PILOT IMPLEMENTATION OF MARKET-BASED MASS VALUATION for Taxation in Circumstances of Limited Market Transparency

Nigeria Case Study

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The Growth & Employment in States (GEMS3) programme in Nigeria is a partnership between the Federal Government of Nigeria and the Department for International Development (DFID). It aims to reduce poverty in Africa’s most populous country by increasing growth, incomes and jobs in selected states by addressing issues relating to land, tax and investment.

Since 2013, GEMS3 has been working in Kano State, north-western Nigeria, on Systematic Land title Registration (SLTR). With a population exceeding 10 million and average density of ca 500/km², Kano has a relatively active, but opaque, property market. Mass valuation is not traditionally practiced and instead based on an individual approach. Most land sales are unregistered and, even in the case of registration, property prices are under-declared.

Under the recently introduced Land Use Charge (LUC) 2016, Kano State Government committed to unify property fees (ground rent) and taxes (tenement rate and property tax) and expects to introduce full covering annual value-based property taxation. However, implementation of the LUC requires all properties to be valued; the current traditional valuation systems in Kano would be unable to support the LUC.

Most countries adopt mass valuation systems based on market values. These valuations are quicker and cheaper yet fully comply with the law. GEMS3 has developed a mass valuation system for Kano, which can be implemented with SLTR. On completion of SLTR, entire local government areas (LGAs) can commence payment of LUC.

Throughout 2016, GEMS3 tested the mass valuation system in Tsurum LGA, which is comprised of ca 10,000 property units in mainly low and medium density residential areas.

Materials and Methods

A feasibility test of market-based mass valuation techniques in circumstances of limited market transparency was conducted.

The main features tested included:

- Availability and reliability of indicators of value (IOVs) — sales and rents, specification and collection of attribute data
- Implementation of sales comparison and income methods in the context of mass valuation in current circumstances
- Accuracy issues of rateable values
- Tax rates and potential revenues

Results

Accuracy Issues

Two different tools based on fixed (%) deduction of rateable values compared to the market values and use of value bands were tested; both of these reduce the risks related to overvaluation and accuracy.

Implementation of Mass Valuation

Formation of price zones and calculation of average sqm-based price levels individually adjusted based on differences in building quality.

Tax Rates and Revenue

Currently, tenement rate and property tax together total only 0.04% of rateable value. Our analysis based on sample areas and international experience showed that the tax rate should be at least 0.1% to enable fiscal efficiency.

Conclusions

- Systematic data collection is highly recommended. Collection of historical price data is complicated and does not produce reliable results.
- Mass valuation is the most preferred valuation technique in circumstances of an opaque property market. First steps can be made with general understanding of market behaviour and limited market data.
- Only standardised procedures and precise reporting allow for reliable and sustainable mass valuation systems.
- Low level fixed tax rates are harmful fiscally as well as in the context of valuation as these lead to pressure on overvaluation for revenue needs.
- It is necessary to project not only revenues but also tax burden in the context of different property owners.

Next Steps

- Additional data collection to ensure full coverage.

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Reference: