



Federation of International  
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Global Land Tool  
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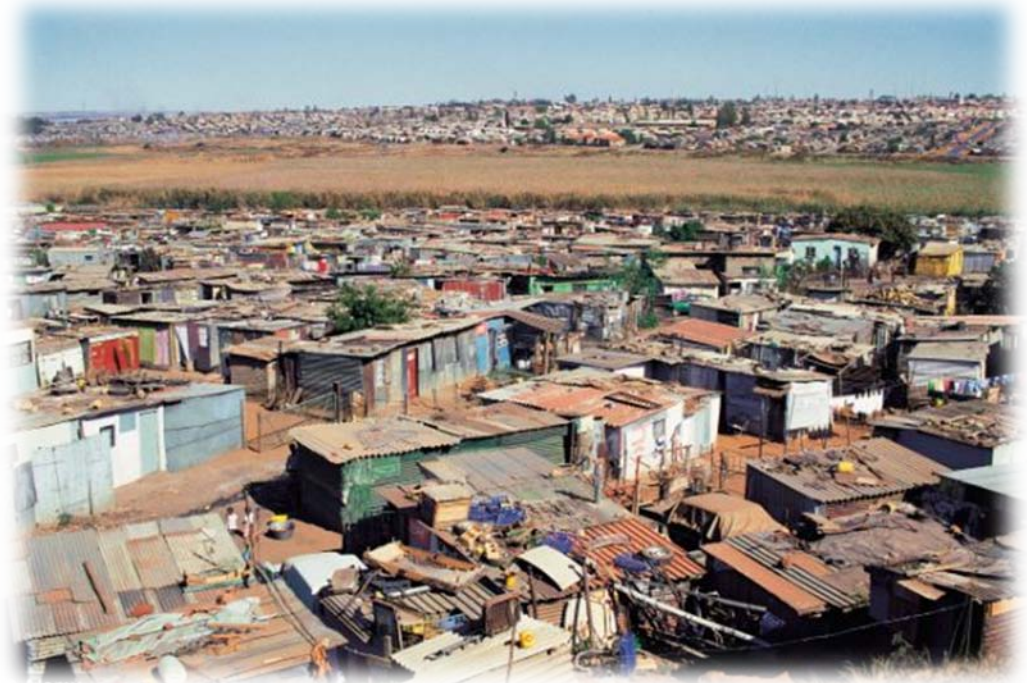
National Technical University  
of Athens



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## HODGEPODGE SOLUTIONS TO THE VALUATION OF UNREGISTERED LAND

**Steven L. Nystrom, MA, MAI**  
**National Society of Professional**  
**Surveyors**  
**USA – NSPS Delegate to FIG**  
**FIG – Chairman Commission 9**



# Key Challenges in Valuing Unregistered Land (especially small parcels)

1. Minimal or no documentation of titles.
2. Minimal or no GIS maps, site boundaries, building data.
3. Minimal or no sales or rental data.
4. Uncertain security of tenure & legal issues.
5. Significant corruption, & government involvement.
6. Weak institutional infrastructure.
7. Unclear rights of use and occupancy.
8. Uninformed market participants.
9. High cost or limited professional valuation.
10. Cultural or socioeconomic resistance.

# CURRENT LAND MARKET DEVELOPMENT PLANS

Top down process focusing on GIS mapping and Registration.

*These plans have not generally had the desired effects (facilitating the creation of an active real estate market, and boosting fair and broad based economic performance)...or have they?*

*For most western economies it took centuries for real estate markets to form around adequate institutional capacity, efficient credit markets, just legal systems, an affordable valuation profession and an informed public.*

*Would we even recognize a 10% to 20% increase in the market formation process?*

It is clear however that any process taking generations is not what the stakeholders desire.

# Property Market Foundation



# FOCUS ON THE VALUATION OF UNREGISTERED LAND (especially small parcels)

Supplementing the top down process of *GIS and registration* is a *bottom up process of creating and enhancing an accurate and efficient valuation system.*

What does this entail ?

- 1 Individual Valuers
- 2 Costly & time consuming
- 3 Poor accuracy

Can we fix this and give individual cost efficient & accurate point values for small parcels?

**Probably not.** Even creative uses of data and approaches to value will struggle to solve these problems if the focus is on individual valuers and point values in an area with very poor data and no established systems.

**Working Assumption:** *We need a solution to this valuation problem that will minimize the need for the time and cost of an individual valuer.*

If traditional appraisals, moots, and juries are too costly (time & resources) to value small parcels what can we do?

- 1 Adjust our expectations (accept much higher transactions costs, minimal use of professionals in the market, and/or much higher degrees of inaccuracy (realistic ranges of value).
- 2 Ignore this sector of the market.
- 3 Fundamentally change the valuation problem.

How and why do we *CHANGE THE VALUATION PROBLEM?*

Why? To segment the appraisal process in such a way to decrease costs while sacrificing the least amount of accuracy and remaining reasonably transparent.

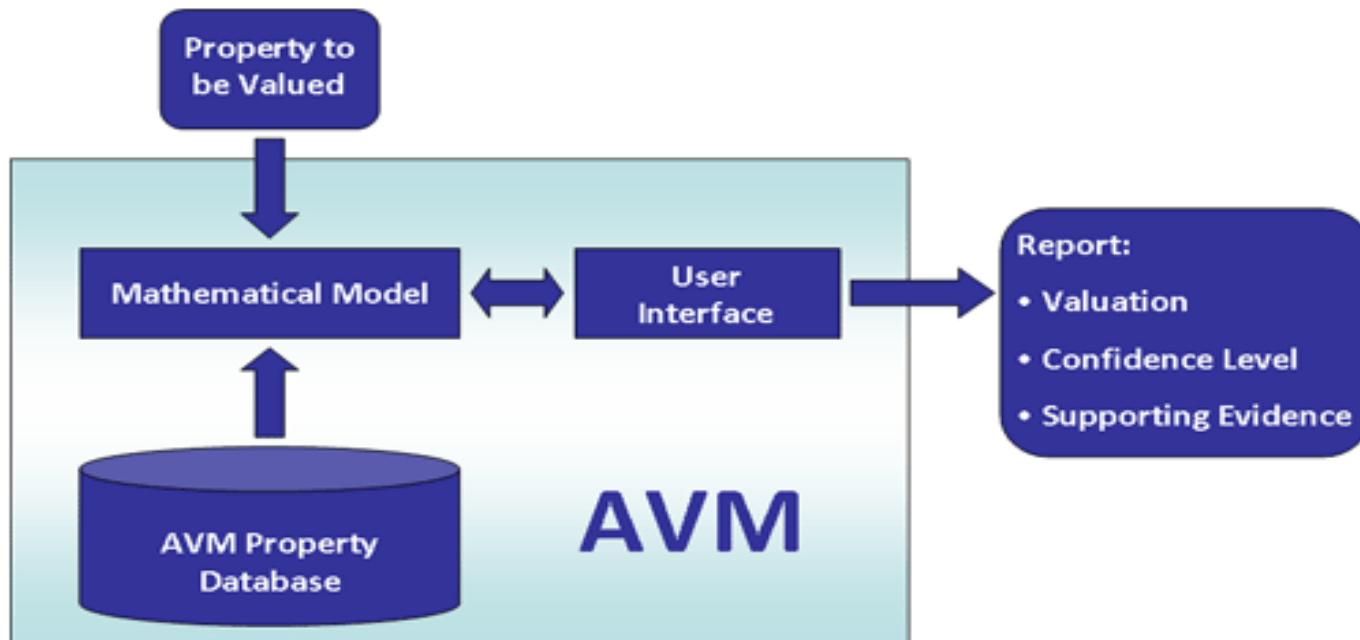
*Real World Example:* In Germany, privacy laws call for the government to produce “land books” showing statistical data on property transaction data over broad areas. This decreases the role of the private valuer in the appraisal process.

Thus there is a clear need for an AVM model in this process to value small parcels of unregistered land cost effectively.

AVM Automated Valuation Model

AVM Shortcomings: Traditionally very data dependent, Weak at handling unusual situations, Less accurate than traditional appraisals

AVM Strengths: Cost efficient, Fast, Uniform results & reports.



Goals of the AVM: Provide the first step in the analysis and vastly limit the job of the valuer. Produce either clearly defined averages (or other statistical data) over generally homogeneous property types, and/or spot valuations of “typical” properties as an aid in transparency and efficiency.

Effects:

- 1 Many small transactions might not need a professional valuer and just rely on this data.
- 2 Less well trained valuers can operate effectively.
- 3 Transparency of this base data makes it harder to manipulate conclusions for biased reasons.
- 4 Informs the public regarding property markets.
- 5 Allows for a higher degree of uniformity in analysis.
- 6 Could increase public trust in real estate as an asset.
- 7 Simplifies oversight.
- 8 Decreases valuation costs such that the mid to lower portions of the market can use valuation services.
- 9 Helps to protect the most vulnerable groups.



## AVM Outputs:

- 1 Spot Values (values for 10 to 20 “typical” properties in the area, analyzed in great detail, and then to be used as a basis for valuers to appraise other parcels. Updated periodically.)
- 2 Value/ Transaction Books (averages, median and other statistical data) for a variety of property types over a broad area. Likely to use creative techniques and is problematic due to limited local data.

## AVM Techniques (weighted as applicable in the model):

- 1 Traditional Approaches (cost, income, sales)
- 2 Regression analysis & statistical modeling (not officially a different technique)
- 3 Option Pricing Theory
- 4 Productivity Methods
- 5 Bundle of Goods Relativity Theory (real estate expenditure levels should be related to an applicable bundle of goods)
- 6 Other...

# Thank you!

“A good legal property system is a medium that allows us to understand each other, make connections, and synthesize knowledge about our assets to enhance our productivity”  
- Hernando de Soto

