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An Evaluation of the Property Valuation Process for County Government Property Taxation, Nairobi City

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Abstract

This study evaluates the valuation process for property taxation under the County government in Nairobi. The valuation process is an important element of the property tax administration process because it links the market value of the property with the tax paid. Where the valuation process is unable to capture the full market value of the property, the County government does not get adequate revenue from property taxation and there is unfairness in taxation. Data was gathered through interview of officials in the Land Valuation Directorate of Nairobi City County to evaluate the property valuation process. Documentary search of the laws that govern property valuation process for taxation purpose at the county level was also done. Literature review of best practices in property valuation process in the world was done with focus on South Africa and USA. Data analysis was done through thematic analysis and ratios. The study established that Nairobi city has not yet adopted mass valuations, it uses outdated valuation registers that are over thirty years old and does not carry out regular revaluations. There is no independent body that monitors the valuation process in the County. The existing legislation has not promoted best practices in the valuation process. All these issues have resulted in the city not fully exploiting the revenue potential in property taxation in Nairobi City. The study recommends that the laws governing property taxation at the county level should be amended to reduce the period between revaluations to a maximum of five years; allow for use of mass valuation techniques and establish a body that monitors and regulates the property taxation process including valuation. The county should also use capital value as the basis of valuation and not unimproved site value. Nairobi County government should regularly carry out revaluation of the property tax base to boost its revenue.

Keywords: County government, Property taxation, Property valuation.

INTRODUCTION

Property taxation is a form of taxation on wealth where wealth is the market value of accumulated assets acquired through saving and investment (Ulbrich, 2011; International Association of Assessing Officers (IAAO), 2010). The use of property as collateral for loans indicates that there is a link between wealth and property ownership. Property includes land and the improvements thereon and is also known as real estate.

Property taxation at the local government level is a major source of local government revenue (Balh and Linn, 1992). This is important for service provision especially with the ongoing devolution of power and resources to the county governments in Kenya. The property tax is advantageous as a source of local government revenue (Balh and Martinez-Vazquez, 2007; Cornia and Slade, 2005). The tax base is immobile unlike income tax where the taxpayer can move locations with lower tax rates; the revenue is stable and reliable; property taxation can be used to capture increases in property values that result from infrastructure developments especially in urban areas. A vibrant property valuation system should aim at capturing the increase in property value for increased revenue generation.

However, in most developing countries, property taxation has been neglected as a source of revenue and accounts for less than 0.5% of the gross domestic revenue for countries in Africa (Fjeldstad and Heggstad, 2012). This is because of inadequate property tax registers and valuation rolls and lack of political support to improve

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revenue generation. In Nairobi City, property taxation is a major source of local government revenue. In the financial year 2015/2016 the City collected Ksh. 3,110,292,526 from property taxation against a total of Kshs. 11.71 billion raised from own source revenues (Republic of Kenya (ROK), 2016). This comprised of 26.5% of the total own source revenue collected. Though the tax forms a huge percentage of own source revenue, it has not been fully exploited owing to poor tax administration processes especially in the property valuation process.

Nairobi City is the capital of Kenya with high demand in properties for residential, commercial, and industrial uses. Nairobi has experienced tremendous growth in real estate and increased property values. A research done by Nzau (2003) noted that land values in Nairobi CBD increased by 2566 % between 1982 to 2002 while those in Langata shopping centre increased by 6150% during the same period.

The main objective of this study was to evaluate the valuation of the property tax base in Nairobi. This was done through answering the following research questions; How is the valuation of the property tax base in Nairobi City carried out? Does the property valuation fully capture the market value of the property? How does the valuation process in Nairobi compare with the best practices in the world?

THEORY

Valuation of property for taxation purpose should be clearly spelt out in the tax policy. UN (2005) gives some of the requirements of the policy which are discussed in this study. These include the beneficiary of property taxation which is the County government in this study; the subject of taxation, whether land as if vacant or land and improvements; the property valuation techniques; frequency of revaluations; the implementing agency.

Valuation of the Property Tax Base

Valuation of real estate is the process of developing an opinion of value usually done by a professional valuer (Appraisal Institute, 2013). Pagourtzi et al. (2003) quotes International Valuation Standards which define market value as the estimate amount in terms of money which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after property marketing where the parties had each acted knowledgeably, prudently and without compulsion.

The property valuation process should produce an accurate estimate of the market value for it to gain validity (Pagourtzi et al., 2003). The tax base in property taxation is what is taxed which can be vacant land with no improvement, capital value or land with improvements, rental value, or area rating. Taxes can also be *ad valorem*, where the tax is at a percentage rate of the value of the good (Hardwick et al., 1999). The valuation of property depends on the system of taxation adapted whether annual value system, capital value, site value or area-based taxation system (Bahl and Linn, 1992; Norregaard, 2013). The main difference in the systems is the tax base. Annual rental value and the capital value systems have the tax base as the land and the improvements thereon. The annual rental value taxes the income from the property while the basis of capital value is the market value of the property. The basis of the site value system is the market value of the unimproved site.

The base upon which the property tax is charged is an issue of policy and is defined in the property tax legislation of a country (Kelly, 1999; UN-Habitat, 2011). The tax laws also provide for the valuation process and state the properties that should be taxed and the ones that are exempt and the criteria and standards for valuation. The definition of value under the different systems is a policy issue that has an impact on how the tax burden is distributed (Dillinger, 1991).

Once the tax base has been determined the next step is valuation of the tax base which is a determination of how to determine the value or extent of the tax base to be taxed. There are two types of valuation approaches. The first one is direct market survey approach which relies on parcel-based approach to valuation. The second approach is the use of mass appraisal that involves extrapolation of property values from a sample of properties (Dillinger, 1991). Individual valuation of properties enhances equity because the property valuation will be almost equal to the market valuation. Also, property values change at different rates in different urban areas. As Bird and Slack (2002) say, fairness is not achieved when property assessments are merely increased by a common factor on an annual basis.

According to McCluskey et al. (2002), the manual or traditional valuation approach though it is detailed and accurate, has shortcomings in that it heavily relies on individual property values and therefore requires huge resources to implement. This results to time lags between revaluations which affects the property administration process.

The property tax assessment process should be uniform within the taxing jurisdiction to ensure that the burden of the local government is shared equitably among the taxpayers (Bird and Slack, 2002). In addition, to enhance equity in taxation, revaluations should be carried out regularly. This ensures that the assessed values are almost a true reflection of the market value. It also reduces the impact of sudden increase in property values and in effect property tax that may lead to discontent with the taxpayer and affect compliance.

Bird and Slack (2002) also note that though a property tax system should have an appeal process where the taxpayers who are dissatisfied with the valuation can appeal, this process can inhibit equity in property taxation. The reason for this is that the well-off taxpayers are mainly the ones who can afford legal redress and are therefore able to appeal a high valuation of their properties. This affects equity of the property tax system.

Property tax valuation in developing countries face many problems (Norregaard, 2013). These include inadequate valuation professionals, weak administration and under-developed property market which limits the sales data that can be used in the valuations among many others. These problems lead to property valuations that are usually below the market values. Bird and Slack (2002) add that, to enhance equity, the revaluation cycles need to be short. This is usually stipulated in legislations.

According to Peden (2012) and De Cesare (2012) using the market value for property taxation has the following advantages:-

i) It makes the tax paid a function of the market worth or value of the property and links the property value to the tax payable.

ii) It is not arbitrary and is based on set methods of determining value.

iii) It is equitable because it is based on current data in the market which reflects the changes in the area.

Despite the above advantages, Peden (2012) gives the following as the disadvantages of using the market value to assess tax:-

i) It does not insulate the tax payers against sudden changes in the market. An example is during the housing bubble in the United States of America where there was increase in property values in the period of 2000s which resulted in corresponding increase in the property tax. Though the property values may increase it does not necessarily lead to corresponding increase in incomes of the home owners and they are therefore not able to afford the increased property taxes.

ii) Time lags between revaluations results in outdated values that are not a true reflection of the market.

iii) Also if there is an error in the valuation, it means some taxpayers will be paying higher or lower taxes until the next revaluation is done, when this can be rectified.

Computer Assisted Mass Appraisal

Kontrimas and Verikas (2009) define mass appraisal as the systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing. The aim of mass appraisal is to arrive at the value of the property. The mass appraisal models are mainly based on the sales comparison method of valuation. Linear regression, neural networks and support vector machines are the main models usually used.

Valuation for local property taxation involve valuing huge numbers of properties within their area of jurisdiction as indicated in **Table** 1. The parcel-based valuation method involves a valuer visiting every property and ascertaining its details. This is a cumbersome, time consuming and expensive exercise.

TABLE 1: Properties valued for tax purposes in some taxing jurisdictions of the world

City	Number of properties (millions)
Ontario, Canada	4.70
British Columbia	1.88
Jakarta	1.60
São Paulo	2.76
Bogota	1.78
Kuala Lumpur	0.46
Bangalore	1.16
Johannesburg	0.81
Hong Kong	2.35
Western Australia	1.90
Cape Town, South Africa	0.73

Source: Adapted from McCluskey et al. 2013

Mass appraisal is therefore a more cost effective and efficient way of assessing the value of several properties in each period (NALAS, 2009).

To address the problems faced by developing countries in property taxation, Norregaard (2013) proposes the use of software tools such as computer-assisted mass appraisal (CAMA) system. In CAMA a price index is estimated from comparable sales of type of properties in an area such as residential properties which is then used to value other properties.

Though mass appraisal is more efficient than parcel based valuation method, it is criticised because of the high initial cost of introduction. It also relies on highly trained and specialised staff, and extensive database to analyse data (NALAS, 2009). These resources may be lacking in most developing countries.

Mass appraisals enhance equity in the valuation process. As IAAO (2013) notes, the use of CAMA system results in a valuation system characterised by accuracy, uniformity, equity, reliability and low per parcel cost. Except for unique properties, individual analysis and approaches are not practical for *ad valorem* tax purposes (IAAO, 2013).

Property Revaluation

Having appropriate valuation cycles is one of the major challenges of property taxation in the world. The property market keeps on changing. It is affected by the economic condition in the country and by demand and supply. This results in changing property values. Regular valuation of property can capture the changes in value.

Where long periods elapse before revaluation is done, the market values are eroded. The tax base is then not based on ability to pay, resulting to inequity in property taxation. Periodic or frequent valuations and revaluations are important in maintaining up to date values in the tax register and to reflect the market situation. This will enhance equity in property taxation. As argued by Kitchen (2013), in value-based systems a shorter time frame for reassessment is preferred because this helps in maintaining the legitimacy of the tax base and it reduces the risk of sudden and dramatic changes in tax burdens that often arise when reassessments are conducted sporadically and infrequently.

As indicated in **Table 2**, Kenya has the longest revaluation period in Africa which affects the vibrancy of the property tax system and reduces the revenue adequacy of the county.

Almy (2002) notes that property tax systems are dynamic and not static. They should operate within a time frame given that the tax itself is annual. The reassessment should be periodical with set time frames. The valuation cycles should

TABLE 2: Statutory valuation cycles for rating in selected countries in Africa

Country	Valuation cycle
Botswana	Max 5 years
Kenya	Max 10 years
Lesotho	3 years (+3)[2]
Malawi	Max 5 years
Namibia	Max 5 years
Swaziland	Max 5 years
Uganda	5 years (+)[3]

[2]- *The legislation states 3 years, but the responsible minister may extend it annually for an overall maximum of 6 years (i.e. a further 3 years).*
[3]- *The minister responsible may approve an extension*

Source: Adapted from Franzsen 2002

be short with the goal to have revaluations done every after three years but not more than five years (Bell, 1999).

The Implementing Agency

This can either be the central government or the local government and should be spelt out in the property taxation legislation. There should be a separation between the bodies involved in the property valuation process taxation and the one which collects taxes. UN (2005) states that taxation is a political process while valuation is a technical matter. Combining the two functions under one roof may bring about a conflict of interest.

Where local authorities are involved in property valuation it results to high costs of the valuation and may also result to conflict of interest. The local property values the tax base, assesses the tax, and collects the tax, which increases the likelihood of conflict of interest.

UN (2005) notes that some countries have an independent central valuation agency or board which is under the land administration agency. The advantages of this set up is that there is uniform application of laws and standards; use of common software therefore reducing the cost of installation and maintenance for mass valuations; reduction in duplication of records and staff resulting to efficiency and economy; and increased ability to gather property data and monitor the land markets. An independent valuation body can monitor and evaluate the valuation process as discussed below.

Monitoring of the valuation process

Monitoring is important in maintaining the legitimacy and acceptance of property taxation (Bell, 1999). Monitoring should be done to ensure quality assurance and uniformity in the valuation process and ultimately the taxation process. The assessment-sales ratio is the main tool used for monitoring the outcome of the valuation process. They are used to ensure accurate and uniform values (IAAO, 2014).

In value-based property taxation systems, assessed rental or capital values should be uniform within groups or classes in a jurisdiction. The property should be assessed at market value as per the legal requirements and professional standards (IAAO, 2014).

There should be consistency and uniformity in property values between and within property groups (IAAO, 2014). Where there is uniformity between property groups, residential properties should be appraised at the same percentage of market value as commercial properties. Consistency is evaluated by measures of central tendencies. IAAO (2014) recommends the appraisal level of each major property group such as residential, commercial, industrial, should be within five percent of the overall level in the jurisdiction. There should also be uniformity in values within same property groups such as residential properties, low-income and high-income neighbourhood.

According to Bell (1999) monitoring the valuation process ensures fairness of the property tax. This promotes legitimacy and acceptance of property taxation among the property owners and other stakeholders. Monitoring and evaluation also enable the National Government to equalize the tax base across several jurisdictions. The property tax capacity is then used as an instrument in allocation of local government transfer and other non-tax purposes. Annual assessment ratio studies which relate current market property values with the assessed values used for tax, can be conducted in-house where the taxing authority has adequate capacity or contracted in case of inadequate capacity.

Best practices in property taxation at the Local Government level

Property taxation in Nairobi was compared with South Africa and USA as indicated in **Table 3**. South Africa is a former commonwealth country which had initially adopted site value taxation until 2004 when the local property tax law was changed to include improvements on the land. USA is a developed country which relies on capital value base for property taxation. Comparison with these countries highlighted ways in which Nairobi can improve its property valuation process.

In South Africa, the Local Government Municipal Property Rates Act of 2004 regulates local government property taxation (Republic of South Africa (RSA), 2004). Property is defined as immovable property and includes a registered sectional property; a right registered against immovable property excluding a mortgage bond and a land tenure right. A municipality is required to levy rates on all properties within its jurisdiction except for properties owned by the municipality; public infrastructure properties owned by the municipality, and properties where the market value cannot be established due to insecure tenure.

The valuation of the properties can either be done by the municipal valuer or contracted out to private valuers. Market value of the property is defined as the amount the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer.

The valuer can use comparative analysis and computer aided mass appraisal systems. A local authority is required for annually update the register of property values. An objection on the valuation roll must be regarding a particular property and not against the roll. The law provides for partnership between municipalities in having one valuer to come up with a valuation roll and to share the costs of the valuation.

On access to information, a local authority valuer may request for access to information or documents from either the property owner, agent, tenant, or occupier of the property which in the valuer's opinion would assist in coming up with the value of the property. The valuer can also make a request in writing or orally for details that are required in the valuation process.

The law provides for monitoring of the local property taxation under the provincial and national levels. Under the provincial level, the member of the executive council who is responsible to the minister for local government is required to ensure that the municipality complies with the provisions of the Act.

At the national level, property taxation is monitored based on its effectiveness, consistency, uniformity and application of municipal valuations. The investigation may include studies of the ratio of valuations to sale prices and other appropriate statistical measures to establish the accuracy of the valuations, including the relative treatment of higher value and lower value property.'

The USA has a federal system of government with Federal, State and Local levels of Government. The administration of the property tax falls under the Local Governments and vary from one Local Government to another (Hyman, 2011). The State Governments are however involved in setting the rules and in administration of the property tax (Ulbrich, 2011).

In most states, the Local Government is responsible for property assessment though the state can be involved in the assessment of property owned by public utilities, mining and natural resources. The assessment is done annually and can either be done by an elected assessor or an appointed official (CCH, 2009). Ulbrich (2011) however notes that due to the cost of reassessment, this is not done annually but takes three to seven years.

Assessment is at market value of the property and states use different rates of the market value as the tax base. Some use full market value where the tax is assessed at 100% of the market value while other have classified rates for different property uses. The assessment roll is reviewed by local, regional, or state body which is tasked with raising or lowering any incorrect valuations, adding any property to

TABLE 3: Comparison of Local Government property valuation process with other countries

	USA	South Africa	Nairobi
Which level of government is responsible for assessment	- Local government - In some states, the state is involved in the assessment of property owned by public utilities, mining and natural resources	Municipal/Local government	County government
What is in included in the tax base	The property- land and improvements	The property- land and improvements	Vacant land only
Basis of valuation	- Market value Some states use full market value where the tax is assessed at 100% of the market value while other have classified rates for different property uses	Market value	Market value of the bare land
Who does the valuation?	The assessment can either be done by an elected assessor or an appointed official	Municipal valuer or contracted to private valuers	County Government but can also appoint a private valuer
Re-valuations	Supposed to be annual the process of value but in practice due to the cost takes three to seven years	Regular revaluation at least annually	Every 10 years
Method of valuation	Mass valuations	- Inspection of property is optional - The law provides for mass valuation	Parcel based valuation but the county can adopt any other appropriate method
Monitoring and evaluation	- Assessment/valuation roll, it is subject to review by local, regional, or state body known as a board of equalization or board of review - The body raises or lowers any incorrect valuations, adds any property omitted from the roll - It regulates and monitors local assessment practices, hears appeals to the valuation and advice on local tax issues	- It is done at the provincial and national levels. - At the national level, the minister should carry out ratio studies and statistical measures to establish the accuracy of the valuation - Municipal are required to have annual review of their rates policy	No provision for monitoring by an external body

Source: Compiled from authors' review of Ulbrich 2011; CCH 2009; RSA 2004; ROK 2012a, 2015

the roll that the assessor may have improperly or inadvently omitted (CCH, 2009). The board has the supervisory role of regulating and monitoring local assessment practices, hears appeals to the valuation and advice on local tax issues.

In conclusion, USA and South Africa have a more robust system of taxation where the tax base includes both land and improvements, there are regular revaluations and the valuation process is monitored at the national level.

RESEARCH METHODS

The study used descriptive research design with case study approach as the research strategy. The research was carried out within the period of January 2017 to June 2017. The study relied on both primary and secondary data sources. Primary data was collected through interview of key officers in the Directorate of Land Valuation, Nairobi City County. The interviews sought to answer the questions on whether the County have provision for a legal assessment date, how often the revaluations are done, basis of valuation adapted by the County, the methods and techniques of valuations used, whether the county has adopted mass valuation of properties; if there is monitoring of the valuation process and the measures the County has adopted to improve the valuations process. Secondary data on unimproved site values was collected from Nairobi city.

The study area was Nairobi city with the study population comprising of residential properties in Buruburu and Kilimani areas which were under site value rating. Residential properties were used to enhance homogeneity in the study population. These areas differ according to density of development with Buruburu being a medium density area with only residential development while Kilimani is a high density area. A sample of 50 land reference numbers for Buruburu and 70 land reference numbers for Kilimani was used. The details on area of the plots, location, and the unimproved site values that are assessed by the County was obtained. The current market values of the vacant sites for the sampled properties were assessed. This was done by use of comparable sales of similar properties from the Land Valuation Directorate, Ministry of Land and Physical Planning.

Secondary data comprised of documentary search on the property taxation policies and review of the laws relating to county property taxation in Kenya as well as best practices in property valuation process in the world.

Thematic analysis of the data was used to analyse the information obtained from the questionnaires. Assessment ratios were used to evaluate the relationship between the values as assessed by the county and the market values as assessed by the study. Cornia and Slade (2005) define assessment ratio (AR) as the ratio of assessed value (AV) to market value (MV). This was used to analyse whether there is uniformity in the valuation process. Where the sample properties are appraised at 100% of market value, the median should be 1.0 (Plummer, 2009).

RESULTS AND DISCUSSION

The property valuation process

In Kenya, the valuation practice is regulated by the Valuers Registration Board which is set up under the Valuers Act Chapter 532 of the Laws of Kenya (ROK, 2012b). The board registers valuers who have the required academic and professional qualifications. The Institutional of Surveyors of Kenya is the professional body that constitutes of Valuers, Land Surveyors, Geomatics Engineers, Registered Estate Agents, Property Managers, Building Surveyors, Land Administration Managers and Facilities Managers. Its role is to promote professional ethics among its members. The valuers fall under the Valuation and Estate Management Surveyor Chapter. It also offers trainings to keep the members abreast with international standards in their profession.

The tax bases

The law provides for use of unimproved site value, land value or improved value. An area rate which is not based on land value may also be adopted. None of the local authorities in Kenya, including Nairobi has adopted improved value. The basis of valuation is therefore vacant land even when land is developed. The challenge with this basis is that Nairobi is an urbanised area with many developments on land. Survey of the study areas established that all the sample properties in Buruburu area were developed. In Kilimani only 19% of the sample properties were vacant, 27% had over 20 residential units per plot and 81% of the plots were developed.

Using vacant land as a basis for comparison with land element of a developed land is subjective and does not reflect the true market value of the land. The county is also not benefitting from taxing the value of the developments.

Computer assisted mass appraisal

Interview with county official established that the City has not adopted mass appraisal of properties for taxation purposes and has been relying on parcel-based valuation method which is cumbersome and costly. The appointed valuer visits each land parcel and comes up with the value or carries out a desk top valuation using comparable sales of an area. The professional valuation fees are based on the total value of the land that is arrived at in the valuation roll. Where the valuation for rating purposes is done by the valuers from National Government under Ministry of Land and Physical Planning, the valuation fee is charged at half the scale of fees provided for under the Valuers Act which is about 0.25% of the assessed property values.

The parcel-based valuation system is also subject to human error since data collection is mainly manual and may result in omission of properties from the register. All these have a negative implication of the amount of revenue generated.

The study established from interviews with the county officers that updating of the valuation roll is done manually. There is an information technology officer who is seconded from the IT department to update the roll once the valuers carry out manual valuations on paper. The County has therefore not adapted modern methods of valuation and updating of the property valuation register.

A draft valuation roll prepared in 2016 under a partnership with World Bank is based on GIS mapping and land information of Nairobi County. This has however not been adopted by the County.

Agency responsible for property valuation

The Valuation for Rating Act (VRA) empowers the Local Authority in Kenya to value land for rating purposes. It provides for the process and the procedures to be followed in this exercise. The VRA and the Rating Act (RA) provides for contracting out of valuation of properties to private valuers. The 1982 valuation roll which is used by Nairobi City was carried out by the Central Government valuers under the Ministry of Lands and Physical Planning. The appointment of a valuer is provided for in the RA.

There is no central agency in Kenya mandated to carry out valuation for local government property taxation. The Valuation Department under the Ministry of Land and Physical Planning carries out valuation for taxation purposes for the national government.

Basis of valuation

The basis of valuation is set out VRA as,

"*... the sum which the freehold in possession free from encumbrances therein might be expected to realize at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to impose, due regard being had, not only to that particular land, ...and to other comparative factors, and to any restrictions imposed on the land, and on the use of the land...*" (ROK, 2015).

Therefore, the basis of valuation of the unimproved land is market value through use of comparable sales of similar land in the neighbourhood. The challenge with this method is that most of the land in the study area is developed. In Buruburu Estate, all the sample plots are developed with residential houses. Using vacant land as a comparable is not a true reflection of the condition of the developed properties and the valuer ends up making a subjective judgement and the value arrived at can be challenged on appeal. There is also a challenge of getting sales comparable for vacant land in the developed parts of Nairobi.

A supplementary roll may be prepared to include properties that have been omitted from the main valuation roll, properties that have undergone sub-division, change of use or amalgamation; and also, to rectify any errors that have been made. But the VRA does not give a time frame within which this must be done, and Nairobi last prepared a supplementary roll in 2012. This implies that properties that have been sub-divided and or changed use within this period have not been included in the tax register.

Revaluations

The Valuation for Rating Act provides for revaluation of properties after every ten years. The law however provides for extension of this period with the approval of the Minister for Local

Authority.

Nairobi last updated its valuation roll in 1982, about 36 years ago and has not therefore adhered to the 10 years' cycles provided for by the VRA. The land values being used as the basis of taxation are obsolete and have insignificant relationship with current market values.

The site values used by Nairobi are far below the market value with Buruburu site values being 0.5595% of the market value and Kilimani at 0.0923% of the market value (**Table 4**).

As **Table 5** indicates, the County is not capturing this drastic increase in land values and is therefore not fully exploiting the revenue potential of property tax.

Monitoring and evaluation

To ensure equity in property taxation, the Valuation Director noted that the County aims at assessing the properties at current market values; but due to the legal challenges and cost constraints, this has not been implemented. There are no mechanisms that have been put into place to ensure that the properties are assessed at market value and to ensure uniformity and equity in assessment.

The current law does not provide for monitoring and evaluation of the property taxation processes of property tax base, coverage and valuation. The property taxation processes are not monitored or evaluated by an independent board. The only provision in law is in the National Land Commission (NLC) Act 2012 which mandates the NLC to assess tax on land but does not give the NLC authority to oversee the taxation process in the County.

CONCLUSION AND RECOMMENDATIONS

This study set out to evaluate the property valuation process in Nairobi City County. It has highlighted that the tax base is on the unimproved value of the land. The unimproved land value is subjective especially for Nairobi where most of the properties are developed. The County has omitted the huge developments in property from taxation which limits its revenue raising potential. The infrequent revaluation and large time lag between revaluations has resulted in the City relying on historical valuation registers where the value used for taxation has no relation to the market values.

TABLE 4: Ratio of assessed unimproved site value as used by the City and the estimated market values as at 2016 as estimates

Study areas	% of assessed values by Nairobi to estimated market value (2016)	Median of assessed values to market value (2016)
Buruburu	0.5595%	0.005579
Kilimani	0.0923%	0.00095

Source: Authors' construct 2020

TABLE 5: Comparison of unimproved site values used by the city for taxation and the market values of the vacant sites as assessed

	Analysis of land value per acre (Kshs.)	
Study areas	**Buruburu**	**Kilimani**
Unimproved site value assessed in 1982	390,000	120,0000
Market values of vacant site as assessed in 2016	70,000,0000	350,000,000
% increase in values	178.42%	2915.67%

Source: Authors' construct 2020

The City has not adopted mass valuations and relies on parcel-based valuation methods which is cumbersome and does not ensure uniformity of valuation. Though there is a draft GIS based valuation register that was done in 2016 under funding by the World Bank, it has not yet been adopted for taxation. There seems to be low political will to implement changes to the property valuation process and, in extension, the property taxation.

There is no independent body that monitors and regulates property valuation for taxation in Nairobi. The existing legislation does not provide for monitoring and evaluation of the property taxation process. Nairobi has not formulated a policy on property taxation. The County still relies on the national legislations which are broad. This has resulted to underutilisation of property taxation and under taxation of properties in the County.

Property taxation is a devolved revenue source for county governments in Kenya under the Constitution of Kenya. There are two legislations that provide for Local Government property taxation namely the Rating Act (ROK, 2012a) and the Valuation for Rating Act (ROK, 2015). These laws were enacted in the 1960s and have only been undergoing piece meal revisions. The laws have not yet been revised to take into account devolution and formation of county governments in Kenya. They require complete overhaul to reflect the current trend in the country. The laws do not specifically provide for mass valuation and do not also provide for independently monitoring and evaluation of the property taxation process.

To improve the property valuation process, the national laws should be amended to only allow use of mass valuation methods, setting up an independent body to monitor and evaluate property taxation, as is the practice in both South Africa and USA. Just like in South Africa, Nairobi should abandon the unimproved site value as the basis of valuation and adopt capital value in order to capture the increased property values from property developments and increase its revenue. The timeline between re-valuation should be reduced to a maximum of five years.

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