[DAR ADMINISTRATIVE ORDER NO. 05, s. 1998, April 15, 1998]

REVISED RULES AND REGULATIONS GOVERNING THE VALUATION OF LANDS VOLUNTARILY OFFERED OR COMPULSORILY ACQUIRED PURSUANT TO REPUBLIC ACT NO. 6657

I. PREFATORY STATEMENT

A. The Constitution mandates the payment of just compensation for lands covered by agrarian reform:

> The state shall, by law undertake an agrarian reform program founded on the right of the farmers and regular farmworkers, who are landless, to own directly or collectively the lands they till or, in the case of other farmworkers, to receive a just share of the fruits thereof. To this end, the State shall encourage and undertake the just distribution of all agricultural lands, subject to such priorities and reasonable retention limits as the Congress may prescribe, taking into account ecological, development, or equity considerations and subject to the payment of just compensation . . . (Article XIII, Section 4, underlining supplied)

B. This Principle is cited in Proclamation No. 131, Instituting a Comprehensive Agrarian Reform Program (22 July 1987), and in Republic Act No. 6657 (10 June 1988). Section 2 of the latter law specifically states, ". . . a more equitable distribution and ownership of land, with due regard to the rights of landowners to just compensation . . . shall be undertaken . . ." (underlining supplied)

C. Just Compensation in Supreme Court jurisprudence has been taken to mean fair market value or the price which a buyer will pay without coercion and a seller will accept without compulsion.

D. Just compensation in regard to land cannot be an absolute amount disregarding particularities of productivity, distance to the marketplace and so on. Hence, land valuation is not an exact science but an exercise fraught with inexact estimates requiring integrity, conscientiousness and prudence on the part of those responsible for it. What is important ultimately is that the land value approximates, as closely as possible, what is broadly considered to be just.

E. Section 17 of RA 6657 provides particular guidance on land valuation:

> SECTION 17. Determination of Just Compensation — In determining just compensation, the cost of acquisition of the land, the current value of like properties, its nature, actual use and income, the sworn valuation by the owner, the tax declarations, and assessments made by the government

assessors shall be considered. The social and economic benefits contributed by the farmers and the farmworkers and by the Government to the property as well as the non-payment of taxes or loans secured from any government financing institution on the said land shall be considered as additional factors to determine its valuation.

F. The process of land valuation must involve agrarian reform beneficiaries and their organizations, the Barangay Agrarian Reform Committees, the landowner concerned, the Department of Agrarian Reform and the Land Bank of the Philippines.

i. Section 3 of Executive Order No. 129-A declares that ". . . the State shall: . . . Institutionalize partnership between government and organizations of farmers and farmworkers in agrarian reform policy formulation, program implementation, and evaluation. ."

ii. Section 47 of Republic Act No. 6657 specifies that the Barangay Agrarian Reform Committee shall, among other things, "Assist in initial determination of the value of the land."

iii. Section 18 of Republic Act No. 6657 states: "The LBP shall compensate the landowners in such amount as may be agreed upon by the landowner and the DAR and the LBP. . ."

II

The following rules and regulations are hereby promulgated to govern the valuation of lands subject of acquisition whether under voluntary offer to sell (VOS) or compulsory acquisition (CA).

A. There shall be one basic formula for the valuation of lands covered by VOS or CA:

LV = (CNI x 0.6) + (CS x 0.3) + (MV x 0.1)

Where: LV = Land Value
CNI = Capitalized Net Income
CS = Comparable Sales
MV = Market Value per Tax Declaration

The above formula shall be used if all the three factors are present, relevant, and applicable.

A.1 When the CS factor is not present and CNI and MV are applicable, the formula shall be:

LV = (CNI x 0.9) + (MV x 0.1)

A.2 When the CNI factor is not present, and CS and MV are applicable, the formula shall be:

LV = (CS x 0.9) + (MV x 0.1)

A.3 When both the CS and CNI are not present and only MV is applicable, the formula shall be:

LV = MV x 2

In no case shall the value of idle land using the formula MV x 2 exceed the lowest value of land within the same estate under consideration or within the same barangay or municipality (in that order) approved by LBP within one (1) year from receipt of claimfolder.

A.4 When the land planted to permanent crops is not yet productive or not yet fruit-bearing at the time of Field Investigation (FI), the land value shall be equivalent to the value of the land plus the cumulative development cost (CDC) of the crop from land preparation up to the time of FI. In equation form:

LV = (MV x 2) + CDC

where:

1. MV to be used shall be the applicable UMV classification of idle land.

2. CDC shall be grossed-up from the date of FI up to the date of LBP Claim Folder (CF) receipt for processing but in no case shall the grossed-up CDC exceed the current CDC data based on industry.

In case the CDC data provided by the landowner could not be verified, DAR and LBP shall secure the said data from concerned agency/ies or, in the absence thereof, shall establish the same.

In no case, however, shall the resulting land value exceed the value of productive land similar in terms of crop and plant density within the estate under consideration or within the same barangay or municipality (in that order) approved by LBP within one (1) year from receipt of CF.

In case where CS is relevant or applicable, the land value shall be computed in accordance with Item II.A.2 where MV shall be based on the lowest productivity classification of the land.

A.5 When the land is planted to permanent crops introduced by the farmer-beneficiaries (FBs) which are not yet productive or not yet fruit-bearing, the land value shall be computed by using the applicable UMV classification of idle land. In equation form:

LV = MV x 2

In no case, however, shall the resulting land value exceed the value of productive land similar in terms of crop and plant density within the estate under consideration or within the same barangay or municipality (in that order) approved by LBP within one (1) year from receipt of CF.

In case where CS is relevant or applicable, the land value shall be computed in accordance with Item II.A.2 where MV shall be based on the applicable classification of idle land.

A.6 The value of lands planted to permanent crops which are no longer productive or ready for cutting shall be determined by using the applicable UMV classification of idle land plus the salvage value of the standing trees at the time of the FI. In equation form:

LV = (MV x 2) + Salvage Value

In no case, however, shall the resulting land value exceed the value of productive land similar in terms of crop and plant density within the estate under consideration or within the same barangay or municipality (in that order) approved by LBP within one (1) year from receipt of CF.

In case where CS is relevant or applicable, the land value shall be computed in accordance with Item II.A.2 where MV shall be based on the lowest productivity classification of the land.

A.7 In all of the above, the computed value using the applicable formula shall in no case exceed the LO's offer in case of VOS.

The LO's offer shall be grossed up from the date of the offer up to the date of receipt of CF by LBP from DAR for processing.

A.8 For purposes of this Administrative Order, the date of receipt of CF by LBP from DAR shall mean the date when the CF is determined by the LBP-LVLCO to be complete with all the required documents and valuation inputs duly verified and validated, and ready for final computation/processing.

Should LBP need any of the documents listed under Paragraph C, Annex B of DAR Administrative Order No. 1, Series of 1993, as amended by DAR Administrative Order No. 2, Series of 1996, to facilitate processing under Paragraph IV, Step 14 to 17, of the same Order, the DAR shall assist the LBP in securing the same.

A.9 The basic formula in the grossing-up of valuation inputs such as LO's Offer, Sales Transaction (ST), Acquisition Cost (AC), Market Value Based on Mortgage (MVM) and Market Value per Tax Declaration (MV) shall be:

Grossed-up
Valuation Input = Valuation Input x Regional Consumer Price Index (RCPI) Adjustment Factor

The RCPI Adjustment Factor shall refer to the ratio of the most recent available RCPI for the month issued by the National Statistics Office as of the date when the CF was received by LBP from DAR for processing and the RCPI for the month as of the date/effectivity/registration of the valuation input. Expressed in equation form:

$$\text{RCPI Adjustment Factor} = \frac{\text{Most Recent RCPI for the Month as of the Date of Receipt of CF by LBP from DAR}}{}$$

RCPI for the Month Issued as of the
Date/Effectivity/Registration of the Valuation Input

B. *Capitalized Net Income (CNI)* — This shall refer to the difference between the gross sales (AGP x SP) and total cost of operations (CO) capitalized at 12%.

Expressed in equation form:

$$CNI = \frac{(AGP \times SP) - CO}{0.12}$$

Where:
CNI = Capitalized Net Income

AGP = Annual Gross Production corresponding to the latest available 12-months' gross production immediately preceding the date of FI.

SP = The average of the latest available 12-months' selling prices prior to the date of receipt of the CF by LBP for processing, such prices to be secured from the Department of Agriculture (DA) and other appropriate regulatory bodies or, in their absence, from the Bureau of Agricultural Statistics. If possible, SP data shall be gathered for the barangay or municipality where the property is located. In the absence thereof, SP may be secured within the province or region.

CO = Cost of Operations

Whenever the cost of operations could not be obtained or verified, an assumed net income rate (NIR) of 20% shall be used. Landholdings planted to coconut which are productive at the time of FI shall continue to use the assumed NIR of 70%. DAR and LBP shall continue to conduct joint industry studies to establish the applicable NIR for each crop covered under CARP.

0.12 = Capitalization Rate

B.1 Industry data on production, cost of operations and selling price shall be obtained from government/private entities. Such entities shall include, but not be limited to, the Department of Agriculture (DA), the Sugar Regulatory Authority (SRA), the Philippine Coconut Authority (PCA) and other private persons/entities knowledgeable in the concerned industry.

B.2 The landowner shall submit a statement of net income derived from the land subject of acquisition. This shall include, among others, total production and cost of operations on a per crop basis, selling price/s (farm gate) and such other data as may be required. These data shall be validated/verified by the Department of Agrarian Reform and Land Bank of the Philippines field personnel. The actual tenants/farmworkers of the subject property will be the primary source of information for purposes of verification or, if not available, the tenants/farmworkers of adjoining property.