

Land and Property Valuation in Nepal

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SUMMARY

A robust land and property valuation system underpins land and property use optimization and facilitates disaster risk management. Land valuation and taxation are key tools for disaster management. This includes valuation to support estimates of damage and loss, effective decisions on resettlement and compensation, and insurance purposes. The study aims to present a comprehensive situational analysis of Nepal's land and property valuation. It delves deep into the challenges the system faces, examining how these challenges hinder the government's ability for valuation. The desk study followed by a literature and case study has been carried out in Nepal. The study reveals that Nepal's real estate market suffers from a notable lack of transparency, which affects valuation. The issue primarily stems from the fact that transaction sale prices remain undisclosed to the public albeit disclosed in deed documents and there is a significant shortage of true property transaction data. The country's cadastral and land registry records have relatively good coverage and are readily accessible in digital format, presenting a valuable opportunity to leverage this digital data for the establishment of a modern and current land valuation system. However, the cadastral and land registry data are not fully harmonized, there is a lack of a common identity of the parcel, which is unique in both databases, which is the basic requirement to communicate between two systems with different databases, and the information systems are not linked. Nepal's current land and property valuation infrastructure is institutionally fragmented and lacks robustness. Various laws assign distinct responsibilities to different institutions for conducting valuation processes, with minimal inter-agency collaboration. Under the current 1977 legislation, a committee determines the values of affected lands and properties for acquisition and compensation through a minimum valuation approach and ad-hoc determination of land prices but typically falls significantly below actual market values. Through inclusive and participatory consultations, it is necessary to revise the 1977 Land Acquisition Act comprehensively to address the challenges related to valuation and compensation to adopt a market-based land valuation approach in the determination of the appropriate and just compensation.

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1. INTRODUCTION

Land values as one of the main components of Land Administration, play an important role in sustainable land management (Ghimire et al., 2015). Land Administration is the “*process of determining, recording, and disseminating information about the ownership, value, and use of land when implementing land management policies*”(UN/ECE, 1996). Land and property valuation is used for investment analysis, reliable estimation of property pricing, taxation, and insurance purposes. A robust land and property valuation system, which can produce equitable and timely value assessments, is pivotal in facilitating multiple societal functions. These functions encompass property transactions, taxation, urban planning, and financial markets. Additionally, it underpins optimizing land and property use, bolsters local government financing, fosters land development and facilitates disaster risk management. Land valuation and taxation are key tools for disaster management (Mitchell & Myers, 2013). This includes valuation to support estimates of damage and loss, effective decisions on resettlement and compensation, and insurance purposes. Appropriate land and property valuation also contributes to cost recovery and extends its advantages to external stakeholders such as banks, businesses, audit firms, and asset managers

Nepal has recognized the critical role a well-functioning land and property valuation and taxation system plays. This commitment to improvement is evident through its integration into the 2015 Land Use Policy (LUP), the 2019 National Land Policy (NLP), and the 2014 Land Acquisition, Resettlement, and Rehabilitation policy prepared by the National Planning Commission (NPC). The LUP outlines the need to develop a parcel-based minimum valuation and land tax system based on specific land use, while the NLP advocates for establishing a dynamic land market, implementing a scientifically sound land valuation system, and rationalizing land taxes.

This paper presents a comprehensive situational analysis of Nepal's land and property valuation and taxation system. It delves deep into the challenges faced by the system, examining how these challenges hinder the government's ability to collect taxes and generate revenues, among others. Furthermore, it explores the relationship between the land and property valuation system and Nepal's real estate market performance, its impact on the broader land tenure and administration system, and the compulsory land acquisition process. Expropriation is the power of the government to acquire private property with due monetary compensation (Candas & Yomralioglu, 2014). The corruption and untrust of local people to LG, different understanding on concept of Land Administration by political parties and civil society and lack of co-

ordination among local, provincial and federal government are also the factors that prohibits the decentralization of land related services to LGs (CSRC & UN-Habitat, 2023).

2. MATERIALS AND METHODS

The desk study has been followed for this study and is followed by the literature review. The study is started with critical reviewing of scientific literature in land and property valuation in Nepal. The scientific literature such as journal articles, conference papers, and documents including research/project reports are used for this study and are mentioned in the reference section. Some secondary data is collected from the land administration organizations of Nepal. Similarly, the primary data is collected via key informant interviews.

3. STUDY AREA

The study in land and property valuation is carried out in Nepal. Nepal is a landlocked country in South Asia between India and China and is mainly situated in the Himalayas. According to the 2021 National Census, the population of Nepal is 29,164,578 of which the number of males is 14,253,551 (48.98 %) and the number of females is 14,911,027 (51.02%). The 2021 Census shows that the average household size is 4.37 persons per household. The 2021 national census data on the Degree of Urbanization (DEGURBA) has shown that the urban municipality population reached 66.17% and the rural municipality is 33.83% in Nepal. This implies that Nepal has 66.27% urban areas, while does not provide further categorization into urbanizing or peri-urban municipalities. As per the geographical belt, the urban population in the mountainous region is 35.6% while the rural population is 64.4%. Likewise, 63.3% of people in the hilly region reside in municipalities while 36.7% of people live in the rural municipality in the hills. The migration of people from mountains to plain affects the prices of real estate market. Central Bureau of Statistics (CBS) had estimated the economic growth of Nepal to be 5.84% in 2021/2022 which is also mentioned in Economic Survey 2021/22. Nepal has a federal democratic republic system consisting of three levels of government: federal, provincial, and local since 2008 as shown in Figure 1.

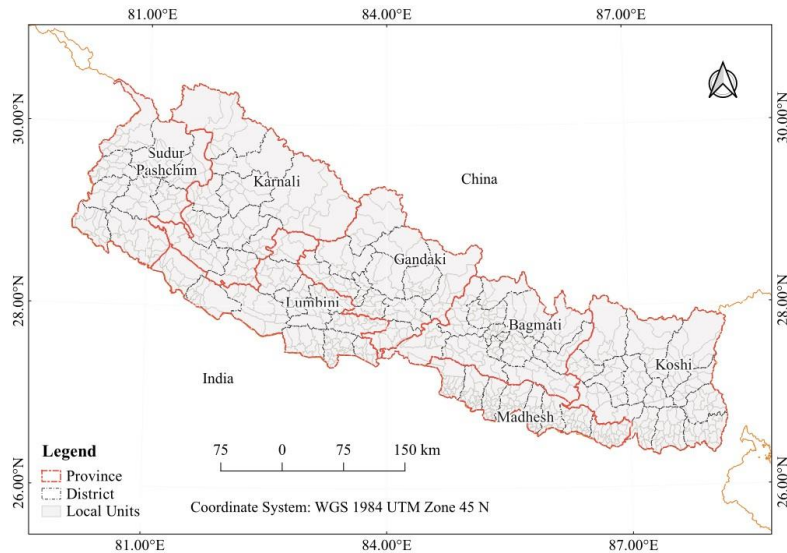


Figure 1: Administrative Boundary of Nepal

The 2015 Constitution of Nepal has provisions for metropolitan cities or sub-metropolitans, municipalities or rural municipalities. The executive is headed by a chairperson in a rural municipality and a mayor in a municipality who is elected by voting in their local levels.

4. RESULTS AND FINDINGS

The results and findings are discussed in the following subsection under real estate and valuation, Land administration and valuation, land valuation infrastructure, property taxation and valuation, and compulsory land acquisition and valuation.

4.1 Real Estate Market

The real estate market in Nepal has been growing steadily. The real estate sector in Nepal is experiencing robust and sustained growth, propelled by various factors including urbanization, increasing incomes, and government initiatives promoting investment opportunities. This upswing is evident in the escalating volume of property transactions and a rising demand for residential, commercial, and industrial properties. Notably, the rental markets and mortgage activities are also vibrant, further contributing to the dynamic landscape of real estate sector in Nepal. The rented land covers 14% and owned land is 86% based on the 2021 Agriculture Census. This favorable climate presents a unique opportunity for both national and international investors to engage in the flourishing real estate market. However, the information about the real estate markets of Nepal is limited and fragmented.

Similarly, Nepal's real estate market suffers from a notable lack of transparency, which affects valuation. The issue primarily stems from the fact that transaction sale prices remain undisclosed and underreporting of the transaction prices and there's a significant shortage of

accurate property transaction data. This lack of transaction price information hampers the ability to accurately assess land and property values, which, in turn, has adverse effects on the determination of appropriate taxes and revenues. To address this pressing issue, there's a critical need to introduce a reporting system for real estate transactions on top of LRIMS. Implementing such a system would greatly enhance transparency within the real estate market. However, it is important to recognize that establishing and maintaining this system will require substantial support in the form of appropriate regulations, inter-agency collaboration, and involvement from the valuation profession. This collaborative effort is essential to ensure the long-term sustainability of a more transparent and accountable real estate market in Nepal.

4.2 Land Administration System and Valuation

Nepal's land administration system provides a solid foundation for developing a modern land and property valuation and taxation system, but certain aspects need strengthening. The country's cadastre and land registry records have relatively good coverage and are readily accessible in digital format, presenting a valuable opportunity to leverage the establishment of a modern land valuation and taxation system. The cadastral records are seamlessly integrated into the Nepal Land Information System (NeLIS), while land registry records are managed through the Land Record Information Management System (LRIMS). It is noteworthy that both systems are under the purview of the MoLMCPA, albeit within two distinct departments. However, the cadastral and land registry data are not fully harmonized, there is a lack of common identity of the parcel which is unique in both databases, which is the basic requirement to communicate between two systems with different databases, and the information system are not linked. The MoLMCPA is currently working on the data integration, but significantly more funding is needed to complete it nationwide. The synchronization of these systems and databases is poised to enhance not only the efficiency of land registration processes and service delivery but also lays the groundwork for the development of an integrated land and property valuation and taxation information system.

4.3 Land and Property Valuation Infrastructure

Nepal's current land and property valuation infrastructure is institutionally fragmented and lacks robustness. Various laws assign distinct responsibilities to different institutions for conducting valuation processes, with minimal inter-agency collaboration. For instance, government authorities at various levels perform valuations for taxation and compensation purposes, while banks handle property valuations for mortgages. The methods and procedures used to determine land and property values vary and lack consistency. Nepal also lacks a unified and widely accepted valuation standard, leading each responsible institution to establish its own specific guidelines for property valuation. Moreover, the number of qualified valuers is limited. Education, research and training opportunities for property valuation are insufficient to meet the increasing demand. At present, there is no specialized course on land and property valuation and the valuation profession is not adequately regulated.

Nepal would benefit from separate land valuation legislation to provide clear standards and procedures for valuation for various purposes and clarify the institutional arrangements. It would also recommend appropriate regulations and licensing for the valuation profession, promote information exchange and learning related to valuation and establish incentives and penalties to ensure responsible valuation practices, among other provisions. The legislation also include the establishment of Land valuation authority to regulate the land valuation profession. In the interim, the Nepal government should designate an institution to lead this legislative effort, with the MoLMCPA being a potential candidate for this role.

4.4 Land and Property Taxation

Land and property taxation in Nepal presents a considerable untapped potential that, if harnessed effectively, could substantially boost the country's economy. Like many economies in transition, Nepal's land and property taxes have the capacity to make a significant contribution. Notably, the real estate sector is already contributing to approximately 9% to the national GDP, with the PTT and recurrent land and property taxes together accounting for about 1.7% of the total national budget(Acharya, 2007). Certainly, by improving the current property valuation and taxation processes, Nepal's land and property taxes can significantly contribute more. At present, Nepal's land and property taxation system is currently underdeveloped and faces challenges in enforcement. The manual management of the system by various institutions at different levels, coupled with the absence of a uniform valuation standard, contributes to its inadequacies. A noteworthy example is the PTT, where the tax is based on a minimum value set by a committee with no or limited technical expertise. This minimum valuation, often tied to land proximity to existing roads or declared value, tends to fall significantly below the actual market prices. As a specific example, in Lalitpur Metropolitan City (LMC), Ward 24, the minimum value is a mere one-quarter of the actual market value, exacerbating the system's inequity and confirming the significant revenue loss for the government.

Meanwhile, the recurrent property tax and rental tax calculation is independently managed by local authorities. The land and property valuation and taxation rate are determined by a local revenue advisory committee, coordinated by the deputy mayor/vice-chair, and endorsed by a local government representatives' meeting chaired by the chair/mayor for the fiscal year. Recurrent land and property tax contribute 13% to the total internal revenue of local governments, rising to 19% for metropolitan cities. Meanwhile, rental tax makes a 2.97% contribution to the total municipal revenue in Nepal.

The country's voluntary property taxation system, combined with ineffective valuation system and inadequate tax collection, enforcement, and minimal penalties, contributes to the relatively low levels of taxes and revenues. Addressing these challenges and modernizing the property tax system could unlock the substantial economic potential inherent in Nepal's land and property taxation.

4.5 Compulsory Land Acquisition and Valuation

Indeed, the lack of a consistent, transparent land valuation system based on accepted valuation standards and practices precludes fair and just compensation for compulsory land acquisition for development purposes (Bell et al., 2020). The study shows that the 1977 Land Acquisition Act has become outdated and requires a comprehensive revision. Nepal finds itself at a critical juncture in its development, necessitating the acquisition of additional land for various public purposes, especially in the context of infrastructure expansion. The antiquated 1977 Land Acquisition Act must be revised and modernized to align with the government's requirements for land acquisition while safeguarding private property rights and ensuring that no one is left worse off after the land acquisition process. The Land Use Act and related Regulations enforcing land categorization and land use plans at the moment have a bearing on land and property valuation processes. Therefore, the recommended amendment of the 1977 LAA will also have to consider this. Under the current 1977 legislation, a committee determines the values of affected lands and properties for acquisition and compensation. They are using a minimum valuation approach and determine the price of land at the time of publication of notice for land acquisition that typically falls significantly below actual market values. Consequently, land acquisition projects frequently encounter conflicts and disputes related to land valuation, leading to project delays. In addition to valuation and compensation challenges, delays also result from insufficient consultation and engagement with affected communities and inconsistent, bureaucratic procedures and due to inaccuracy and inconsistency in land records and the delays in collecting such information. Many families affected by these projects struggle to meet compensation claim deadlines due to inadequate transportation and communication facilities as well.

In addition to addressing the issues surrounding valuation for compensation purposes, the revised LAA should provide clear guidelines on equitable rates and compensation not only for landowners but also for tenants, users, and other stakeholders adversely affected by the project. Compensation should also extend to users of unregistered lands. The new LAA should also be aligned with the Land Act 8th amendment that recognizes long term land users (landless and unorganized settlers). It should also look at how to manage impacts resulting from land use restrictions due to public works and infrastructure development. The new LAA should also embrace internationally recognized policies and practices on land acquisition, such as those based on Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT) principles.

CONCLUSION

This study highlights the critical need for comprehensive reform in Nepal's land and property valuation and taxation system to address existing inefficiencies and enhance its contribution to the country's economic growth. The Nepali real estate market is burgeoning but suffers from a lack of transparency and fragmented information. The absence of a reporting system for

property transactions hampers accurate valuation and tax collection. Implementing such a system with robust regulations and inter-agency collaboration is crucial. While Nepal's land administration system has a solid foundation with digital cadastral and land registry records, integration challenges persist. Harmonizing these records and improving data management will be vital for developing a modern valuation and taxation system. The current valuation infrastructure is fragmented and lacks standardization. Establishing unified valuation standards, improving professional training, and creating a regulatory body for valuation are essential steps for enhancing consistency and reliability in property valuation. Nepal's property taxation system is underdeveloped, with manual management and outdated valuation methods leading to significant revenue losses. Modernizing the property tax system, enforcing better valuation practices, and improving tax collection and enforcement will unlock its economic potential. The outdated 1977 Land Acquisition Act needs a comprehensive overhaul to better align with current needs and safeguard property rights. The revised legislation should address valuation and compensation issues, ensure fair treatment of all affected parties, and align with international standards. Overall, the study underscores the urgency of addressing these systemic issues to optimize land and property valuation, enhance revenue generation, and support sustainable development in Nepal.

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BIOGRAPHICAL NOTES

Dr. Subash Ghimire received his PhD in Land Administration from Kathmandu University and Master of Science (M Sc.) in Geo-Information Science and Earth Observation: Land Administration from the University of Twente. Faculty of Geo Information Science and Earth Observation, ITC, the Netherlands. He is currently an Associate Professor and former Head of Department at the Department of Geomatics Engineering.

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