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The Importance of Databases in Real Estate Industry: Exploring the Experiences of Realtors in Harare, Zimbabwe

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Abstract:
Scarcity of real property transactions data in the real property market in Harare has caused a litany of problems to realtors whose business operations are heavily dependent on the availability of quality data. This paper explores the challenges that have been experienced by realtors in Harare due to the inadequacy of property transactions data. The study is grounded in qualitative methodology and uses both primary and secondary data. Data were collected through in-depth interviews and document scanning, then analysed through content analysis. The study revealed that the non-existence of an electronic property transactions database in Zimbabwe has affected the business operations of realtors especially those with less experience. Poor property appraisal values they have produced resulted in loss of business as clients' confidence in them is deteriorating. Although experienced realtors seem to be managing, basing their comparables on their own small databases and their professional networks the scarcity of property transactions data has also affected their efficiency and the credibility and quality of property values produced. In light of this, it is recommended that steps should be taken towards the development of an electronic national property transactions database that can be accessed by real estate industry actors and the general populace. This paves way for automated valuation models and housing price indices that significantly improve operations of realtors in Harare.

Keywords: Automated valuation model, housing price index, property transactions database, realtor, real property market

1. Introduction

The real estate sector has become one of the safe havens for investors seeking meaningful returns (Baker, 2001). However this sector thrives on property transactions data collection and manipulation especially when undertaking valuation and appraisal of properties (Calhoun, n.d.; International Association of Assessing Officers [IAAO], 2003; Luus, 2003; Cupal, 2014). In Zimbabwe, public access to property transactions data is not only difficult but close to impossible (Marongwe, Mukoto, and Chatiza, 2011). The absence of national property transactions database has not only hindered the introduction of automated valuation systems but has also hampered the quality and credibility of property values produced by valuation and appraisal processes.

Information asymmetry has been exacerbated by the lack of commitment by any agency, whether public or private, to take the initiative and responsibility of collecting and constantly updating an electronic national property transactions data for the purposes of aiding future valuation and appraisal processes. According to Marongwe et al. (2011) the Deeds Office has a small database that is not only difficult to access but is also limited to registered properties disregarding unregistered properties that have flooded the real property market. Thus, it has become important to investigate the impacts of information asymmetry caused by the non-existence of a national transaction database that captures both registered and unregistered properties in Zimbabwe.

This paper seeks to explore the implications of data deficiency that exists in the real estate industry in Zimbabwe to realtors. The major questions inquired in this paper are; Why is it difficult to create a national property transactions database in Zimbabwe? How are real estate businesses coping in the absence of a national property transactions database? What are the impacts of information asymmetry to different real estate businesses – differentiated along experience and lengthy of time in business? These and other implied questions form the basis of discussions presented in this paper.

2. Theoretical Underpinnings

This study is generally guided by the Sales Comparison Model. Comparison is the most widely used approach and forms the basis of any valuation (Millington, 1988; IAAO, 2003). When using this approach, a valuation is undertaken by directly comparing the property under consideration with similar properties that have been sold thus finding its value from these past transactions (Millington, 1988; IAAO, 2003).

The Hedonic Pricing Model as developed by Kain and Quigley (1970) and further improved by Sirmans, Macpherson and Zeitz (2005) will be the basis for understanding and explaining the different housing attributes that affect the ultimate property sale price in the real property market. Apart from that, the performance of the traditional comparative method of valuation will be assessed in light of the Comparative Approach theory for real estate valuation as explained by Cupal (2014). The initial procedure in the theory gives emphasis on the first stage of creating a reliable property database hence the same will be used to evaluate the reliability and credibility of valuation and appraisal values used in the real estate industry in Zimbabwe and how this has affected the performance of real estate businesses.

3. Study Conceptual and Analytical Framework
The study is guided by the conceptual framework shown in Figure 1. The framework shows driving issues, processes involved and, the perceived and real outcomes of development of a property transactions database.
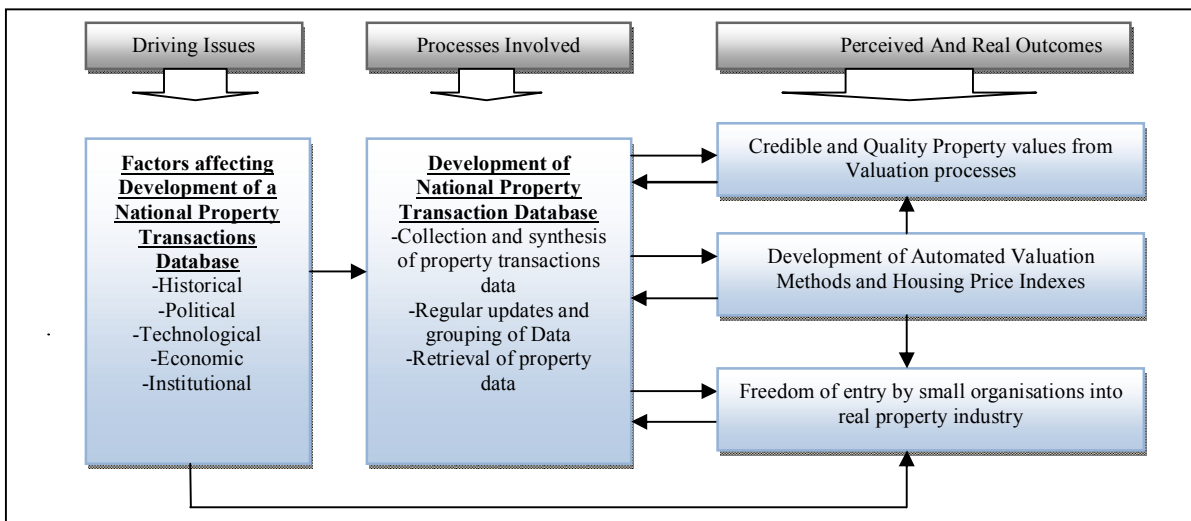

Figure 1: Driving issues, processes and outcomes of developing a national property transactions database
Sources: Adapted from Calhoun (n.d.), Luus (2003), and IPD and KTI (2012).

As shown in Figure 1, the processes involved in the creation of a national property transactions data include collection of data, regular updates and retrieval of the data by various stakeholders. This development paves way for the possible development of automated valuation models (AVMs) and housing price indices (HPIs) which positively impact on the production of credible and quality property values. Apart from that, this will have overall impact on the creation of freedom of entry by new organisations into real property industry.

4. Brief Review of Literature
This section shows how different systems of valuation and general appraisals are linked to a property transactions database. Both the computerized and manual systems rely on adequate quality data but it should be stressed that the former requires huge and organized electronic databases as compared to the later. Brief review of literature will be done focusing on global, regional and local contexts respectively.

Globally the valuation of real properties is done using two major systems that are Automated Valuation Models (computerized) and Traditional Valuation Applications (manual) (Calhoun, n.d.; IAAO, 2003). The use of both systems require a strong backing of a property transactions data. In the Nordic countries for example, two huge organisations called IPD Norden and KTI Finland are responsible for the collection of such data (IPD Norden and KTI Finland, 2012). These two organisations run huge databases since they have collected property data for several years thus Nordic countries mainly use automated valuation models as evidenced by Sweden which uses the Discounted Cash Flow method for all its commercial valuations (IPD and KTI, 2012). However it is important to note that, "with the advent of computer technology and computerized databases, regional authorities in the United States were the first to implement computer assisted valuation methods" (Calhoun, n.d, p. 15). Automated Valuation Models (AVMs) supported by quality data have the advantage of producing objective and efficient estimates of property values. These estimates form the backbone of real estate businesses especially when undertaking valuations or appraisals be they for rental or sale purposes. However the need for sound analysis in the development of the AVMs is of paramount importance (IAAO, 2003).

In Africa, the use of property databases is now common in countries with stable and big economies. An example is South Africa, where two popular residential property data collectors are, the Deeds Office- which registers fixed property ownership and changes in ownership, and Absa residential property market (ARPM) database - which collects data from financial applications in the market (Luus, 2003; Els and Von Fintel, 2008). It is vital to note that ARPM data are captured by property valuers onto the mainframe database before data warehouse tables are populated (Luus, 2003). This has the advantage that South Africa is able to use Automated

Valuation Models (AVMs) since property transactions data are readily available. In addition, the values obtained in South Africa after a valuation exercise are better reflectors of the true value of the property as compared to property values in Zimbabwe where property data are scarce. A major lesson that can be learnt from South Africa's databases experience is that, the deeds office provides a good opportunity in Zimbabwe for developing a national property transactions database. This emanates from the fact that all property sales will finally reach the deeds office for change of ownership thus providing an opportunity to create a useful database that is able to provide useful information to real estate businesses.

Property transactions data are very difficult to obtain in Zimbabwe hence the main valuation system used is the Traditional Valuation – which is manual. According to Marongwe et al (2011, p. 7) "...there is no public information on the details of urban land market transactions in Zimbabwe". Apart from that, Marongwe et al. argue that information available at the Deeds Office is very difficult to access and has got its own limitations, for example property transactions information is only available for registered properties (properties with title deeds) despite the fact that there are a lot of transactions of unregistered properties (properties without title deeds) in the market. This means that valuable data pertaining to unregistered properties are not captured. On the other hand, the captured selling prices of properties registered at the Deeds Office have been found to be in some cases understated for the purposes of evading payment of high transfer fees and taxes such Capital Gains Tax (Marongwe et al.). It is vital to note that the combined effects of these challenges have highly undermined the valuation and appraisal of properties in Zimbabwe. Thus, an updated database is expected to improve both the valuation and appraisal processes by making comparables readily available and support the introduction of AVMs in the Zimbabwean property market that can produce high quality property values.

5. Research Methodology

The study is grounded in both qualitative methodology utilizing both primary and secondary data. Primary data were gathered from realtors detailing their experiences and their perceptions pertaining the importance of a national property transaction database in Harare. Secondary data were gathered from existing literature in the form of books, reports and newspapers among others. Purposive sampling was used to choose Harare as the study area due to the fact that approximately 146 out 220 real estate companies operating in Zimbabwe are located in Harare[1]. Thus, Harare provides an information rich case. The snowballing technique was utilised in the selection of respondents. On one hand, realtors with less than 10 years in the industry were targeted in order to obtaining challenges faced by those who recently entered the industry. On the other hand, those with more than 10 years of operation were also targeted in order to solicit rich data from those with distinguished experience in the industry. It is important to note that the first two (one with less than 10 years and the other with more than 10 years experience in the real estate industry) interviewees were purposively chosen then the researcher was referred to other realtors. Apart from the realtors, one key informant (Estate Agents Council- EAC) was interviewed in order to gather data on the challenges hindering the creation of a real property database. The collection of data was conducted through in-depth interviews in order to solicit rich qualitative data from selected respondents. Data were organised into themes and analysed through content analysis.

6. Presentation of Findings

Findings will be presented in the sub themes that emerged from the study. However, it is vital to note that pseudonyms will be used in order to protect respondents from any harm arising from their participation in this study.

6.1. The Difficulty of Creating a National Property Transactions Database

The study confirmed that there is no updated central property transactions database that can be accessed by those in the real estate industry in Zimbabwe. A small database that is available at the Deeds Office in Harare is not only outdated but also difficult to access. This is in line with the observations of Marongwe et al. (2011) who opine that the data at Deeds Office is very difficult to access and has got its limitations that include the exclusion of some unregistered properties that have flooded the real property market in Harare. However, it emerged from the study that the major challenges that have hindered the creation of national property transactions database can be summarized as, lack/delay of computerization of government departments; dollarisation of the economy in 2009; lack of the will power by either public or private organisations to take up the challenge; and economic hardships among others.

The delay in the computerization of government departments including the Deeds Office in Zimbabwe has, for a long time hampered the creation of an electronic national property transactions database. It is difficult for data to be systematically gathered and stored manually considering the voluminous nature of property transactions data. The resultant piles of data are cumbersome to go through in case of an enquiry. Besides, some data has been lost due to manual filing system. However, the study revealed that some government departments for example National Registry, are now computerized and plans are underway to progressively computerize all departments.

One major hindrance that was also highlighted by the respondents is the dollarisation of the economy that took place in 2009. This marked the use of foreign currency as the medium of exchange thus all the property transactions data that pertains to a period prior to the year 2009 was discarded. This meant that new data had to be gathered starting from 2009 onwards hence no meaningful database can be created with data that has been gathered over a short period of time. Apart from that, during the year 2009 market price distortions became rampant in the real property market due to lack of United States Dollar property comparables. In addition, the

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[1] Source, Estate Agents Council- Zimbabwe.

distortions were also partly caused by lack of appreciation of the real value of a US dollar in the whole country. As allude to by one realtor, "…in March 2009, we sold a basic 4 bed roomed house in Eastlea at an open market value of USD280 000 however, 10 months down the line it became difficult to resell that same property for USD180 000". This shows distortions that became a cost to buyers who were quick to purchase properties immediately after dollarisation. However, the property values stabilized with time hence the failure to resell the same property at a lesser value.

Lack of will power to has also impeded the development of a national property transactions database in Zimbabwe. Neither the public or private agencies have shown interest in such an exercise. It emerged from the study that the lack of drive has partly been caused by the nature of the real estate industry. The industry is still fairly young and concentrated in major cities, mainly Harare. Business is still very low in the other cities and towns. Apart from that, economic difficulties have negatively affected the drive. The exercise needs huge financial resources that are not currently available either to the public or local private agencies. Most organisations are struggling to survive in the current economic hardships hence it is impossible to fund the development of national property transactions database at the moment.

6.2. Coping Strategies Adopted by Real Estate Businesses
It emerged from the study that the realtors in Harare have adopted different strategies in order to surmount the scarcity of property transactions data in Harare. The two major strategies are, to rely on their own databases and experience, and reliance on professional networks.

Realtors that have been in the industry for more than 10 years have built their own property transactions databases based on sales and rental transactions. These databases have assisted them when undertaking both valuations or property appraisals either for sale or rental. Reference is made to past transactions then interpolations are done in order to estimate the value of the property in question. However, the challenge faced by these realtors is the temporal aspect of their datasets. Some of these do not have 'recent past transactions' that are useful when a formal valuation or a quick appraisal is needed. Apart from that, the databases do not record property attributes and monetary value attached to each hence, this compromises their usefulness. The study revealed that circumstances do present themselves when one is supposed for example to undertake a rental/sales appraisal of a three bedroom house (main bedroom with en suite) with separate lounge and dining, fitted kitchen, walled and gated. Upon looking for comparables in the database one might find out that there are no three bedroom houses sold in the recent past but the closest comparables are five properties with four bedrooms (with main bedroom en suite), lounge cum dining, fitted kitchen, walled and gated. Using such comparables to estimate the value of the subject property is complex especially when housing attributes are not assigned values that when added make up the sale or rental price. Experience in such circumstances is of paramount importance. Thus, experienced valuers are able to produce better reflections of the true value as compared to inexperienced ones.

The study also revealed that real estate companies in Harare are heavily relying on their professional networks for comparable evidence. This has been bolstered by Mphambela (2012) who posits that the current practice in the real estate industry is that valuers are over reliant on their professional networks for property transactions data. However, this is in sharp contrast with global trends. In the Nordic Countries for example Sweden, property valuers rely on huge electronic databases hence they are able to use automated valuation models and even produce reliable housing price indices (IPD and KTI, 2012).

The study revealed that when undertaking a quick property appraisal, the practice in Harare entails contacting four or more close professional contacts in the industry who are able to provide valuable comparables. A valuable comparable in this instance refers to any property with as many as possible similar attributes to the subject property. These attributes include among others, the same age (in terms of the year the properties were constructed), almost equal plot sizes, same state of repair, similar fixtures and fittings, and properties should be in the same locality. Once the comparables are provided the realtor is supposed to visit all the suitable comparable properties and collect data that will be used when comparing these to the subject property. The study however revealed that for some experienced realtors, visiting all the comparable properties might not be necessary since their knowledge of different areas will assist them. Collected data is then analysed and compared with the data from subject property. In light of this, a value is reached for the subject property emanating from values of comparable properties. This process is prone to errors thus, it is possible for a single property to produce different sale/rental values when given to different realtors.

6.3. Impacts of Information Asymmetry to Real Estate Businesses
The impacts of information asymmetry in the real estate industry has affected businesses differently depending on the period of operation. Emanating from this, it emerged from the study that the realtors in Harare have adopted diversification in terms of specializations in order to avert risk in the real estate business. The majority of them no longer focus on one specialization but mix valuation of properties with auctioneering and property management – both commercial and residential. Thus, in most cases the managing director is both a registered estate agent and registered valuer (that is why the emphasis in this paper is on realtors and not property valuers), which means this person is certified to undertake valuations and also practice agency and auctioneering in Zimbabwe. In any case, it is rare to find a firm that deals only in the valuation of properties, instead some firms are now specializing in valuations, sales, rentals and even property development. This diversification has helped real estate businesses to stay buoyant in the prevailing economic hardships.

The study revealed that realtors that have been in business for a short period of time have been affected more by scarcity of property transactions data as compared to realtors that have been in business for long. The realtors that are fairly new in the industry are finding it difficult to attract and retain meaningful business. Their major challenge is finding valuable comparable evidence before attaching a

value to a property. This has been caused by the fact that their databases are still small hence not very helpful when undertaking a valuation or appraisal. Apart from that, these realtors also do not have wide professional networks that can assist with valuable information since they are still establishing themselves in the industry. Consequently, the values that are attached to properties for sale or rent are sometimes far below the open market value. This prejudices the clients who will get less return than expected. Thus, they will take their properties to other already-established realtors leaving these fairly new players in the industry struggling. Some of the new players have closed down since their predicament has been worsened by economic hardships that are currently prevailing in Zimbabwe.

The experienced realtors (those with more than 10 years in operation) professed that their experience and wide professional networks have been helpful when undertaking valuations or appraisals. Mr. Musasa had this to say,

…most people do not know that making it in the real estate industry or business requires vast experience and connections….you need to have made a name for yourself and interact with colleagues….this instills confidence even in the clients that you deal with. Above all there is need for honesty and integrity because once your name has been tarnished it takes ages to recover.

The assertion shows that there is need for realtors to be established and make a profile for themselves. This instills confidence in their clients and also the property values they produce when undertaking a valuation or appraisal improve with time. Once clients are happy with returns they get from their properties after a sale or rental, then they bring in more business by referring their friends and colleagues. However, it vital to note that there is need for honesty and integrity for one to succeed in the industry.

The study also revealed that the non existence of a national property transactions database has affected the efficiency in undertaking valuations or appraisals and also the credibility and quality of the property values produced. Apart from that, uniformity of the quality of property values has been compromised since some realtors have more information than others. this has resulted in the over-concentration of realtors in Harare compared to other cities and towns. In light of this, the Estate Agents Council (EAC) has argued that the low real estate business and depressed property values in other cities and towns are a result of lack of valuable comparable data. The rate at which properties change hands in these towns and cities are low as compared to the rate of exchange in Harare hence the data produced is limited. Thus, these challenges can be easily wiped out by an electronic national property database that is accessible to both real estate industry actors and the public at large. This eliminates information asymmetry and put all players at par in terms of knowledge of the market.

7. Conclusion

Despite the scarcity of property transactions data in the real property market in Harare, the realtors are managing especially those who are experience and have been operating for long. The experience they have gained over time and wide professional networks have been helpful in their valuation and property appraisal endeavors. However, an electronic national property transactions database will greatly improve operations in the real property market. This can lead to the development of automated valuation models that in turn improve efficiency in the valuation process and the quality of property values produced. Consequently, this will advance the business operations of the actors in the real estate industry and also improve the performance of new entries in the real estate business.

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