Land Valuation & Effective Land Transfer/Acquisition

Essential for emerging economies and informal markets

James Kavanagh – ILMS, RICS, FIG Comm 9

UN WGIC

Nov 2018
We cannot solve our problems with the same level of thinking that created them.’ – Albert Einstein

‘There is no such thing as an investment without property rights that are negotiable and transferable.’ – De Soto

1. Introduction and context
2. Valuation of unregistered land – formalising the informal
3. Cause & effect – markets
4. Land Acquisition: a global issue
5. Standards
6. Conclusions
RICS Research Valuation of Unregistered Land – The Reality of Functioning Informal Land and Property Markets in Ghana, Peru & Indonesia

Background – there is scant empirical evidence and/or research on the reality of how ‘informal’ land & property markets work and what part ‘professionals (surveyors/valuers) play within this process.

As ‘market’ economics and external/internal investment reach into previously ‘informal’ or ‘social tenure’ domains there is a pressing need to understand the appraisal/valuation methodologies in use and their suitability.

There is a growing awareness that the attribution of ‘value’ can act as strong platform for ‘tenure security’ and vice versa – this is not a linear process.

‘Value’ is critical for taxation and by extension service/infrastructure provision. Rapid urbanisation, mass acquisition, fair compensation.

Follow up on previous RICS research – 2012 & 2016

Help create an ‘empirical’ platform for other related initiatives – UN Habitat (GLTN), NUA, UN FAO
Background – Formalising the informal

‘The opaque values of unregistered lands are a major cause of inequities and erode confidence of communities to support these development initiatives. This delays implementation, and frustrates transparently equitable compensation for unregistered properties, and results in unintended harmful long term consequences to affected parties’.

The objectives of the report are:

- To identify the key informal market valuation issues around the world
- To examine existing trends and strategies for the valuation of unregistered land in selected case studies by examining (1) valuation methods (2) challenges in the valuation process and (3) alternative notions of value in three case study countries.
- To develop policy recommendations for outlining actions needed by governments (at various levels), the valuation industry and professional bodies to ensure the land and property sector is better able to operate effectively in this environment.

Three different geographies:
- Ghana, with extensive experience of registering land;
- Peru, with extensive experience of registering title, and
- Indonesia, with experience of both.
Conclusions

Key high-level findings are:

(a) Local valuers have adapted or shown the potential to adapt established valuation methods to value different types of land/tenure—whether registered or unregistered.

(b) The existing methods, however, often substantially undervalue or overvalue unregistered land. 'Most of the conflict associated with over or undervaluation relates to: the top-down nature of the valuation process, a narrow view of 'value' as limited to only legally created structures, an overly strong reliance on asocial valuation techniques for establishing value.' (p55)

(c) Embracing the concept of 'reasonable value' may help to address the problem of undervaluation. 'Compensation valuation' is not hindered by the lack of registration but does lead to undervaluation. Formal registration is not necessary for valuation but can affect 'value' by improving tenure security. 'Other' forms of evidence of ownership in informal contexts may be 'admissible in court' and accepted by lending institutions.
## Land admin data – metrics & market effects

<table>
<thead>
<tr>
<th>Country</th>
<th>World Bank Index (overall &amp; Reg of property)</th>
<th>Property Taxation (GDP)/Mortgage rate</th>
<th>Corruption index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>120/119</td>
<td>0.03 / 24.83%</td>
<td>81/180</td>
</tr>
<tr>
<td>Indonesia</td>
<td>72/106</td>
<td>0.35 / 11.00%</td>
<td>96/180</td>
</tr>
<tr>
<td>Peru</td>
<td>58/44</td>
<td>0.21 / 6.00%</td>
<td>96/180</td>
</tr>
<tr>
<td>OECD</td>
<td>27/44</td>
<td>1.91 / 2.00%</td>
<td>Top 20</td>
</tr>
</tbody>
</table>

- [http://www.doingbusiness.org/data/exploretopics/registering-property](http://www.doingbusiness.org/data/exploretopics/registering-property)
- [https://data.oecd.org/tax/tax-on-property.htm](https://data.oecd.org/tax/tax-on-property.htm)
- [http://www.landmarkmap.org/](http://www.landmarkmap.org/)
- [https://www.prindex.net/](https://www.prindex.net/)
Land admin data – metrics & market effects

Affordability Issue: double digits interest rates deter borrowers

Average mortgage interest rates in Africa, 2015

Source: Author's observation, BCEAO, CAMF, Nkerebu
A developing portfolio
Land Acquisition – a global rural & urban issue

- India: Total hectares bought: 5,420,209 (about 13.4 million acres)
- USA: Total hectares bought: 4,136,973 (about 10.2 million acres)
- UK: Total hectares bought: 3,008,472 (about 7.4 million acres)
- South Korea: Total hectares bought: 2,696,297 (about 6.7 million acres)
ILMS – fit for purpose connectivity

Enabled by land administration and geospatial information

Fit for purpose as related to other land activities
International standards – working together

IPMS
International Property Measurement Standards

ICMS
International Construction Measurement Standards

ILMS
International Land Measurement Standards

IVS
Valuation of assets prepared on a common worldwide basis

IFRS
International Financial Reporting Standards

Ethics
Ethics
Ethics
The 7 key land information elements of ILMS

- Both a standard and a framework for reporting
- Aim to reduce risks in the land transfer process by creating consistency of application and facilitating and supporting land governance, robust conveyancing, secure lending and land registration
- Goal: to support global consistency by setting standards for classifying, defining, measuring, analysing, presenting and reporting land information
- Can be applied at a project, regional, state, national or international level
- 7 key elements required during a ‘due diligence’ process
- Flexibility to take informal data sources and add a ‘risk’ status
- Powered by LADM data and market information
- A ‘tractor engine for a tractor’
Conclusions

• Informal markets are so large that they are the ‘de-facto’ market in emerging economies

• UN GGIM Framework for effective land administration underlines importance of current, comprehensive and credible data

• Attribution of ‘value’ and ‘taxation’ as a legitimate form of tenure securitisation

• Market value? Is volatile – ‘reasonable value’ concepts

• De-risk the internal and external investment in land and property

• Aid efficiency and fair compensation in Large Scale Land (urban & rural) Acquisition

• Help deliver large scale infrastructure and sustainable urban expansion

• All enabled by Geospatial information but it is time to engage with global financial sectors
Contacts

James Kavanagh MRICS C.Geog
Director - Global Land & Resources
ILMS – chair
FIG Comm 9 - vice chair
RICS 12 Great George Street, Parliament Square
Parliament Square, London SW1P 3AD
Web: http://www.rics.org/land
Email: jkavanagh@rics.org
Linkedin: uk.linkedin.com/pub/james-kavanagh/17/48b/654/

Twitter – @jkavanagh99, #RICSland