



Administrative Order No. 06  
Series of 1992

SUBJECT: RULES AND REGULATIONS AMENDING THE VALUATION OF LANDS VOLUNTARILY OFFERED AND COMPULSORILY ACQUIRED AS PROVIDED FOR UNDER ADMINISTRATIVE ORDER NO. 17, SERIES OF 1989, AS AMENDED, ISSUED PURSUANT TO REPUBLIC ACT NO. 6657

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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 amend certain provisions of Administrative Order No. 17, series of 1989, as amended by Administrative Order No. 3, Series of 1991 which 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 regardless of the date of offer or coverage of the claim:

$$LV = (CNI \times 0.6) + (CS \times 0.3) + (MV \times 0.1)$$

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:

$$LV = (CNI \times 0.9) + (MV \times 0.1)$$

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

$$LV = (CS \times 0.9) + (MV \times 0.1)$$

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

$$LV = MV \times 2$$

- A.4 In all the above, the computed value using the applicable formula or the Declared Value by Landowner (DV), whichever is lower, shall be adopted as the Land Value.

DV shall refer to the amount indicated in the Landowner's offer or the Listasaka declaration, whichever is lower, in case of VOS. In case of CA, this shall refer to the amount indicated in the Listasaka. Both LO's offer and Listasaka shall be grossed-up using the immediately preceding semestral Regional Consumer Price Index (RCPI), from the date of the offer or the date of Listasaka up to the date of receipt of claimfolders by LBP from DAR for processing.

- 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:

$$CNI = \frac{(AGP \times SP) - CO}{.12}$$

Where: CNI = Capitalized Net Income

AGP = One year's Average Gross Production immediately preceding the date of offer in case of VOS or date of notice of coverage in case of CA.

SP = Selling Price shall refer to average prices for the immediately preceding calendar year from the date of receipt of the claimfolder by LBP for processing secured from the Department of Agriculture (DA) and other appropriate regulatory bodies or in their absence, from Bureau of Agricultural Statistics. If possible, SP data shall be gathered from 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 offer/coverage shall continue to use the 70% NIR. DAR and LBP shall continue to conduct joint industry studies to establish the applicable NIR for each crop covered under CARP.

.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 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.

In case of failure by the landowner to submit the statement within three weeks from the date of receipt of letter-request from the Municipal Agrarian Reform Office (MARO) or the data stated therein cannot be verified/validated from the farmers, LBP may adopt any available industry data or in the absence thereof may conduct an industry study on the specific crop which will be used in determining the production, cost and net income of the subject landholding.

- B.3 For landholdings planted to permanent crops which are introduced by the farmer-beneficiaries, CNI shall be equal to 25% of the annual net income capitalized at 12%.
- B.4 For landholdings planted to permanent crops which are still unproductive or not yet fruit-bearing at the time of ocular inspection (OCI), the cumulative cost from land preparation up to the time of OCI shall be used as substitute for CNI. In case the production cost 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.
- B.5 Total income shall be computed from the combination of crops actually produced on the covered land whether seasonal or permanent.

a. Landholdings planted to permanent crop with another permanent crop/s:

- a.1 In case all the permanent crops are productive or fruit-bearing at the time of the ocular inspection, CNI per Hectare is derived by dividing TNI/Hectare by the capitalization rate.

Expressed in equation form:

$$\text{CNI/Ha.} = \frac{\text{TNI/Ha.}}{.12}$$

Where:

$$\text{TNI/Ha.} = \frac{(\text{NI1} + \text{NI2} + \dots + \text{NI}_n)}{\text{Total Area}}$$

NI1, NI2 and NI<sub>n</sub> represent the annual net income of each crop.

Total area is the hectarage of the land where all the crops are commonly planted.

- a.2 In case of one or more of the permanent crops are productive or fruit-bearing and the other permanent crops are not yet fruit-bearing, CNI shall be the sum of the CNI per Hectare of the productive crop as defined in Item B.5-a.1 and the cumulative cost per hectare of the non-fruit bearing permanent trees as defined in Item B.4.
- a.3 In case all the permanent crops are not yet productive or not yet fruit-bearing, CNI shall be the sum of the cumulative cost per hectare of each crop as defined in Item B.4.
- b. Landholdings planted to permanent crop/s with seasonal crop/s.
  - b.1 The CNI of the seasonal crop/s may only be considered if said intercropping has been continuously practiced for three (3) consecutive crop cycles immediately preceeding the date of offer or coverage. One crop cycle is defined as the period from the time the crop is planted until it bears fruit or is harvested.
  - b.2 In case the permanent crop/s and the seasonal crop/s are productive at the time of ocular inspection, CNI shall be computed using the formula as defined in Item B.5-a.1.
  - b.3 In case one or more permanent crop/s are productive or fruit-bearing and the seasonal crops are still on its early productive stage at the time of ocular inspection but the intercropping has been continuously practiced for three (3) consecutive crop cycles, CNI shall be the sum of the CNI per Hectare of the permanent and seasonal crop/s as defined in Item B.5-a.1. For purposes of computing the CNI/hectare of the

seasonal crop/s, the AGP of the previously completed crop cycles shall be used.

b.4 In case the permanent crop/s are not yet productive or not yet fruit-bearing and the seasonal crop/s are also not productive, the CNI shall be the sum of the cumulative cost per hectare of the permanent crop/s as defined in Item B.4 and the CNI per hectare of the seasonal crop/s as defined in Item B.5-a.1 and Item B.5-b.3.

c. In case of landholdings planted to seasonal crop/s with another seasonal crop/s, the CNI per hectare is derived using the formula in Item B.5-a.1 in accordance with the conditions set forth in Item B.5-b.3.

B.6 For seasonal crops, at least one normal crop cycle shall be used to get AGP for crops whose cycles are less than one (1) year, two (2) normal crop cycles will be required.

In case the crop cycle is less than one (1) year, the following rules shall apply:

- a. Total production (TP) of all completed crop cycles within the year shall be considered.
- b. In case there are more than one (1) cropping cycles within the year but only one is completed, the formula shall be:

$$\text{AGP} = \frac{\text{TP1} + \text{TP2}}{\text{No. of months in two complete cycles}} \times 12$$

Where: TP1 = Total actual production for the first crop cycle; and

TP2 = Total actual production the second crop cycle

In case the crop cycle is more than one year, the formula shall be:

$$= \frac{\text{TP}}{\text{No. of months in one complete cycle}} \times 12$$

- B.7 For landholdings planted to permanent crops which are covered by existing lease contract, the following formula shall be used in the computation of the CNI:

$$\text{CNI/Ha.} = \frac{\text{LRI}}{.12}$$

Where: LRI = Lease Rental Income per Hectare/Year as stipulated under the contract.

Depending on the lease arrangement, LRI shall mean:

- a. If the lease rental is a fixed amount regardless of actual yearly production, LRI shall be equal to the fixed amount of lease rental.
- b. If the lease rental is a fixed percentage of the yearly gross production, LRI shall be equal to the Annual Gross Production (as defined in Item B) multiply by the agreed percentage of lease rental. Thus, in equation form:

$$\text{LRI} = \text{AGP} \times \text{SP} \times \text{Percentage Lease Rental}$$

- c. In case the lease rental is a variable amount (e.g., progressively increasing during the term of the lease), LRI is computed as follows:

$$\text{LRI} = \frac{\text{Sum of Annual Lease Rental per Hectare over the remaining Term of the Lease Contract}}{\text{Remaining Term of Lease, Years}}$$

- d. If the lease rentals over a future period corresponding to the over all effectivity of the lease contract is prepaid in one lump sum, the equivalent annual lease rental shall be computed as the equivalent annuity of the total advanced lease payment discounted at 12% over the effective term of the lease contract expressed in years. Thus, in equation form:

$$\text{LRI} = \frac{\text{Total Advance Payment/Hectare, Peso}}{\text{Annuity Factor of 12\% Discount Rate for the Term of the Lease Contract}}$$



Dividing the total advance payment/hectare by the annuity factor at 12% discount rate would establish the equivalent future rental income streams, thus, translating this case similar to Item B.7.

If the landowner and/or the lessee fail to submit copies of the Lease Contract within three weeks from date of receipt of LBP's letter-request or LBP fails to secure the same document from the lessee within the same period, the CNI shall be computed using the following formula:

$$\text{CNI} = \frac{[(\text{AGP} \times \text{SP}) - \text{CO}] \times 0.25}{.12}$$

- C. CS shall refer to any one or the average of all the applicable sub-factors, namely, ST, AC and MVM:

Where: ST = Sales Transactions as defined under Item C.2

AC = Acquisition Cost as defined under Item C.3

MVM = Market Value Based on Mortgage as defined under Item C.4

- C.1 The following rules shall be observed in the computation of CS:

- a. As a general rule, there shall be at least three (3) Sales Transactions.

At least one comparable sales transaction must involve land whose area is at least ten percent (10%) of the area being offered or acquired but in no case should be less than one hectare. The other transaction/s should involve land wherein the area is/are at least one hectare each.

- b. If there are more than three (3) STs available in the same barangay all of them shall be considered.

- c. If there is less than three (3) STs available, the use of STs may be allowed if AC and/or MVM are/is present.

d. Depending on the presence of applicable sub-factors, the following formulae shall be used:

d.1 If there are two or more STs and MVM and/or AC are present:

$$d.1.1 \quad CS = \frac{STA + MVM + AC}{3} \quad \text{OR}$$

$$d.1.2 \quad CS = \frac{STA + MVM}{2} \quad \text{OR}$$

$$d.1.3 \quad CS = \frac{STA + AC}{2}$$

WHERE: STA is the average of available STs or as expressed in equation form:

$$STA = \frac{ST1 + \dots + STN}{\text{NO. OF STS (N)}}$$

d.2 If there is only one ST and AC and/or MVM are/is available:

$$d.2.1 \quad CS = \frac{STA + MVM + AC}{3} \quad \text{OR}$$

$$d.2.2 \quad CS = \frac{STA + MVM}{2} \quad \text{OR}$$

$$d.2.3 \quad CS = \frac{STA + AC}{2}$$

d.3 If three or more STs are present and AC and/or MVM is not available:

$$CS = STA$$

d.4 If AC and/or MVM is present and ST/s is/are not available:

$$d.4.1 \quad CS = \frac{AC + MVM}{2} \quad \text{OR}$$

$$d.4.2 \quad CS = AC \quad \text{OR}$$

$$d.4.3 \quad CS = MVM$$

C.2 The criteria in the selection of the comparable sales transactions (ST) shall be as follows:

- a. When the required number of STs are not available at the barangay level, the additional STs may be secured from the municipality where the land being offered/covered is situated to complete the required three comparable STs. In case there are more STs available than what is required at the municipal level, the most recent transaction shall be considered. The same rule shall apply at the provincial level when no STs are available at the municipal level. In all cases combination of STs sourced from the barangay, municipality and province shall not exceed three transactions.
- b. The land subject of acquisition as well as those subject of comparable sales should be similar in topography, land use, i.e., planted to the same crop. Further, in case of permanent crops, the subject properties should be more or less comparable in terms of their stages of productivity and plant density; and
- c. The comparable sales transactions should have been executed and registered within the periods January 1, 1985 to June 15, 1988.
- d. STs shall be grossed-up from the date of registration up to the date of receipt of claimfolder/s by LBP from DAR for processing using the immediately preceding semestral RCPI.

C.3 Acquisition Cost (AC) - AC shall be deemed relevant when the property subject of acquisition was acquired thru purchase or exchange with another real property within the period January 1, 1985 to June 15, 1988 and the condition of said property is still substantially similar from the date of purchase or exchange to the date of offer or coverage. this should no longer be used as ceiling/cap but as an additional input in the determination of CS.

AC shall be grossed-up from the date of registration of the Deed of Sale up to the date of receipt of claim folder/s by LBP from DAR for processing using the immediately preceding semestral RCPI.

C.4 Market Value Based on Mortgage (MVM) - MVM shall refer to the appraised value of the property which should not be more than two (2) years prior to the date of offer or coverage.

a. MVM shall only be applicable if the property being offered is mortgaged to a bank at the time of offer or coverage;

b. MVM shall not apply if ALL of the following conditions are present:

b.1 There are several titles covered by CARP belonging to the same landowner;

b.2 The titles cover contiguous landholdings with similar topography, land use, and productivity; and

b.3 Not all of the properties are mortgaged.

c. If the landowner or the mortgagee bank fails to submit the latest appraisal report, as defined under item C.4, within 3 weeks from date of receipt of LBP's letter-request, MVM shall not be applicable.

d. MVM shall be grossed-up from the date of the latest appraisal report (as defined under Item C.4) up to the date of receipt of claimfolder/s by LBP from DAR for processing using the immediately preceding semestral RCPI.

D. Market Value per Tax Declaration (MV) shall refer to the market value per Tax Declaration (TD) issued before August 29, 1987 (effectivity of EO 229). The most recent set of values indicated in the latest schedule of unit market value (SMV) grossed up for inflation from the date of effectivity up to the date of receipt of claimfolder by LBP from DAR for processing.

D.1 In case the area as appearing in the TD differs from the findings per actual Ocular Inspection (OCI), the latter (OCI) shall prevail.

- D.2 In case the land classification/land use per OCI differs from those reflected in the td, the result of the actual OCI shall prevail and the unit market value of the land classification per OCI shall be obtained from the municipal assessor's office concerned.
- D.3 In cases where the approved market value for certain land classification in the municipality where the property is located is not available, the unit market value (UMV) of same land classification in the adjacent municipalities may be used.
- D.4 In cases where the trees are not yet productive or fruit bearing, MV shall only include the value of the land. The UMV for the land shall be based on the classification indicated in the SMV.
- D.5 In cases where the trees are already productive or fruit-bearing, the land productivity classification of the property whenever possible shall be established in accordance with the assessment regulations issued by the appropriate agency. In the absence thereof, the land productivity classification of the property indicated in the latest tax declaration shall be used.
- D.6 The value of the trees introduced by the farmer-beneficiaries shall not be considered in the MVTD computation.
- E. Valuation of Improvements (non-crops) shall be undertaken by LBP.
- F. The landowner shall not be compensated or paid for improvements made or contributed by the government and/or the farmer-beneficiaries.
- G. The Land Bank of the Philippines is hereby authorized to issue, from time to time, clarificatory guidelines to implement these rules and regulations.
- H. All pending claims whose memorandum of valuation have not yet been forwarded to DAR shall be valued in accordance with this Administrative Order.

### III. REPEALING CLAUSE

This Order hereby repeals or amends accordingly Administrative Order No. 05-88, Administrative Order No. 06-89, Administrative Order No. 17-89 and Administrative Order No. 03-91, as well as other issuances, or any parts thereof inconsistent with its provisions.

IV. EFFECTIVITY CLAUSE

This Administrative Order shall take effect ten days after its publication in two national newspapers of general circulation pursuant to Sec. 49 of RA 6657.

Diliman, Quezon City, 30 October 1992.

  
ERNESTO D. GARILAO  
Secretary

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