

Individual Valuation And Mass Valuation. Problems Of The Application Of Mass Valuation On Land Valuation In Albania

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ABSTRACT

With the accession of Albania on the path of market economy and the return of real estate in commodity, was born and the need to evaluate them. The main basis of evaluation of real estate is the market value. There are two the main systems for determining market value, used even in Albania, individual and mass valuation.

In the case of individual valuation one or some of real property objects are assessed. This is a process widely used in assessing property for mortgages, loans, financial reporting, etc.

In mass valuation the main stresses are laid upon valuation of a large amount of property by applying standardized statistical data processing. The mass valuation is used in Albania for the purpose of determining the value of property for compensation.

The paper demonstrates the relationship and differences between the two systems, focusing on issues encountered in the case of application of mass valuation on land valuation in Albania for compensation purposes. In light of these issues, the paper, gives at the end some recommendations for improving the current methodology, aiming at determining the fair market value of property for compensation.

INTRODUCTION

In the early '90, Albania experienced major political changes, which were accompanied by major economic and social changes, spending from a centralized to a market economy. Since 1991, Albania has gone through a long process of land reform and property, which included the revival of the principles and institutes of civil law and their application on real property, authorization of trade relations in land and buildings, transfer of agricultural land, residential properties and other commercial and industrial ones to citizens and legal persons with the right of ownership. [1]

Incontestable role in the transfer of property to citizens has played and Law on Property Restitution and Compensation. The objective of this law (Article 1) is to regulate issues of ownership arising from expropriation, nationalization or confiscation, physical return where possible and compensation, where physical restitution is not possible. [2] Is the requirement of this law that the value of the property that is compensated, or is used for compensation has to be based on market value, according the methodology adopted for this aim. [2]

As compensation is typically based on values, there is a need for valuation. At national level, the total amount of compensation is a matter of fiscal opportunities of the country in a certain time, so anything related to compensation, has a high political sensitivity. The evaluation should be fair, based on the market, otherwise the differences between the properties with different uses and between different groups of people, can arise. On the other hand it is necessary that the appraisal not bring negative impact on the state budget. For a

reasonable assessment, for a rapid and fairly reform as a valuation approach is used mass valuation (Mass Appraisal). [3]

INDIVIDUAL AND MASS VALUATION

In the second half of the '90 in Albania it started to be applied the individual assessment, which has assured the application of the market principles in the assessments for loan taking purposes, financial reporting, property sharing and court sessions etc.

Decision for approval of the methodology for evaluating real estate that have to be compensated and those that will be used for compensation in 2005, laid before the appraisers, the necessity to use mass appraisal process, because this methodology is based precisely in the process of mass appraisal. [3]

Individual valuation is the valuation of a particular property as of a given date. [4] In case of individual valuation one or some of real property objects are assessed; consequently, such valuation is distinguished for a detailed analysis and description of the subject property, detailed interpretation of legal and economic factors of value. [5]

Mass appraisal is defined as the use of standardized procedures for collecting data and appraising property to ensure that all properties within a group are valued uniformly and equitably. It is the process of valuing a group of properties as of a given date, using common data, employing standardized methods and conducting statistical tests to ensure uniformity and equity in the valuations. Valuation models developed for mass appraisal purposes must represent supply and demand patterns for groups of properties rather than a single property. [4] Assessing a large amount of property, it is difficult to highlight each of their qualities, so special attention is paid to defining what is common to all properties being valued, but not to the specific features.

Having studied the two processes may say that the steps that pursued, the principles of assessment and the methods of valuation are the same in both systems. [5][6] The main differences between those two approaches are in scale and in their handling of market analysis and quality control. If in the process of individual valuation it is important to find at least several comparable objects corresponding to the description of the object under valuation, mass valuation needs greater amount of comparable objects and their diversity in order to apply statistical methods efficiently. Without doubt, the accuracy is greater when is used the process of individual valuation. But because the individual valuation takes time and because of the bill that accompanies it, its application in cases of valuation for compensation purposes its impossible.

International Valuation Standards give the most well-known definition of market value: *Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion* [7]

VALUATION METHODOLOGY OF BUILDING SITES

The International Association of Assessing Officers (IAAO) and the Appraisal Institute of Canada recognize the applicability of all three approaches to value for use in mass appraisal. Each approach may be appropriate in certain circumstances. [8]

Three classical method of real estate valuation are: cost approach, sales comparison approach and income capitalization. Two of them are used in land valuation: sales comparison approach and ground rent capitalization.

The *sales comparison approach* is based on a direct comparison of market transactions of vacant land (for this purpose data from real estate agencies and from the Immovable

Property Registration Offices have to be used.[3]) It is the preferred method of land valuation and probably the only widely used mass valuation method in the context of land. In the valuation process sales of similar land units are analyzed and a comparison is carried out using the adjustments. [9]

The sales comparison is probably the best way to estimate the land value.

Ground rent capitalization is an approach based on annual rental payments, which are converted into market values through direct capitalization. Ground rent is the amount of money paid for the right to use and occupy the land. This method is useful if an active and competitive market for land leases exists. Ground rent capitalization can be used in mass valuation, but is fairly complicated because the rental market is very rarely active and competitive. [9]

Currently, where there isn't any well-established transaction market of sites, where the data of the offices for the registration of immovable properties are distorted due to the fiscal evasion and does not exist an active and competitive market for land leases the most appropriate method applicable is the method based on the construction criteria of land, therefore based in what the site produces. [3] It is an indirect method based on three factors:

1. *Intensity of construction (I)*
2. *Percentage benefited by building site owners (P).*
3. *Average sale price of buildings (Pm).*

The intensity of construction (surface unit constructed and surface area of the building) is determined by urban plans and the partial urban studies of the cities or communes, or by the urban regulation and it is the same for all the cities.

The percentages benefited by building site owners for effect of making the site available vary in function of the location/position of the building site and the city where the building will be made. The high percentage value results in the central areas, while the minimum in the peripheral or undeveloped areas or sites close to industrial zones.

All the data regarding the above values can easily be obtained by the office for registration of the immovable properties, urban planning offices at the municipalities or communes, as well as by real estate agencies. According to this method, the building site value shall be calculated according to the following formula

$$\text{Value of building site} = I \times P \times Pm \quad (1)$$

This methodology is used for calculation of the prices of building sites within the yellow lines of cities or communes. In those zones where the data on the sales price of the buildings are absent could be used the data from the National Entity of Buildings.

In those zones where there is no existing real estate market data on the sales of the buildings, formula (1) is not applicable in calculating the value of the building site. In this case should be used the market value method, which means making reference of the sales prices of building sites provided by the offices of registration of immovable properties as well as those of the real estate offices. In the case of inexistence of this data is used the market simulation and interpolation method.

The value of the lands in the suburban zones is $0.2 \div 0.5$ of the value of the nearest building site zone within the yellow line. In case that with respect to the suburban area we have to do with building sites zones which pertain to the Communes, the calculation of the site value shall be made with formula (1).

The coefficients are based on real market behavior. There is no reason for using other factors, to exclude or include something. In most cases it can be reasonable, but still in some cases from the market circumstances point of view it might be necessary to use some values which is out of given frames (Valuation Methodology).

In valuation, land is divided into value zones. A value zone is an area which has a similar value level and value formation mechanism. Tirana, the largest city in Albania (31 sq. km) (Fig.1) is divided in 33 zones (Fig 2); other cities in a small number of zones . So, Durres , the second largest city in Albania is divided in 10 zones.



Figure 1 Map of Tirana City

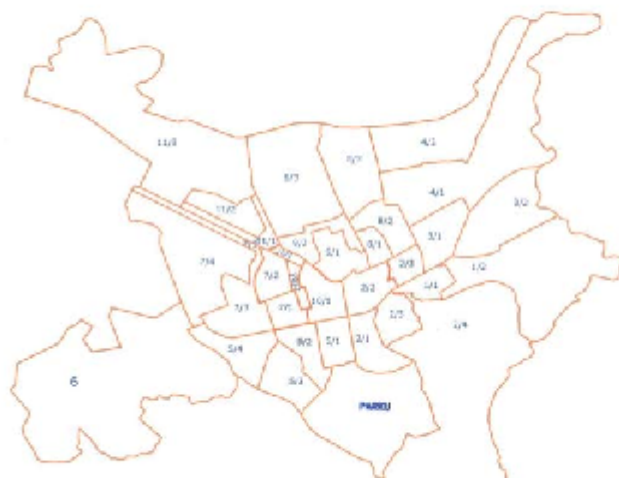


Figure 2 Map of Tirana`s values zones

ISSUES OF MASS VALUATION

Mass assessment is a typical process widely used to assess taxes on property. Although it is not used in valuation of properties for compensation, the purpose of evaluation in both cases is almost the same and consequently the evaluation and expectations are the same. Even in the case of the use of mass valuation for purposes, the accuracy should be higher. If taxes

are determined as a percentage of property value, the compensation would be done according the full value of the property, and therefore, the accuracy should be higher.

If the compensation is lower compared to market value, people who get the compensation are not satisfied. If compensation is above the market value it means an unjust decision from the whole community point of view, because taxpayers have to cover some extra expenses, which is the result of an incorrect political decision or unprofessional work of appraisers. Market value is not something especially important only in the context of restitution and relations between the former owners who get compensated and the whole community. It is also important to the owners who get compensated, so in internal relations point of view.

The methodology adopted for determining the value of land for compensation purposes in Albania is based on mass valuation.

Mass appraisal techniques depend upon the extent and quality of land data available. This information may be quantitative (e.g. land areas, dimensions, building types, accommodation and fittings) or qualitative (e.g. assessment of physical condition, character, or market desirability of structural improvements and classification of submarket groupings) [10].

The mass appraisal process must ensure that standards of appraisal level and uniformity are observed in the interests of assessment equity. [10]

The term *appraisal level* relates to the proximity between assessments and actual prices. [10] A ratio study compares the results of mass valuation to market values. [5] Appraisal level is the overall ratio of values to market values. [5] In mass valuation the results cannot be expected to equal the market values of individual properties, but high and low ratios should be balanced. The typical ratio is nearly 1 (100%). [5] The measurement of the valuation level would require quantitative analysis as a basis to check accuracy. Particularly in the conditions of cities (the city of Tirana), where there is little or no free land this, this ratio cannot be measured and consequently the accuracy of the mass valuation from the appraisal level point of view, can't be determined.

The term *uniformity* is a measure of consistency in error ratios. [10] Uniformity requires equity within group and between groups of properties. [5] Uniformity relates with the equitable treatment of every individual property.

The international documents say that the allowable difference between the results of individual and mass valuation should not exceed 20%. [11] The experience of these years in Albania has shown that the approved prices (Tab.1) in general did not really match with the prices led by the market. There have been done efforts several times to review the the map of values. In defining the prices it has often been impossible to fully repeat the methodology. The coefficients and the factors defined by the methodology are not coherent with those used in the free market.

Table 1 Actual values of land per each zone in Tirana

Value Zone	Market value ALL/Sqm
1/1	29829
1/2	22996
2/1	180000
2/2	120000
2/3	37607
2/4	37718

2/5	27104
3/1	25478
3/2	21593
4/1	24754
4/2	24360
5/1	180000
5/2	120000
5/3	31848
5/4	25189
6	20717
7/1	42621
7/2	37615
7/3	26787
7/4	28659
8/1	38595
8/2	30111
8/3	26094
9/1	42299
9/2	39613
9/3	26137
10/1	120000
10/2	120000
10/3	39533
11/1	34628
11/2	27981
11/3	20473
PARKU	120000

Source. Decision No.1620, 26.11.2008, Republik of Albania, the Assembly

In cases on no very dynamic markets the update of the values can be done through indexing and the analysis of the values trend. Another option is to carry out revaluation. Valuation date and revaluation cycle can be handled as components of time dynamics in the context of a mass valuation system. In the conditions of our country it is seen as suitable mass valuation to be performed not less frequently than once every three years. [3]

Market value reflects real estate conditions at the moment of time in which this assessment is carried out. Although more appropriate, this practise of updating its values has defects comes from the differences in time of valuation, time of approval and entry into force and the time of its application. If differences in these three time points are greater than value is likely not to reflect market changes.

The first and most important point of integration between two process of valuation, individual and mass valuation, is the development and use of automated system for collection and processing of the data necessary for valuation. [11] Data collected in a uniform digital format is the basic factor of success in developing an automated mass valuation model based on statistical methods (GIS).

Computerized methodology has made the mass appraisal process more efficient and more widespread.

CONCLUSIONS

The existing valuation methodology was a big step to the direction of market value based compensation to the former owners. However, there were some weaknesses in context of market value in the existing methodology. The existing methodology needed improvements to reach as close as possible to the market value.

System does not follow the principles of valuation level and uniformity.

The absence of rules related to time dynamics enables to act in a partial manner, resulting the system to move away from fairness

Valuation date is closely attached to the revaluation cycle and has at least two different sides: a value has to be set using a specific point in time and at the same time a value should reflect the present market situation. The valuation results are in force until the approval of revaluation results. All new properties or, in some cases, also existing units (appeals for example) should be valued using the same date with no possibility to consider market changes between valuation date and effective date.

Analysing the values maps you can realise a big values variation from one zone to another, even in the areas positioned next to each other. Because values between neighbourhoods have to be logical and based on market situation, we think that there is needed a more studied division of the areas and maybe in a bigger number of areas where the differences in values are milder.

It is necessary to have a digital data system based on geographical information.

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