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DIRECÇÃO DE TERRAS E PROPRIEDADES

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Introduction

The purpose of this report is to provide the Ministry of Justice with specific guidelines to govern the rental of government properties in Dili. Originally, the report intended to provide the Ministry of Justice with a table of recommended rent levels based on a survey of the private rental market in Dili. The objective of this original methodology was to recommend that rental levels for government properties be set on a par with rental levels for the private market, to ensure (a) that tenants of government properties would not be over-charged, and (b) that the government would not forgo revenue as a result of setting its rental levels too low. However, the results of the survey undertaken to inform this report (refer to the Data Collection Process section below) indicate that the private rental market in Dili is too immature and unsystematic to be used as a principal guide for the rental of government properties. Therefore, the recommended rental levels presented in this report are supplemented by institutional knowledge from within DNTP.

In this respect, it is of note that the Ministry of Justice through its Directorate of Land and Property (DNTP) has been leasing properties and setting rents since 2000 in accordance with specific guidelines. As the largest landlord in the country, DNTP has the potential to exercise a systematic influence over the rental market, bringing about a reduction in the instability of the rental market and moderating the extremes observed in the private rental sector. Benefits of this process could include reduced unpredictability of the rental market in which investors find themselves.

The recommended rent levels presented in this report are based on a number of valuation considerations. These include the following:

- Location, using a five-zone system that places all real estate in Dili within one of the five zones. The zone system, which is clearly outlined on the DNTP Property Evaluation Map, has been in operation for some years, and is based on a variety of factors that influence property valuation including service availability, proximity to city centre, access to main roads, and business profitability. In general terms, the analysis of the survey data re-affirms the relevance of the five zones, subject to a number of adjustments.
- The use of the property, broken down into the two categories of business and residential. This break-down has been defined on the basis that when any level of business activity takes place in a property, the property is automatically determined to be a business property.
- Type of tenant. In accordance with existing practice, DNTP will apply different rent levels for nationals and foreigners.
- Condition of buildings, based on three ratings (good, fair, or poor).
- Whether the rental arrangement is for land *and* buildings, or for land *only*. In this respect, the survey data indicates that most private-market rental arrangements in Dili pertain to land *and* buildings. To the extent possible, however, rent levels for land *only* are presented as a guide.

In this report, the results of the rental survey are integrated into a table presenting recommended rent levels for the full range of rental property-types outlined above. This table is presented in a format suited for use by DNTP staff.

The remainder of this report consists of a section on the Data Collection Process, followed by the Rent Table itself. A final section presents Additional Findings of Significance to Government Revenue Raising and the Rule of Law. The collection of some of the information referred to in this section was not an original objective of the market rental survey program. However, this information is considered important as the government seeks to regularize the occupancy of government properties, accrue revenue from government assets and advance broader agendas related to an improved investment climate, good governance and the rule of law.

The Data Collection Process

The rent valuation survey was undertaken during February and March 2005 using a one-page questionnaire containing seventeen questions (see Appendix A). This questionnaire was designed to collect all necessary information to facilitate the calculation of the market rental rates per square meter of floor-space (or land area, for land-only rentals) for the categories of rental property outlined above. The various stages in the preparation and execution of the survey proceeded as follows:

(i) Review of the DNTP Property Evaluation Map

With a view to using the existing DNTP Property Valuation Map as a basis for the selection of the private rental-market survey sample, this map was reviewed to assess its ongoing suitability to rental market realities in Dili. This review process involved field visits throughout Dili to assess the validity of the DNTP property valuation typologies and the extent to which the distribution of the various property valuation zones throughout Dili was accurately reflected in the Map. In this respect, it is worth considering the key features which characterize the various property valuation zones:

Zone 1

- Areas considered of premium desirability to international residents, and therefore capable of providing high rental rates (for example the Pantai Kalapa area).
- Areas of premium commercial value, for example the Avenida Presidente Nicolau Lobato locality in which the ANZ bank and City Café are situated.

Zone 2

- Areas of high commercial value, typically including main thoroughfares throughout much of the Dili urban area. Examples include Avenida Martires da Patria (Comoro Road), the road to the Delta area ('Banana Road') and the commercially developed thoroughfares in the Bidau area.
- Residential areas of high desirability, including the suburb of Farol.

Zone 3

- Soundly planned residential areas typically provided with basic services such as roads, drainage, water and electricity. Example include the Surik Mas estate area to the south of the Delta/ 'Banana' Road, and the Kampung Alor and Fatu Hada areas to the south of Pantai Kalapa and east of Colmera.
- Areas of sound commercial value on the periphery of the main business and population center, for example the main Becora thoroughfare of Avenida Liberda de Imprensa.

Zone 4

- Minimally planned settlement areas provided in most cases with basic but low-grade services such as roads and electricity. Examples include Bebonok and the Hudilaran area to the west of the former heliport.
- Low concentrations of businesses.

Zone 5

- Unplanned settlement areas with few or no services mostly located on the outskirts of the Dili metropolitan area. Examples include the Manleuana area to the east of Comoro River and the Camea area to the north-east of Becora.

The assessment of the ongoing applicability of the DNTP property valuation typology and associated property evaluation map took place over the course of a one week period in February 2005. On the basis of the site visits undertaken throughout that period it was concluded that the property valuation typology and map had ongoing relevance, notwithstanding the assessment that there may be reason to combine Zones 4 and 5 (on the basis that in some cases, areas within these zones are difficult to distinguish from one-another). It should also be noted that this study has not attempted to identify finite boundaries

of zones, and that these boundaries are indicative only and on occasion blurred, due to the variability of specific properties located along zone boundaries. In the application of rents derived from these tables, the decision concerning the zones in which individual properties lie (particularly along boundary areas) will be a matter for the inspecting DNTP staff member at the time of the rental agreement.

(ii) Development of Sampling Strategy

Following the confirmation of the applicability of the DNTP property valuation typology and map, further visits were made throughout Dili to collect information on the prevalence of rental agreements in the various zones. One of the reasons for this was to establish whether there were enough private (non-government) rental properties in Dili to justify the utilization of a random sampling process for the selection of respondents. This investigation revealed that in some of the zones (in particular some Zone 4 and Zone 5 areas) private rental agreements can be quite rare, and that throughout Dili generally the utilization of a random sampling approach would be time consuming and wasteful. On the basis of this preliminary investigation it was decided to select respondents *purposively*,¹ or in other words to intentionally target respondents on the basis that they are known to be, or likely to be, *tenants of non-government properties*. For the duration of the survey, two main strategies were employed for the purposive selection of respondents. Firstly, specific areas (zones 1-5) throughout Dili known to be characteristic of their property valuation typology, were identified on the DNTP Property Valuation Map. Field teams were sent to each of these areas, where they informed village and hamlet officials (Chefes Suco and Aldeia) about the purpose of the study and requested assistance in identifying and locating private rental properties.

A second strategy was employed for the selection of foreign renters of residential properties known to be absent from their rental properties during business hours and therefore unavailable for interview. This category of respondents was targeted at a range of social activities and other functions. During this stage of the research, a sign was displayed requesting assistance with the survey from those who rented non-government properties, and individual patrons were approached by members of the project team and briefed about the purpose of the survey. There was considerable interest and cooperation in this exercise.

(iii) Finalization and Pilot-testing of Questionnaire

The survey questionnaire was pilot-tested in a selection of suitable zones, resulting in some fine-tuning of the questionnaire over a period of some days.

(iv) Development of System for Determining Property Area

In order to be able to calculate rental levels per square meter of building space (or land area for land only rentals) for each of the rental properties surveyed, a system for determining building space area had to be determined. Two methods were used to achieve this objective, as follows:

1. A set of orthophoto maps of the Dili metropolitan area (taken in August 2001 by the Australian Defence Force) was provided by DNTP, and field teams ensured that appropriate maps from the series were on hand when interviewing respondents. This enabled a reference number to be written over the image of each rental property visited by the field teams. Respondents were asked if the floor space (or land area in land-only rental situations) of their properties had increased in size since the orthophoto series was produced in August 2001. If respondents replied 'No,' then the area of the rental property could be determined in the office using a Computer Assisted Design (CAD) program and a digital version of the orthophoto series.
2. In the event that rental properties had been expanded since the production of the orthophoto series in August 2001, physical measurements of the rental properties were taken using tape measures brought to the field for this purpose.

¹ Purposive Sampling is defined in the fifth edition of W. Lawrence Neuman's *Social Research Methods: Qualitative and Quantitative Approaches* (2003, Allyn & Bacon: Boston) as '[a] type of *nonrandom sample* in which the researcher uses a wide range of methods to locate all possible cases of a highly specific and difficult to reach *population* (p.23).'

Following the various stages of survey preparation outlined above, fieldwork was undertaken in the last two weeks of February and the first week of March by LLP II personnel from ARD, DNTP and UNTL (the National University of East Timor), supported by the AusAid valuation advisor to DNTP, John Leigh. A total of thirty-six person weeks of data collection was undertaken during this period.

The field teams sought to interview the maximum number of tenants of non-government properties possible for each tenancy category within the time frame available. Whereas respondents were relatively easy to locate in some tenancy categories, they were more difficult to locate in other tenancy categories, reflecting Dili rental realities. The following table (Figure 1) indicates the number of respondents interviewed in each tenancy category, the total of which amounts to 360 respondents:

Figure 1: Numbers of respondents for each rental category

Numbers of respondents in each rental category												
DNTF Property Valuation Zone	Land & Buildings											
	National						Foreign					
	Residential			Business			Residential			Business		
	Good	Fair	Poor	Good	Fair	Poor	Good	Fair	Poor	Good	Fair	Poor
Zone 1	0	1	0	2	1	2	2	0	0	16	24	2
Zone 2	1	0	2	7	8	10	7	5	0	13	17	16
Zone 3	3	13	2	3	3	2	14	22	1	3	10	2
Zone 4	7	59	4	1	6	3	14	18	1	2	2	2
Zone 5	0	1	1	2	0	0	1	0	0	1	0	0
DNTF Property Valuation Zone	Land Only ²											
	National						Foreign					
	Residential			Business			Residential			Business		
	Zone 1	0			1			5			1	
Zone 2	0			1			1			3		
Zone 3	0			0			0			4		
Zone 4	0			1			0			2		
Zone 5	0			1			0			1		

As outlined in Figure 1 above, limited data was acquired in relation to the land only rental categories, suggesting that the rental of land *and* buildings is a more common rental scenario. In attempting to acquire information on land only rentals, visits were made to Chefes Suco and Aldiea in urban and peri-urban areas, to determine the situation concerning the leasing of land for agricultural purposes. The information collected in the course of these visits indicates that in many cases, the tenants of private land used for agricultural purposes do not pay rent per se, but enter into a sharecropping arrangement with the land owner. Rental calculations based on the agricultural productivity of land in this category have not been included in this report, because this information would be of limited use for determining rent levels for vacant government land in urban areas. Compared to the other categories, therefore, the survey drew even more heavily on institutional knowledge from within DNTP to determine appropriate levels for Land Only rentals.

The data was analyzed using Excel and SPSS programs.

² No condition status is applied for land-only rentals, since it is assumed that all land-only tenants must undertake major works.

Figure 2: Table of Recommended Rental Levels 2005 (Draft)⁴

Recommended Rent Levels (in \$US)												
DNT Property Valuation Zone	Land & Buildings											
	National						Foreign					
	Residential			Business			Residential			Business		
	Good	Fair	Poor	Good	Fair	Poor	Good	Fair	Poor	Good	Fair	Poor
Zone 1	\$5.00 Per sq/m	\$4.00 Per sq/m	\$3.00 Per sq/m	\$9.00 Per sq/m	\$7.00 Per sq/m	\$4.50 Per sq/m	\$12.00 Per sq/m	\$10.00 Per sq/m	\$7.00 Per sq/m	\$13.00 Per sq/m	\$10.00 Per sq/m	\$7.00 Per sq/m
Zone 2	\$3.50 Per sq/m	\$2.75 Per sq/m	\$2.00 Per sq/m	\$5.00 Per sq/m	\$4.00 Per sq/m	\$2.50 Per sq/m	\$7.00 Per sq/m	\$4.00 Per sq/m	\$2.50 Per sq/m	\$8.00 Per sq/m	\$7.00 Per sq/m	\$5.00 Per sq/m
Zone 3	\$50-\$60 Per house	\$40-50 Per house	\$30-40 Per house	\$2.50 Per sq/m	\$2.00 Per sq/m	\$1.50 Per sq/m	\$2.50 Per sq/m	\$2.00 Per sq/m	\$1.50 Per sq/m	\$5.00 Per sq/m	\$4.00 Per sq/m	\$3.00 Per sq/m
Zone 4	\$25-30 Per house	\$20-25 Per house	\$15-20 Per house	\$1.25 Per sq/m	\$1.00 Per sq/m	\$0.75 Per sq/m	\$225 Per house	\$175 Per house	\$125 Per house	\$2.50 Per sq/m	\$2.00 Per sq/m	\$1.50 Per sq/m
Zone 5	\$20-25 Per house	\$15-20 Per house	\$10-15 Per house	\$1.00 Per sq/m	\$0.75 Per sq/m	\$0.50 Per sq/m	\$150 Per house	\$125 Per house	\$100 Per house	\$2.00 Per sq/m	\$1.50 Per sq/m	\$1.00 Per sq/m
DNT Property Valuation Zone	Land Only³											
	National						Foreign					
	Residential			Business			Residential			Business		
	Zone 1	\$0.65 Per Square Metre		\$1.25 Per Square Metre			\$1.25 Square Metre			\$1.40 Square Metre		
Zone 2	\$0.35 Per Square Metre		\$0.65 Per Square Metre			\$0.70 Per Square Metre			\$0.90 Square Metre			
Zone 3	\$0.12 Per Square Metre		\$0.25 Per square Metre			\$0.40 Per Square Metre			\$0.50 Per Square Metre			
Zone 4	\$0.08 Per Square Metre		\$0.10 Per Square Metre			\$0.20 Per Square Metre			\$0.25 Per Square Metre			
Zone 5	\$0.05 Per Square Metre		\$0.05 Per Square Metre			\$0.10 Per Square Metre			\$0.10 Per Square Metre			

³ No condition status is applied for land-only rentals, since it is assumed that all land-only tenants must undertake major works.

⁴ To be read in conjunction with explanatory notes over-page.

Rent Level Explanatory Notes:

- In the case of Residential use properties (buildings) there is no separate (additional) charge for land, until the gross land area exceeds four times the area of the building. In instances where the gross land area does exceed the 'four times limit' an additional charge for the extra land will be made.
- In the case of Business use properties (buildings) there is no separate (additional) charge for land, until the gross land area exceeds two times the area of the building. In instances where the gross land area does exceed the 'two times limit' an additional charge for land will be made.
- In the case of all land and property, the above tables are for typical properties of the specified type and condition in the nominated zone. For properties that are not typical (due to superior location, shape, size, enhancing or degrading factors such as adjoining drain etc. or any unusual feature) then a specific adjustment may be made by DNTP, authorized by the Senior Officer, State Land Administration, and after discussion with appropriate Land Administration Officers.

Additional Findings of Significance to Government Revenue-Raising and the Rule of Law

The objective of the 2005 Dili Rental Survey was to collect data on rent levels in the private rental market in Dili. However, in the course of this survey, a body of information was accumulated, based on anecdotal accounts given to members of the field team in the course of their survey work. This information indicates a level of irregular practice concerning the use of government property for residential and business purposes. It should be noted that the data accumulated on this area was not intentionally sought, but was the result of information being volunteered to members of the field teams by individual respondents. Prior to discussing this matter in more detail, it is appropriate to first explain how members of the field team came to be interviewing occupants of government properties, when the objective of the survey was to interview tenants of private properties.

A reality of the present land and property situation in Dili is that uncertainty remains concerning the tenure status of many properties. Whereas some properties are known to be privately owned and others are known to be government owned, a lack of clarity continues in regard to the tenure status of the remainder. In time, as the DNTP leasing and cadastral development processes advance, the tenure status of the great majority of properties will be clarified, and the remainder of properties will be referred to appropriate forums for resolution. At this time, however, due to the lack of clarity that continues in many cases, the field teams associated with the 2005 Dili Rental Survey sought information about rental levels *from any property known to be rented from private individuals*. Of significance to the areas of government revenue-raising and the rule of law, this method of collecting information inadvertently resulted in our survey teams visiting government properties *whose occupants made 'rental' payments to private individuals*.

The level of uncertainty that continues concerning the tenure status of rental properties is indicated by the responses to a question included in the questionnaire (question 16.) which asked respondents whether their rental property was a government property that they rented from a private individual. The possible responses to the question were 'Yes,' 'No,' and 'Don't Know,' with respondents answering (from a total sample of 363 respondents) 23% Yes, 72% No, and 5% 'Don't Know.' For some purposes, these results should be used as a general indication only, since many of the respondents may have been unaware of the law which rules that abandoned properties revert to the state. However, the fact that close to a quarter of respondents indicated *that they know they are renting a government property* from an irregular 'landlord' suggests that the practice of private individuals opportunistically collecting irregular payments from other private individuals for the occupancy of government properties, is relatively widespread. Of further concern in this regard is information from the field suggesting that among those receiving informal rental payments from occupants of government properties, are civil servants working for various government departments. This situation emphasises the importance of the leasing program for government properties currently being prepared by DNTP, since the unrolling of this program should result in proportional increases in government revenue from the many government rental properties for which payments are presently being made to irregular 'landlords.'

Encouragingly, the anecdotal information collected by the survey teams indicates that on many occasions, irregular 'landlords' of government properties cease their demands for payment once ownership of state property is asserted by the government. However, the information from the field also indicates that on other occasions, payments continue to be made to irregular 'landlords' even after the government has asserted its ownership of state properties. In the course of the survey work, for example, twenty-three respondents (out of a total of three hundred and sixty-one) volunteered the information that they make payments to irregular 'landlords' in relation to their occupancy of government properties. This irregular payment is in addition to the payments they make to the government in relation to the same properties (for simplicity, this scenario will be referred to henceforth as the 'illegal landlord problem'). Of significance to the development of Dili as an investment destination, it is of note that the vast majority of tenants subject to the illegal landlord problem are foreign tenants.

Given that the survey teams were (a) targeting properties rented from private individuals rather than government properties, and (b) noting anecdotal accounts proffered voluntarily by respondents, rather than actively collecting data on this question, it appears likely that the illegal landlord problem is more serious in Dili than the figures presented above indicate.⁵ If so, the situation is of concern for the following reasons:

- As noted above, the lack of clarity and the perceived need for dubious third-party dealings in relation to the leasing of government properties, may act as a deterrent to potential foreign investors.
- The illegal land-lord problem can be realistically interpreted as the illegal appropriation of government revenue, on the basis that the market rental rate in many cases could well be the sum of the payment made to the irregular 'landlord' on one hand, plus the payment made to the government on the other. The sum of these two payments may well equate to what the market will bear.
- It is unknown what, if any, levels of intimidation are associated with the extraction of illegal payments from tenants of government properties. However, it is clear that such practices are not consistent with the rule of law.

For the reasons outlined above, and noting the indications that a level of law enforcement will be necessary in some cases, it is recommended that the government allocate appropriate resources to the implementation of the DNTP leasing program, and to an assessment of existing leases over government properties to determine the extent of the illegal landlord problem, followed by enforcement action as necessary. It is also recommended that the government intensifies vigilance in relation to the abuse of agricultural concession land in the Dili metropolitan area. Anecdotal information from the field suggests that contrary to the provisions of agricultural leases, some tenants of agricultural leases abuse the limitations that apply to their leases, and illegally sub-lease agricultural land for business purposes to third-parties, in respect to the land covered by their agricultural concessions. Illegal sub-leasing of government residential properties (by private individuals acting as de facto landlords) to third parties is also known to occur. Again, such practices have the potential to reduce clarity concerning land tenure arrangements, as well as to compromise potential government earnings and the rule of law.

As a final comment, it should be noted, as outlined in the 2004 DNTP Future Action Plan and other documents over time, that DNTP will only be capable of taking appropriate action in relation to the matters referred to above if it is allocated increased resources. In this regard, it is an expectation of DNTP that the costs incurred in the completion and enforcement of the DNTP leasing program would return a benefit to the government of 200% - 300% in the first year alone. Furthermore, the income that would flow to the government resulting from such a program would be ongoing, contributing to further state strengthening in other areas such as health and education.

At present, the government is accruing in excess of US\$1.46 million per year from the conventional leasing segment that has been in operation for some years. The special leasing project which commenced during March 2004 should contribute a further US\$262,440 per year in due course, from the 2187 contracts already signed. If the rent charged for these special leases is raised to market level (approximately three times the current level), and if the number of leases issued can be increased by a factor of three (considered feasible by DNTP personnel, subject to the availability of the necessary resources), then the DNTP special leasing component could be expected to raise in excess of US\$2.3 million per year. In this case, the total revenue raised by DNTP for property leases in Dili (from both the conventional leasing segment and the special leasing project) would exceed US\$3.7 million. If an enforcement program targeting illegal rental practices in Dili is introduced, the total amount of revenue raised from government rental properties in Dili could exceed US\$4 million per year.

⁵ Only a systematic survey of leased government properties or a public 'report your illegal landlord' campaign would indicate the true severity of the problem, and even this could be hampered by the reluctance of some tenants to provide accurate information for fear of reprisals.

Appendix A

PROPERTY STATUS SURVEY QUESTIONNAIRE

For people who lease their property from non-government parties.

Property Identification & Size

1. Zone:..... 2. Mapsheet:.....
3. Building Number: R..... 4. Land Area (square metres):.....
5. Roofed Area (square metres): 6. Field Team:.....

Property Information & Type of Occupant

7. Main Use: Residential / Business
8. Condition of property at time of current rent agreement (refer to Condition Guide at back):
Good / Fair / Poor
9. How many levels?.....

Leasing Details

10. Do you lease: Land Only / Building & Land
11. How much rent do you pay per month? US\$.....
12. In what year was the current rent set? 2000 / 2001 / 2002 / 2003 / 2004 / 2005
13. Have you repaired/improved the buildings since you commenced occupation?
Yes / No
14. If you answered 'Yes' for Question 13, how much have you spent (in \$US)?
\$0 - \$2,500
\$2,501 - \$5,000
\$5,001 - \$10,000
\$10,001 - \$20,000
\$20,001 or more

15. Have the buildings been built and/or extended since August 2001? Yes / No

- If 'Yes,' researchers must measure building (Question 5) -

16. Is this a Government property that you rent from a private individual?

Yes / No / Don't Know

17. Occupant type: International / Timorese