

**THE EFFECTS OF PROPERTY TAXES AND LOCAL PUBLIC SPENDING ON
PROPERTY VALUE: A CASE STUDY OF CITY COUNCIL OF NAIROBI**

AGNES NAFULA KISAKA

**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT FOR
THE AWARD OF THE DEGREE MASTER OF BUSINESS ADMINISTRATION (MBA)
OF THE UNIVERSITY OF NAIROBI**

NOVEMBER, 2012

DECLARATION

This research project report is my original work and has not been presented for a degree in any other university.

Signed

Date.....

Agnes Nafula Kisika

D61/60524/2011

This research project report has been submitted for examination with my approval as the university supervisor.

Signed.....Date.....

Dr. Sifunjo Kisaka

University of Nairobi

DEDICATION

Dedicate this first to God almighty through whom all things are possible. Secondly to my husband Patrick Kisaka, children Mary Goretti, Irene, Peter and Patricia. Thirdly to my mother Robai for her unlimited support.

ACKNOWLEDGEMENT

I most sincerely thank the almighty God for helping me to complete this project despite the various challenges that I faced in the course of doing it. I appreciate the tremendous input and professional guidance given to me by my supervisor Dr. Sifunjo Kisaka

I also acknowledge and thank my husband and our dear children for their support and encouragement. Their patience while I was a way for long hours doing this study is commendable.

Thanks also goes to the Tom malachy for his moral support during this process, to my friends Johnson Akongo, Osodo, Mureithi, Kuria and Nyambuti, I say thank you for urging me on complete this research project report.

ABSTRACT

Although various researches have been done on the effects of property taxes and local public spending, very little has been done in City Council of Nairobi hence creating agency and a research gap. Therefore this study aims at providing an understanding on the effects of property taxes and local public spending on property values in City Council of Nairobi to bridge the knowledge gap that exists.

The study adopted descriptive research; this design was used to obtain information concerning the current status of the phenomena to describe what exists with respect to variables or conditions in a situation. The study took top management, middle management and lower management staff of City Council of Nairobi for study population; this as well doubled up as the target population with a total population of 105 employees. Stratified random sampling design was applied. Primary data was collected through the use of questionnaires administered to the respondents. The secondary data was collected through the use of both theoretical and empirical literature available and from various documents at the city council of Nairobi. The data was analyzed using qualitative and quantitative techniques.

The results of this study show that there is a negative relationship between local government spending on housing and local property rates. This attributed to poor service delivery, mismanagement of funds and corruption at the CCN. The regression model explains 85% of the variability in property values. Hence the model fits very well on the data. The Durbin-Watson statistic indicates that the problem of multi-collinearity is not severe. It also shows that local government spending, housing expenditure, LATF and property rates are statistically significant at 5% level. The model explains 99.8% of the variability in property values. Hence the model fits perfectly to the data.

The conclusions that was drawn from the findings of this study shows that property taxes have a negative impact on property values especially where service delivery is poor and mismanagement and corruption abounds. Housing expenditure is negatively related to property values. This is attributed to the refusal by posh estates like Karen and Lang'ata refusing to pay CCN rates citing poor service delivery, inefficient and corruption at the CCN and local government spending and LATF have a positive impact on housing values since they increase revenue to provide the basic service in the city and its neighborhoods.

TABLE OF CONTENTS

Declaration	i
Dedication	ii
Acknowledgement	iii
Abstract	iv
Table of content	v
List of table's	viii
List of figures	ix
Abbreviations	x
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the study	1
1.1.1 Theoretical background	2
1.1.2 Contextual framework	4
1.2 Statement of the problem	5
1.3 Objective of the study	6
1.4 Importance of the study	6
CHAPTER TWO: LITERATURE REVIEW.....	8
2.1 Introduction.....	8
2.2 Theoretical review	8
2.2.1 Local property taxation and traditional tax theory.....	8
2.2.2 The basic theory	9
2.3 Factors influencing property value in Kenya.....	10
2.3.1 Property demand	10

2.3.2 Government incentives	11
2.3.3 Interest rate.....	11
2.3.4 Government regulation	11
2.3.5 Inflation rate.....	12
2.4 Empirical literature	12
2.5 Summary.....	13
CHAPTER THREE: RESERCH DESIGN AND METHODOLOGY	14
3.1 Introduction.....	14
3.2 Research design	14
3.3 Population and Sample	14
3.4 Data and data collection.....	15
3.5 Data analysis	16
3.5.1 Conceptual model	17
3.5.2 Analytical model.....	18
3.7 Data validity and reliability	19
CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS	18
4.1 Introduction.....	18
4.2 Summary of statistics	18
4.3 Property taxes, public spending and property values.....	19
4.3.1 Results of correlation analysis	19
4.3.2 Results of regression analysis	19
4.3.3 Results of the survey.....	21
4.4 Discussion.....	22
4.5 Summary.....	23
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	24
5.1 Introduction.....	24
5.2 Summary of the study	24

5.3 Conclusions.....	24
5.4 Limitation of the study.....	25
5.5 Suggestion for further study.....	25
REFERENCE.....	26
Appendix I: Determinant of property values in Nairobi.....	29
Appendix II: Data.....	30
Appendix III: Questionnaires	37

LIST OF TABLES

Table 3.1 Population and Sample size	15
Table 4.1 Summary of statistics	18
Table 4.2 Results of correlation analysis	19
Table 4.3a Results of correlation analysis between property values, inflation rates and property demand	20
Table 4.3b Results of correlation analysis between property values, local gvt expenditure LATF and property rates.....	21

LIST OF FIGURES

Figure 3.1	Conceptual model.....	16
-------------------	-----------------------	----

ABBREVIATION

CAMA	Computer assisted mass appraisal
CCN	City Council of Nairobi
CIC	Constitution implementation committee
GOK	Government of Kenya
LATF	Local Authorities transfer fund
SVR	Supplementary Valuation Roll
USV	Unimproved Site Value

CHAPTER ONE

INTRODUCTION

1.1 Background Of the Study

Taxes based on ownership of property were used in ancient times, but the modern tax has roots in feudal obligations owned to British and European kings or landlords. In the fourteenth and fifteenth century, British tax assessors used ownership or occupancy of property to estimate a taxpayer's ability to pay, (Fisher and Glenn, 2002). In time the tax came to be regarded as a tax on the property itself. In the United Kingdom the tax developed into a system of rates based on the annual (rental) value of property. The growth of the property tax in America was closely related to economic and political conditions on the frontier. In pre-commercial agricultural areas the property tax was a feasible source of local government revenue and equal taxation of wealth was consistent with the prevailing equalitarian ideology.

Tax was administrated by elected local officials who were to determine the market value of the property, compute the tax rates necessary to raise the amount levied, compute taxes on each property, collect the tax, and remit the proceeds to the proper government. Because the tax was uniform and levied on all wealth, each taxpayer would pay for the government services he or she enjoyed in exact proportion to his wealth. The tax and the administrative system were well adapted as a revenue source for the system of local government that grew up in the United States. Typically, the state divided itself into counties, which were given many responsibilities for administering state laws. Citizens were free to organize municipalities, school districts, and many kinds of special districts to perform additional functions, (Rueben, Kim, and Sheila Murray, 2008).

In many states assessment techniques have improved greatly, computer assisted mass appraisal (CAMA) combines computer technology, statistical methods and value theory to make possible reasonably accurate property assessments. Increases in state school aid, stemming in part from court decisions requiring equal school quality, have increased the pressure for statewide uniformity in assessment. Some states now use elaborate statistical procedures to measure the

quality and equality of assessment from place to place in the state, (Brunner and Jon, 2006). Today, departures from uniformity come less from poor assessment than from provision in the property tax statutes.

The tax on a particular property may depend on who owns it, what it is used for, and when it last sold. To compute the tax the administrator may have to know the income, age, medical condition, and previous military service of the owner. Anomalies abound as taxpayers figure out ways to make the complicated system work in their favor. A few bales of hay harvested from a development site may qualify it as agricultural land and enterprise zones, which are intended to provide incentive for development in poverty stricken areas, may contain industrial plants, but no people poverty stricken or otherwise, (Connolly, David and Michael, 2010).

The many special provision fuel the demand for other special provisions. As the base narrows, the tax rate rises and taxpayers become aware of the special benefits enjoyed by their neighbors or competitors. This may lead to demands for overall tax limitations or to the quest for additional exemptions and special provisions. The decline in the revenue importance of the property tax is more dramatic when the increase in federal and state aid is considered. In fiscal year 1999, local governments received 228 billion in property tax revenue and 328 billion in aid from state and federal governments, (Glaeser and Bryce, 2009). If current trends continue, the property tax will decline in importance and states and the federal government will take over more local functions, or expand the system of grants to local governments. Either way, government will become more centralized.

1.1.1 Theoretical Background

A property tax (or millage tax) is a levy on property that the owner is required to pay, (Anwar, 2006). The tax is levied by the governing authority of the jurisdiction in which the property is located; it may be paid to a national government, a federated state, a county/region, or a municipality. Property tax is a tax assessed on real estate by the local government, (Anwar, 2006). The tax is usually based on the value of the property (including the land) you own. This tax is mainly used by municipalities for repairing roads, building schools and snow removal, or other similar services.

Property value refers to the fair market value of a given piece of property, though the actual price of the property may be higher or lower, (Gravelle, 2007). Property value takes into account the size and location of the property, as well as any improvements on the land. People use property value when buying or selling property and when calculating property taxes. It reflects the probable price of a given property at a given time. The actual sale price of a given piece of property may be higher or lower than the appraised value, depending on what information the buyer and seller have, how badly one or the other wants to buy or sell the property and any extras the seller throws in to entice the buyer.

According to Gyourko, Anita, and Albert, (2008), taxes are justified as they fund activities that are necessary and beneficial to society. Additionally, progressive taxation can be used to reduce economic inequality in a society. According to this view, taxation in modern nation states benefits the majority of the population and social development. It can also be argued that in a democracy, because the government is the party performing the act of imposing taxes, society as a whole decides how the tax system should be organized. The American Revolution's no taxation without representation slogan implied this view. For traditional conservatives, the payment of taxation is justified as part of the general obligations of citizens to obey the law and support established institutions. The conservative position is encapsulated in perhaps the most famous adage of public finance. Conservatives advocate the fundamental conservative premise that no one should be excused from paying for government, lest they come to believe that government is costless to them with the certain consequence that they will demand more government 'services, (Harding, Rosenthal and Sirmans, 2007).

Compulsory taxation of individuals, such as income tax, is often justified on grounds including territorial sovereignty, and the social contract. Defenders of business taxation argue that it is an efficient method of taxing income that ultimately flows to individuals, or that separate taxation of business is justified on the grounds that commercial activity necessarily involves use of publicly established and maintained economic infrastructure, and that businesses are in effect charged for this use, (Hoxby, 2001). Economists argue that all of the economic rent collected from natural resources (land, mineral extraction, fishing quotas, etc.) is unearned income, and belongs to the community rather than any individual. They advocate a high tax on land and other natural resources to return this unearned income to the state, but no other taxes.

Taxes are an important aspect of a country's economy and its financial growth. Different kinds of taxes are imposed on the people of a country, in order to generate finances for various purposes. These purposes may include the expenditures made on war, the enforcement of law, economic growth, and development of infrastructure and the functioning of the government itself. Public services, like, education systems, health care systems, transport and unemployment benefits are also funded by taxes, (Lutz, 2009). A tax may be progressive, regressive, or proportional, depending on various factors. It creates a contrasting relationship between the tax rate and the capability of the tax payer to pay the tax, based on the consumption, income or the assets that the taxpayer possesses.

1.1.2 Contextual Framework

The City Council is required to plan the city's development, provide and regulate services for health, education, social services and waste management. These services are to cater for Nairobi's over 3 million populations. The Council has a strategic plan which is apparently being implemented, and its departments apparently work through visions, missions, goals and values. The Audit department's guiding principles for example are clear and logical in order to keep track of the council's expenditure and collections. Its mission statement is to ensure total compliance with internal control systems and all financial regulations of the Council. The Council has reviewed its mission statement that seeks to transform the council to enhance service delivery and foster attitude change (Datta, 2006). The statement also aims to make Nairobi a world class city by 2012, in addition to seeking more channels to boost the Council's finance collection strategies.

City Council of Nairobi expects local revenue to come from land rates, business permits, parking fees, government, (Nairobi) Water Company, borrowing, market fees and others. Expenditure comprised payments to councilors, salaries, operations & maintenance, capital projects (investments), and debt repayment. Budget priorities include improvement of roads, development of the City's master plan, rehabilitation of health centers, schools, street lighting, garbage trucks, fire fighting equipments, road safety and environmental management (Ryan and Thomas, 2004).

City council of Nairobi total debts are less than Sh17 billion from defaulters which include the Department of Defense, Kenya Broadcasting Corporation, Kenya Revenue Authority, Kenya Power Company, and Kenya Railways among others. These are just a few highlights which are indicators that if we can only get five percent of what we are owed, then we will be able to clear all our debts, (Finance Chairman CCN, 2012).

1.2 Statement of the problem

The property tax is simply a payment for public services received, analogous to purchases of goods and services for private markets. Since the property tax functions as a market price, its use implies that local public services are provided efficiently. The property tax, like all benefit taxes, results in no redistribution of income across households and thus has no impact on the distribution of income (Zodrow, 2007).

In the US about half of state and local spending on education is from property taxes, and for almost all school districts, the property tax is the only source of general revenue that they can directly access (Wilson, 2003). The property tax in the US has become such a symbol of localism in school districts that the Government Census presumptively assigns all property tax revenues to local school districts even in states where local fiscal control has been displaced by court decisions and subsequent legislation.

Despite property taxes and public spending of the council mandate, the provision of services for Nairobi residents continues to be inadequate and scarce. Nairobi is characterized by a youthful and growing population. Consequently it faces the formidable challenge of informal settlements mostly slums and illegal structures mushrooming in the city. This has given rise to other problems like land grabbing, water shortages in the city due to inadequate supplies, uncontrolled dumping of waste and ghost employees, and influx of street Hawkers among others. These problems affect the property values wherever they are situated. The council facilities are often underresourced and staffed by few poorly trained and overworked workers. This causes poor maintenance of the properties and hence rapid deterioration in property values. Furthermore, effective public spending is hindered by mismanagement, low staff morale, and disconnect between the residents needs and the services delivered.

The incidence and effects of local taxes that are higher and lower than the national average tend to cancel one another in the aggregate (Anwar, 2006). From the perspective of any single taxing jurisdiction, however, the burden of local expenditures financed by the property tax tends to be borne primarily by local residents, (Lutz, 2009). Thus, where these property taxes are levied and well spend by the local authorities they are likely to contribute to higher property values.

Although various researches have been done on the effects of property taxes and local public spending on property values (Datta, 2006), very little research has been done on any local authority in Kenya. Consequently, it is not known how property taxation and local government expenditure activities of the City Council of Nairobi (CCN) have impacted on property values in Nairobi. Hence, this is a research gap. Therefore this study aims at providing an understanding on the effects of property taxes and local government spending on property values in City Council of Nairobi. It answers the following: How do property taxes and local government spending affect property values in CCN?

1.3 Objective of the Study

To determine the effects of property taxes and local public spending on property values in Nairobi.

1.4 Importance Of the Study

The management of City Council of Nairobi would benefit from this study by obtaining valuable information that various individuals had contributed. This information enabled the council to tell whether the findings obtained would affect property taxes and local public spending.

Other councils may find this study very useful in terms of levying property taxes and allocating the raised revenues properly. This can make a difference on the type and level of public spending in other councils.

This study is useful to researchers who would want to carry out similar studies. This study is a major reference.

The local governments can use the results here to identify the weaknesses in property taxes and local public spending especially in City Council of Nairobi and come up with possible solutions which enhances property taxes and local public spending practices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of the literature on the effect of property taxation and expenditure on property values. Section 2.2 presents the theoretical review. Section 2.3 discusses the empirical literature. Section 2.4 examines factors influencing property value in Kenya and 2.5 presents the summary of the study.

2.2 Theoretical Review

2.2.1 Local Property Taxation and Traditional Tax Theory

Public finance economists have historically evaluated taxes in terms of their efficiency properties, their incidence, and their ease of administration, (Feldstein, and Marian, 2008). From the perspective of economic efficiency, the basic issue is the extent to which a tax introduces distortions into the economic system, thereby creating an excess burden in addition to the basic burden of payment of the tax. On this matter, there is currently a lively controversy. Bruce (2005) argues that local property taxation in conjunction with local zoning ordinances, like those that exist in much of the United States, produces what is effectively a system of benefit taxation that promotes efficient location and fiscal decisions on the part of households. According to Mieszkowski and George (2009) local tax differentials much like excise taxes, which have a distorting effect on local decisions and discourage to some extent the use of capital. Thus, while the case for property taxation purely on efficiency grounds is not altogether clear, it probably gets better marks than other available tax bases aside from user charges.

As to the incidence of the tax, the older view of the property tax, which saw it simply as an excise tax on housing and business structures, suggested that it was a regressive tax housing expenditure took a larger fraction of income from poorer than from wealthier households. Later studies of the income elasticity of demand for housing cast some doubt on this proposition. The finding that housing expenditure is roughly proportional to permanent income suggested that

property taxation was something more akin to a proportional tax relative to income, (Aaron, 2005).

The new view proposed by Henry (2005) turned all this on its head. Rather than simply an excise tax on housing, this approach sees the average property tax rate across communities as essentially a tax on capital; as such, it is likely to be quite progressive in its incidence. The differentials across communities are another matter: they may function like excise taxes on specific factors, but overall the new view suggests that the property tax is likely to be a good deal more progressive.

The property tax does, however, require some sophistication in its administration. Since housing units are sold only infrequently, tax liabilities must be based upon an estimated or assessed value. The vagaries of assessment practices have been the source of some unhappiness with the tax, as the ratio of assessed value to true market value can sometimes vary widely within a single taxing jurisdiction. But with reform and improvement of assessment practices in recent years, the issue of the administration of the property tax should not be exaggerated, (Fischel, 2002).

2.2.2 The Basic Theory

The capital tax view of local property taxation has its source by Mieszkowski (2009). Making use of a Harberger style, general equilibrium model, Mieszkowski assumed the property tax to be a levy on reproducible capital. In a setting where capital is perfectly mobile across jurisdictions and where local jurisdictions are price takers in a national capital market, an increase in a locality's property tax results in an increase in the gross price of capital equal to the amount of the tax such that the net return to capital is everywhere equalized. The Mieszkowski analysis produces two key results; the average level of property taxation across all jurisdictions is equivalent to a tax on the national stock of capital.

According to Oates (2008) national capital stock is taken to be fixed, this part of the tax falls wholly on owners of the capital stock and to the extent that tax rates in local jurisdictions vary around the average rate, there are excise tax effects such that the burden of these differentials falls largely on immobile factors in these jurisdictions. Since Mieszkowski (2009) assumed labor to be immobile, the burden (in some cases negative, where tax rates are below the national average) of these excise tax effects falls largely on wages and land rent in their respective

jurisdictions. The positive and negative excise tax effects across jurisdictions tend to cancel out in the aggregate, leaving the full burden of the tax on owners of capital. Since the ownership of capital is presumably disproportionately skewed toward high income households, the property tax from the perspective of the capital tax view is.

In jurisdictions with above average tax rates, the excise tax effects will increase the burden of the tax on immobile factors, as the reduction in the local capital stock will depress returns to local labor and land. In contrast, low tax jurisdictions will experience an inflow of capital, resulting in negative excise tax effects that is, an increase in local wages and land rents taken to have a progressive pattern of incidence, (Robert, 2007).

It is also noteworthy that the capital-tax view has quite different implications for the efficiency of local property tax finance than does the benefit view. In a Tiebout (or Tiebout-Hamilton model), households sort themselves out according to their demands for local public services in a setting where they face tax prices that accurately reflect the marginal cost of providing these services. The result is an efficient pattern of consumption of local public services. In contrast, local property taxation under the capital tax view is distorting. Property tax differentials across jurisdictions result in a misallocation of the capital stock, as capital tends to migrate to low tax jurisdictions. Moreover, as Mieszkowski (2009) show, the tendency for increases in local tax rates to drive out capital provides an incentive for local officials to under provide local public outputs.

2.3 Factors Influencing Property Value in Kenya

Despite challenges that began in Kenya owing to a weakened shilling, the prospects for the property in the long term appear promising. For investors who are eyeing the market now, it is always safer to conduct thorough due diligence on properties of interest so as to avoid fraudulent cases. Nevertheless, the huge demand for housing will continue, owing to the fact that there is still a huge housing deficit in the country, (Kinyua, 1976). The mortgage market is set for tremendous growth over the next decade, both in Kenya and the region.

The incentives introduced have not been sufficient enough to make housing affordable to the lower income group where the demand is high and the supply is critical. The government has plans to offer more incentives to accelerate growth in the property market. Budgetary allocation

will be enhanced as well as sourcing of funds from development partners to assist in providing cash needed to stimulate construction of affordable houses to meet growing demand. Current incentives should be expanded to cover more areas. This is geared towards stimulating more investments as well as taming imbalances in the market, (GOK, 1998).

The interest rates are expected to reduce as pressure is put on the Central Bank and other banks, investors, developers, bank customers and other stakeholders. There is a lot of competition that banks are facing from SME financiers and money lending is becoming a popular business outlet at lower interest rates than the mainstream banks have been offering, (Omamo, 1995). Co-operative SACCOs are giving banks a run for their money and Chama Accounts are opening everywhere in the world. With this kind of healthy competition, interest rates cannot remain high much longer.

There is plenty of lobbying by non government bodies and the CIC is in the process of implementing the land regulations. We expect the changes to come gradually and even though it has taken more time to make the bills into Acts of Parliament for some of the land bills and hence the implementation of the same, we consider the timelines earlier set to have been too short because they did not give ample time nor the necessary release of funds for the grass root awareness movement. We believe that laws are made for the people and that the people should have a chance to understand what they entail. We also agree with CIC that rushing to meet a deadline will not necessarily ensure that good laws are created. The regulations are necessary but all possible input from stakeholders must be collected and analyzed thoroughly before they are made into law, (GOK, 2010).

Kenya plans to cut inflation to five percent by 2014/15 through austerity measures to reduce its budget deficit, accompanied by a tight monetary stance. Statistics show that year on year inflation rose for 13 straight months after the central bank raised rates aggressively and good rainfall pointed to an improvement in harvests. The shilling fell against the dollar for most of year mainly due to a widening trade gap, amplified by global increases in fuel prices and a drought that ravaged the Horn of Africa, feeding through to higher inflation rates in the region, (Mkangi, 1994).

2.4 Empirical Literature

Munge (2005) conducted a study on the factors affecting property taxes and local public spending in Kenya revenue authority. He found that defaulting rate is a serious factor affecting the use of property taxes in the sector. Mwangi (2008) carried a study on factors influencing property taxes. He noted that being unique in operations and providing quality services to customers are the most prevalent factors. Kanter (1997) noted that the value of property require turning into the environment, challenging assumptions, crafting a vision, using diplomatic skills to get favorable responses, keeping actions moving by handling interferences and resistance, maintaining the momentum, incorporating emergent developments and never losing sight of the overall goals of property taxes.

The objective of critical analysis of major issues is to review research studies as outlined by various scholars. Many of the past studies have dealt with the factors affecting property taxes in telecommunication industry however almost none has focused on property value in Kenya. Mutua (2007) studied on factors affecting property taxes in the telecommunication industry named constraints as training and development, performance, leadership and staff motivation. Anwar (2006) noted that the performance of municipalities is on the expenditures runs along the same track as that of own source revenue or even total municipal revenue; however it is of significance of the same to be initiated in all sectors especially local authorities if they are to achieve better property value. However, the success lies mainly with collecting taxes within and without an organization, the ability and level of communicating feedback and reliability as these are important for revenue collection.

These studies did not address property value and did not look into ways of improving the overall management of property value in general. Some literature available are based on old data , in which some date back to 1974 , this in the researchers opinion do not add value to the study done over 30 years later . Most of the past literatures reviewed were based on the studies done by foreign writers, the researcher believes that these writers do not fully understand the culture and landscape of Africa; therefore their study may not be objective, because they relate Africa's circumstances to that of western countries which may not be necessarily true.

2.5 Summary

Property tax payments are simply fees for services provided by the unit of government that levies the tax. The benefit tax aspect of property taxation has usually been couched in terms of local school spending. Nationally, almost two thirds of property tax payments are used to civic expenditure, operations, loan repayments, street lighting, road maintenance and public education. About half of state and local spending on education is from property taxes, and for almost all school districts, the property tax is the only source of general revenue that can be accessed. Taxpayers may agree that such quotidian public services as sidewalks, parks, and fire protection, or nonessential services such as beaches can be thought of along the same dimensions as the price of housing and swimming pools, but many believe that access to public education should not depend on willingness to pay for it through the housing market

Since its establishment, property taxes in Kenya has largely succeeded in its activities, this is evidenced the steady increase in revenue collection and in the improved disbursement council services, However, City Council of Nairobi faces several challenges in the implementation of its mandate, some of the challenges include; raising adequate revenue to finance their expenditures. Deficit leads to increased borrowing hence increased debt in the council debt, inadequate revenue to meet the growing community demand for basic local authority services, land grabbing, water shortages in the city due to inadequate supplies, uncontrolled dumping of waste and ghost employees, and influx of Street Hawkers among others. The researcher in this study therefore seeks to explore ways of dealing with these challenges so as to maintain sustainability of the property tax.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology used in the study. Section 3.2 presents the research design. Section 3.3 discusses the population and sample. Section 3.4 examines data and data collection issues. Section 3.5 presents data analysis techniques employed and section 3.6 discusses validity and reliability.

3.2 Research Design

The researcher adopted descriptive research. According to Mugenda & Mugenda (2008) this design is used to obtain information concerning the current status of the phenomena. A descriptive study ensures complete description of the situation making sure that there is minimum bias in the collection of data.

3.3 Population and Sample

Target population as defined by Tromp and Kombo (2006) a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. Due to the large sizes of populations, researchers often cannot test every individual in the population because it was too expensive and time consuming. This was the reason why researchers rely on sampling techniques. A research population is also known as a well defined collection of individuals or objects known to have similar characteristics. All individuals or objects within a certain population usually have a common, binding characteristic or trait.

The researcher targeted the staff of City Council of Nairobi that consisted of the top management, middle level management and the lower level management with a total population of 105. The researcher used 50% of the total population to obtain sample size employees as shown in Table 3.1 below.

Stratified random sampling design was applied, it was considered suitable since it was based on different level of job positions, for instance the population was grouped by areas covered into different categories. Cote (2002) further points out that stratified random sampling method ensures inclusion. In this method, sub groups which otherwise could be omitted entirely by other sampling methods was best suited for this research. This method helped in minimizing bias in sample selection. Stratified sampling involves grouping distinct populations with similar characteristics for easier handling. This technique was used to categorize target population into three distinct groups comprising of top level management, middle level management and lower level managers. In each category, simple random sampling technique was used.

Table 3.1 Population and Sample Size

Category	Target Population	Sample Size	Percentage
Top Level Management	10	5	10
Middle Level Managers	15	8	14
Lower level managers	80	40	76
Total	105	53	100

Source: Author (2012)

3.4 Data and Data Collection

The researcher collected both primary data and secondary data. Primary data was collected through the use of questionnaires administered to the respondents. Being a descriptive study, a self reporting and structured questionnaire was used to gather primary data. The questionnaire was structured inform of closed ended questions and also open ended questions that gave room for explanations based on the questions asked. According to Mugenda (2008) the questionnaires enhances confidentiality, it was cost effective and time saving.

The researcher prepared a set of questionnaires. The questionnaires were given to the three respondents who were expected to respond so that the researcher can ascertain whether the respondents are in position to respond to all the questions. After a period of five days, the

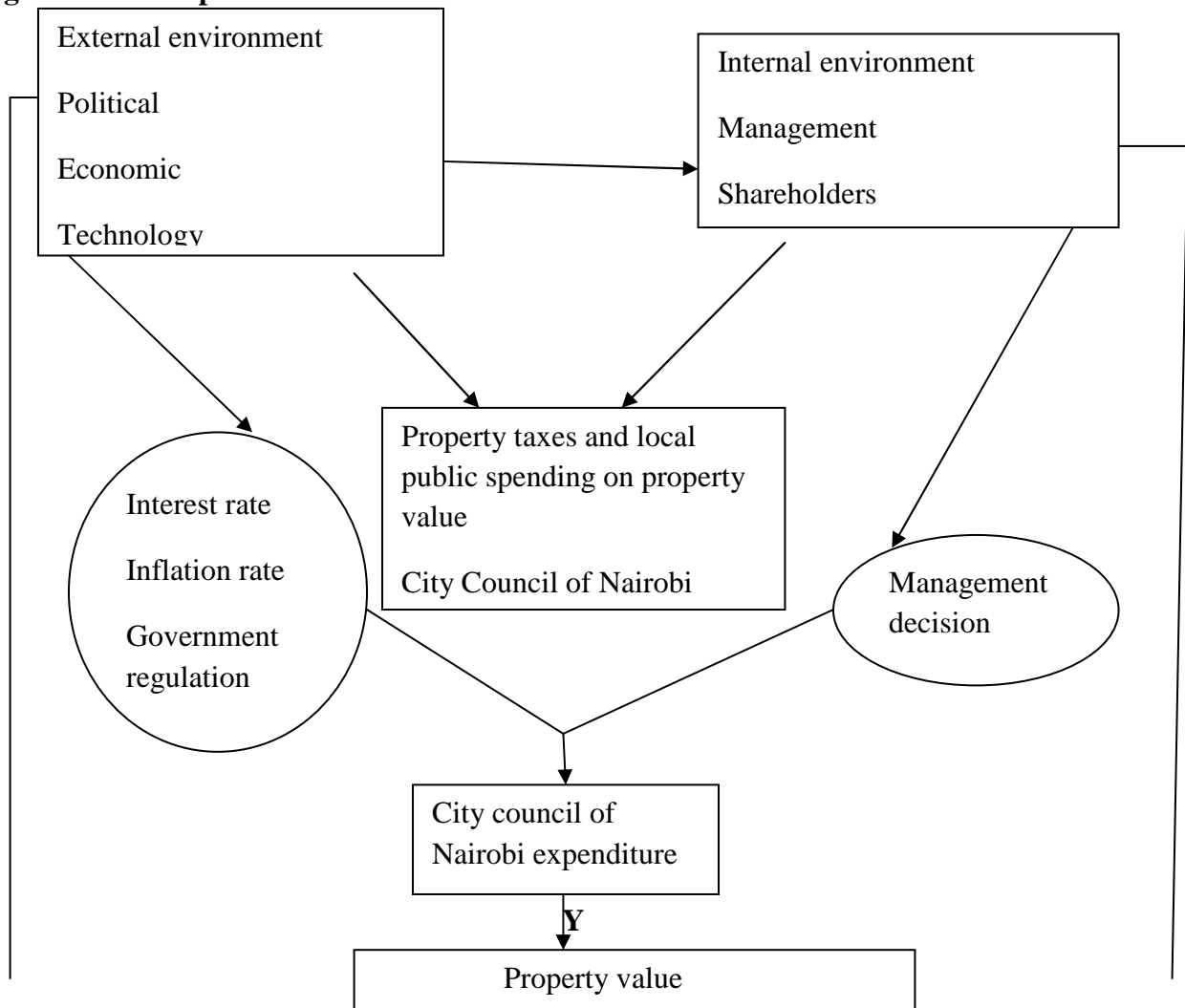
questionnaires were collected back and necessary amendments were done on the other questionnaires that were later distributed to all respondents.

Secondary data covered a period of six years from 2006 to 2011. The data was obtained from the Economic Surveys reports and the City Council of Nairobi records.

3.5 Data Analysis

Data analysis procedure is the process of packaging the collected information putting them in order and structuring its main components in a way that the findings can be easily and effectively communicated (Delno, 2006). After the fieldwork, before analysis, all questionnaires were adequately checked for reliability and verification. The data was analyzed using qualitative and quantitative techniques. Qualitative method involved content analysis and evaluation of text material. This is represented in figure 3.1 below.

Figure 3.1 Conceptual Model



R	=	Interest rate measured by the average lending rate on commercial bank loans
PD	=	Property demand measured by of the number and value of housing plans approved (NPLANS)
LEXP	=	Local government expenditure measured in millions of Kenya shillings
HEXP	=	Local government expenditure on housing
LATF	=	Local authorities transfer funds measured in millions of Kenya shillings
PRTS	=	Local property rates

The relationship between property values and property rates is expected to be negative while the other variables are expected to be positively related.

The two methods of data analysis were applied in this study. One method was correlation models specifically Pearson correlation to measure the degree of association between different variables under consideration. The other method used was multiple regression analysis that estimated the causal relationships between property values and their determinants.

3.6 Validity and Reliability

According to Saunders et al. (2009)), Validity can be defined as the degree to which a test measures what it is supposed to measure, while reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. Although unreliability is always present to a certain extent, there is generally a good deal of consistency in the results of a quality instrument gathered at different times. The tendency toward consistency found in repeated measurements is referred to as reliability. To ensure reliability and validity, questionnaires were pre-tested on four respondents on trial basis to establish whether the questions were relevant and that whether the entire respondents were able to attempt all the questions, however; the response during pre-testing was not used in the final study. The questionnaires were then corrected before the final distribution.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretation of research results. Section 4.2 presents the summary statistics. Section 4.3 examines the relationship between property values, inflation rates, interest rates, property demand, local government expenditure, housing expenditure and property taxes. Section 4.4 discusses the results and 4.5 is the summary.

4.2 Summary Statistics

Descriptive statistics are presented in Table 4.1

Table 4.1 Summary Statistics

	PVALUE	INFL	IRATE	NPLANS	LATF	LGEXP	HSEXP	PRTES
Mean	1062.320	10.433	15.207	2153.167	2026.267	10003.56	978.327	16.667
Median	989.750	7.900	14.350	2096.000	1843.095	9096.910	896.400	17.000
Maximum	2614.200	18.900	20.600	3203.000	3325.100	14825.21	1528.730	17.000
Minimum	210.200	4.500	13.300	1066.000	1383.560	6674.740	671.910	15.000
Std. Dev.	831.604	6.283	2.715	907.936	704.183	2998.739	311.341	0.817
Skewness	1.1224	0.5760	1.582	0.067	1.121	0.629	0.929	-1.789
Kurtosis	3.223	1.533	3.832	1.445	3.012	2.093	2.652	4.200
Jargue-Bera	1.273	0.870	2.675	0.609	1.257	0.602	0.893	3.560
Probability	0.529	0.647	0.262	0.737	0.533	0.740	0.640	0.169
Sum	6373.920	62.600	91.240	12919.00	12157.60	60021.36	5869.960	100.000
Sum Sq. Dev.	3457829.	197.373	36.841	4121743.	2479367.	44962187	484665.5	3.333
Observations	6	6	6	6	6	6	6	6

Source: City Council of Nairobi (2012)

The Skewness, kurtosis and the Jargue-Bera statistics shows that the data is normally distributed.

4.3 Property Taxes, Public Spending and Property Values

4.3.1 Results of Correlation Analysis

Table 4.2 Results of Correlation Analysis

	PVALUE	INFL	IRATE	NPLANS	LATF	LGEXP	HSEXP	PRTS
PVALUE	1.000000	0.381652	0.865333	0.763753	0.869890	0.770189	0.833533	-3.35E-17
INFL	0.381652	1.000000	0.764892	-0.050369	0.535558	0.405950	0.509692	0.205330
IRATE	0.865333	0.764892	1.000000	0.511401	0.914720	0.792295	0.878848	0.264700
NPLANS	0.763753	-0.050369	0.511401	1.000000	0.761524	0.809633	0.778606	0.174372
LATF	0.869890	0.535558	0.914720	0.761524	1.000000	0.967735	0.994900	0.447129
LGEXP	0.770189	0.405950	0.792295	0.809633	0.967735	1.000000	0.986893	0.543823
HSEXP	0.833533	0.509692	0.878848	0.778606	0.994900	0.986893	1.000000	0.482150
PRTS	-3.35E-17	0.205330	0.264700	0.174372	0.447129	0.543823	0.482150	1.000000

Source: City Council of Nairobi (2012)

Table 4.2 shows the results of correlation analysis. There was a strong negative correlation between property value property rates. There was also a positive correlation between property values and the other variables. The number of housing plans approved as an indicator of property demand in negatively correlated with the inflation rate.

4.3.2 Results of Regression Analysis

The small number of observations necessitated the analysis to be done in two parts. The results of the two regressions are provided in Table 4.3a and Table 4.3b. Table 4.3a shows that inflation and property demand are not statistically significant at 5% level. Interest rates have a positive and significant effect on property values. The model explains 85% of the variability in property values. Hence the model fits very well on the data. The Durbin-Watson statistic indicates that the problem of multi-collinearity is not severe. Table 4.3b shows that local government spending, housing expenditure, LATF and property rates are statistically significant at 5% level. The model explains 99.8% of the variability in property values. Hence the model fits perfectly to the data.

Table 4.3a Results of Correlation Analysis between Property Values, Inflation Rates, Interest Rates, and Property Demand

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INFL	-77.31828	58.99134	-1.310672	0.3203
IRATE	388.5613	158.6891	2.448569	0.1341
NPLANS	0.078509	0.305998	0.256567	0.8215
C	-4208.757	1358.562	-3.097950	0.0903
Results of Model Fitness				
R-squared	0.940034	Mean dependent var		1062.320
Adjusted R-squared	0.850084	S.D. dependent var		831.6044
S.E. of regression	321.9887	Akaike info criterion		14.62163
Sum squared resid	207353.4	Schwarz criterion		14.48280
Log likelihood	-39.86489	F-statistic		10.45068
Durbin-Watson stat	1.421770	Prob(F-statistic)		0.088587

Source: City Council of Nairobi (2012)

Table 4.3b Results of Correlation Analysis between Property Values, Local Government Expenditure, LATF and Property Rates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGEXP	0.652834	0.069877	9.342621	0.0679
HSEXP	-18.46490	1.606482	-11.49400	0.0552
LATF	6.718351	0.449017	14.96235	0.0425
PRATES	-499.8852	25.27242	-19.77987	0.0322
C	7314.612	387.6267	18.87025	0.0337
Results of Model Fitness				
R-squared	0.999641	Mean dependent var		1062.320
Adjusted R-squared	0.998206	S.D. dependent var		831.6044
S.E. of regression	35.21872	Akaike info criterion		9.835940
Sum squared resid	1240.358	Schwarz criterion		9.662406
Log likelihood	-24.50782	F-statistic		696.6917
Durbin-Watson stat	1.840191	Prob(F-statistic)		0.028406

Source: City Council of Nairobi (2012)

The Durbin-Watson statistic indicates that the problem of multi-collinearity is not severe. However, the relationship between housing expenditure and property values is negative. The lower log-likelihood statistic in Table 4.3b shows that the latter model is better than the previous one.

4.3.3 Results of the Survey

Through the survey the study also sought to establish whether properties demand affect property value Nairobi. According to the response shown, 71% of the respondents said that property demand affect property value while 29% said there are no effects on property value. Majority of the respondents implies that property demand affect property value.

Respondents were also asked whether interest rate affect property value in this organization. According to the responses, 69% of the respondents said that interest rate affect property value while 31% said there are no effects on property value. Majority of the respondents implies that

interest rate affect property value. The findings revealed that inflation rate affect property value. According to the response shown in the Appendix I, 71% of the respondents said that inflation rate affect property value while 29% said there are no effects on property value.

4.4 Discussion

The analysis of the data indicates that property values are influenced by interest rates, local government spending, housing spending, local authority transfer funds, and property rates. Local government spending on housing and local property rates have a negative impact on property values while interest rates, local government spending, housing spending and LATF have a positive impact on property values.

The negative relationship between property values and property rates could be attributed to the negative impact of local taxes on the development and maintenance of high valued properties. The higher the property value the higher the taxes to be paid. Most property owners are reluctant to pay these rates since the CCN is perceived to be corrupt. The level of service rendered to the public by the CCN does not represent value for money on the taxes paid. Also jurisdictions with high property values like Karen, Lang'ata, and Muthaiga have resisted the CCN attempt to levy taxes citing poor service delivery and corruption at the CCN. Furthermore, most CCN houses are poorly maintained and often in dilapidated status. Hence, their value is very low even though land values have been rapidly rising.

There is a positive relationship between property values and local government expenditure and LATF. This could be attributed to the impact this has on the provision of basic services like sewerage, water, electricity and garbage collection. With increased outlay of funds the CCN is able to provide these services even when done in an inefficient way and inadequately. This will increase demand for properties for rent and given the inelastic supply, this leads to higher values. However, the positive relationship between interest rates and property values is difficult to rationalize.

4.5 Summary

The results of this study show that there is a negative relationship between local government spending on housing and local property rates. This attributed to poor service delivery, mismanagement of funds and corruption at the CCN.

The study also found a positive relationship between property values, interest rates, local government expenditure and LATF. The positive relationship between interest rates and property values is difficult to explain. However, the other factors lead to an increase in the CCN revenues which could be used to improve service delivery and maintenance of council properties.

Therefore, local government taxation and expenditure have opposite effects on property values.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1 Introduction

This chapter presents the summary and conclusions of the study. Section 5.2 presents the summary of the study. Section 5.3 is the conclusion. Section 5.4 discusses the limitations of the study and section 5.5 provides the suggestions for further study.

5.2 Summary of the Study

The study aimed at the effect of property taxes and public spending on property values at the city council of Nairobi. The study employed both primary and secondary data. Primary data was collected through a survey using a questionnaire. The study employed a stratified sampling technique to select the respondents in the survey.

While descriptive statistics were employed to analyze primary data, correlation analysis and regression analysis were employed in the analysis of secondary data. Regression analysis proceeded in two parts due the small sample size.

The results indicate that there is a negative relationship between local government spending on housing and local property rates. This attributed to poor service delivery, mismanagement of funds and corruption at the CCN. The study also found a positive relationship between property values, interest rates, local government expenditure and LATF. The positive relationship between interest rates and property values is difficult to explain. However, the other factors lead to an increase in the CCN revenues which could be used to improve service delivery and maintenance of council properties.

5.3 Conclusions

Several conclusions can be drawn from the findings of this study. First, property taxes have a negative impact on property values especially where service delivery is poor and mismanagement and corruption abounds.

Secondly, housing expenditure is negatively related to property values. This is attributed to the refusal by posh estates like Karen and Lang'ata refusing to pay CCN rates citing poor service delivery, inefficient and corruption at the CCN.

Thirdly, local government spending and LATF have a positive impact on housing values since they increase revenue to provide the basic service in the city and its neighborhoods.

5.4 Limitations of the Study

The perception of the respondents was a major limitation since most of the respondents. Also the confidentiality and sensitivity of the data was another limitation. This made many respondents suspicious and did not trust the researcher. They thought the study aims to use the findings against them. Thus many gave misleading information hence complete reliance on secondary data in this study.

City council of Nairobi is usually very busy place. Some respondents showed signs of declining the researcher's advances by failing to cooperate fully as expected, citing that they are having a tight schedule.

The study examined only one local authority for a period of six years. Thus, the findings of this study may not apply to the periods and local authorities not covered.

5.5 Suggestion for further Research

This study focused on effects of property taxes and public spending on property value in city council of Nairobi. Further research could be carried on the influence of property taxes and public spending on property values in Kenya, There are other taxes that operates in different environment from council which include Kenya revenue authority taxes.

Future studies should also set aside adequate time to conduct interviews and search the secondary sources of data available at the CCN.

Reference

- Aaron, Henry J. (2005). *Who Pays the Property Tax? A New View*. Washington, DC: The Brookings Institution.
- Anwar shah (2006) *Local governance in developing countries*, the world bank, NW, Washington DC
- Brunner, Eric J., and Jon Sonstelie. (2006). *California's school finance reform. An experiment in fiscal federalism*. In *The Tiebout Model at Fifty*. Ed. William A. Fischel. Cambridge, MA: Lincoln Institute of Land Policy.
- Connolly, Katrina D., David Brunori, and Michael E. Bell. (2010). *Are state and local finance becoming more or less centralized, and should we care?* In *The Property Tax and Local Autonomy*. Cambridge, Mass, Lincoln Institute for Land Policy.
- Cote S., Morgan LM (2002) *A longitudinal analysis of the association between emotion regulation, job satisfaction, and intentions to quit*. Journal of Organizational Behavior vol 23, 947–962
- Datta, Abhijit. (2006) *Local Government Finances. Trends, Issues and Reforms*, State Finances in India, New Delhi: Vikas Publishing House for the NIPFP.
- Delno L.A Tromp and Donald Kisilu Kombo (2006) *Proposal and thesis writing*, 7th edition
- Feldstein, Martin, and Marian Vaillant Wrobel. (2008). “*Can State Taxes Redistribute Income?*” Journal of Public Economics.
- Fischel, William A. (2002). “*Property Taxation and the Tiebout Model: Evidence for the Benefit View from Zoning and Voting,*” Journal of Economic Literature
- Fisher and Glenn. (2002) *History of Property Taxes in the United States*. Prentice hall
- Glaeser, Edward L., and Bryce A. Ward. (2009). *The causes and consequences of land use regulation*. Evidence from greater Boston. Journal of Urban Economics No 65.

- Gravelle, Jennifer. (2007). *Who pays property taxes? A look at the tax effects of property taxes across the states*. State Tax Notes 46
- Gyourko, Joseph, Anita A. Summers, and Albert Saiz. (2008). *A new measure of the local regulatory environment for housing markets*. Urban Studies 45: 693-729.
- Hamilton, Bruce W. (2005). "Zoning and Property Taxation in a System of Local Governments," Urban Studies
- Harding, J., S. Rosenthal and C.F. Sirmans. (2007). *Depreciation of housing capital, maintenance, and house price inflation*. Journal of Urban Economics 61.
- Hoxby, Caroline M. (2001). *All school finance equalizations are not created equal*. Quarterly Journal of Economics
- Kanter, R. M. (1997). *The Change Masters: Innovation and Entrepreneurship in America Corporation*, Simon and Schuster, New York
- Kinyua DM (1976) *The local Government regulation 1963*. KIA, Nairobi.
- Lutz, Byron F. (2009). *Fiscal amenities, school finance reform and the supply side of the Tiebout market*. Federal Reserve Board working paper.
- Mieszkowski, Peter, and George R. Zodrow. (2009). "Taxation and the Tiebout Model: The Differential Effects of Head Taxes, Taxes on Land, Rents, and Property Taxes," Journal of Economic Literature
- Mkangi K (1994) *Practice, Principles and Institutions of good governance and accountability in moral /ethical, social and cultural spheres*, KHRC, Nairobi.
- Mugenda A.G (2008) *Social Science Research: Theory and principles*. Nairobi. Arts Press
- Munge J (2005). *Factors affecting property taxes and local public spending, a case of Kenya revenue authority*
- Mutua (2007). *Factors affecting property taxes, a case of telecommunication industry*

Mwangi (2008). *Factors influencing property taxes*, a survey of ministry of local Government

Oates, Wallace E. (2008). *On the Nature and Measurement of Fiscal Illusion. Taxation and Fiscal Federalism Sydney*: Australian National University Press.

Oketch O and Kivutha Kibwana (1994) *Good governance and accountability in Kenya*, LSK, Nairobi.

Republic of Kenya (1998) *The local government Act*, government printers, Nairobi.

Robert M. Schwab. (2007). "The Impact of Urban Land Taxation: The Pittsburgh Experience," National Tax Journal.

Rueben, Kim, and Sheila Murray. (2008). *Racial disparities in education finance. Going beyond equal revenues*. Brookings Discussion Paper No. 29.

Ryan, James E., and Thomas Saunders. (2004). *Forward to symposium on school finance litigation*. Emerging trends or new dead ends? Yale Law and Policy Review.

Saunders, Lewis and Thornhill (2009) *Research methods for business students*, 5th edition, prentice hall.

William Omamao (1995) *The commission of inquiry on local authorities in Kenya*, Government printer, Nairobi.

Wilson, John Douglas. (2003). *The property tax: competing views and a hybrid theory*. In *Public Finance and Public Policy in the New Century*. Cambridge, MA: MIT Press.

Zodrow, George R. (2007). *The property tax incidence debate and the mix of state and local finance of local public expenditures*. CESifo Economic Studies.

APPENDIX I: DETERMINANTS OF PROPERTY VALUES IN NAIROBI

YEAR	PVALUE	INFL	IRATE	NPLANS	LATF	LGEXP	HSEXP	PRATES	NUNITS
2006	1062.32	7.8	13.74	1830	1383.6	6674.74	671.91	15	
2007	507.7	5.6	13.3	1313	1531.8	8069.9	752.16	17	309
2008	210.2	17.8	14.9	1066	1729.5	8806.51	865.34	17	88
2009	938.5	8	14.8	2362	1956.7	9387.31	927.46	17	116
2010	1041	4.5	13.9	3203	2231	12257.7	1124.36	17	390
2011	2614.2	18.9	20.6	3145	3325.1	14825.2	1528.73	17	587

APPENDIX II: DATA

Central government transfer through LATF to local authorities 2007/08 – 201 /12

	06/07	2007/08	2008/09	2009/10	2010/11	2011/12
City council of Nairobi	1383.56	1531.80	1729.45	1956.74	2230.95	3325.10

Source: Ministry of local government / Kenya local government reform program provisional

Expenditure by local authority

	06/07	2007/08	2008/09	2009/10	2010/11	2011/12
City council of Nairobi	6674.74	8069.90	8806.51	9387.31	12257.69	14825.21

Source: Ministry of local government / Kenya local government reform program provisional

Municipal councils' current and capital expenditure on main services, 2007/08-2011/12

	06/07	2007/08	2008/09	2009/10	2010/11	2011/12
Administration	3100.14	3520.22	3727.56	4218.79	4952.87	5928.96
Roads	1114.22	1431.89	1476.40	1604.72	1975.43	2206.54
Sanitation	845.26	921.23	956.84	1008.26	1121.46	1348.91
Other	386.76	443.65	476.92	505.98	568.27	705.27
Total	2346.44	2796.76	2910.16	3118.96	3665.16	4260.72
Social services						
Education	981.20	1061.83	1125.64	1203.67	1325.27	1685.27

Health	1314.98	1481.88	1428.70	1560.54	1728.89	1958.25
Other	474.18	597.49	847.47	892.65	1625.87	1468.87
Total	2770.36	3141.19	3401.81	3656.86	4080.03	5112.89
Economic						
General administration	1021.60	1201.59	1285.42	1395.27	1652.33	1825.36
Water undertaking	2081.91	2760.96	3176.64	4012.50	4724.26	5345.78
Housing estate (including staff housing)	671.91	752.16	865.34	927.46	1124.36	1528.73
Other	66.56	702.07	852.09	901.02	1282.65	1711.63
Total	441.86	5416.78	6176.49	7236.27	8783.60	10411.50
Total expenditure	12659.55	14874.95	16219.02	18230.88	21481.66	25713.57

Source: Local authorities

Economic classification of expenditure for municipal council including Nairobi city council from 2007/08 to 2011/12

	06/07	2007/08	2008/09	2009/10	2010/11	2011/12
Current expenditure						
Compensation of employees	5403.24	6638.33	7293.96	7891.69	9232.82	12079.06
Use of goods and services	3034.23	3488.07	3528.48	3928.48	5214.12	5709.13
Transfer of households and enterprises	83.39	85.69	93.43	97.42	102.58	132.47
Transfer of funds (current)	78.26	82.67	87.26	82.45	85.78	92.47
Interest	39.86	45.82	46.67	55.49	68.24	72.48
Total	8638.98	10340.82	11096.99	12055.53	14703.54	18086.11
Capital expenditure						
Acquisition of non financial	399.73	4355.18	4888.20	5919.14	6534.24	7079.26
Loan repayment (includes interest)	20.84	184.20	222.82	235.87	243.88	5489.19
Total	4620.57	4534.38	5122.02	6155.01	6778.12	7627.45
Total expenditure	12659.55	1487.96	16219.01	18230.188	21481.66	25713.56

Housing loans advanced 2010/2011

Reported completions of new public buildings residential including the value of extensions

	No.	Residential

		Kshs. Million
2006		
2007	309	507.7
2008	88	210.2
2009	116	938.5
2010	390	1041.0
2011	587	2614.2

Trend sand selected real interest rates 2006-2011

	Year	Nominal interest	Inflation rate	Percentage real interest
Average interest rate for 91 day treasury bills	2006	5.73	-	2.28
	2007	6.9	5.6	1.3
	2008	8.6	17.8	-9.2
	2009	6.8	8.0	-1.2
	2010	2.3	4.5	-2.2
	2011	17.9	18.9	-1.0
Commercial bank saving deposits (aVe)(1)	2006	1.36	-	1.45
	2007	1.7	5.6	-3.9
	2008	1.7	17.8	-16.1
	2009	1.7	8.0	-6.3

	2010	1.5	4.5	-3.0
	2011	1.6	18.9	-17.3
Commercial bank loans and advances (nax)	2006	13.74	-	13.87
	2007	13.3	5.6	7.7
	2008	14.9	17.8	-2.9
	2009	14.8	8.0	6.8
	2010	13.9	4.5	9.4
	2011	20.6	18.9	1.1
Inter bank rate	2006	6.34		
	2007	7.1	5.6	1.5
	2008	6.7	17.8	-11.1
	2009	3.0	8.0	-5.1
	2010	1.2	4.5	-3.3
	2011	22.1	18.9	3.2

Source: Central bank of Kenya

Note: Weighted average commercial bank interest rates.

APPROVED BUILDING PLSN	PLANS 1999-2012	FROM VARIOUS ON SITE VALUE	RATE STRUCKS	(CHARGED AMOUNT ON PROPERTIES
YEAR	NUMBER PLANS	OF TO GET	OUTSTANDING	AMOUNT ON PROPERTIES
1999	342			%
2000	485	1999		14
2001	555	2000		14
2002	656	2001		15
2003	386	2002		15
2004	157	2003		15
2005	688	2004		15
2006	1830	2005		15
2007	1313	2006		15
2008	1066	2007		17
2009	2362	2008		17
2010	3203	2009		17
2011	3145	2011		17
Sep-12	1827	2012		17

RESPECTIVE SUPPLEMENTARY ROLLS (NEW ACCOUNTS)

OPENED IN RESPECTIVE YEARS

YEAR	SVR	USV(SITE VALUE OF PROPERTIES)
------	-----	-------------------------------

2006	2003	10,987,500
------	------	------------

2007	2004	15,945,000
------	------	------------

2008	2005	25,600,082
------	------	------------

2009	2006	115,734,951
------	------	-------------

2010	2007	214,313,520
------	------	-------------

2011	2008	67,555,500
------	------	------------

Source: City Council of Nairobi

APPENDIX III: QUESTIONNAIRE

This questionnaire has been designed to collect information on the effects of property taxes and local public spending on property value in City Council of Nairobi, please read carefully and answers them as honestly as possible. The information gathered will be used purely for the purpose of academic research and will be treated with utmost confidence.

Instructions

- 1. Tick appropriately in the box () or fill in the space provided.
- 2. Feel free to give further relevant information to the research and not in the questionnaire.

PART A: RESPONDENT’S PROFILE (Please tick appropriately)

1. Education

- Secondary University College Others, specify.....

2. Gender

- Male
 Female

3. How long have you been working in city council of Nairobi?

- Less than 1 year 6 to 10 years
 1 to 5 years 11 to 15 years
 Above 15 years

PART B: PROPERTY DEMAND

4. Does property demand affect property value in city council of Nairobi?

- Yes
 No

6. Do you think that price affect property value in the city council?

- Strongly agree Agree Neutral Disagree strongly disagree

Please explain.....

.....

7. Do you think customer taste and preference affect property value in the council?

- To very large extent
- Large extent
- Moderate
- Low
- Not at all

Please explain

.....

8. To what extent does population numbers and household composition affect property value?

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

9. Do you availability of mortgage credit affect property value in city council of Nairobi?

- To large extent
- Large extent
- Moderate extent
- some extent
- Not at all

Please explain your answer

.....

.....

PART C: INTEREST RATE

10. Does interest rate affect property value in Nairobi?

- Yes
- No

12. Do you think that individual purchasing power affect property value in the city council of Nairobi?

- Strongly agree
- Agree
- Neutral
- Disagree
- strongly disagree

13. To what extent does capital flow affect property value in Nairobi?

- Very large extent
- Large extent
- Much extent
- Some extent
- Not so much

Please explain.....

.....

14. Do you discount rates affects property value in city council of Nairobi?

- Strongly agree Agree Neutral Disagree Strongly disagree

Please explain.....

.....

.....

PART D: INFLATION RATE

15. Does inflation rate affect property value in the council?

- Yes
 No

16. Do you think decrease in purchasing power affect property value?

- To a very large extent large extent Moderate Low extent Not at all

Please explain?

.....

.....

17. Do you think risk affect property value in city council of Nairobi?

- Strongly agree Agree Neutral
 Disagree Strongly disagree

Briefly explain.....

.....

.....

Thank you