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VALUATION AND RENTAL DETERMINATION OF DENR-ADMINISTERED PATRIMONIAL PROPERTIES[1]

Department of Environment and Natural Resources

Philippine Economic – Environmental and Natural Resources Accounting System

Environmental and Natural Resources Accounting Project

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VALUATION AND RENTAL DETERMINATION OF DENR-ADMINISTERED PATRIMONIAL PROPERTIES[1]

ENRAP IV TECHNICAL PAPER

by

LMB Team[2]

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Executive Summary

By examining the existing laws and policies on the management of public lands under the DENR's jurisdiction, the Lands Management Bureau (LMB) found out that the present practices of land valuation and rental determination have resulted in land values and rental fees that are far below the existing market rates. Hence, the government does not realize reasonable income from properties sold or leased to private parties. Instead, scarce land resources are disposed of at very low prices, resulting in their inefficient allocation and utilization, and creating price abnormalities in the market.

The LMB with assistance from consultants of the Environmental and Natural Resources Accounting Project (ENRAP) came up with a study to provide a solid basis for the updating of critical laws, rules and regulations governing the appraisal and over-all management of government lands, specifically, patrimonial properties. It is expected that the study will result in a more rational land appraisal system for governing patrimonial and other lands under the jurisdiction of the DENR.

Davao City was selected as the site for the case study because of the presence of a number of patrimonial properties, most of which are commercial properties and are at present sources of government revenue for both the national and local governments. Data on past and existing rental rates of the properties were collected and analyzed. Laws pertinent to land appraisal and the basic valuation approaches using the market data, cost, and income approaches were reviewed. They also reviewed the valuation systems and procedures adopted and implemented by the Lands Management Service of DENR Region XI.

The case study revealed that the government is incurring foregone revenues amounting to PhP9 million annually using current valuation practices. The study recommends that a valuation framework be used to consider the most efficient use of the land and the social opportunity cost inherent in the utilization of lands. An update of DAO 98-20 is proposed.

1. Background

The Department of Environment and Natural Resources (DENR) is the primary agency of the government responsible for the sustainable management, conservation, and development of our natural resources. Its mandate includes the proper and equitable utilization and allocation of these resources for the benefit of the present and future generations.

The DENR's Lands Management Bureau (LMB) and the Lands Management Sector (LMS) in each Regional Office play a vital role in the discharge of the Department's functions and mandates. The LMS/LMB is charged with the responsibility of managing, disposing and administering the alienable and disposable lands of the State, as well as other real properties of the government not placed under the jurisdiction of other agencies as mandated by various laws.

One of the priority thrusts of the LMB is the management of the State's patrimonial properties that are under the administration of the Department. Patrimonial properties refer to lands (and improvements) belonging to or owned by the State as a private entity without being dedicated for public use, public service or for the development of national wealth. Since the government owns these properties in its private capacity, it can dispose of them through sale or lease in favor of qualified private individuals or corporations.

At present, about 160,000 hectares or 1.13 percent of the total land area of the Philippines are patrimonial properties, excluding the area covered by Friar lands (*Figure 1*). Although these properties represent only a small proportion of total land area, most of them are located in urban areas and therefore are valuable sources of government revenue.

The financial crisis that hit the Asian region in 1997 resulted in economic instability and uncertainties with respect to sustaining the implementation of priority programs and projects of the government. The natural calamities brought about by the El Niño and La Niña phenomena further aggravated the situation. Among the actions undertaken to address these problems was a directive issued to all revenue generating agencies to efficiently collect fees, taxes and other duties. Service and regulatory oriented offices and instrumentalities were also instructed to update the rate of their administrative fees, rentals and other impositions to earn more revenues or at the least recover their operational costs. Privatization of non-performing assets as well as interests and equities in big corporations in the country was likewise accelerated.

In line with this government directive, the LMB undertook a careful examination of the existing laws and policies on the management of public lands, including patrimonial properties under the DENR's jurisdiction. The finding was that the present practices of land valuation and rental determination have resulted in land values and rental fees that are far below the existing market rates. Thus, the government does not realize reasonable income for properties sold or leased to private parties. Instead, scarce land resources are disposed of at very low prices, resulting in their inefficient allocation and utilization, and creating price abnormalities in the market.

Recognizing the situation, the DENR through the Lands Management Bureau, tapped the Philippine Environmental and Natural Resources Accounting Project (ENRAP) to assist in the formulation of strategies on the proper pricing of land resources under its jurisdiction. As a result, a study on the existing valuation of patrimonial properties was conceptualized and implemented. The study is a step forward in improving and maximizing the DENR/LMS/LMB revenue generation capability, while at the same time, achieving the proper utilization of the country's land resources.

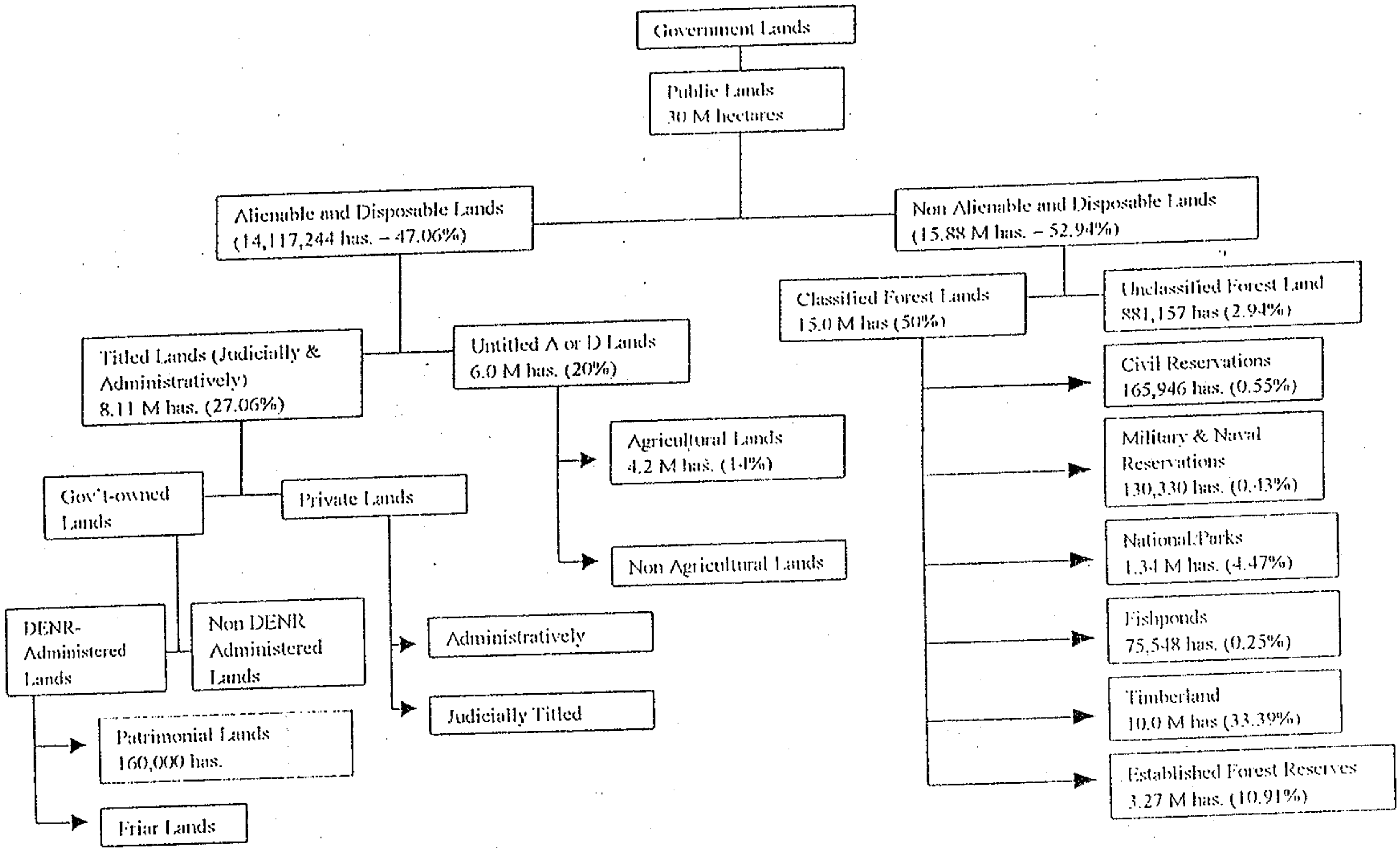

Figure 1 Land Classification as of December, 1996

2. *Objectives*

The overall objective of the study is to come up with a solid basis for the updating of critical laws, rules and regulations governing the appraisal and over-all management of government lands, specifically, patrimonial properties. It is expected that the study will result in a more rational land appraisal system for governing patrimonial and other lands under the jurisdiction of the DENR.

3. *Methodology*

In order to achieve the objectives of this study, the following activities were undertaken:

(a) A review and analysis of the following laws pertinent to land appraisal:

a. Commonwealth Act No. 141 - The Public Land Act of 1936
b. Act 2259 - Cadastral Act of 1913
c. Act 1120 - The Friar Lands Act
d. Act 3038 - Lands of the Private Domain
e. Republic Act (RA) 6657 - Comprehensive Agrarian Reform Law
f. Executive Order (EO) 192, Series of 1987 - DENR Re-organization Law
g. RA 477 - NAFCO Properties Law, in relation to E.O. 285 series of 1987 (Abolition of the General Services Administration)
h. RA 7279 - Urban Development and Housing Act (UDHA)
i. RA 7160 - Local Government Code
j. EO No. 406 - Institutionalization of Philippine Economic - Environment and Natural Resources Accounting System

(b) A review of the basic valuation approaches (market data, cost, and income approach) commonly used by private appraisers and different government agencies involved in land management and disposal; A symposium on private and government land appraisal systems was then conducted.

(c) A review of the valuation systems and procedures being adopted and implemented by the Lands Management Service (LMS) of DENR-Region XI that directly manage the National Abaca and other Fibers Corporation (NAFCO) or patrimonial properties;

In particular, the study focused on the appraisal procedures, methodologies adopted, compliance with existing rules and regulations, current and potential uses of the subject properties, the formulation of the contract and its enforcement, the collection system, the capacity of the office in undertaking this activity, the analysis of the current market trends in comparison with the existing LMS appraised land values and rental fees.

(d) Davao City was selected as the site for the case study due to the presence of a number of patrimonial properties in the area. Most of the patrimonial properties are commercial properties and are at present sources of government revenue for both the national and local governments. Data on past and existing rental rates of the properties were collected and analyzed to determine whether the rental rates are undervalued.

4. *Conceptual Framework*

4.1 Approximation of Land Values

To the extent that the properties covered in the study have a discernible market, land values may be approximated by the market-based appraisal methods described below. This specifically involves comparing the available market data on land values. The basis of such appraisal methods hinges on an economic principle that no prudent buyer or lessor will pay more than the benefit he derives or expects to derive from the use of the land, or what it will cost him to acquire an equally desirable site or substitute property. On the other hand, no seller or lessor will dispose of its property at less than the value the property can command in the market. Usually, the buyer and seller bargain over the price of a given quantity and quality of land until they reach an agreement, otherwise, the buyer and seller resume their search or drop out of the market.

Three approaches are commonly used in land appraisal, as follows:

a) **Market data approach** is a comparative method relating the data in the market to the real property under appraisal. It is most applicable when there is an active market since the values derived are based on the "bench marks" which are set by listing, tabulating, comparing and analyzing the sale prices of comparable properties.

b) **Cost approach + abstraction method** is basically applied in the valuation of physical structures (i.e., buildings, factories, etc.) and is based on the notion that the value of a good cannot be worth more than the cost of its possible and existing replacement or substitute. Its application to land valuation comes with abstraction method wherein the value of the land is abstracted out of the total value of the property, i.e., apportioning the total value of the property between the lots and the building by ratio or by abstraction.

c) **Income approach** assumes that the value of an income producing property is the present worth of all future benefits arising from ownership of the property, net of development and other costs. It is the least applied of the three approaches because of the amount of data required.

It is important to note that none of the above approaches provide a proper estimate of the true value of the land resource. At best, it provides an estimate of the value of the land in its current use. In principle, the true value of the land is best valued by the land's best alternative use and this should include the effects of environmental externalities on the land resource, if any. However, due to data and other constraints, this study did not attempt to implement this ideal approach.

4.2 Legal Basis for Land Values and Lease Rentals

The appraised value of the land is derived through an appraisal process using any of the approaches described above. The appraised value then becomes the basis for computing the selling price and lease rental of the land, guided by existing guidelines set by government.

As per Department of General Services (DGS) Department Order No. 3, January 30, 1968[1], the annual rental of a commercial property including the building thereon shall not be less than 3 percent of the appraised value of the land and 1 percent of the appraised value of the improvements. In cases where the term of the lease exceeds five years, the rentals shall be adjusted accordingly once every five years based on re-appraisal by the LMS.

In 1998, through DENR Administrative Order (DAO) No. 98-20 (Revised Rules and Regulations on the Conduct of Appraisal of Public Lands and Other Patrimonial Properties of the Government), the minimum land value of government-owned commercial lands was stipulated **not to be less than** the average zonal and assessed values and for residential lands, the minimum value should **not be less than** the assessed values[2].

5. *Management of NAFCO Properties*

5.1 *NAFCO (Patrimonial) Properties: Nature And History*

NAFCO Patrimonial Properties as they are now called, are those real and personal properties formerly owned or held by citizens or nationals of countries which were the enemy of the United States and hence of the Philippines during the Second World War, i.e. Germany and Japan. These properties include real properties such as lands, buildings, and other real rights or personal properties such as movable assets, shares of stocks and other things of value. To be exact, therefore, NAFCO Properties could be properly termed or described as "former enemy owned properties".

Under international law, properties owned by a conquered state or by its citizens located in the territory of the victorious state can be appropriated and acquired by the latter. Accordingly, when World War II ended, the properties owned by the Japanese and the Germans located in the Philippines were confiscated and taken over by the United States.

When the Philippines regained its independence on July 4, 1946, these properties were turned over by the U.S. to the Philippine government pursuant to Property Act of 1946 (passed by the U.S. Congress). To authorize the Philippine President to enter into such contracts or undertaking with the United States involving the transfer of such properties, the Philippine Congress passed Republic Act No. 8, which was approved on August 9, 1948. The agreements effecting these turnover were mostly formalized through the execution of Transfer of Agreements or Memorandum of Agreement between the Philippine Foreign Affairs Secretary and the U.S. Ambassador in the Philippines.

5.2 *Authority and Jurisdiction*

At present, NAFCO properties are being managed by the DENR, through the Lands Management Bureau. Prior thereto, however, these properties were originally administered by the Alien Property Administration. On June 7, 1950, Republic Act No. 477 was then passed, transferring the administration of the properties from the Alien Property Administration to the NAFCO, hence the name "NAFCO" properties.

When NAFCO was abolished on March 14, 1958 by virtue of EO 372, the administration of the properties was transferred to the Board of Liquidators (BOL).

Under Executive Order No. 290 dated March 14, 1956, which implemented Reorganization Plans Numbers: 4-A, 5-A, 7-A, 8-A and 9-A, the functions of custody and management of NAFCO properties were transferred to the Department of General Services (DGS) through the Bureau of Building and Real Property Management (BBRPM). Among others, the BBRPM was charged with the management and administration of urban lands and patrimonial properties that are commercial and industrial in nature.

Accordingly, the authority to manage, administer, and dispose of NAFCO Properties, which are urban, commercial and industrial in nature was transferred to the DGS/BBRPM from the BOL.

After the EDSA Revolution, then President Corazon C. Aquino, pursuant to her law-making power under the Revolutionary Government, issued Executive Order No. 285[3] in July 25, 1987, abolishing the DGS and its attached/line agencies. EO 285, likewise, directed, among others. the transfer of the real property management function of the DGS/BBRPM to the DENR.

Further, on May 31, 1988, the DENR Secretary issued Office Order No. 1, directing the BBRPM personnel performing real property management functions to continue performing their duties and report to the LMB Director. The directive of the DENR Secretary, in effect, put the administrative jurisdiction over the BBRPM-managed properties under the LMB, which was then already relegated to a mere staff bureau of the DENR by virtue of EO 192 (DENR Reorganization Law) issued on June 10, 1987.

Being a staff Bureau of the DENR, and, therefore without any field offices, the LMB relies on DENR-Regional Offices specifically the Lands Management Sector, for the immediate management and implementation of the existing policies, laws, and regulations pertaining to the disposition of these properties.

Hence, it is the LMS personnel who conducts the investigation, ocular inspection and appraisal; processes the applications; prepares documents of such deeds of sale, awards, etc.; and, collects payments/rentals, among others.

The actions of the LMS field personnel are endorsed by the RTD-LMS to the LMB Director for review, consideration, approval and signature, if deemed within the jurisdiction of the LMB Director. However, it is the DENR Secretary who executes and approves Deeds of Sale or Contracts of Lease in favor of qualified lot applicant, following Section 57 Book IV, of the Administrative Code of 1987 and DPWH/DBM/DENR Joint Circular No. 1, dated September 30,1989[4].

5.3 Disposition and Administration

The disposition of NAFCO properties is governed primarily by Republic Act 477. Under this law, residential lots are disposed of through direct or negotiated sale; while commercial and industrial (patrimonial) lots may only be leased through public auction. With the enactment, however, of *Batas Pambansa Bilang* 233 on July 27, 1982, the latter may also be disposed of through sale which can only be done by public auction in accordance with Act 3038, in relation to CA 141, as amended.

Re-appraisal of the property and corresponding adjustment in the rentals are made every five years. Transfer of leasehold rights and sub-leasing maybe allowed provided that there is prior written consent from the lessor (DENR). Improvements introduced by the lessee are forfeited without payments in favor of the government upon termination of the lease.

5.4 Appraisal and Valuation

Prior to 1987, appraisal and valuation of NAFCO Properties were not governed by a formal issuance. While there was a law that mandated their appraisal and identified who should conduct the activity, there were no specific implementing rules and regulations nor was there any prescribed method.

With the exception of the defunct BBRPM, the agencies which previously managed these properties did not use the usual three appraisal approaches previously mentioned. Valuation or appraisal is usually done using the assessor's office findings or an agreement between the lessor-agency and the lessee. It was only when the administration of these properties was transferred to the defunct BBRPM that valuation was done in a manner somehow similar to appraisal practices used by the private appraisal firms.

The methods or practices followed by the defunct BBRPM were formalized into an administrative issuance in aforementioned Joint Circular No. 1. At the time of its issuance in 1987, the properties were already under the jurisdiction of DENR.

Recently, the DENR Secretary issued DENR Administrative Order No 98-20, dated May 20, 1998. This new issuance provides the legal foundation for the actual implementation of the guidelines. Prior to DAO 98-20, the appraisal and re-appraisal of public lands were conducted through fixed peso values and did not allow for any adjustments. DAO 98-20 abolished the fixed rates and mandated the consideration of the following factors in determining the fair market value of DENR administered properties, to wit:

a) extent, classification, location, actual use and development trends of the area;
b) assessed value and BIR (Bureau of Internal Revenue) Zonal Valuation;
c) sales and holding prices of lands of similar character located in the area;
d) highest and best use or potential of the property;
e) purpose for which the property is to be disposed; and
f) other relevant factors or circumstances.

5.5 *Issues and Problems*

A review of the past and current situation revealed the issues, constraints, and problems that have beset the management and disposition of these properties. Among these are:

a) Low purchase price and rental as a result of unrealistically low valuation and the application of the minimum percentage rate in rental computation. Valuation is not made using market or sales data as one of the bases. Rate of rental is pegged at the minimum of what is provided for in the Public Land Act[5] and the implementing guidelines, that is 3 percent of the appraised value of the land and 1 percent of the appraised value of the improvement.

b) Poor contract administration, monitoring and enforcement as manifested by delayed appraisal, rental adjustment, accumulation of uncollected rentals, and subleasing of the properties without prior approval from the office.

c) Absence of formal agreements covering these properties to clearly establish the contractual relationships between the owner-lessor and the occupant lessees. Expired lease contracts have not been renewed. Occupancy is usually based on a month to month agreement or temporary permit.

d) Lack of dynamic personnel mindset and organizational orientation to productively and optimally manage these properties. The concern of the Agency is focused on pure land disposition/titling, not on land management. Income generation is, accordingly, considered as secondary as manifested by the fact that the bulk of LMS resources are devoted to free patent issuance and CARP related activities.

e) Outdated laws as well as absence of necessary implementing rules and regulations to lay down the guidelines leading to the proper application and implementation of the laws, such as application of rental rate more than the 3 percent minimum.

f) Other constraints as a result of human or personal factors including the dilemma brought about by equity considerations and social justice. Most personnel think that competitive disposition and market based pricing would be inequitable and unreasonably burdensome to the occupants and to the people in general.

6. *Valuation Practices of Other Agencies*

It is useful to look at the land appraisal practices of other government and private institutions and compare these to those of the DENR. In addition to the Lands Management Bureau/DENR, there are a number of other government agencies and private entities that either by law or by the nature of their functions, undertake land valuation. These include the Bureau of Internal Revenue (BIR) and the Assessor's Office (AO), both under the Department of Finance; government and private banks; and private land appraisers; such as the PARA (Philippine Association of Real Estate Appraisers), CREBA (Chamber of Real Estate Brokers), among others.

The BIR uses zonal values as basis for its computation of internal revenue taxes due on transfers, exchanges or other disposition of real property. Zonal value is technically defined as the mass values of lands classified according to zones based on a procedure adopted by the Department of Finance. On the other hand, the Assessor's Office uses the assessed value. This refers to the fair market value of the real property multiplied by an assessment level. The fair market value is determined by the provincial, city or municipal assessor as the case may be; and adopted through an ordinance by the local council concerned. The assessed value is used as basis of real estate taxes. Considering that this value is subject to the approval of local elected officials, the value is politically sensitive.

Table 1 compares the valuation systems of the different institutions involved in land disposition in terms of legal basis, basis of value, purpose, and method of valuation.

Table 1. Comparison of Different Valuation Systems

	BIR	AO	DENR/LMB	BANKS & OTHERS
Legal Basis	National Internal Revenue Code as amended by 1997 National Tax Reform Act	Local Government Code of the Philippines	DAO 98-20 dated 20-May-98	Private Appraisers Banks Charter and Lending Guidelines
Basis of Value	Average of the two highest among the three recommended values	Sole Responsibility	Agricultural /residential/ institutions AV greater or equal to AOV Industrial and commercial AV greater or equal to the Average of ZV and ZOV With sales listings AV is greater than or equal to ZV + AOV + average of sales divided by 3	Maximum loanable amount AV= 80% MV LV= 60% AV
Committee Composition	Sub-Technical Committee on Real Property Valuation	technical and field men	Committees created by DENR Secretary, LMB Director, RED depending on the type and nature of property	technical men
Approving Authority	DOF Secretary	*Sanggunian* concerned	DENR Secretary, LMB Director, RED depending on the type and nature of property	
Purpose	Basis for computation of internal revenue taxes	Basis for computation of real estate taxes	Basis for sale or rental of property	Basis for collateral and loan
Method of Valuation	Market data Cost approach Income approach	Market data Cost approach Income approach	Market data Cost approach Income approach	Market data Cost approach Income approach

7. *Case Study*

7.1 *Economic Profile of Davao City*

Davao City is considered as the key to the development of Region XI with its vast land area of 244,000 hectares or 2,440 square kilometers, approximately 8 percent of the total land area of Region XI (Southern Mindanao). It is divided into three congressional districts, subdivided into 11 administrative districts and 180 *barangays*. The administrative districts are composed of the following:

District I : Poblacion, Talomo
District II : Agdao, Bunawan, Buhangin, Paquibato
District III : Baguio, Calinan, Marilog, Toril, Tugbok

The central business district of Davao City and the major commercial establishments are in District 1, while the industrial, agricultural, and forested areas are in Districts II and III (*Appendix Table 1*). It should be noted that only 5.5 percent of land area are built-up/settlement areas.

Davao City's population growth is moderate at an annual rate of 3.4 percent from 1980 to 1995. In 1995, the Southern Mindanao gross regional domestic product was estimated at PhP54.2 million, with an annual growth rate of 1.4 percent per annum from 1987 to 1995. Based on the registered investment with BOI and with the *"Invest in Davao"* Project from 1987 to 1996, the total value of investment in Davao City was PhP19 billion, with 4.5 percent growth per annum. The average share of investment to the total Southern Mindanao GRDP was 2.7 percent from 1987 to 1995.

7.2 *Davao City Land Market*

The average rental and land rates in Davao City as of 1997 were based on Department of Trade and Industry's estimated cost of doing business in Davao City (*Appendix Table 2*) and classified according to districts and major areas. Rental rates for commercial space in malls and plazas within the Poblacion area range from PhP245 to PhP667 per square meter, PhP44 per square meter for warehouse space, and PhP225 per square meter for office space. The average rental rate for an office space outside the Poblacion area is PhP40 per square meter. Within the central business district of the city, commercial land rate ranges from PhP35,000 to PhP60,000 per square meter. Land rates outside the Poblacion area range from PhP10,000 to PhP29,500, and PhP150 to PhP25,000 per square meter for the Talomo District. The listed market land rate, are based on the average land rates within and outside the Poblacion central business district estimated at PhP33,625 per square meter.

Land rates for District II are as follows:

Buhangin District : PhP1,800 to PhP10,000 per square meter
Bunawan District : PhP23,000 to PhP24,000 per square meter
Agdao District : PhP4,5000 to P23,000 per square meter
Paquibato District : PhP300 to P400 per square meter

District III is far from the CBD and commands relatively lower rates ranging from an average of PhP85 to PhP35,000 per square meter.

7.3 *Patrimonial Properties in Davao City*

The patrimonial properties covered in the study are located in prime commercial areas of Davao City and surrounded with newly established business establishments. The total area covered by these properties is 11,811 square meters, and all of which are being used for commercial purposes.

The five patrimonial properties include the following NAFCO lands named after their previous Japanese owners: Takekawa, Furukawa, Totoki Daiyen, Mitsui Bussan Kaisha, and Kashiwabara. Contracts for all the lessees of the properties have expired, thus, technically ownership of structures (including improvements) within the premises should be transferred to the government.

Based on the latest appraisal, the total land value for the five properties is PhP12 million or an average of PhP3,734 per square meter (*Tables 2 and 3*). The estimated total annual rental was PhP360,000. The prevailing land values, and consequently the rentals being collected, are considered extremely low compared to the current land prices of the properties in the area.

Table 2. Land Values per Area (sq m) by Source

Lessee	Prevailing Rates [1]	AOV [2]	DAO 98-20 [3]	ZV [4]	LMR [5]
1 Takekawa	4,933	10,000	12,313	14,625	33,625
2 Totoki Daiyen[7]	311	6,000	8,263	10,525	33,625
3 Furukawa		10,000	11,750	13,500	33,625
4 Mitsui Bussan Kaisha[7]	53	6,000	9,238	12,475	33,625
5 Kashiwabara	4,629	10,000	11,438	12,875	33,625
Average	2,482	8,400	10,600	12,800	33,625

Note:
AOV = Assessed Value
ZV = Zonal value
LMR = Listed market rates

[1]Currently prevailing DENR/LMS rates based on the average of the LMS-appraised, zonal, and assessed values. The last appraisal was conducted in 1995 and used the 1985 zonal and assessed values.
[2]AV prevailing effective 1997 to present
[3]Average of ZV and AV
[4]ZV prevailing effective 1996 to present
[5]Based on DTI listed cost of doing business in Davao City. Davao Factbook 1996-1997 edition.
[6]As per LMS records of "occupancy permit fee."
[7]Computed as ((V_i/AVLMS-DENR)-1) *100%, where V= appraised value based on I = AV, ZV, MV, ALV, DAO 98-20

Ocular inspection by the LMS and the study team revealed that almost all lessees subleased portions of the properties though this was not allowed in the contract. The lessees likewise did not remit to the government any share from the rentals of the sub-leases.

Tenant of the Takekawa property petitioned DENR for a negotiated sale. while former lessees of Furukawa and Totoki Daiyen filed cases in the court claiming their rights as tenants. These cases are still pending for decision from the LMB-DENR and the courts, respectively.

Except for Furukawa, all four properties have had little improvements over the years as evidenced by its dilapidated structures amidst developed neighboring properties.

Table 3 Comparison of Present Land Values Based on LMS/DENR Value, Zonal Value, DAO 98-20, and Listed Market Rates (in thousand Philippine Pesos)

Lessee	Area (sq.m.)	Prevailing Rates [1]	AOV [2]	DAO 98-20 [3]	ZV [4]	LMR [5]
1 Takekawa	475	2,343	4,750	5,848	6,947	15,972
2 Totoki Daiyen [6]	835	260	5,010	6,899	8,788	28,077
3 Furukawa	2,045		20,450	24,029	27,000	67,250
4 Mitsui Bussan Kaisha	6,553	348	39,318	60,533	81,749	220,345
5 Kashiwabara	2,190	9,017	21,900	25,048	25,083	65,508

Notes:

AOV = Assessed Value
LMR = Listed market rates
ZV = Zonal value
ALV = Average land value

[1] Currently prevailing DENR/LMS rates based on the average of the LMS-appraised, zonal, and assessed values. The last appraisal was conducted in 1995 and used the 1985 zonal and assessed values.

[3] Average of AV and ZV.

[2] AV prevailing effective 1997to present

[4] ZV prevailing effective 1996 to present

[5] Based on DTI listed cost of doing business in Davao City. Davao Factbook 1996-1997 edition.

[6] As per LMS records of "occupancy permit fee."

7.4 Results of Valuation of Patrimonial Properties in Davao City

Tables 2 and 3 present the comparison of land values of the five sample properties in Davao City. The prevailing land rates used by DENR-LMS are lower by more than fivefold compared to zonal values and fifteen-fold compared to market values. Compared to the prevailing market values, the current rates are lower by as much as 1300 percent. At present, the government is earning only PhP360,000 per year from the annual rental of these five patrimonial properties.

Comparing the land market rates to the prevailing land values and the minimum value set by DAO 98-20, the government stands to incur opportunity costs estimated at PhP385 million pesos and PhP300 million, respectively. In the same way, the government incurs foregone annual rental rate of at least 9 percent based on the difference between the minimum 3 percent currently applied and NEDA economic discount rate of 12 percent.

The foregone annual rental estimate based on the estimated appraised value as per DAO 98-20 is PhP8.7 million, while the figure increases to PhP35.7 million when based on the listed market rates. In short, approximating true market rates would increase the land value of the five properties to as much as PhP397 million and its annual rental income to as much as PhP47.6 million (*Table 4*).

Table 4. Summary of Foregone Earnings from Patrimonial Properties (values in '000 PhP)

Lessee	Prevailing Land Values (A)	DAO 98-20 (B)	LMR (C)	Opportunity Cost [1] (C)-(A) [2]	(C)-(B) [3]	Foregone Annual Rentals [4] DAO 98-20	LMR
1 Takekawa	2,343	4,661	15,972	13,629	11,311	419	1,437
2 Totoki Daiyen	260	5,647	28,077	27,817	22,430	508	2,527
3 Furukawa	n.a.	18,500	67,250	67,250	48,750	1,665	6,053
4 Mitsui Bussan Kaisha	348	50,704	220,345	219,997	169,641	4,563	19,831
5 Kashiwabara	9,017	17,412	65,508	56,491	48,096	1,567	5,896

Notes:
[1] Pertains to opportunity cost of not valuing patrimonial properties at market rates
[2] Opportunity cost of valuing lands at the prevailing rates.
[3] Opportunity cost of valuing lands at the minimum rate as per DAO 98-20.
[4] The minimum lease rental rate is 3% while the adjusted market rate is 12%. The foregone annual rental from using the minimum rate is 9%

8. *Conclusion and Recommendations*

The main issue that this study aimed to address is the problem of under valuation of government lands, with focus on patrimonial properties. Existing appraisal practices showed that the government is not obtaining reasonable returns from the sale or lease of its land holdings because the sale values and rental fees are not based on current market values and are administered under outdated laws and regulations.

Some of the factors contributing to this under-valuation are the following:

a) The existence of 100 percent cap in increase in re-appraised value of property.

b) Infrequent re-appraisal of the property. Currently, re-appraisal is conducted every ten years, thus resulting in rates significantly different from current market values.

c) Incorrect interpretation of the law with respect to computing the minimum return. It is to be noted that while the law says that 3 percent is the minimum, its use has become the traditional practice in the field.

d) Inefficient use of the properties.

This case study showed that the government is incurring foregone revenues of PhP9 million to PhP35 million annually using current valuation practices.

The study recommends the adoption of the following:

a) A valuation framework that would consider the most efficient use of the land and the social opportunity cost inherent in the utilization of lands (including environmental externalities).

b) An auction system as an option for disposing government lands. The system should consider the political realities of implementing auctions in government.

c) Update of DAO 98-20 to conform more closely to land market conditions.

Endnotes:

[1] Rules, Regulations and Procedures Governing the Disposal of Disposable Property Owned by the National Government under the Jurisdiction of the National Government under the Jurisdiction of the Bureau of Building and Real Property Management.

[2] Zonal value is technically defined as the mass values of lands classified according to zones based on a procedure adopted by the Department of Finance. Assessed value refers to the fair market value of the real property as determined by the provincial, city or municipal assessor as the case may be and adopted through a local ordinance.

[3] Abolishing the General Services Administration and transferring its functions to appropriate government agencies.

[4] Manual on Building Services and Real Property Management.

5 Section 64 (a)

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APPENDIX TABLE 1
Existing General Land Uses, Davao City 1994

	Area (has)	% share
Agricultural	187,480	76.84
Devoted to agricultural use	98,277	
Grassland and shrubland	89,203	
Built-up/Settlement Area	13,373	5.48
Residential	4,122	
Commercial	797	
Industrial	844	
Institutional	490	
Open spaces/parks/buffer zones	214	
Discrepancy	6,906	
Foresty and Conservation Area	43,147	17.68
TOTAL	**244,000**	

Note: Qualification based on the 1994 map prepared using aerial photo in interpretation and ground verification.

Source: Office of the City Planning and Development Coordinator, City of Davao, February, 1998 Comprehensive Development Plan of Davao City

APPENDIX TABLE 2

Listed Land Market Rates Based on DTI Cost of Doing Business in Davao City, March 1997

	In Pesos		Average	In US $	
INDICATIVE RENTAL RATES (price per sq. meter)					
as of Dec. 1995					
Poblacion area					
Commercial Malls	667		667		25
Commercial Plaza	194 -	300	247	7.5 -	11.5
Office Buildings	200 -	250	225	7.7 -	9.6
Warehouses	12.5 -	75	44	0.48 -	2.9
Outside the poblacion area					
Office Buildings	30 -	50	40	1.2 -	1.9
LAND RATES (price per sq. meter)					
Industrial/Agricultural					
District I					
Talomo	250 -	2500	1375	9.6 -	96.15
District II					
Buhangin	8000 -	10000	9000	307.7 -	384.6
Bunawan	55 -	1800	928	2.1 -	89.25
Agdao	4500 -	5500	5000	173.1 -	211.55
Paqulbato	300 -	400	350	11.55 -	15.4
District III					
Toril	50 -	350	200	1.9 -	13.45
Calinan	40 -	700	370	1.55 -	26.9
Tugbok	50 -	400	225	1.9 -	15.4
Baguio	25 -	30	28	0.95 -	1.15
Commercial/Residential					
District I					
Poblacion CBD (Central Business D	35000 -	60000	47500	1346.15 -	2307.7
Poblacion Others	10000 -	29500	19750	384.8 -	1134.6
Talomo	150 -	25000	12575	5.75 -	961.55
Average Land Rate (within and outside CBD)			33625		
District II					
Buhangin	1800 -	10000	5900	69.25 -	384.6
Bunawan	23000 -	24000	23500	884.6 -	953.1
Agdao	4500 -	23000	13750	173.1 -	884.8
Paulbato	300 -	400	350	11.55 -	15.4
District III					
Toril	2000 -	5000	3500	76.9 -	192.3
Calinan	50 -	120	85	1.9 -	4.6

Note: Exchange rate is pegged at P26 : $1

Source: Davao City Factbook, 1996-1997 Edition.