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

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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 Interrater 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