

BusinessLine

The official price of land is a joke

KAUSHIK DUTTA
PRASANNA MOHANTY



What price?: There are many factors that go into determining the value of land Vijaya Bhaskar

THE HINDU

[Reliance Life Insurance](#) - 1Cr Cover @ Rs450 or 50 Lac @ Rs253 Per month, Policy Term up to 35 yrs
reliancelife.com/Life_Insurance

Circle rates, based on historical values, are gross underestimates. Hence, the opposition to land acquisition

Land acquisition continues to be the biggest challenge to India's economic growth. The last four years have seen a large number of projects being shelved or stalled due to difficulty in acquiring land.

Ever since May 2012, when CMIE, a leading business information company, pressed the panic button saying investments worth more than ₹5 trillion had been shelved during 2011-12 and identified inability to buy land as the "predominant reason" for this, the situation remains grim.

Its latest report says investments worth ₹1.4 trillion were stalled in the quarter ending September 2014, listing land as a key factor. It is not surprising that the Narendra Modi government is anxious to review the new land law — The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act of 2013 (LARR Act) — which industry thinks makes buying land even more difficult and three to three-and-a-half times costlier.

At stake are India's industrial growth and plans to build 100 smart cities; since this law came into force in January 2014 land acquisition seems to have come to a standstill.

Arbitrary pricing policy

Ironically, the unfair pricing of land which lies at the core of the problem — and which sparked off social strife and litigation in the past few decades — is not one of the provisions under review.

LARR Act continues to rely on an archaic 'circle rate' which is not really meant for land valuation.

True, the law uses a multiplier to the circle rate — 1 for urban and 2 for rural areas — to work out "total compensation" and tops it with a solatium.

Such artifice speaks volumes for the arbitrariness and industry is right in objecting to it. But it is equally true that as long as land pricing remains inappropriate and unfair, social conflicts and development logjams will continue.

The circle rate is a benchmark for taxation and is primarily aimed at curtailing black money. The rate is fixed by the district administration on the basis of historic data of registered sale deeds in the area. The outliers are discarded and the average is taken as the market value of land.

So long as land transactions were confined to agricultural use it worked fine, but rapid industrialisation and urbanisation in the past two decades have significantly altered land use and local economy. The circle rates, based on historic data or past transactions, no longer reflect these changes.

Experience shows that a change in land use (for industrial or housing purposes), even if proposed, changes land value so dramatically that it is no longer priced in acres but in square yards.

Holes in circle rates

A recent study by Thought Arbitrage Research Institute (TARI) in collaboration with the ministry of rural development (MoRD) and German development agency GIZ demonstrated shortcomings in circle rates.

It found that though the rates are updated from time to time there is no uniformity across the country or sound rationale, and they don't reflect inflation in the economy.

The study used over 7,00,000 land transaction data points over three decades in four representative districts of two States to conclude that the rates grossly undervalued land.

The rates don't take into account economic and locational factors that influence land prices such as productivity of land, irrigation facility, level of industrialisation of the area and geographical indicators such as proximity to airport, railway lines, highways, urban centres and so on.

The degree of influence of these factors may differ from place to place, depending on the level of economic development, but these are critical determinants of the value of land.

As transactions move from urban areas to the interiors of India, the lack of a developed land market and information asymmetry between buyer and seller lead to land being sold at values significantly lower than what is fair and equitable.

That probably explains why people in rural and tribal areas are up in arms against all development projects.

A parliamentary standing committee examining the LARR Bill admitted in 2012 that circle rates "are much below the real running price of land across the country and there is a tendency to register the sale deeds at minimum value to avoid the stamp duty".

It added that there is "no explanation/justification or scientific basis" for the multiplier and solatium in the Bill which make the final compensation four times the value of land as obtained through the circle rates in rural areas and twice as much in urban areas.

What's the true value?

But neither the panel nor the government attempted to devise a scientific method to discover the true value of land by responding to relevant factors. This is not difficult, though.

Many developed countries use scientific data and GIS mapping to determine individual or unique characteristics to value land, including proximity to infrastructure, purpose of acquisition, comparable prices in the area, loss of livelihood or opportunity costs and so on and feed them into a scientific model.

It seems to be working and India would do well to follow suit. Many States are digitising their land records which capture key details such as location, crops, irrigation, soil type and land use. These details can be supplemented with other relevant information, such as loss of livelihood, future use of land, and future development plans for the area and its neighbourhood that the master plans provide.

A scientific model based on locational advantages of land based on master plans and future growth in the area should be used and designed to reflect the relative influence of all valuation factors to discover the true value of land.

The current owners of land need to have an economic interest in the overall development of the area and a fair valuation model needs to reflect the future earning capacity and attributable cash flows of such land, once the land use shifts from agriculture to other uses.

The burden of pricing needs a tectonic shift from circle rates based on historical data to one that uses current and future economic factors to value land.

When that happens there will be little reason to protest.

The writers are with Thought Arbitrage Research Institute, a not-for-profit think tank

(This article was published on December 17, 2014)