



# FIG Working Week 2024

19-24 May

Accra, Ghana

Your World, Our World:  
Resilient Environment  
and Sustainable  
Resource Management  
for All

*Presented at the FIG Working Week 2024,  
19-24 May 2024 in Accra, Ghana*

## Unexpired Lease Terms and Land Values in Ghana

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## The Thrust of the Paper

Contrary to established theories, anecdotal evidence suggests that the unexpired lease terms are insignificant in land pricing in Ghana.

While a premium is paid for freeholds, the margin is even insignificant

Implication is that:

Property rights may not be a significant factor in price determination, suggesting that purchasers perceive they are effectively buying perpetual real estate rights.

Despite the unambiguous theoretical predictions regarding the effect of unexpired lease terms on property values,

there appears to be no compelling empirical evidence to support them.

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## Documented Findings: Real Estate Rights and Land Pricing in Ghana

Asabere (1981) examined this issue within the broader context of the factors that affect land values in Accra but found no evidence to suggest that the type of interest (i.e., leasehold vs. freehold) affected land values.

Antwi (2002) found that real estate rights are not a significant factor in price determination

Asabere (2004) found that even though freehold estates sold at a higher price than leaseholds, the unexpired leasehold term did not affect property prices.

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## Documented Findings: Real Estate Right and land Pricing in Ghana

Anim-Odame et al. (2009), found rather surprisingly that shorter-term leases are sold for higher prices than longer-term leases.

As correctly pointed out by the authors, the unexpired term variable may be capturing certain systematic differences between the location of leases with shorter unexpired, which tend to be situated in older and well-established neighbourhoods and leases with longer unexpired terms, which are often in newer less-established neighbourhoods.

The relevance of real estate rights in the pricing of land in Ghana-Urban Land- seems to be defying established concepts.

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## Why the Investigation

The records at Ghana's Lands Commission show that most leases granted over properties, especially those in prime areas in Accra, the country's capital city, in the 1960s and 1970s, are fast expiring. Most of these leases have less than 10 years to run.

Anecdotal evidence indicates that such unexpired terms **hardly** impact the amounts paid for these leasehold properties. Although this phenomenon could challenge market and investment decision-making, the issue continues to beg empirical investigation.

The perception of valuers in Ghana on the significance of the unexpired term creates distortion in the valuation practice in the country.

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## Why the Investigation

Awuah and Gyamfi-Yeboah (2018) found a significant relationship between valuers' views on the relevance of unexpired term of leasehold interest and the value placed on residential properties.

Disregarding unexpired lease terms in valuations of leasehold interests with few years remaining has serious implications for property market participants and, in fact, the stability of the market and the financial system, as unjustified values arising from such valuations may be used in making purchase and lending decisions.

**Should valuers follow the market's irrational behaviour or established valuation theories?**

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## Some Preliminary Findings

Statistic	Unexpired term	Land Values (\$)
Mean	50.30	1,800,589
Median	48.50	1,422,478
Standard Deviation	15.52	1,096,904
Kurtosis	2.28	-1.50
Skewness	0.83	0.32
Minimum	18.00	331,000
Maximum	95.00	3,600,000
Count	30.00	30.00

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## Some Preliminary Findings

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	14.03	0.3770	37.20	0.0000
Airport	1.03	0.2376	4.35	0.0002
Use type	0.04	0.2497	0.18	0.8586
Unexpired term	-0.01	0.0068	-0.75	0.4625

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## Concluding Remarks

- The preliminary evidence is consistent with the general belief among market players that length of lease is disregarded by buyers.
- Can this put valuers in a dilemma when estimating market values?
  - Note that the Market Value definition assumes that participants are acting prudently and knowledgeably
- Next Steps
  - Gather more data especially in areas with shorter unexpired terms (less than 10 years).
  - Improve model estimation including adopting alternative estimation techniques such as quantile regression



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SUSTAINABLE DEVELOPMENT GOALS

International Federation of Surveyors supports the Sustainable Development Goals

## Commission 9

Commission's name

Serving Society for the Benefit of People and Planet



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