



Er. Shashi Ranjan

IBBI/RV/02/2021/14279
RV (L&B), IBBI),
B.E.(CIVIL),PGDCM-NIC-
MAR(PUNE),
Chartered Engineer,

IMPORTANT POINTS TO BE CONSIDERED DURING THE VALUATION OF LEASE PROPERTY (GOVT. AS LESSOR) AND ITS EFFECT ON VALUE

INTRODUCTION:-

The State/Central Government considers industrial growth as a means to mitigate poverty and unemployment. Development of industry, trade and service sectors promotes higher capital formation, improves per capita income level, and absorbs surplus workforce. Almost every state or central govt is setting up a new policy for encouraging industrial/-SEZ/IT/ITE development to enhance the social and economic status of the society & in the overall growth of the country. To realize these benefits and expedite

socio-economic changes, the State/centre accords top priority for industrial/-SEZ/IT/ITE development. In the process, to achieve this Govt is providing industrial land on lease to set up industries or for other purposes as per their policy.

In this article, we will discuss the points to be kept in mind while doing the Valuation of long-term Lease State/central/Authority Govt. Property for a specific purpose.

LEASEHOLD PROPERTY:- The real property interest or rights over the property or possession right are mainly three types i.e., absolute (complete ownership) or

time-bound (lease) and maybe non-possessive. (Right to pass).

Among the above three types, lease property has so many factors which are affecting the overall Value. Valuation of leasehold property may be a complicated job, but with a few crucial points kept in mind, it can be made a whole lot easier. When a lessor (owning the property) gives the right to use the possession of the property to the lessee (tenant) for a specific time period on agreed terms and conditions (lease contract) is known as leased property or leasehold property. Leasehold interest is the right to use the possession of the property by the lessee at the given term and conditions mentioned in the contract between the lessor and lessee. A leasehold interest is usually subject to the payment of annual rent and to observe terms and conditions i.e. covenants contained in the lease agreement/deed.

Type of lease

Following are the few types of leases, in term of property valuation practice

- Building Lease
- Occupational lease
- Sublease
- Long-term lease for a specific purpose. (e.g. Govt land for Industry, SEZ)

1. BUILDING LEASE – Land provided by the lessor to the lessee for construction of the building and returning back the land

to its original condition to the lessor after expiring the lease period as per terms and conditions.

2. OCCUPATION LEASES- Land and building are leased to the lessee for occupation as per agreed terms and conditions. This may be a medium or long-term lease with revision in rent as per agreed terms and conditions.

3. SUBLEASES- The property may sublet or sublease to a third party as per agreed terms and conditions between the lessor and head lessee.

4. Leases for life or perpetual basis or Long-term lease for a specific purpose – A lease is provided for a long period for a specific purpose. In this type of lease Govt mainly provides the land for industrial development to set-up Industries or SEZs for start-ups etc. Land is provided, keeping in view long-term public interest, and in view of desire for the development of underdeveloped areas in the municipal area or out side the municipal area as per the policy. This type of lease mostly for a long period may be of 99 years as per agreed terms and conditions between the lessor and lessee.

Valuation of Lease Property by the Govt./Authority (as Lessor)

FACTORS AFFECTING THE VALUE

Allotment letter – Each industrial area will be formed on commercial viability

basis with proper access, adequate water, power and other essential facilities. Plots/land/Buildings will be allotted only after the complete development of the industrial area. The interested party will approach Govt/Authority and based on the qualification criteria the letter will be issued by the competent authority to the lessee regarding the allotment of the property after fulfilling the terms and conditions set by the Authority/lessor.

Allotment letters generally consist of the following.

1. Initial terms and conditions,
2. lease period
3. Lease renewal condition
4. Purpose of the allotted land
5. Payment terms
6. Annual Rent
7. Terms condition related maintenance fees.
8. Default conditions
9. Exit condition
10. Govt policy related to allotted land
11. Govt Compliance during the use of property
12. Standard terms and conditions.
13. Time schedule to fulfil the purpose of the allotted land.
14. Rights of the lessor and lessee.
15. Restricted activity if any.
16. General safety condition of the surrounding area.

Above-mentioned conditions give a major impact on the value of the leased land. For example, if the lessee does not fulfill the terms and conditions related to the renewal, then the value of the property will have a negative impact.

LEASE CONDITION – After fulfilment of initial terms and conditions of the allotment letter like payment of fees etc contractual agreement come into the picture as the written contract between lessor and lessee. lease deed may be converted into an absolute sale deed before the time frame. The lessee deed shall be registered with all terms and conditions agreed upon by both the party within the mentioned time period. There may be a chance for some addition of clauses above the allotment letter. Hence, registered lessee deed is the most important document for the Valuation of the lessee property.

FULFILMENT OF PAYMENT CONDITION- The payment of all the annual/monthly fees, statutory fees and others shall be in line with the agreed term and conditions. If some default occurs from the lessee then the default condition is triggered and lessee rights may be affected which may impact the Value of the Property.

FULFILMENT PAYMENT CONDITION-

The payment of all the annual/monthly fees, statutory fees and others shall be in line with the agreed term and conditions. If some default occurs from the lessee then the default condition is triggered and lessee rights may be affected which may impact the Value of the Property.

PURPOSE OF THE LEASE – In most cases, Govt provides the lease of the land/Building for specific purposes under SEZ, Industrial development and local development schemes. Hence Purpose of the lease is to be checked and if does not fulfil the land use for the specified purpose then the lessor may seize the lessee's rights and impact of the this may have an adverse effect on the Valuation.

Approval of building design and factory design and the start of Production - To fulfil the purpose of the necessary approval for the building/factory plan, the Design shall be obtained within the stipulated time period as mentioned in the lease allotment letter/deed. The impact of any delay may affect the Production start date as per lease conditions or deviation from the agreed terms and this may give a bad impact on the Value of the property Permission & compliance from all authorities (NGT, Pollution board, fire etc) is also checked properly for compliance and any deviation may impact the Value of Land/Buildings.

Lease renewal/conversion in the absolute sale deed – The lease renewal or conversion in the absolute sale deed within the mentioned time period is necessary. Any deviation in renewal gives a negative Value to the leased property.

