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Valuation Methodology of Unregistered Properties in East Africa



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Valuation Methodology of Unregistered Properties in East Africa



Origin of the Study

Request from RICS Kenya for developing pro bono valuation services targeted at poor women

Targeted at innovative informal types of land tenure to be taken into account when designing equitable policy instruments aimed at eradicating poverty



Purpose of the study

To maximise property values and target socially disadvantaged – widows, AIDS victims & rural poor

Review alternative valuation methods e.g. using traditional techniques and alternative valuation methods

Conducted household interview survey of willingness to pay for property with “informal” sector land titles

Stratified sample survey of urban and rural communities – based on house type/access

Study was grant funded through RICS Education Trust and UN Habitat GLTN (Global Land Tools Network)

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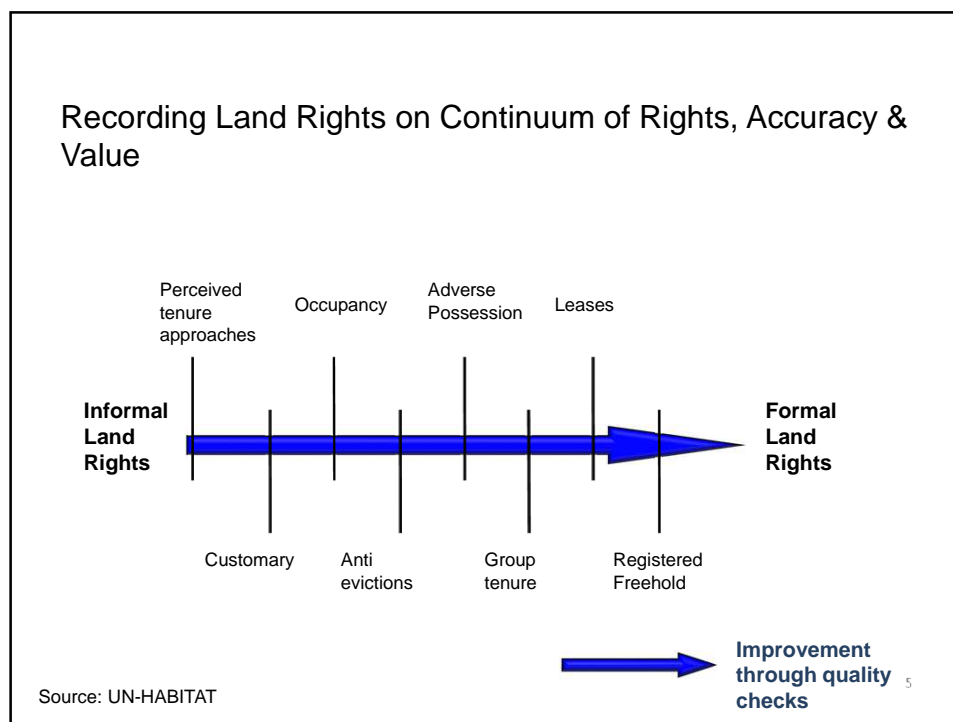
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Study Framework

Rural tribal/trust land & squatted land in urban slums

Majority unregistered - difficult to value - uncertain title

Accepted/practical valuation method is urgently needed

Three stages to Study:

Inception Report: literature review and survey methodology – part funded by UN Habitat GLTN

Interim Report: data collection & analysis of survey - subject of this study (funded by RICS Education Trust)

Final Report: final draft peer reviewed and presented at technical and stakeholder workshop in Mombassa

Three Study Survey Areas

1. **Western Kenya:** Rural holding in low lying wetland areas prone to annual flooding – mostly under customary tenure and unregistered. Need to relocate during floods
2. **Mombasa:** Urban slum next to affluent residences, examples of failed or incomplete government settlement schemes. Land unregistered or illegally occupied. Located in Indian Ocean mangrove swamps
3. **Nairobi:** Mixture of industrial and agricultural land uses. Part of land is mapped and registered. Most unregistered. Some of the largest urban slums in East Africa. Land is largely unregistered and land ownership is marred in controversy

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Survey Methodology



Data collected using combination of questionnaire and interviews with respondents in 3 study areas
206 respondents interviewed – 189 occupiers and 17 valuers

	Owners/occupiers	Valuers
Mombassa	40	11
Nairobi	45	4
Western Kenya	104	2

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Land Ownership

Unclear subject to respondents, majority of occupiers unaware of implications of land ownership

Only a few know that ownership should ideally be formalized

This was found across all study areas, despite the fact that two of these areas were in the largest cities of Kenya

Type of ownership	Frequency	Percentage
"Legal owners" (with proof)	43	23%
Claimants – not legal owners	94	49%
Renters/users	53	28%
Total	190	100%

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Proof of Ownership

1. Half of respondents claimed legal ownership
2. Proof of ownership difficult to authenticate
3. Following "proofs" offered:

Proof of ownership	% claimants
"Sale agreement" with previous owner	30%
Letter of recognition from village elders or local chief	12%
Have witnesses who can verify ownership	9%
No document but believe land is theirs	24%
Inherited from parents	4%
Resident on the plot for a long time	21%

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How Land was Obtained

Sale or transfer agreements between “sellers” and “owners” are trusted documents – not official government papers

- Trust amongst the parties has replaced officialdom
- Majority of users bought land from others
- No proper records available to ascertain exact status

How land was obtained	% of respondents
Bought from others	42%
Inherited from parents	37%
Gifted from leaders	20%
Adverse possession/squatted	11%

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Size of Land Holding

In both urban areas, residential use was most prevalent

Agriculture was dominant for western Kenya study areas, with sizes of land ranging from ¼ an acre to five acres

About 58% of respondents did not know size of lands occupied

Over 60% of agricultural plots sub-divided into smaller plots

In urban areas, plot sizes were unchanged since occupation

Cost of re-assignment quite modest - only a token fee

Land market appeared to be fully informal and unregulated

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Valuing Unregistered Land

Most respondents paid only modest sums to purchase their land and others either inherited lands or were given it as gifts

Difficult for respondents to fix worth of their land parcels

Only 18% of respondents knew what their land was worth, but these values were far below realistic local market values

Most respondents unaware of available methods of valuation

Comparison or market approach was the most mentioned method by those who had any idea of valuation methods

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Views of Valuers – Factors Considered

17 valuers were interviewed

Valuers selected randomly from lists of practicing valuers in Mombasa, Nairobi and Western Kenya

Attempted to determine factors valuers ought to consider in valuing unregistered land. Average results were:

Factors	100%
Expenses incurred in acquiring the land	48%
Comparable sales	30%
Location of the property	16%
Availability of services and facilities	5%
Distance from the water bodies	1%

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Views of Valuers – Types of Land

Valuers interact with property owners, prospective property buyers, renters and users – participating in land transactions

45 % of Valuers had valued unregistered lands within Mombasa and Nairobi, none in W Kenya. Remainder declined owing to the lack of registered title

Types of unregistered lands valued by the respondents were:

Types of unregistered land valued	
Private land	40%
Customary land	40%
Squatter land	10%
Unclear ownership	10%

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Views of Valuers – Purposes of Valuation

- Most unregistered lands valued were customary lands
- **This is because customary lands are under form of group ownership that is as secure as having a registered title.**
- Owners of unregistered private lands and those on squatter land unlikely to require their lands to be valued because of the queries on the legality of ownership
- Main purpose most valuations (18%) was for inheritance
- If a property had to pass on from the parent to children - it was not necessary to obtain fresh ownership details
- Balance of valuations for unregistered lands were for the purpose of accounting, bookkeeping or asset valuations

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Can Unregistered Land be Valued?

Valuers were asked whether unregistered land can be valued.

- Fourteen of 17 valuers said Yes, while three (3) said that it was not possible to determine values of unregistered lands
- Main reason that valuers who insisted unregistered lands could not be valued - was that land itself was never valued
- But it is the **type of interests** in the land that make the parcel worth the ascribed value – not whether it is registered
- But without there being a registered interest is it true that it is difficult to prepare a proper “formal” land valuation?

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Valuation Methods Used

Valuers who had valued unregistered land were asked to state the methods that they had used. The responses were:

Method	Number
Market or Comparison Method	8
Cost or Contractor's Method	1
Combination of two or more methods	5

No single method was useful in valuing unregistered land because:

- comparable sales were rare to obtain
- transactions were taking place without the need for valuations
- land development was either infrequent or non-existent

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Challenges in Valuing Unregistered Land

From the views of the interviewed valuers, the main challenges faced in attempting to value unregistered lands are:

- Determining the real owner
- Lack of ownership documents
- Hostile land occupants, mostly squatters who fear consequences of any official transactions
- Inability to obtain appropriate comparables
- Due to lack of documents, it is not easy to determine the true boundaries and size of the lands
- Determining the appropriate method to be used for valuation

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Findings

The preliminary findings of this study suggest that:

1. Unregistered lands are found across all three study areas
2. Ownership status unclear, in terms of who owns, how the lands were acquired, cost of transactions and acquisition procedures
3. Most respondents inherited the lands from their parents.
4. Majority of respondents not aware of legal procedures for titling and for transferring and owning land
5. Some valuers had difficulties in valuing unregistered lands
6. The most common method used for such valuations is the Sales Comparison or Market Approach.
7. In remote areas of Kenya, services of valuers and similar professionals are not utilized

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Mombassa Roundtable Workshop – Conclusions

Private and government valuers from Mombassa presented their experience in valuing unregistered land in the city

Valuers were ready to attempt valuations, relying on use of comparables, corroborated in some instances with rental data


Valuation of unregistered properties, characterized as “**buildings without land**”- described as “**order of the day**” and this practice was generally recognised by courts if there was a local dispute

There was normally two “valuations”, a private one and a government one - used as basis for a negotiated value for acquisition purposes - 35% disturbance fee was then added.

Valuations used for estate duty and succession purposes

Local banks used the valuations for mortgage security, for a limited number of years - with some form of reference number

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