



International Federation of Surveyors  
Fédération Internationale des Géomètres  
International Vereinigung der Vermessungsingenieure

## Valuation, Market Evidence and Pro-Poor Finance

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- Valuation defined;
- Purpose of Valuation;
- Market Value;
- Transactional Data;
- In the absence of a market;
- Valuing for Loan Purposes;
- Issues;
- Conclusions.



## Valuation

- Interface between other land & building specialists and the commercial world;
- An opinion of value of the bundle of rights, restrictions and responsibilities associated with a plot of land;
- Translation of need for real estate into monetary terms.



## Distinguish:

- Cost: amount needed to create the asset - Fact;
- Price: the amount asked, offered or paid - Fact;
- Value: relationship between something owned and the individual wishing to own it - Opinion.



## Valuation varies

- Purpose;
- Defined criteria;
- Market conditions;
- Availability of data:
  - Detail;
  - Quality;
  - Reliability;
  - Transparency;
- Time (date of valuation).



- Need to make assumptions based on the practitioner's:
  - Skill;
  - Knowledge;
  - Experience of the market.
- Valuations vary because we each have different skill, knowledge and experience.



## Market Value

- Value in exchange;
- Established by comparable sales evidence;
- Real estate is unique;
- Cultural and personal preferences may not be clear.



## Transactional Data

- Freely and publicly available;
- All property types in all locations;
- Relevant and “*valuable*” attributes; and, ideally,
- First hand knowledge.



## In the absence of a market?

- Specialized properties – cost-based approach (DRC);
- Test the market with Guide Price;
- Pooling of data resources.



## Under developed Markets

- Informal land tenure;
- Informal transactions – unrecorded;
- No data to support a professional valuation:
  - Valuation becomes an unreliable process;
  - Communities cannot benefit from valuers' skills



## Valuing for Loan Purposes

- Lender requires title deeds as security against repayment of loan;
- Lender requires certified valuation to ensure that loan is covered by forced-sale value of property;
- Absence of title and reliable valuation means land etc cannot be used as security:
  - Limits economic growth;
  - Limits social development etc.



## What really matters?

- The lender can repay the loan;
- Risk of non-payment is reduced;
- Communities benefit from their economic “*wealth*” to improve their circumstances.



## FIG, 2008: 8

Without access to affordable finance, poor people are caught in a vicious cycle in which affordable housing is inadequate, but adequate housing is unaffordable.



## Need to pay for activities which:

- Generate employment;
- Provide community goods and services;
- Develop local infrastructure;
- Improves living conditions;
  
- Develop a partnership between local government and the local citizens.



## Need to rethink traditional lending:

- Develop trust;
- Demonstrate that the *poor* have the ability to repay;
- Land asset may not be suitable for security;
- Recognise the benefits of investment in such communities.



*Slum dwellers have incredible resources and the slums have tremendous unrealised value. To be productive they need investment.*

(Michael Mutter, FIG 2008: 34)



## Requirements for slum upgrading

- Land availability and security;
- Municipal responsibility for affordable services;
- Access to formal and affordable lines of credit.



- Slum communities need to be part of the solution;
- All stakeholders should recognise the benefits and share the risks;
- Professional expertise can support initiatives.



## Conclusions

- Valuers play an important role in formal lending process;
- Valuers need to play a different role in informal lending initiatives;
- Land is a fundamental source of “*wealth*”;
- Appropriate land taxation to pay for municipal services should be discussed;



- Slum dwellers need opportunities to benefit from their “*wealth*” for economic, social and environmental benefits;
- Valuers are available to provide advice and support in developing a wider solution.



“Challenges for international professional practice: from market value to natural value”. RICS November 2012

<https://communities.rics.org/connect.ti/naturalvalue/group/home>