

The role of reliable land valuations in Land Management and Land Administration Systems Efficiency

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(presentation by Richard Grover)

Background to research

- Problem – if we are to discuss systems of land valuation and the reliability of the valuations produced, we need a model that enables comparisons to be made
- Literature on reliability in valuations tends to focus on:
 - influences on the behaviour of valuers and their skills and knowledge, or
 - efficiency, reliability and availability of market information, or
 - reliability of valuation methods
- This paper seeks to establish a more comprehensive approach through the use of concepts derived from quality management and engineering reliability
- Literature has tended to focus on particular components of valuation system rather than system as a whole

Reliability

- Reliability associated with quality – consistent production in accordance with specifications
- Unreliable systems fail to produce competitive products
- System reliability is a function of the system components
- Overall system reliability depends upon the reliability of each individual component and how unreliability in one component impacts upon others

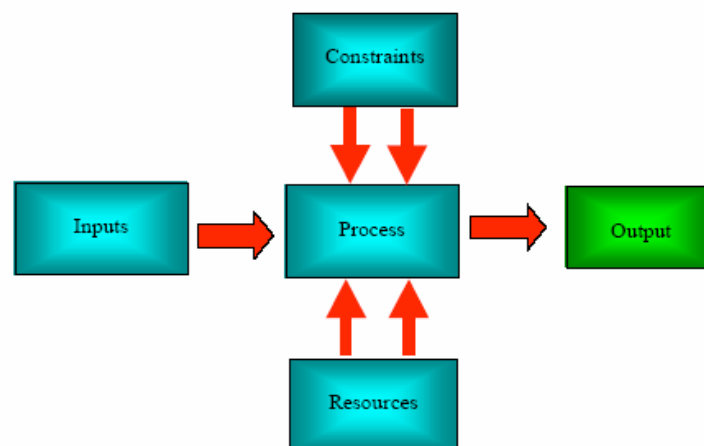
Trochim (2006) Classes of unreliability

- ***Inter-rater or inter-observer reliability:*** Degree to which different observers give consistent estimates of the same phenomenon
- ***Test-retest reliability:*** Used to assess the consistency of a measure between occasions of observation
- ***Parallel forms reliability:*** Used to assess the consistency of the results of two tests constructed in the same way from the same content domain
- ***Internal consistency reliability:*** Used to assess the consistency of results across items within a test

Reliability in valuations

- Valuation concerned with estimate of the market price a property might fetch
- Literature recognises that differences in opinion on value between valuers are normal and arise even if valuers are highly qualified and using the best methodology
- All valuations contain a percentage of uncertainty
- A typical problem is the quality and availability of transaction data
- Valuers as conduits through which uncertain information flows and is interpreted
- Reliability in valuation an example of Trochim's Inter-rater or inter-observer reliability

Figure 1: Influences on the Land Valuation Process



The valuation process

- Definition of a process:
A process is the transformation of a set of inputs into outputs that satisfy customer needs and expectations in the form of products, information or services (John Oakland)
- Valuation inputs not like raw materials in manufacturing process but a service process
- Importance of customer expectations and perceptions of reliability in service quality

Elements of the model

- Inputs:
 - Legal title: land tenure and legal rights and obligations
 - Legal use: as permitted by town planning and zoning codes
 - Legal location: legal boundary co-ordinates
- Constraints:
 - Valuation laws and regulations
 - Land and building measurement standards
 - Codes of conduct for valuers
 - Valuation methodologies and standards
- Resources:
 - Human: qualified, knowledgeable, responsible, trustworthy
 - Information: data bank of comparable property transactions data

Does valuation reliability matter?

- Impact if unreliable valuations is not as obvious as unreliability in engineering
- Benefits of global investment markets that capital is drawn to where it is most needed (pays the highest return)
- Global investment requires transparent, accountable, efficient, reliable land administration – high risk of investment if these are absent
- Asset-backed lending and investment only works if there is confidence in valuations of underlying assets
- Cost of establishing reliability is high but modest compared with the costs from unreliability

Causes of unreliability

- Absence of land information system capable of producing accurate information on land rights and their ownership, legal uses of land, and legal land boundaries on a parcel by parcel basis
- Absence of transparency in land market so transaction data is not available to valuers
- Lack of respect for property rights including enforcement of laws designed to protect these – consistency of approach to enforcement of rules and regulations
- Absence of ethical, informed and qualified valuers

Conclusions

- Model presented sees valuation as a process
- The process is one of many that comprise a land administration system
- It tries to move the debate about valuation accuracy away from efficiency in markets to why processes can be unreliable
- In doing this it focuses attention on variables often taken for granted when analysing valuation accuracy in mature property markets eg
 - The quality of the land administration system and the reliability of the information derived from it
 - The qualifications, knowledge and integrity of valuers
 - The availability and reliability of market data
 - The consistency with which rules and regulations are enforced