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2018
ISTANBUL

Presented at the FIG Congress 2018
May 6-11, 2018 in Istanbul, Turkey

XXVI FIG CONGRESS

8-11 May 2018, İstanbul



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April 2018
Valuing Unregistered Land



RICS Research Valuation of Unregistered Land – The Reality of Functioning Informal Land and Property Markets in Ghana, Peru & Indonesia

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FIG Istanbul 2018 – 10th May



Introduction

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.

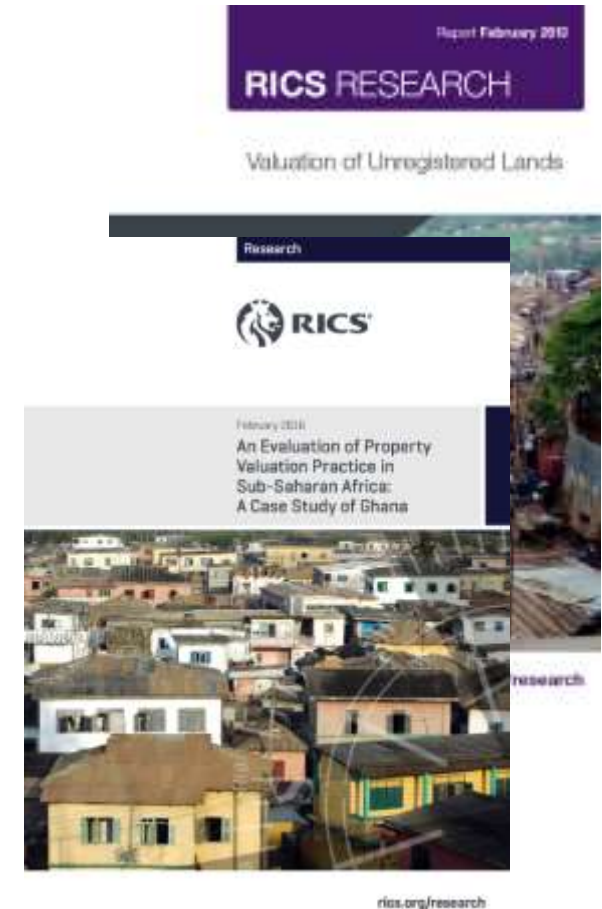
As ‘market’ economics and external/internal investment reach into previously ‘informal’ or ‘social tenure’ domains there is a pressing need to understand the appraisal/valuation methodologies in use and their suitability

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

‘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.

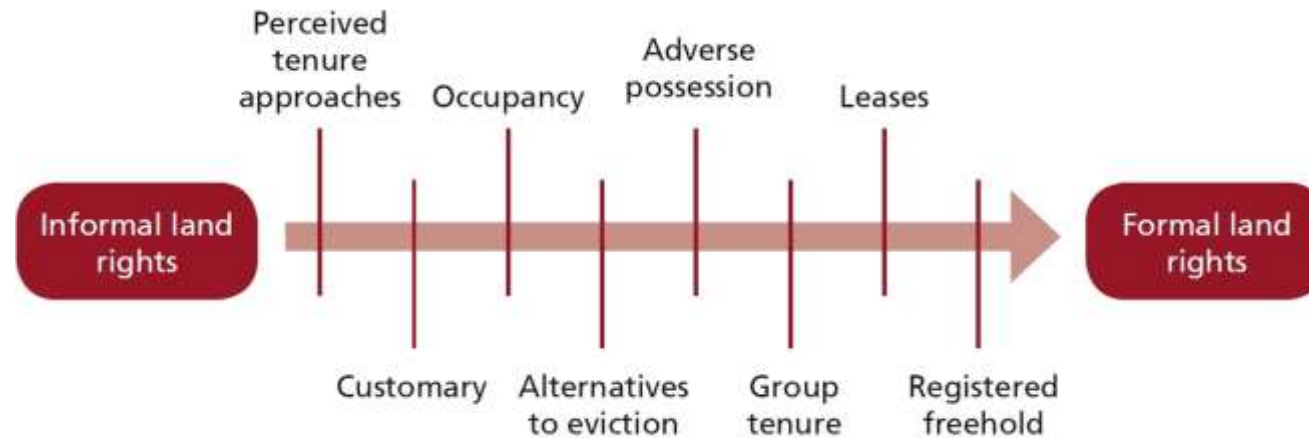
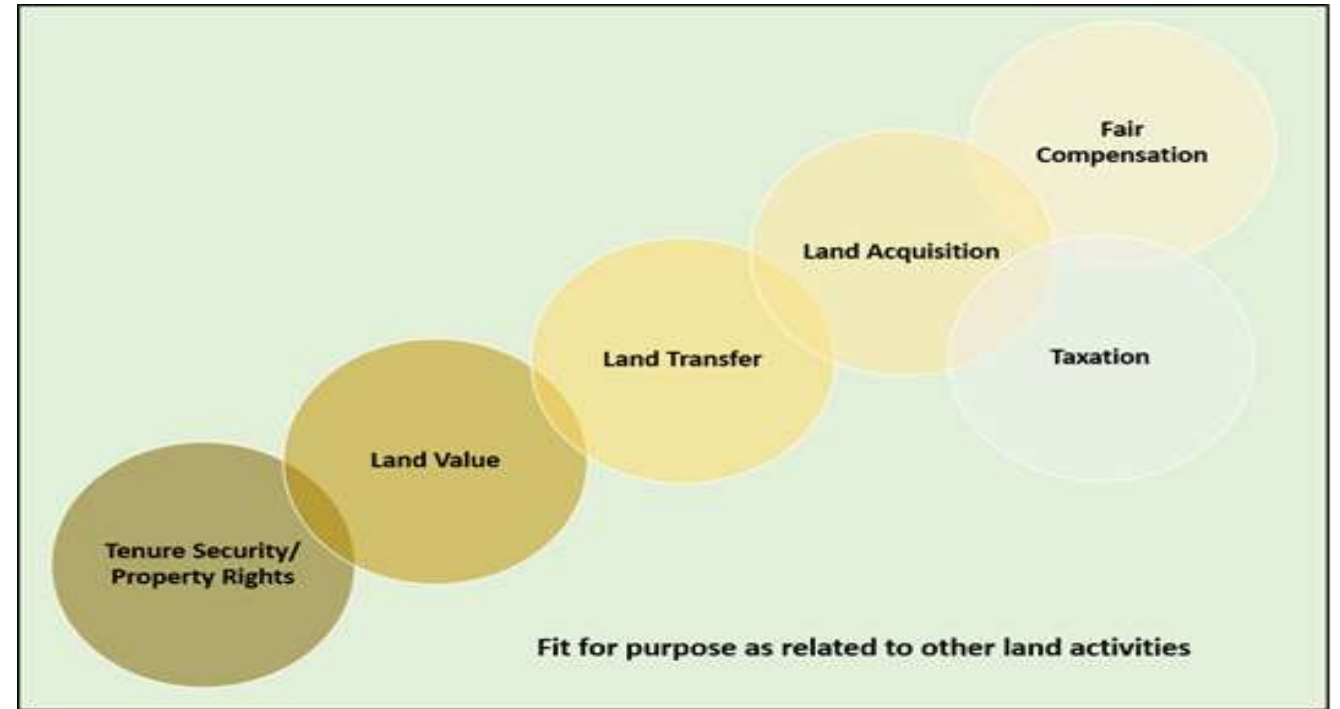


Basis of Research

Why do we need to value unregistered land and property?

IVSC Definition of Market Value? Is it reasonable and appropriate outside of high income liberal democracies? The primacy of comparable evidence?

Why do transactions go 'informal'? The cycle of formal to informal and back again



A Global Issue

Country	World Bank Index (overall & Reg of property)	Property Taxation (GDP)	Corruption index
Ghana	120/119	0.03	81/180
Indonesia	72/106	0.35	96/180
Peru	58/44	0.21	96/180
OECD	27/44	1.91	Top 20

<http://www.doingbusiness.org/data/exploretopics/registering-property>

https://www.transparency.org/news/feature/corruption_perceptions_index_2017

<https://data.oecd.org/tax/tax-on-property.htm>

A Global Issue – Land Acquisition

Standards work and land transfer needs them.

International standards are the new frontier.

*In the **United Kingdom**, standards made an annual contribution of **GBP 2.5 billion** to the economy, and **13 %** of the growth in labour productivity was attributed to standards. Standards were identified as enablers of innovation and facilitators of technological Change.*

*Roughly **10-15 million people are displaced** from development projects each year. In China, approximately 80 million people were displaced by development projects between 1950 and 2015; in India, 65 million people were displaced between 1950 and 2005. As governments respond to resource scarcity, urbanization, and population growth, increases in land acquisitions and forced displacement for infrastructure expansion, extraction of natural resources, and other development projects are likely be more dramatic in the coming years.*

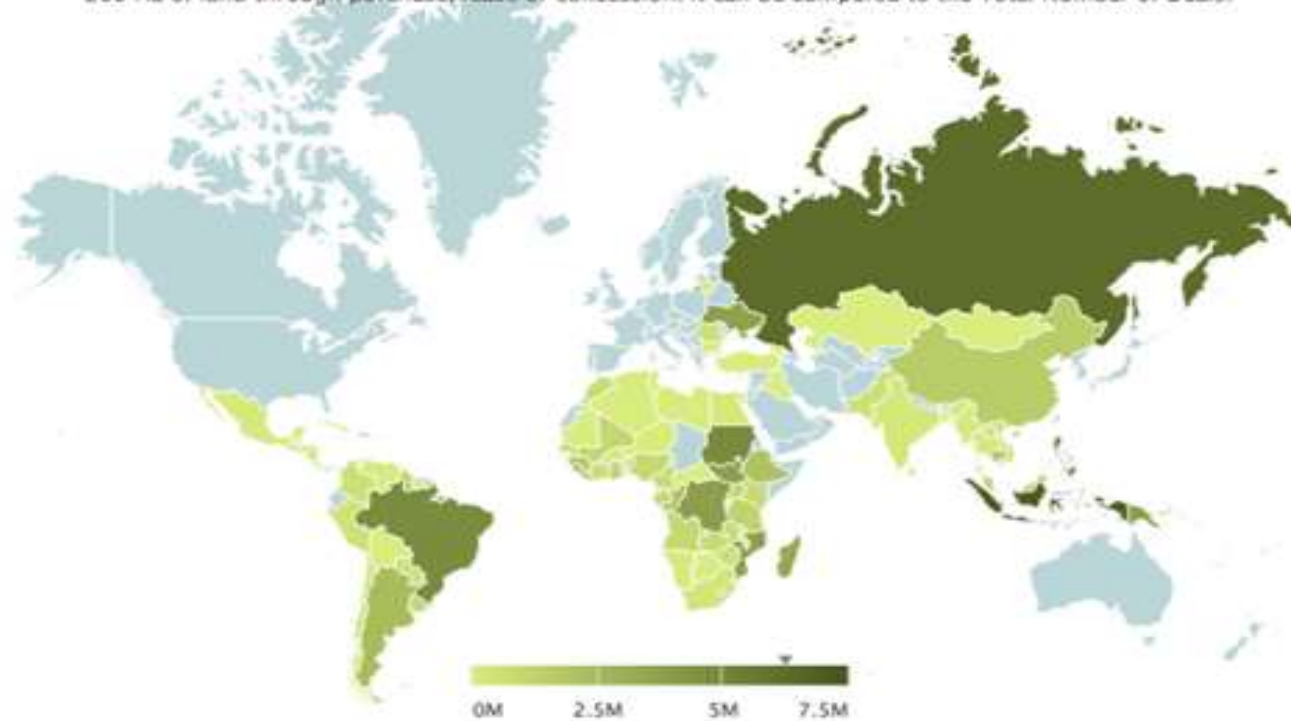
*Conflicts over land in **India** stall projects worth billions of dollars - <http://www.thisisplace.org/i/?id=9bce5bf2-36c5-48e7-b6fc-170d83713a63> from the Thomson Reuters Foundation initiative 'Place' highlights how an analysis of 289 cases, making up 40 percent of major land conflicts in India, found they affected 3.1 million people and more than **\$178 billion** of investment.*

A Global Issue

Total Hectares in deals 2000-2016

Total Hectares in deals – 2000–2016

Total Area (ha) calculated as the sum of all deals, in a given country over the period 2000–2015. A "deal" is referred to as an intended, concluded or failed attempt to acquire at least 200 Ha of land through purchase, lease or concession. It can be compared to the Total Number of Deals.



- 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)

Geographies - Ghana

The issues – lack of comparable evidence

Informal valuation in practice – how valuation works in Ghana

What drives informal practices (banking, secured lending, taxation, capacity)

The Ghanaian valuation/surveying profession (GHIS)

The use of inappropriate but customised methodologies – the ‘Cost Approach’ in Ghana

Application of Cost Method to Valuation of Squatter and Stranger Settlements

Undervaluation of informal land

The use of ‘other’ forms of evidence of ownership in informal contexts may be ‘admissible in court’ and accepted by lending institutions



Geographies - Indonesia

The rules of land tenure in different places in Indonesia vary, but they are always a reflection of the customs of different and diverse local groups - *Basic Agricultural Law of 1960 (BAL)*.

in Jakarta, the biggest and most prominent city, only 3 out of every 10 parcels of land is registered. Currently, only 44 million parcels of land are registered compared to the target of 120 million parcels by 2025.

Land Acquisition law requires 'valuation' – no compensation for those without 'title' (kampungs)

Indonesian Valuation standards – adherence to 'acquisition' norms

Lack of capacity and Undervaluation of informal land

'Other' forms of evidence of ownership in informal contexts may be 'admissible in court' and accepted by lending institutions



Geographies - Peru

The political drivers for urbanisation and formalisation of tenure in South America - The legal, social, environmental, political, and economic burdens associated with informal land ownership. These issues include a lack of legitimate citizenship, exclusion from public services, safety and health hazards, discrimination and stigmatization, and economic inefficiency.

Valuation in Peru is guided by the National Appraisal Regulations of Peru, makes it quite clear that title registration is not necessary for the valuation of land in Peru.

Valuers ('tasadores'), are not involved in the valuation of unregistered land at all. Excluded from land disputes concerning unregistered land, they operate exclusively within the formal system.

Registration by COFOPRI increased the land value by approximately 50 percent, compared to the original land value when unregistered. Lack of capacity and Undervaluation of informal land.

'Other' forms of evidence of ownership in informal contexts may be 'admissible in court' and accepted by lending institutions.



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.

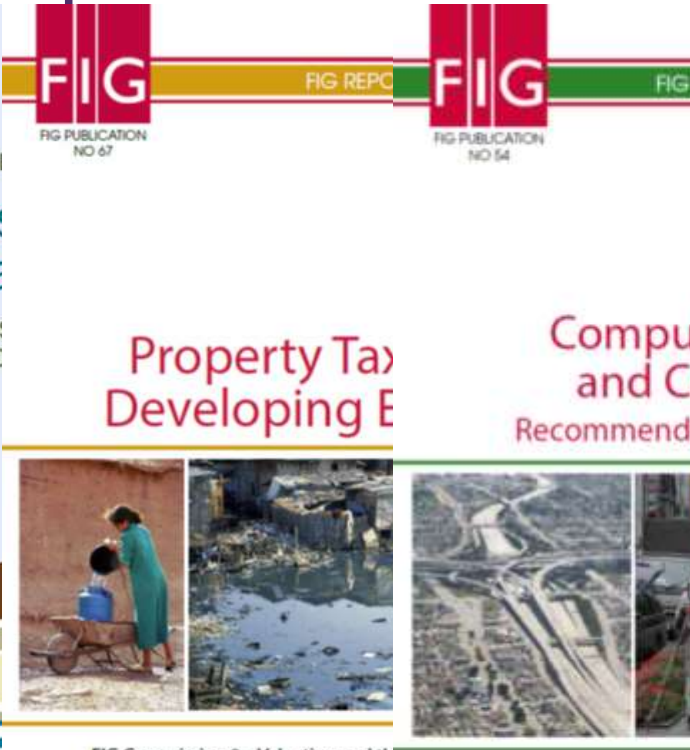
‘Compensation valuation’ is not hindered by the lack of registration but does lead to undervaluation.

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.



Next steps



VALUATION OF UNREGISTERED LANDS A Policy Guide

SECURING LAND AND PROPERTY RIGHTS FOR ALL



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