The Challenges in Globalisation of Valuation Profession – Lessons from Nairobi, Kenya

Kaberere NDUNGU, Mwenda MAKATHIMO and Mary KAARIA, Kenya

Key words: Globalisation, standardisation, challenges and limitations.

ABSTRACT

Valuation/appraisal has recently been christened as an '*Emerging Global Profession*'. This suggests that there is an upcoming process of world-wide integration of professional valuation and appraisal practice. A huge potential of benefits to those in the valuation and appraisal profession would be offered by this development. The professionals stand to gain from new markets opened by cross-border practice.

A standardised global practise also eases investors' decision-making with respect to international investments. Notwithstanding the potential gains from globalisation of the profession, complications arise from widely differing expectations, standards of living, cultures and values, legal systems, economic and political environments as well as unexpected global cause and effect linkages.

This paper sets out to address the practical challenges and limitations to realising the gains of a globalised practice as exhibited by real estate market characteristics in Nairobi, Kenya. The paper looks at the application of International Valuation Standards 2000 (published by IVSC) being the most widely accepted valuation standards globally as the committee has a membership of national associations representing 35 Full Member States. It first addresses issues related to globalisation of valuation practice followed by a look at the real estate investment and practice environment in Kenya. Finally it looks at the limitations and challenges of valuation practice in Kenya under Standard 1 (Market Value) of IVS 2000 followed by conclusions and recommendations.

CONTACT

Mr. Kaberere Ndungu
Landmark Realtors Ltd
P.O. Box 14815
00100 GPO Nairobi
KENYA
Tel. + 254 2 220 019
Fax + 254 2 246 339
E-mail: nkaberere@yahoo.com and landmark@net2000ke.com

Mr. Mwenda Makathimo
Landmark Realtors Ltd
P.O. Box 14815
00100 GPO Nairobi
KENYA
Tel. + 254 2 220 019
Fax + 254 2 246 339
E-mail: makathimo@yahoo.com

Miss. Mary Kaaria
Co-operative Bank of Kenya
P.O. Box 48321
Nairobi
KENYA
Tel. + 254 2 317 190
Fax + 254 2 317 192
E-mail: kaariamk@yahoo.com

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1. GLOBALISATION OF VALUATION PRACTICE

As a starting point in addressing globalisation issues in property valuation/appraisal, it is important to appreciate the meaning of the term "globalisation".

The term is used to refer to a process of world-wide economic integration, which entails the movement of four economic factors across borders. These four factors are physical capital, financial capital, technology and labour. Factors that have contributed to globalisation include increasingly sophisticated communication, transportation technologies and services, mass migration and the movement of peoples, a level of economic activity that has outgrown national markets through industrial combinations and commercial groupings that cross national frontiers and international agreements that reduce the cost of doing business in foreign countries.

Due to the above factors a large number of institutional investors no longer restrict their investments to one country. Leading developers have set the trend towards global movements. Banks are forced through global competition and the expanding business of their customers to finance real estate internationally. Real estate consultancies and brokers merge across national borders and continents, bundling international know-how and experience in growing entities (Schulte K. & Schulte G., 2001).

Many countries have revised their immigration rules to encourage movement of skilled labour and also attract foreigner investors into their economies. Good examples of countries that have taken these steps include Britain, Germany, Canada and Australia. With the opening up of these countries, valuation and appraisal professionals move across borders carrying with them skills and technologies.

The great resource movement, which comes with globalisation, requires direction and focus in order to ensure optimum benefits are realised and to avert conflicts, which may arise from the diverse economic, social and political interest, represented by the numerous players.

It is important to appreciate the fact that valuation and appraisal is not practised in a vacuum. It is subject to national legal, economic, political and cultural systems. These systems differ from country to country. The valuers/appraisers go through different educational systems, which are largely determined at the national levels. Information availability and flows in different countries presents different challenges. Languages, societal norms and culture give rise to differing definitions and perception of values. There are also local valuation standards like what is contained in the Royal Institute of Chartered Surveyors (RICS) Red Book and the Institution of Surveyors of Kenya (ISK) Valuers and Estate Management Surveyors Handbook which reflect both professionals and clients expectations and perceptions. These can be a source of conflict if they are not harmonised.

The diversity in training and operational environments creates considerable potential for confusion. Differences of viewpoints among national professional valuation bodies might lead to unintentional misunderstandings (IVSC, 2000).

The development of international valuation standards is a major step in avoiding conflicts and facilitating global practice. The objectives of the standards have been outlined as:-

- To facilitate cross-borders transactions and contribute to viability of international property market by promoting transparency in financial reporting as well as the reliability of valuations performed to secure loans and mortgages, for transactions involving transfer of ownership and for settlements in litigation or tax matters.
- To serve as professional benchmark, or beacon for valuers around the world, thereby enabling them to respond to demands of international property markets for reliable valuations and to meet the financial reporting requirements of global business community and
- To provide standards of valuation and financial reporting that meets the needs of emerging and newly industrialised countries.

As much as IVSC has done a good job in trying to attain harmony in valuation practice, many issues that are state or country specific and those created by national environments are yet to be resolved. A discussion of Kenyan property ownership, investment and valuation practice environment gives an insight of these issues.

2. THE REAL ESTATE INVESTMENT AND PRACTICE ENVIRONMENT IN KENYA

2.1 Kenya: Its Background and History of Valuation Practice

Kenya is located along the East Coast of Africa its neighbours being Tanzania, Uganda, Sudan, Ethiopia and Somalia and has a population of 29.3 million (as at 2000). Kenya was a colony of the British Empire and she gained her independence in 1963 inheriting British laws, education systems and government structure. Nairobi became the capital of the Kenya in 1905 while the country was a British territory. It attained city status vide a Royal Charter in 1950 just after World War II. The city’s development is based on the initial plan by the colonial authorities, which assigned various zones of the city to specific uses. Nairobi has since evolved to become the largest city between Johannesburg and Cairo and the business hub of Eastern Africa. It is the home of various bodies such as the UNEP and the Habitat while the UNHCR has an office in Nairobi.

The valuation profession in Kenya was established during the colonial era and valuers then were members of the Royal Institute of Chartered Surveyors (RICS). After independence more Kenyans of African origin joined the profession and they began the Institute of Surveyors of Kenya (ISK) in 1969 which until today has some affiliations with RICS. ISK consists of four chapters namely: Valuation and Estate Management Surveyors; Land Management Surveyors; Building Surveyors; and Land Surveyors. There are 315 full members of the Valuation and Estate Management Surveyors chapter and 115 associate members.

2.2 Laws related to real estate and valuation

Before independence the Kenyan constitution was drawn based on the principle of a parliamentary government and protection of the minority, that is the indigenous Africans especially the smaller tribes. After independence the constitution of independent Kenya confirmed all existing land titles and interests to land. The Kenyan constitution gave individuals right to have interests in land. This confers uninterrupted private ownership of land. However, the government can still compulsorily acquire land for public interest and good. The government also holds reversionary interests to all land and plans for it through the local authority.

Land in Kenya is divided into three categories: government land that is owned by the government for her own purpose; trust land that was previously (pre independence) known as native reserves and is currently held under trusteeship of the local authorities for the benefit of residents of the area; and private land that is owned privately in freehold or leasehold and is registered and titles issued. The interests in land are freehold, leasehold, communal under trust land, reservation by government bodies, temporary occupation licence, easements, wayleaves and informal interests.

The land information system is based on referencing and is not computerised. Land ownership, use and transaction in Kenya is regulated and governed by multiple statutes some of which are conflicting (Mukindia, 2000).

The use of land and landed property is regulated through planning and environmental laws. Planning is governed by the Physical Planning Act of 1996, Local Government Act Cap 265, the Building Codes Local Authority By-laws and The Environment Management and Co-ordination Act of 1999. Land use planning is carried out by the Department of Planning in the central government together with the respective local authorities, in the case of Nairobi the Nairobi City Council. The planning communicates the use of land, character of the building and communication routes and guides the social economic and infrastructure development projects in an area.

Commercial and residential properties rent may be controlled or restricted by the state through the Landlord and Tenant (shops, hotels and catering establishments) Act cap 301 and Rent Restriction Act cap 296 for low-income residential houses. This restricts the rents that a landlord may charge, if the Acts governs a particular property. This limits the highest and best use of the property and it also
gives very low returns to the landlord.

The valuation practice in Kenya is governed by the Valuers Act Cap 532, which provides for a Valuers Registration Board that regulates the activities and conduct of registered valuers. Valuers in Kenya are registered upon application to the Board and are required to be full members of the Institution of Surveyors of Kenya (ISK). The Act governs the formation and composition of valuation practices including the qualification of partners and directors in charge of valuation. The Board also deals with discipline and complaints in respect to valuation practice. Other statutes that govern valuation are the Government Lands Act Cap

280 that regulates the valuation for land rent while valuation for rating is governed by the Rating Act Cap 267. Land Acquisition Act Cap 295 governs valuations for compulsory acquisition purposes.

2.3 The Economy

The Kenyan economy is a market economy with most sectors now liberalised with government parastatals giving in to privatisation. The economy is largely agricultural driven as the service and manufacturing industry are not yet fully developed. The capital markets and financial markets are highly influenced by government services such as the budgetary process and consequently their expenditure. The economic challenges facing Kenya currently are high short-term domestic debt, high of borrowing interest rates by commercial banks and financial institutions, low domestic savings and a declining income per capita. This has been evident in the decline of gross domestic product growth rate in the last 6 years with a low of –0.3% being recorded in the year 2000 and an inflation rate of 11.2% in 1997 (Central Bank of Kenya, November 2001)

The Kenyan economy is turbulent and characterised by unpredictable financial indicators. The Kenyan individual has resultantly invested more in real estate than in other forms of investment as real estate provides a hedge against inflation as well as prestige and pride of ownership. This has resulted to high demand for landed property both formally and informally despite low returns resulting from low purchasing power of the consumers.

2.4 Social and Cultural Aspects Relating to Property Ownership, Use and Transaction

During the pre-colonial era land was the cornerstone of African humanity. It defined the African way of life and was the focal point of social solidarity, belonging, social status and spirituality of people. Land as such was the source of life and preserving it a way of life. Ancestral land was inherited by family or a clan member and was not sold as it was held for posterity and to ensure sustainability of the clan and community. To-date, ancestral land is held dearly by communities and if the land was mortgaged it may prove impossible to auction it as the community perceives those who purchase land on auction to be promoting landlessness. The community is therefore hostile to those who buy or put it up for sale. Ancestral land the may *per se* not have mortgage value.

Rapid urbanisation and increase of population has led to inadequate land supply in urban areas and strain of services and infrastructure. The increase in population and need for development has exceeded the pace of planning and the capacity of the local authority (in this case the Nairobi City Council) to control developments and to enforce existing laws.

Urbanisation and cultural practices have brought about a phenomenon where an individual owns real estate in the city as well as in the rural home. Since the prestige of ownership drives one to own a house in the city while the cultural practice demands one to have a rural home in his ancestral land. This has led to subdivision of rural agricultural land to homesteads that are not agriculturally productive while the individual practically lives in the city where he works. Consequently, urbanisation has not been characterised by rural-urban migration as we know it but has led to increase of population in the city and uninhabited

homesteads in the rural areas. This has distorted linkages between the rural and the urban area as conventionally known. Subdivision of agricultural land into homesteads has reduced productivity of land whereas the bulk of agricultural output comes from small-scale farming.

The informal interests to land are increasing at an alarming rate in all types of land uses i.e. residential, commercial, industrial and agricultural uses, especially in urban areas. This has brought about informal land markets and settlements. Yahya (2000) noted that informal settlements are a means of acquiring land in Africa where one builds illegally on land owned by someone else be it public or private land. This phenomenon is a characteristic of the property market in Nairobi. These settlements are characterised by lack of infrastructure, temporary structures and poor living conditions. The informal settlements have evolved to adopting a *laissez faire* approach consequently expanding uncontrollably.

3. LIMITATIONS AND CHALLENGES OF MARKET VALUATIONS IN KENYA

The environment surrounding real estate investment and valuation practice as discussed above gives rise to particular limitations and challenges that a valuer faces when applying conventional valuation methods in accordance with the standards and provisions of IVSC. The limitations would have to be addressed and either smoothened out by the advocates of globalisation/standardisation or alternatively chart them out as pitfalls of a globalised practice for those who wish to practise in this state. The limitations are discussed below by addressing the various valuation approaches / basis.

Kenya subscribes to the market value definition of IVSC with the exception that it refers to it as Current Market Value and in other instances as Open Market Value (OMV) or Current Open Market value which terms are used synonymously. Market Value is defined as "The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion" (ISK, 2000). The conceptual framework of each element of the definition is also similar to that of IVSC. The most common methods used to estimate market value include the cost approach, sales comparison approach, and the income capitalisation approach, including the discounted cash flow analysis (IVSC, 2000). The limitations are not only associated with the methods of valuation, but also the local environment. Consequently it is important to give a general overview of this environment by first discussing the role of the actors. The results of each of these approaches and their limitations to determining the market value of properties in Kenya are discussed below.

3.1 Client Expectations and Effects on Valuation Practice in Kenya.

The biggest clientele of valuations in Kenya are financial institutions, which have relied on them to make decisions on loans and mortgages relying on properties as collateral. The financial institutions for a long time have been interested in the market value of the collateral until recently when they started to request for other values such as estimated forced sale value, auction value and economic worth.

Those who supply financing are most commonly concerned with market value (IVSC 2000). From the face of it there is really nothing wrong with the financial institutions' interest in market value of the property for lending purposes as valuers typically deal with market value when valuing specific assets to secure financing. However, in Kenya the relationship between the Market Value derived from the Comparable Approach and other methods of market comparison like Cost Approach, Income Capitalisation and Discounted Cash Flows Approach is so varied that it warrants explanation and more consideration. These approaches would be expected to provide a relatively accurate check of each other, but this is not always the case in Kenya as explained later on in the paper.

The majority of the Kenyan clients both lender and the investor have not been mainly interested in the economic worth of the property, which would be arrived at by capitalising the cashflows. In Kenya due to the high rate of inflation in the last 10 years, the capital growth arising from appreciation has been higher than the growth of cashflows. Residential properties in Nairobi have an average net rental return of about 7.6% and a capital appreciation of 13.5% over the last 10 years (Kaberere 2001).

Notwithstanding this predicament, the investors have not altered their investment approach. They have not seriously considered undertaking investments based on returns as opposed to market values. The financial institutions likewise still continue to rely on market value without trying to understand the causes of discrepancy between the values arrived at using all market value measurement methods. They have blindly followed the investors who are the market makers. The valuer finds it hard to convince the lender and borrower that they should look more at the market distortions.

A foreign investor and valuer would be inclined to use the investment approach to determine the market value of a property. This figure may not be acceptable by the actors in the property investment market as it would be perceived as an under-valuation. Some clients particularly the multinational financial institutions have realised their mistakes in instructing the valuers and have changed the format of their instructions and valuation report requirements. They have borrowed heavily the form of instructions from their head offices in developed countries without unfortunately considering local circumstances. The resultant confusion and difficulties facing the valuers have arisen due to lack of consultation with the local professional body, ISK.

3.2 Highest and Best Use (HBU)

Under IVSC 2000, highest best use is defined as: "the most probable use of a property which is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value of the property being valued.

In the definition of HBU the parameter of legally permissible use is difficult to quantify or determine in Kenya. The failure to strictly enforce planning regulations leads to sporadic developments. Developers cash in on over developing their properties both in ground coverage and plot ratios and also in change of user say from residential to commercial. Once a few developments like these appear in a neighbourhood they set a precedent for future developers.

Those developers who have not violated these planning regulations appear to have under-developed their properties and it is not unusual for buildings, which are only a few years old to appear to suffer economic obsolescence leading to demolition and redevelopment. The response to these changes by the planning authorities to either formally permit the new HBU or outlaw it is very lethargic. This creates confusion and uncertainty in the mind of the valuer when confronted by such developments. It is difficult for the valuer to fall back on the IVSC 2000 general valuation concepts and principles, (paragraph 6.3 to 6.6 under General Valuation Concepts) which state: "where land use and zoning are in a state of change, the immediate HBU of a property may be an interim use." In the above case the new use remains illegal for an indeterminable period which is not what is envisaged under IVSC guidelines. If the planning authority was responsive then this dilemma could be resolved. In Nairobi, residential estates that exhibit these characteristics are among others Zimmerman, Umoja, Tena, Lucky Summer, Riruta, Kawangware and peri-urban areas where the bulk of the city population resides. However the violation of development density is not only restricted to the low and middle income areas but it is also found though mild in upmarket places like Kileleshwa, Westlands and Kilimani especially where the developments are increasingly blocks of apartments.

3.2.1. Effects on Market Value

The above scenario creates difficulties in determining market values more so because such over-developed properties hardly come to the market for sale and secondly due to the uncertainty surrounding their existence. The valuer is hesitant to capitalise the income due to the uncertainties surrounding such investments as explained above. Yet the income capitalisation approach or discounted cash flow analysis should be based on market determined cash flows. A value arrived at using these two approaches assumes a hypothetical buyer and this does not quite fit the definition of market value under the part of willing buyer.

3.2.2. Effects on Lending Valuations

Vacant land transactions values reflect the speculative element of the illegal HBU. In Tena Estate for example, the properties titles have a condition which state that a plot's permissible development is a single dwelling unit as the plots are approximately 200 square metres in size. However a neighbouring property can have a four-storey building or block of flats with four units on each level. A valuer carrying out a valuation for lending purposes is confronted by the problem of either relying on market sales data or trying to arrive at the green site value of the property basing it on the planning regulations. The clients' perception or the collective perceptions and the behaviour of market participants may not view such a value as realistic making the valuer look awkward. If the valuation is for determination of forced-sale value or price, the property owner can sue the valuer on the basis of under valuation and consequent sale of the property at a throwaway price.

Pressure to return high values either directly or indirectly is therefore not unusual. The pressure on the valuer under these circumstances has a long history in Kenya and appears to have been begun by the colonial masters just before independence, which caused distortions of market values of land formerly occupied by colonialists. In 1962 the colonial government

instructed its valuers to value undeveloped tea land owned by European settlers ‘at enhanced price' reflecting the potential of land even though this potential remained undeveloped. The Africans who would buy these lands for settlement would be the ones to develop this potential. There were other instances when settlement land was valued on the basis of eight times the average annual profits. This was one of the most generous compensations for political losses of ownership known in economic history (Christopher Leo, 1984). The effects of this over pricing arising from these valuations have not been quantified. Undue influence on the valuer is not only characteristic to Kenya but also in developed countries. This pressure to “make the value” led the Appraisal Institute to petition the Senate Committee on Banking to legislate against “inappropriate lender pressure” (Webster A., 2001).

3.2.3. Effects on rating

A rating valuer under unimproved site value (USV) basis is also confronted by a similar problem. In accepting the sale price of vacant plots in a neighbourhood with the above characteristics, as comparables, he ends up accepting illegal land uses on behalf of the local authority, which is entrusted in rating. The principles of equity in rating are violated as a plot with say 16 residential units is rated similarly to a plot with a single dwelling yet the latter has not observed the planning regulations.

3.3 Problems Associated With Comparable Sales Approach.

3.3.1. Data Collection

In Kenya comparable sales data may not always be reliable and the question of how comparable the comparables are arises. The comparables hardly have adequate information on the determinants of value. The readily available relevant information is the area of land, tenure and term of the leasehold interest, date of sale and declared selling price. Information on nature of sale, improvements, incomes generated, actual property location, soils etc is not readily available. Unless one inspects each and every comparable or can get in touch with the seller/buyer or the estate agent involved, one may never get to know these relevant details. The task of collecting adequate comparables can be immense and a bottleneck to even the most experienced valuer who has not practised for long in a certain part of the country. Incomplete data set is one of the hindrances of the usage in Kenya of mass appraisal techniques such as multiple regression analysis (Kaberere N. etal, 2000). The problem of the comparability is not only confined to these circumstances as evidenced below.

3.3.2. Sales declared for Stamp Duty as a Source of Comparables

Kenya runs an open land registry, yet notwithstanding this there is gross under-declaration of values when registering properties for determination of stamp duty. The Collector of Stamp Duty requests for a valuation carried out by a government valuer where he suspects under-declaration. However, the exercise is not often transparent or above board and it is riddled with corruption. Thus the market values derived from the comparison approach have a wide discrepancy in values derived from the other market value approaches.

3.3.3. Effects of Under-declaration on Compulsory Acquisition Valuations

Under declaration poses a big problem to a valuer particularly in rural areas when dealing with compulsory land acquisition cases. Due to a shortage of staff in the Land Registries, the government for the purposes of stamp duty collection allocates certain minimum values to parts of the rural districts. These values are usually very low and are not regularly reviewed to reflect the market values. This in itself encourages the property buyers to under-declare the sale price in order to pay a low stamp duty.

The law governing land acquisition in Kenya (The land Acquisition Act Cap 295) stipulates the use of comparable sales data to determine compensation. Over and above this value, a 15% addition is made as a statutory figure to take care of the fact that the property owner was not a willing seller. The government valuers -who have a bias towards their employer and are thus not independent- usually carry out land acquisition valuations. They rely on comparable sales data from previous declarations entered in the land register for stamp duty purposes and they end up under-valuing the land yet the law is on their side. Interestingly, comparable sales approach is deemed to be the 'holy cow' of market valuations and its advocates have argued that it is the most appropriate approach and should not be disputed. Private valuers have an uphill task of justifying figures, which can only be done through use of other market value approaches.

The valuer can resort to other approaches like income approach. However there are problems related to income approach methods in rural valuations and they are discussed below.

3.4 Limitations Related To Income Capitalisation and Discounted Cashflows Approach.

In Kenya it is difficult to determine the incomes generated by certain classes of properties e.g. rural properties and those in informal settlements. This is partly due to some difficulties brought about by determination of outgoings and consequently the net income. There are also factors that affect determination of urban properties net incomes as discussed below.

3.4.1. Problems of determination of income in Rural Valuations.

In Kenya, state organs like produce marketing boards largely influence the prices of farm produce especially cash crops like coffee and tea. These boards are used as agents of taxation by the government not to mention their mismanagement. Small scale farmers who rely on these boards for marketing their produce have had instances when for years their net earnings from their produce has been negative and not because of the international commodity market. A capitalisation of the income from this HBU gives low or negative values. The actual or true returns from the land are not quantifiable due to the deliberate absence of the correct information from these boards.

A comparison of the market value of land arrived at using the income approach and sales data has a large discrepancy. Perhaps other variables or parameters as pride or prestige of ownership and the residential user could explain the difference as most of these small farms are used as homesteads. These parameters have not been quantified in Kenya.

The basic underlying premise of business valuation is that all value lies in future. Therefore it could be said that the main factor which should influence the value of a business or assets is the amount and timing of future benefits which the owner or investor think that ownership will bring (ESTU/DGIP seminar report). So an uncertain future casts doubt on the assumptions made on cash flows and by extension doubts on the value arrived at which is the case with rural valuations given the above scenario.

3.4.2. Problems of Determination of Income in Urban Areas

Informal settlements or areas without proper planning where there is over-development pose a challenge in determination of actual outgoings. The absences of actual data on outgoing e.g. on water and power consumption and voids poses a problem to the valuer using the income approach.

Loans on mortgages in the last few years have fluctuated between 20% and 28%. This wide fluctuations affect cashflows. The other problem related to income determination arises from over developments, which is discussed under Highest Best Use.

3.4.3. Statutory Controls on Rents.

In Kenya the Landlord and Tenants, (Shops, Hotels and Catering Establishments) Act (Cap 301) regulates the rent charged by landlords for commercial buildings where the leases are for periods not exceeding 5 years. The law favours the tenants and the landlord cannot increase the rent to reflect the changes in the market to attain the maximum returns. Under the Rent Restriction Act (Cap 296) the landlords of certain classes of residential houses cannot increase the rent without the consent of the Rent Tribunal. The statutory controls inhibit the effective application of income valuation approach in working out marketing value and distort the HBU as a landlord can not easily terminate controlled tenancies.

3.4.4. Taxation

There are occasionally drastic changes in tax laws. For example in the year 2001 budget the Minister for Finance introduced Value Added Tax (VAT) on commercial rents. Landlords earning an income of over Kshs. 3,600,000/- p.a. ($ 45,000) were to pay an 18% VAT. It was not clear who was to pay the tax i.e. whether it was the tenant or landlord. Where lease agreements were not specific who was to pay such a tax, it was passed on to the tenants. However in the case of controlled tenancies the new law contradicted existing legislation which stipulates that rent increments should not be made without leave of tribunal.

The effect of the legislation was to distort the returns on properties. Tenants would also avoid where possible to occupy premises subject to the tax thereby creating more voids in such buildings and consequently lowering their values.

3.4.5. Inflation and Real Rates of Return

Inflation, interest rates and exchange rates are volatile in an emerging market such as Kenya due to its turbulent economy. Forecasting the levels of these macroeconomics variables with confidence for any significant period of time into the future is difficult. When projecting constant price cash flows and earnings, it is important to consider the impacts of inflation and exchange rates on cash flow streams. In Kenya, the government relies on short term funding from Treasury Bills (TB). The TB rates are very volatile and at one point in 1993 were at a high of 70% while currently they are at 14%. This creates difficulties of settling on discount rates.

3.5 Limitation Related to Cost Approach

Kenya has a turbulent economy with unpredictable macroeconomics. The high rates of inflation and fluctuating foreign exchange keep on distorting construction costs. Kenya imports building materials mainly electrical, plumbing and steel as well as petroleum products whose prices are influenced by the above factors. These unpredictable variations make projecting costs over time very difficult and it shortens the life of valuation reports.

Some residential properties either in urban or rural areas are over developed in relation to the land value and the costs of the improvements. The capital outlay tends to be higher than the returns from the property. In the case of rural areas, these properties are owner-occupied and are developed to suit the owner’s needs and have a low exchange and economic value. Where this has taken place the costs tend to be many times over than the value of the property making the cost approach unreliable for the determination of market value. Violation of planning laws leading to over-development of a property and poor quality of construction is a challenge to the valuer as determining what level of development is a problem as discussed under HBU above.

The above are only some of the limitations or challenges that a valuer encounters in carrying out ordinary valuations for determination of market values of real estate in Kenya.

4. CONCLUSION / RECOMMENDATIONS

In order to globalise or internationalise valuation practice, it is necessary to have consistent expectations/instructions, and consistent assumptions from the client. There is need for the valuers and their biggest clients like financial institutions to come together and jointly formulate such guidelines. There has to be an understanding between the two.

In capitalisation, valuations are based on future cashflows as opposed to historical circumstances. There are so many assumptions and unknowns about the future thereby creating possibilities for error and hence different values. A good database which is absent in developing countries hinders the use of modern sophisticated spread sheets and computer technology which enables changes of assumptions to get differing results. Professional bodies should be in the forefront to establish these databases. This would go along way to support international standards.

The role of the state is very significant in the standards of local professional practice. Unless emerging economies and democracies emulate the role of governments in developed countries it is difficult for local professionals to keep pace or to have a similar level playing ground with their counterparts globally. It also makes it difficult to have a globalised valuation practice. Therefore there is need to first "globalise political and economic set-ups" and also some common statutes like the ones related to planning and environment as much as possible. This can be done along similar lines to those of Arbitration Law under the United Nations UNCITRAL law on arbitration. Along the same lines, universities can also harmonise their syllabus in training of valuers.

With the effects of globalisation now trickling in and creation of trade blocks and alliances, Kenya has opened its borders to foreign investors. This has encouraged the setting up/merging up of foreign professional firms with local ones. The Institution of Surveyors of Kenya (ISK) and its neighbouring Tanzanian counter part Tanzanian Institute of Valuers and Estate Agents (TIVEA) have recently signed a memorandum of understanding to facilitate cross border practice and this should be encouraged for other countries within various regions. More professional bodies should be encouraged to subscribe to IVSC and where they are not very well established they should be assisted to do so. The assistance can be by being granted some concessions initially and readily availing to them related literature like the IVSC 2000 standards publication which could also be useful in local training centres. This could lead to feed back to IVSC and in the long run enhance the globalisation of the valuation and appraisal practice in Sub-Saharan Africa.

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BIOGRAPHICAL NOTES

Kaberere Ndung'u is a real estate consultant with Landmark Realtors Ltd. He holds a Bachelor of Arts degree in Land Economics and a Master of Arts degree in Valuation and Property Management. He is a full member of the Institution of Surveyors of Kenya and an affiliate member of the Appraisal Institute. He has a special interest in real estate financing.

Mwenda Kiambi Makathimo currently consults as a Facilities Manager. He holds a Bachelor of Arts degree in Land Economics and a Master of Arts degree in Valuation and Property Management. He is an associate member of the Institution of Surveyors of Kenya.

Mary Karimi Kaaria works with Co-operative Bank of Kenya, Property Department. She holds a Bachelor of Arts degree in Land Economics and a Master of Arts degree in Valuation and Property Management. Associate member of Institute of Surveyors of Kenya and Kenya Institute of Bankers.