Chapter I

Introduction of Valuation and Outlines of Research Study.

1.1 : INTRODUCTION:

Valuation is a science in the eye of art. It has a definite result finding out through an artistic view. Value varies with purpose and time. In practice, there shall not be same value if two persons assess a particular asset for the same purpose at a particular time. So, there should be definite rules and standard or techniques for the assessment of value of an asset with minimum ambiguities with respect to person concerned and with the time of assessment.

The Financial institution, Bank, Insurance company, Govt. undertaking, MNC (Multi National Company), Govt. departments, corporation, fiscal agents; like Income tax department, wealth tax department, sales tax, custom dept., even in personal business and family affairs etc. are directly or indirectly related to the terms of valuation. Value of asset is also a tool of modern management. In present scenario, appropriate government and other administrative / service management department / autonomous department etc. are taking part of both the private and public sector in the process of value of assessment of assets. Without proper assessment of any concern asset, rent /rates can’t be concluded directly & correctly. And without knowing the proper value of the asset, the concern person / department can’t find out the actual and impartial rent and tax.

The role of economics in valuation is a heterogeneous blending of two proven aspects of economics [1]. Micro economics explains the composition of total production, whereas, Macro economics, called income theory, explains the level of
production as why the level rises and falls. Economic problem attributes in making decisions regarding valuation as the ends to be pursued and the means to be used for achievement. The movement of population, economic activity [2], improved accessibility, inflation, change of taste and social circumstances are the factors of present valuation affecting the overall demand of landed property.

Normally, within each state & territory as per the present system, certain value zones are established at macro levels, but within the same value zone the land prices of all the plots can’t be same [3]. There are certain negative/positive factors which are attached to a particular plot of land. The abutting factors may be indigenous like approach road, frontage, shape, topography of the plot etc., regional like socio-economic condition, characteristic of area such as residential, commercial, industrial etc, environmental like wide river bank, wide greenery scenery/field, global factors like economic recession, rate of interest, Govt. Policy, Tax evasion etc. Thus, the Govt. fixed value in zonewise should not be given the major weightage at the time of financing and other transactions because these do not satisfy the definition of present market value given in Govt. Guide Value.

1.2.1 : VALUE :

Value is a word with many meanings. Value of anything means its worth or utility inherent in the thing on which it’s utility or worth depends. In general view, value is the power of one goods to command other goods in the transaction, which is vitiated with fraud, duress or ignorance. In view of dictionary meaning valuation has been defined as the act of determining the value or price of anything”, or as an estimation of thing’s worth specially by a professional valuer. Value is not the price.
When we speak of the price of anything, we do not necessarily mean the value or the market value of the things, whereas a price is a fact and a value is an estimate of what the price ought to be.

Valuation is now practiced in multiple other contexts. Any single definition of value hardly satisfies the multiplicity of uses to which the terms is put under modern practices. The same property may simultaneously have different values for different purposes under different situation and time. In other words, when we come across the expression value of the property in diverse context, the sense that it carries for one purpose or in one situation may be quite different from that in which it is used in another context. The diverse purposes for which valuation become necessary may include the contingencies of sale, mortgage, rent fixation, land acquisition, levy of betterment charges, municipality taxation, levy of stamp duty on transfer of property, auction reserve, court fees and probate, loss recovery in Insurance, Govt. property acquisition & compensation, and also fiscal requirement, for wealth tax, income tax, gift tax, capital gain, visa application and contract qualification etc. In this way, valuation bears different basis for different purposes and also assume different meanings in different situations.

1.2.2 : Definition and relation of Cost, Price and Value:

Cost can be defined as the expenditure to produce the commodity having a value. Other hand, Price may be defined as the cost of a commodity plus additional reward to the producer for his labour and capital. Value is not inherent in the property itself but will be determined in the open market by the forces like demand and supply. Value is function of time, place and purposes. Cost is a fact, Price is a policy and Value is an opinion [4].
**1.2.3 : MARKET VALUE :**

The expression **market value** has been a subject of great concern in the court of law in connection with proceedings of land acquisition, wealth tax or income tax acts. It has been looked at from various angles focusing light on its various facts. Essentially, **market value** [5] has been defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

The expression **market value** has been further chiseled (clear cut) in **open market value** to mean value of the property offered for sale in a market in such a manner that every person who desires to purchase can make an offer and due publicity of the sale has been made to induce conditions of marketing appropriate to the commodity under the most favorable conditions.

Liquidation or **force sale value** means the amount which may reasonably be expected to be obtained from the sale of a property within a specified and a very short time frame. Basically financial Institution/banks consider this value in case of NPA (non performing asset). In this matter, the Institution/Bank want to sale the already mortgaged assets instantly to recover their lend money from the borrower. Accordingly, to sale the property a public notice is served to take the part in auction of the assets. Generally the white taxable money has to be showed as the capacity of purchaser to winning the auction. On the other hand, the revenue have to be paid as per written in sale deed. For the above reasons, the willing purchasers quote their price in lower side. The force sale value is also called distress sale value which is
always lower than the fair market value or open market value. This situation is 
arisen whenever a loan became NPA (Non Performing Asset) [6].

1.2.4: Potential Value:

The potential value [7] means the estimated value in a situation when a 
property has got an inherent value which may enhance with the passage of time or in 
some alternative use within sight. It is applicable as the total planning for future 
decision is taken for future age.

1.2.5: Salvage Value:

Salvage value [8] is attached to a property which has already run its useful 
span of life but has not become absolutely unless inasmuch as the material its 
contains may be dispatch for value.

1.2.6: Govt. Guide Value:

The Govt. Guide Value (GGV) is the value fixed by the state government or 
competent authority for special purpose in category wise. This is considered as a 
standard value of land plot for a particular period of time for a particular zone or 
area or particular revenue village. This is also applicable for revenue purpose 
including Govt. transaction purpose like compensation and premium of land 
allotment thereof.
1.2.7 Realizable Value:

This term is mostly used in banking section whenever an immovable property is given to a bank or Financial Institution as collateral security against loan. The realizable value or net realizable value [9] may be defined as the estimated selling price of an asset in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

Realizable Value = Present market Value – Cost incurred for completion of selling execution. Whereas the cost of selling includes – cost of marketing & advertisement, cost of auction sale executing, cost of transfer of legal ownership by executing sale deed, any brokerage charges etc. The Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the course of business. In a simple word, Net realizable Value = Selling Price – Estimated Cost of Disposal.

1.2.8: Forced Sale Value:

According to the International Valuation Standard (IVS) [10], the force sale value is defined as the “A circumstance where a seller is under compulsion to sale and /or a proper marketing period is not available. The price obtainable under these circumstances will not meet the definition of Market Value. Rather the price obtainable will depend on the nature of pressure on the seller or the reasons why proper marketing can not be under taken”.

A chart showing difference between Market Value, Realizable Value and Forced Sale Value is given in fig 1.1.
1.2.9: Replacement Value:

The term replacement cost [11] is defined or explained as the cost to replace the property on the same premises with other property of comparable material and quality used for the same purpose. This applies unless the limit of insurance or the cost actually spent to repair or replace the damaged property is less. Refer to your policy for the exact definition and explanation of replacement cost.
1.2.10: **Insurable Value**:  

Insurable value is the cost of total replacement of destructible improvements to a property; may be based on replacement cost rather than market value. It is also indicates the value of a property as ascertained on the basis of definitions or methodology contained in the terms of the Insurance policy. It is the part of the assets which may consider the scope of damage. Title Insurance [12] is the protection against loss arising from problems connected to the title of owner’s property.

1.2.11: **Book Value**:  

**Book value** [13] is known as the value of a property as entered in the books of accounts of an establishment representing its original or historical cost of acquisition as diminished by cumulative depreciation till the year when accounting is made. Residual value is the net realizable value of the asset at the end of its useful economic life based on price prevailing at the date of valuation. **Going concern** [14] value is expressed in terms of value ascribed to an established business, not to its constituent parts.

By studying the above various kinds of valuation, it is observed that there is no any distinct relation amongst the different valuation purposes. Now, the problem is raised, whenever an open market value is applied or recommended for present market value in practice, it is not reflected in ownership transfer documents i.e. sale deed or transfer deed. Whenever a land document is done for sale registration, the land value is written as per Govt. Guide Value and if the same document is deposit at the bank in the form of collateral security mortgage, the value shall be present
market value which is differ from Govt. guide value. The motive of banker is that if the borrower fails to repay the loan amount, they can be sold the mortgage property which was taken as collateral security, for repayment the loan amount including interest. In this matter, the bankers always face a problem taking two values coming from sale deed and valuation report taken from professional valuer. On the other hand, in case of Govt. compensation to the public, the Govt. guide value of land is followed whereas the victimized owner faces loss with comparison to the value whenever he would sale the land to others in present market Value.

For solving the problem of value differences, the said research is done to get the amicable solution for it that not only the financier, the public can also understood the matter and the coherent relationship of values under different methods. For study the problem and its solution the Guwahati Metropolitan city area is considered as the urban area symbol which may extend to the other metropolitan cities.

In this study the Govt. Guide Value (GGV) fixed by state Govt. of Assam is considered as the base of this present research and the other essential cost effecting factors like local economic development, communication media, topographic position, plot geographic shape, environmental status etc. are considered as incremental factors value. The adverse factors like air pollution, noise pollution, artificial flood affect etc. are also considered as negative impacts in determination of present market value of landed property.

1.3 : OBJECTIVE OF THE RESEARCH:

The present market value is now become very popular as well as important in various ways, and almost in every section of the society, without properly knowing
the value of wealth, one can not make his future plan for his economic action for progress, stabilization & recovery. So, he/she should know the present value of his/her assets/ his/her insurance/ his/her shares & investment/ compensation/ his/her taxation etc. for proper management and utilization of assets in an efficient ways. The landlord / owner of immovable assets should know his concern asset value for let-out, lease, sale, rent, tax etc. for the economic standard/ utilization and economic management. On the other hand the financier, banker, property tax collector, planner & decision maker and bureaucrat also should aware about the market value of the assets that they can deal it without impartiality. The prospective purchaser as well as tenants, broker also should earn the practical knowledge that they will not face any economic losses. The borrower gives the movable & immovable property to the financier/ banks in the form of collateral security against his borrowed money. For example, to know the mortgage value from his/her collateral security, he/her should know the estimated asset value. Without his/her knowledge, the financier as well as valuer can misguide him in fixation of present market value of the property.

Considering the present status of valuation it is understood from relevant valuation standard “No tested framework still available for an Indian Valuation standard” [15].

It may be thus concluded that almost every economic field, we must get the knowledge of proper valuation of the assets that we are possessing.

To operate and getting the overall knowledge of the valuation field, it is essential to formulate a definite norms for uniform and standard trend to find-out the values expectable for all which should be reasonable and justified.
So the main object of the present research is to establish an uniform, simple, scientific and appropriate valuation method that everybody can find out the value of the assets like land for their requirement by accounting the related parameters. The another aim of the present study is also to develop a mathematical model involving the factors like Govt. Guide Value, Integrate factor value, Adverse factor value and external influence factor value of the plot so that everybody can apply the model and can evaluate the value of land independently.

1.4.1: Importance of Valuation and Role of Valuers:

In the social-economic and financial fabric of a society for running of the administrative machinery, in the commercial, health, educative, institutional, industrial or political affairs of government or a private enterprise, the need for professional skills of the appropriate category, having adequate academic qualification and aptitude to function satisfactorily, is absolutely necessary. And this is the order of day world over. Thus the qualified and experienced professionals in above fields have to be available for regulate and development of the society [16].

1.4.2: International Valuation standard:

The international Valuation standards that are set by the International Valuation Standards Council (IVSC) are growing in importance globally. IVS are now treated as the apex global valuation standards and most of the countries in the world have incorporated these standards either fully or partially [17].
1.4.3: Land Valuation System of India:

Historically, the concept of Valuation was introduced when man first started exchanging his wants in return for something else. Money came on the scene about 4000 years ago, and this facilitated valuation of any asset in independent items so that exchange could take place easily. In application point of view, originally, the concept of valuation was introduced in India, when the LAND ACQUISITION ACT was introduced in 1894 under British rule, it was done when some property required to be acquired by the British Government for public purposes, paying nominal compensation to the owner. During the period 1920-1940, there was a spurt in the active Land Valuation and settlement thereof. As and when the banks started advancing loans against property on a regular basis, the warranted need and for valuation works become very obvious and urgent.

In 1939, the Reserve Bank of India Act, came into force. Assets, worth several crore of rupees, were to be valued to ensure proper amalgamation of the bank. In 1953, the Zamindari Abolition Act, came into force when properties had to be valued before taking of liquidation proceedings. After independent of India, in a socialistic manner, Government of India gave more emphasis on the establishment of homogeneous and stable society considering all the existing constrains specially the constrains directly related to social stability including finance, agriculture, Education, Commerce. Transport etc. though the introduction and promulgation of suitable Laws and amendments.

In view of the existing socio economic condition, amongst the people, the Govt. priority wise made lot of application among which in the property Tax figure out significantly. In this way the Govt. executed many legislations and amendment to suit the changing need of time.
There are now myriad legislations in our nation like Income Tax, Wealth Tax, Estate Duty Act, Gift Tax Act etc. which are related to rent rates and taxes. Under Income Tax Act fall Capital Gains Tax Rules and acquisition of immovable properties proceedings. All these measures have given a big boost to colour and content of the subject of valuation.

In 1955, Central Board of Direct Taxes, (CBDT) was formed and it provided the Registration of Govt. Approved valuer under Wealth Tax Act- 1957. Under section 34AB, Rule C, the CBDT imposed the duty and power of Professional Valuer which is known as REGISTERED VALUER or GOVT. APPROVED VALUER [18] under various Categories, such as Immovable properties, Plantation, Jewelry, works of Arts and the like.

In 1964, The Institution of Valuers (IV) [19] (New Delhi) was established under society Act XXIV. and started to register the names of experienced qualified professionals as Associate (A), Fellow (F), Life member (LM) as the APPROVED VALUER in different Categories like CBDT and authorized to do the assessment for “Market Value” only of the Properties. It is the sole authority or body to issue any licence/certificate/authorize letter to any person for practice as a professional Valuer.

1:4:4 : Land Valuation system in Assam:

In 1985, the Dept. of Revenue, Govt. of Assam, for the first time, introduced the GUIDE VALUE in the form of “Govt. Guide Value” specially for the calculation of revenue to be collected as the Registration fees while the sale of land is executed. It is also applicable for calculation of premium of land allotment for issue the patta. The list was applicable only for GMC area. There is no such specific circular issued
1.4.5 : The Present Existing Land-Valuation System under the Jurisdiction of Guwahati Metropolitan Development Authority (GMDA).

During the period 1985 to 2008, following the guidelines of Guide value promulgated by Govt. of Assam in 1985, the entire job of fixation of landed value is under the jurisdiction of DC of a particular district. The fixation of land value during any registration of sale deed is absolutely under the jurisdiction of D C’s office and revenue department, Govt. of Assam. As per guide lines /norms of "Guide Value". The value is written in sale permission in favour of DC. In practice, there is no scope to increase or decrease the land value written in the permission beyond the value prescribed in GUIDE VALUE list. So there is no any scope to justify the value of a particular land plot with respect to present demand of location and position intact in.

1.5 : Necessity and relevance of the present study:

There is no any record of research study on the subject of valuation following any standard methodology either in India context or in the context of the state of Assam. Further, there is no any research study formally published in India to lineup the valuation process for the landed property of metropolitan cities. So, it can be considered as the 1st of its kind, particularly in the context of the state of Assam.

The Assam Land and Revenue Regulation came into existence after enactment by Governor General in council in 1886, which was to be administered by the Chief Commissionership of Assam, that was proclaimed on February 6, 1874,
for the district of Goalpara, Kamrup, Darrang, Nowgaon, Sibsagar, Lakhimpur, Cachar, Garo-Hills, Khasi and Jaintia hills followed by Sylhet, North and south Luchi Hills, during the period from 1874 to 1893. The Regulation, i.e., the Assam Land and Revenue Regulation become the very foundation of which the present land revenue administration rests and sometimes told as the *Magna Carta of the land laws of Assam* [20].

It is expected that the present study would certainly act as a role model for all sorts of valuation process, especially in the context of the state of Assam. The present research would open a new vista to both at the public sector and private sector organizations for accurate and proper valuation of landed property to their greatest expectations and satisfaction.