land in the locality for direct comparison purpose is unavailable to find out land rate with the help of a proposed hypothetical plotting scheme.

In cases, where sales of developed properties available, this method provides the probable land value in the locality.

6.3b. Residual method – Hypothetical Building Scheme

This method is achievable, in case of income fetching properties, where the sale instances of similar open large piece of land in the locality for direct comparison purpose is unavailable.

The hypothetical building scheme is developed permitting to location, shape, size, infrastructure availability, zoning regulations, land use, building rules, restrictions, legal constraints, encumbrance and environmental considerations as the factors of adjustments.

6.4. Sales comparison method

A comparable sale instance has to be identified having regard to the proximity from time angle & proximity from situation angle.

7.0. Belting method

The belting method is a used by dividing a large extent of land into concentric belts perpendicular to the road frontage. Each belt is assigned a unit rate, and the area of each belt is multiplied by the respective unit rate to arrive at the total value of the land.

Belting is resorted to value a large sized land when only smaller plots comparable are available in market. In such cases a direct comparison of value with small sized plot may not be effective in estimation of large land extent value.

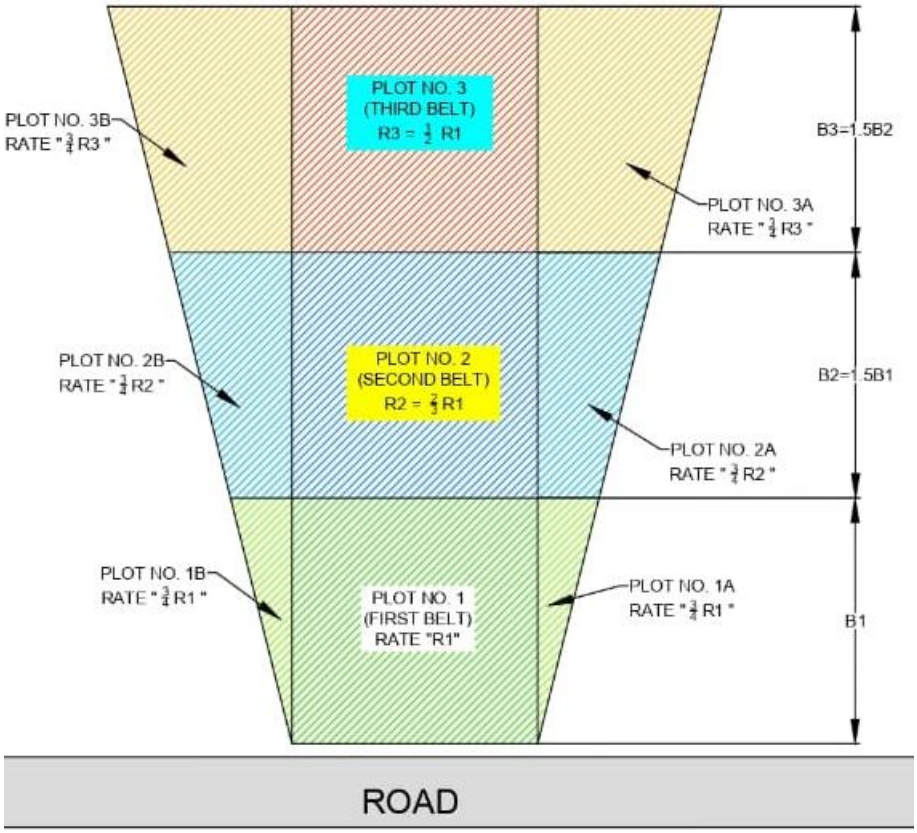
Difference in size, location and fluctuation of land value of plots comes into picture in valuing. There may be a fall in value of the rear plot away from the road compared with the value of the front plot just on the roadside.

7.1. Usage of land

The land use character of the neighborhood dictates the rate of fall in rear land value as compared with the front land. Front land on a road may be suitable for a commercial use and rear land is suitable for residential use. The front land have the advantage of direct connection with infrastructure facilities from the main road. (Expense is less and price is more)

However, for the rear land expense is more and price is less (ie) more cost is involved for having these facilities from the main road.

No rigid rule can be set for the plot depth and rate of fall in value.



The first belt is assumed as a notional division based on the comparable sale instance smaller plot.

The middle or second belt can be 1.50 times the first belt and third belt 2.25 times.

Depth is assumed with reference to the frontage comparing the neighborhood plots sold.

The different belts are split in to smaller plots of even size and valued in comparison to the sale price of neighbourhood plots.

The unshaped portion are estimated at a lesser price considering the general demand in that area and in accordance to the land development regulations.

7.2. Some basic norms for applicability of belting method:

- ❖ Plot area must be large to be divided in smaller plots & different belts
- ❖ No comparable sale in locality for similar large size land. Comparable sale instances available for smaller plots only
- ❖ Land should be in an underdeveloped area
- ❖ Depth of the plot must more than the frontage or width.
- ❖ Access to this land is only on one side only
- ❖ The subject large size land must be in single ownership title. Clubbing different ownership title lands at different distance from road cannot be valued by belting method.

Remarks: This method may not be applicable for lands situated within the city/ town limits.

Ref: Supreme Court (BESCO Limited vs State of Haryana & Others - Civil Appeal No. ---- of 2023 (Arising out of SLP (C) No.4872/2022))

The subject lands are acquired under one notification and the plan brought on record evidences the location and proximity to development in and around the acquired land. The belting of area for valuation would be incorrect. We reject the argument of the State.

8.0. IVS 410 Asset Standard - Development Property

IVSC Section 100.1. Check list for valuation of a development property before a project commences:

(a) market potential for the proposed development,

(b) proposed development is HABU in current market,

(c) any non-financial obligations (political or social criteria),

(d) legal permissions or zoning, - conditions or constraints on permitted development,

(e) limitations, encumbrances or conditions imposed

(f) rights of access to public highways or other public areas,

(g) geotechnical conditions, including potential for contamination or other environmental risks,

(h) availability of, or improve needed for services,

(i) need for any off-site infrastructure improvements and the rights required to undertake this work,

(j) archaeological constraints / archaeological investigations required,

(k) sustainability and client requirements in relation to green buildings,

(l) economic conditions, trends & potential impact on costs & receipts during the development period,

(m) current / projected supply and demand for proposed future uses,

(n) the availability and cost of funding,

(o) the expected time required to deal with preparatory matters prior to starting work, for the completion of the work and, if appropriate, to rent or sell the completed property,

(p) any other risks associated with the proposed development.

9.0. Development Method

The development method is based on the Residual Techniques (indirect method) of the subject property under valuation.

Hypothetical Plotting Scheme and Hypothetical Building Scheme are the methods used for large extent of land, when the land developed for use for building purpose, it possesses necessary potentialities for urban use.

9.1. Hypothetical Plotting Scheme

This method is adopted, where there is a large sized land,, and the total unavailability of sale instances of similar open piece of land in the locality are for direct comparison purpose to find out land rate. As against this, sale instances are available for smaller size of subdivided plots in the same or nearby locality.

❖ Like belting theory, there are similar preconditions for applicability of this scheme also.

❖ This method is more scientific and rational method of valuing very large size plots under one ownership.

❖ Clubbing different ownership title lands at different distance from road cannot be valued by this method.

❖ Access to large size land is only by road on one side only.

❖ Difference in size, location and fluctuation of land value of plots comes into picture in valuing.

❖ Depth of the original land should be considerably more as compared to road frontage (Width).

❖ Plot should be in developing area of town where demand for housing site exists.

❖ It should not be in fully developed area of town, or land should be in an underdeveloped area.

❖ The plot should be of sufficiently large size area so that it could be divided into several small size plots, similar to plots in sale instances.

❖ Small plots made will be with access from internal layout road of the scheme

9.1.1. Development Planning

The plotting scheme involves planning housing sites in plots, internal roads and other utility services with an allocation of OSR in the plot. All the Economic, social, physical and legal factors are reviewed before planning of the hypothetical plotting scheme.

Layout preparation: prepare a hypothetical layout, subdividing the large land in to small size plots as house sites with maximum area in saleable plots after observing Development Control Rules. (DCR)

Roads, services & Amenities: The internal road network and amenity space should be planned as per provisions of development control rules applicable to the town.

Amenity space (OSR) should be centrally provided so as to benefit maximum number of plots in the layout. Generally as per DCR, 10% or 15% of the total area is required to be provided for this purpose.

Subdivision of Plot Area: Area of the small plots (House sites) in the layout should be as per general demand in the area. It all depends on local conditions and need of people in the concerned locality and market trend.

Plots planning concepts: In this hypothetical layout, plan a combination of small size plots and medium size plots. Say medium size plots along main road and small size plots in interior. See that all these plots also confirm to the standards prescribed, under DCR of the local authority, for layout and subdivisions.

❖ Plot along main road may have full value. Plots abutting on internal layout roads may be 15% less in value than the rate of land estimated for plots along main road. Some of the internal plots, in some cases, may even fetch same rate as main road plots.

❖ The plots overlooking large central garden area of the colony, may fetch such higher price. Generally corner plots inside the colony layout, abutting on the colony layout roads, may or may not fetch higher rate, in spite of return frontage.

9.1.2. Rate Analysis: Having prepared a layout plan, a Valuer should find out and consider prevalent rates of small size, plots in the locality. The valuation depends upon advantages and disadvantages of each of these subdivided plots in the layout by comparing them with lands/plots involved in instances of sale.

❖ All these rates have to be determined keeping in view general demand and preferences given by prospective buyers of the locality, to various internal plots in the proposed scheme.

❖ Plots over-looking garden may or may not fetch higher rate, if demand in locality is not much or garden is not on wind ward side but on leeward side.

❖ If topography of large plot is uneven, and internal plots in low lying plots may sale at greater discount than plots having level ground or higher ground.

9.1.3. Time factor & Discount factor: All these plots in the planned scheme may not sell immediately. Depending upon, number of plots in the colony and general demand and competition by other developers, sale of all plots may take 2 to 4 years period.

❖ Investor and developer undertaking such a scheme, is required to discount his offer for land, to account for this delay in getting back his capital investment in the land.

❖ Hence total receivable sum is generally deferred for half the period of anticipated total sale period.

❖ This deferment of value is for locking in period of the capital investment in land, during which return on investment is not likely to be fully available. This deferment would give present worth of full receivable sum (Total realization) by sale of all the plots.

9.1.4. Development Expenses: The Realtor / investor undertaking such, layout development will be required to incur expenses for providing infrastructure amenities in such a layout.

❖ All these expenses must be deducted from total receivable amount from sale of subdivided plots. Such development works can be completed in stages slightly ahead of sale plots.

❖ The period for completing development works can be considered, say, one year less than the period for sale of all plots and the cost of development works be deferred for the average period for completing the development works.

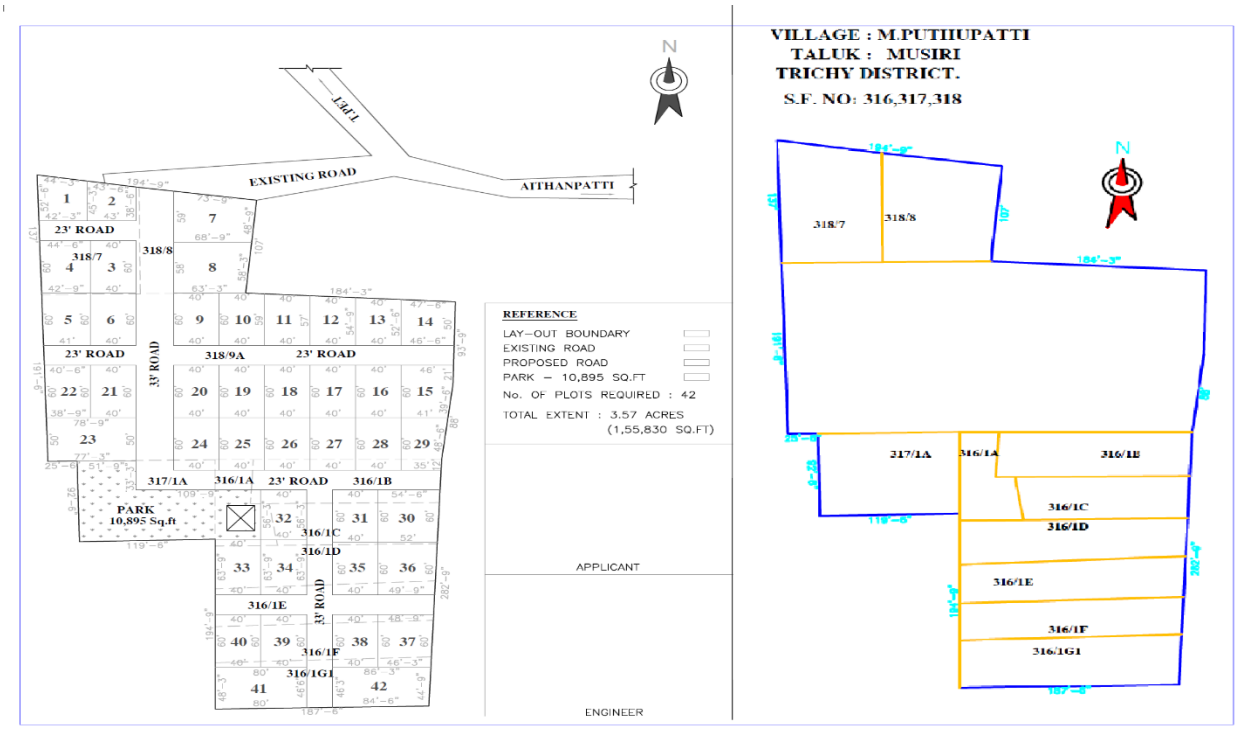
❖ Most of local authority insists for providing following amenities and the valuer must assess its cost and deduct, the same from total receivable sum.

9.1.6. Amenities provisions and expenses

1) Construction of internal layout road of required width as per norms.
2) Levelling and marking the plots and laying boundary stones on corners
3) Provision of road side storm water gutters to drain off rain water
4) Provision of street lights on internal roads as per prescribed norms.
5) Provision of water mains and Underground sewerage mains
6) Provision of electric cable in roads & sub-station for electric supply
7) Provision for garden development, OSR, Public purpose area.
8) Architects / Consultants fees – survey/ demarcation/ approval and supervision.

9.1.7. Additional expenses

1) Developer's profit at 10% to 15% of total sale proceeds
2) Interest on borrowed capital, if any,
3) Developers own remuneration, for spending his time and his energy.
4) Marketing, Advertisements & brokerage charges (2%) of the sale price.
5) Sale documents charges and solicitors fees for conveyances of plots.



10.0. Hypothetical Building Scheme

This is another technique of development method is based on the Residual Techniques of the subject property under valuation. The entire scheme is based on the Investment Theory viz. on the basis of fair rate of returns (Expected rate of return) on invested funds. Investor expects return in form of regular continued income (rent) from the property for his entrepreneurship of undertaking this building project. Developer expects profit as return in ownership scheme.

This method is applied for the property, when the land is ripe for use for building purpose it possesses necessary potentialities for urban use and when the comparable sales of large tracts are not available, however sales of small plot are available, or if a property is fully developed or under-utilized or of inferior use, to get best and high use, and where there is no prior sale instances available.

In case of properties are considered for redevelopment as residential apartments/ shopping/ office/ malls and others, subject to assumption of rental income or profit, and all the three methods are adopted.

10.1. Method of adoption

By adopting a hypothetical building to be proposed in the property, the sale value of the proposed residential apartments/ shopping/ office/ malls and others can be derived.

The sale value for the proposed project will be inclusive of profits, interest components, construction cost, outgoings, and management expenses for implementation of the project, etc., are estimated. After adjustments the net proceeds will be taken as hypothetical building cost. In cases, where sales of developed properties available, this indirect method provides the probable land value in the locality also.

Profitability of development project is based on probable income receivable from the redeveloped property. Rental rates prevalent in the locality are found out by market survey of instances at rentals and probable expenses are estimated. Capital value of hypothetical building project is worked out as if completed. Probable land price that could be offered to land owner on the basis of probable rental income will be derived from hypothetical new building scheme**.**

Normally, the outgoings for the investors are towards developer's profit, architect fees, interest components, plan approval charges, local bodies' payments, building

construction / infrastructure development charges, marketing, management expenses, etc.

From the total capital value of the hypothetical building, estimated cost of construction and other expenses except developer's profit are deducted and surplus is offered to the properly owner.

This method can be utilised from the investor's angle, under income concept or ownership concept or both. All the three approaches are to be utilised in this scheme.

Cost approach for the estimated cost of construction and other expenses.

Market approach based on rental / proposed sale.

Income approach for the income derived on this scheme.

DCF method is adopted during the construction period – on purchase of land, under project construction, and on completion status.

11. 0. Comparable sale method - Market Value

Factors to be considered for Market value of the land by Comparable sales method

- ❖ Sale must be a genuine transaction.
- ❖ Nearness to in the vicinity of the subject land
- ❖ Land covered by the sales must be similar to the classification of land
- ❖ Size of plot of the land sold must be comparable to this land
- ❖ A reduction in market value for any dissimilarity in regard to locality, shape, site or nature of land between land sold and this subject land
- ❖ A comparable instance has to be identified having regard to the proximity from time angle & proximity from situation angle.
- ❖ For determining the market value of the industrial land under valuation, suitable adjustment has to be made having regard to various positive and negative factors of the land.

11.1. Additional factors for industrial land

Pollution Control Act, Factory Act, and Building Bye Laws applicable will also add to the adverse effects of the land value. If the unit is a Chemical Industry we may have more of deteriorative elements and the industrial land and the surrounding areas may get polluted. The effluent discharge norms play a major role in chemical industries.

Wasting assets lands: Brick kiln lands, prawn fish culture lands, tannery lands. While valuing the self-consuming lands – brick kiln, mines and quarries, deduction must be

envisaged for cost of refilling the excavated earth. In valuing the prawn fish culture lands and tannery lands, deduction for pollution factors must be considered. It is not possible to state precisely the exact deduction which could be made uniformly applicable to all the above cases. The procedure for applying the principle of deduction to the market value of the land is quite consistent, though, of course, the extent of deduction has varied very widely depending on the facts and circumstances of a given case.

11.2. Probable Land Market Value by adopting the Sale Comparison method

The probable land value will be Market rate of the nearby area, sold, nearness to the time of valuation subject to the following deductions

1. OSR Area in case using Development method
2. Unshaped size of land (land to be wasted)
3. Development cost (development charges, nature of development, land required to be set apart under building rules for roads, sewerage, electricity, parks, water)
4. Nearness to infrastructure and civic amenities availability
5. Adoption of belting method, if depth of the land is more, when compared to frontage
6. Potentiality / Real estate Promoter's profit
7. Charges for contemplation of conversion of land to other uses like residential, commercial or mixed use
8. Effect of Pollution Control Act, Factory Act, and Building Bye Laws

Sample - Probable land value (Assuming residential plot rate as Rs 2,500/ sqft)		
Market rate of the nearby area per sqft		Rs 2,500
Less : Promoter's Profit @ 15% (assumption)		(Rs 375)
Land cost per sqft		Rs 2,125
Deductions (May not be the same for all cases)		
1. OSR Area using Development method	10%	
2. Shape (land to be wasted)	3%	
3.Development cost	30%	
4. Infrastructure and civic amenities	5%	

5. Adoption for front & back rate difference(belting)	10%	
6. Potentiality / Demand	2%	
7.Land Conversion charges to other uses	2%	
8. Pollution Control, Factory Act & Building Laws	1%	
9. Total Deductions	63%	(Rs 1,339)
Land rate to be adopted per sqft		Rs 786

12.0. Court Verdicts

1. Subh Ram vs. the State of Haryana, (2010) 1 SCC 444

The judgment relied upon its decision in Chandrashekhar vs. L.A. Officer, (2012) 1 SCC 390 stating that deduction has two components, one is "development" and another concerning the "size of the area". Percentage of deduction was restricted in this case stating that deduction of both components should be around 1/3 each in its entirety, which would roughly come to 67% of component of sale consideration of exemplar sale transaction.

2. Brig. Sahib Singh Kalha Vs. Amritsar Improvement Trust, (1982) 1 SCC 419,

Where a large area of undeveloped land is acquired, provision has to be made for providing minimum amenities of town-life. Accordingly, deduction of 20 percent of total acquired land should be made for land over which infrastructure has to be made (**space for roads etc**.). Besides, raising infrastructure like roads, electricity, water, underground drainage, etc. is also to be considered and for this purposes deduction would raise from 20% to 33%. Thus, in all the Court upheld deductions between 40% and 53%.

3. Andhra Pradesh Housing Board vs. K. Manohar Reddy & others, (2010) 12 SCC 707,

Observed that deductions on account of development could vary, between, 20% to 75%.

4. SLAO and another vs. M.K. Rafiq Sahib, (2011) 7 SCC 714,

Court upheld 60% deduction.

5. Administrator General of West Bengal Vs. Collector, Varanasi, (1988) 2 SCC 150,

Court upheld deduction of 40%.

6. Chimanlal Hargovinddas Vs. SLAO, Poona and another (supra),
Court upheld deduction between 20% to 50%.

7. LAO / RDO, Chottor vs. L. Kamalamma (Smt.) Dead by & others, (1998) 2 SCC 385,
Court upheld deduction of 40% as development cost.

8. Kasturi and others vs. State of Haryana (supra),
1/3rd deduction was upheld on development, clarifying that deduction can be more or less of 1/3rd depending upon facts of the case.

9. LAO vs. Nookala Rajamallu and others, (2003) 12 SCC 334,
Court upheld 53% deduction.

10. V. Hanumantha Reddy (Dead) Versus LAO, (2003) 12 SCC 642,
Court upheld 37% deduction towards development.

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