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REAL ESTATE

Supreme Court: Residential Sale Deed of Adjoining Village Cannot Determine Compensation for Industrial Land Acquisition

The Supreme Court has held that a residential sale deed pertaining to land situated in an adjoining village cannot be relied upon to determine compensation for industrial land acquired under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (herein referred as “2013 Act”). The Court emphasized that the requirement of […]

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A bench comprising Justice Sanjay Kumar and Justice K. Vinod Chandran observed:

"Applying the rigours of Section 26(1) of the 2013 LA Act to the case on hand, we find that the Arbitrator demonstrably erred in relying upon the sale deed dated 29.03.2017 relating to residential land in an adjoining village to determine the market value of respondent No.1's land, which was being used for an industrial purpose. Clearly, the two lands were not of a 'similar type' for the purposes of Section 26(1)(b) of the 2013 LA Act and the price in the said sale deed could not have been adopted."

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Background of the Dispute

The dispute arose out of the acquisition of 1,394 square metres of land situated in Nagpur for the purpose of four-laning of a National Highway under the National Highways Act, 1956. A notification for acquisition was issued on May 9, 2017.

The Deputy Collector, acting as the competent authority, classified the acquired land as agricultural/fallow land and determined compensation at ?161.63 per square metre on the basis of agricultural sale deeds relating to the same village.

Aggrieved by the valuation, Alfa Remidis Ltd. approached the Arbitrator, namely the Additional Commissioner, contending that the acquired land was being used for industrial purposes as a manufacturing unit for paracetamol medicines was operating on the premises. The landowner relied upon documentary evidence to establish industrial use and placed reliance on two alternative benchmarks:

1. The government Ready Reckoner rate of ?2,020 per square metre applicable for highway-abutting lands for stamp duty purposes; and
2. A registered sale deed dated March 29, 2017 concerning a residential plot measuring 195.09 square metres situated in adjoining Mouza Saoner, reflecting a rate of ?3,588 per square metre.

Arbitrator and High Court's Findings:

By an Award dated November 22, 2021, the Arbitrator accepted that the land was in non-agricultural industrial use and adopted the residential sale deed rate of ?3,588 per square metre for determining compensation.

Subsequently, the District Judge, exercising jurisdiction under Section 34 of the Arbitration and Conciliation Act, set aside the Award. However, the Bombay High Court restored the Award under Section 37 proceedings.

Challenging the High Court's judgment, the National Highways Authority of India approached the Supreme Court.

Supreme Court's Analysis

Allowing the appeal, the Supreme Court held that both the Arbitrator and the High Court failed to adhere to the statutory mandate under Section 26(1)(b) of the 2013 Act.

The Court observed that the authorities had "completely ignored the directives" of Section 26(1)(b) and its explanations by relying on a sale exemplar involving a "totally dissimilar type of land."

Importantly, the Court reiterated that compensation under Section 26(1)(b) must be determined through the "***highest of the average sale price***" methodology and not on the basis of a solitary transaction.

The bench observed:

"…the methodology for working out the 'average sale price' under Section 26(1)(b), as set out in Explanations 1 to 4 thereunder, does not permit placing reliance on a single sale deed for that purpose."

The Court referred to ***Madhya Pradesh Road Development Corporation v. Vincent Daniel***[1], wherein it had previously held that multiple sale deeds are necessary to provide reliable and adequate data for determining compensation, as a singular transaction may not accurately reflect prevailing market value.

Compensation Reassessed

While rejecting the residential sale deed benchmark of ?3,588 per square metre, the Supreme Court accepted the Ready Reckoner valuation of ?2,020 per square metre as the appropriate basis for compensation.

Accordingly, the Court held:

"Respondent No.1 would, therefore, be entitled to compensation for its acquired extent of 1394 square meters @ ?2,020/- per square meter and not @ ?3,588/- per square meter, as decided by the Arbitrator and confirmed by the High Court."

The Court further clarified that the landowner would also be entitled to all consequential statutory benefits available under the 2013 Act.

The judgment reinforces the principle that compensation in land acquisition matters must be determined on the basis of comparable land transactions involving lands of similar nature and use, thereby ensuring consistency and fairness in valuation under the 2013 Act.

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[1] (2025) 7 SCC 798

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