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Risk Mitigation Strategies in Valuation Process by Due Diligence

Introduction:

As per the IVS, “Valuation is a process of forming conclusion on Value”, based on the data and inputs provided by the client along with the assumptions and facts associated with the assets. Based on his/her professional judgement, the Valuer should take necessary precautions in selecting the data to be used as inputs to achieve the final value.

It is a prime responsibility of the Valuer to take necessary steps to cross check or conduct technical Due Diligence of the data and inputs associated with the assets and is a critical step to ensure risk-free Valuation.

In this article, we will discuss some of the common and possible cross checks or technical Due Diligence of the data/documents to be followed during the valuation process.

Data & Inputs provided by client

In general practice, the client provides the details/data related to the asset, and based on the provided data, the valuation process is completed by the valuer by adding the following as Caveats & Limitation-

"We have relied upon the representations of the owners/clients regarding the information they supplied, which was complete, accurate, true and correct to the best of their knowledge."

In case of assets of Land & Building, following inputs are generally provided to the valuer by the client to conduct the Valuation :

1. Ownership document (Sale deed/lease deed)
2. Location of the
3. Address of the property
4. Building details.

As we are aware that Valuers are not liable to check the legality of the documents but it is a prime responsibility of the Valuer to take necessary steps to possibly cross check or conduct Due Diligence about the structure/Building and verify the ownership related details of the assets up to possible extent. It is a critical step to ensure a risk-free Valuation.

Hence, following basic and easy steps are proposed as a part of Due Diligence.

Due Diligence regarding Ownership document

1. Title/Ownership Verification

- **Title Deed:** Verify the authenticity of the title deed and ensure the ownership is clear.
- **Encumbrances:** Check for liens, mortgages, or other encumbrances on the property.
- **Land Records:** Confirm ownership in government records (e.g., revenue records or registry office).
- **Zoning Compliance:** Ensure the land is zoned appropriately for the intended purpose (residential, commercial, industrial, etc.).

2. Legal Compliance

- **Land Use Approvals:** Verify compliance with the master plan and zoning regulations.
- **Litigations:** Check for ongoing or past legal disputes related to the land.
- **Transfer History:** Review the history of ownership to identify any anomalies in the chain of title.
- **Local Authority Approvals:** Verify approvals from municipal and regional authorities.

The above compliance may be cross-checked as follows: (if required)

1. The sale deed can be verified online from the State revenue department portal.
2. Govt Market/circle rate can be checked online on the State revenue department portal.
3. Land rent receipt can be verified online from Govt revenue record from the State revenue department portal.
4. Encumbrance certificate can be obtained easily through an online request from the State revenue department portal.
5. Municipal tax receipt of the property can be checked online by putting Property ID No. on the Municipal web site.

Technical Due Diligence regarding Physical Inspection

- 1. Boundaries and Area:** Cross-check the physical boundaries and area of the land with legal documents.
- 2. Topography:** Assess the land's slope, elevation, and drainage patterns.
- 3. Encroachments:** Identify if there are any illegal structures or encroachments on the land.
- 4. Accessibility:** Evaluate road connectivity, proximity to utilities, and availability of essential services
- 5. Technical details of building:** Year of construction, Types of structures, Types of roofing, Height of structures, Built up area , No. of floors, No. of Buildings
- 6. Survey and Measurement**
 - **Survey Plan:** Obtain and review an official survey map or cadastral plan.
 - **Measurement Accuracy:** Verify if the actual area matches the records in land documents.
 - **Survey Demarcation:** Confirm that the land boundaries are clearly marked on-site.
- 7. Infrastructure and Utilities**
 - **Utilities Availability:** Assess the presence of water supply, electricity, sewage, and internet.
 - **Future Developments:** Check for planned infrastructure projects nearby, such as roads or metro lines.
 - **Right of Way:** Ensure access to the land is not hindered by any private property or other restrictions.
- 8. Copy of Building permission letter, approvals, and NOCs (Environmental, Airport Authority, Fire Authority). (if applicable)**

During Physical Inspection/Verification following steps can be adopted if the valuer is finding difficulties due to the large size of the plot and any access constraint to the asset.

1. Address of the property can be verified by Google Coordinate.
2. Existing area of the land and the existing building can be cross checked by Google Earth area measuring feature.
3. Existence of the building/structure can be verified by Google map satellite view.
4. Existing Boundaries of the property can be verified by Google map or Google Earth.
5. Year of construction can be verify by Google Earth history feature.
6. Existing area of the land and the existing building can be cross checked by Google Earth area measuring feature.
7. Existing road width can be verified by Google map.
8. The building can be identified from outside by using street view feature of the Google Map/Earth.
9. The approval of the building plan can be verified by the concerned approving authority or Municipal department.
10. If the building is approved by RERA authority, Valuer can explore every detail like building plan, coverage area , open area, completion period, present status of the building, existing dispute if any, building's technical specifications etc.

Conclusion

It is suggested that Valuer should conduct reasonable and adequate Due Diligence even after putting the caveats and limitation in the Valuation report for impartial and reasonable judgement on Value.