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Clients' Perception of the Reliability of Property Investment Valuation in Nigeria

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Abstract *The question of overvaluation and under valuation has been a subject of intense debate in the valuation industry for more than two decades now. However, the discussion started taking prominent position in Nigeria in the late 1990s. The effect of unreliable valuation in any economy cannot just be over emphasised as valuation estimates given by valuer during valuation exercises are very germane to the decision to be taking by clients seeking for the valuer's advice. This paper set out to ascertain the perception of clients to the reliability of valuation figures emanating from Nigerian valuers. Twenty four commercial banks and fifty property companies were randomly chosen sampled in Lagos State. The data collected were analysed using descriptive statistic. The study revealed that clients were of the opinion that valuation figures from Nigerian valuers were inaccurate and unreliable based on their experiences. The study concluded that Nigerians valuers needed to be more thorough and painstaking in their valuation assignments so as to make valuation estimates emanating from them more accurate and reliable.*

Keywords: *Investment Valuation, Perception, Reliability, Lagos Metropolis, Nigeria*

1. Introduction

Valuers, valuation processes and results have been focus of debate and controversy in many parts of the world in the past two and half decades. The valuation of property can be regarded as a process which culminates into forming an opinion of value. The Appraisal Institute (2001) prescribes a normative systematic process involving eight steps at arriving at a figure of valure. The steps are (i) Definition of the problem; (ii) Scope of work; (iii) Data Collection and Property Description; (iv) Data Analysis (v) Land Value Opinion (vi) Application of the approaches to value; (vii) Reconciliation of Value Indications and final opinion of value and (vii) Report of defined value.

While the above described model represents an important step in valuation process to aid the achievement of reliable and accurate valuations, it is not clear how applicable the process is to practice, how well the valuers analyses the forces that affect value and how accurately the valuers mirrors the actions and motivation of market participants and hence how the end result of the valuation assignments are able to mirror the market.

In Nigeria, the disparity between valuation estimates emanating from valuers and the market prices has been subject of intense discussion amongst the professionals, academicians and other valuation stakeholders. The competence of Nigerian valuers vis-à-vis the reliability of valuation estimates emanating from the valuers has been the focus of such discussions and debates. Ogunba, 1997; Ogunba and Ajayi, 1998, Aluko, 2000, Ogunba, 2003 and Ogunba and Ojo, 2007 studies dealt extensively on the subject matter of reliability or accuracy of valuation figures.

The effect of inaccurate or unreliable valuation cannot be over emphasized in any economy especially in a developing economy such as Nigeria where investors (mostly private individuals) are less sophisticated and depends mostly on the opinion offered them by their professional consultants such as Estate Surveyors and Valuers and any wrong advise giving them have potential of throwing them into perpetual financial problems. For example, some private individuals had have cause to invest their hard earned incomes on some real investments that does not worth the amount recommended to them by their consultant valuers while others had had cause to dispose their properties at prices far lower than their market worth based on the recommended valuation estimates from valuers. These kind of scenarios has resulted in dispute over large amount of money that sometimes run into millions of Nigeria Naira currency.

This paper therefore represents an attempt to ascertain the perception of valuation clients' to the reliability of valuation opinion being given by Nigerian valuers.

2. Review of Related Literature

In the past two decades or so, several studies have focussed on the issue of valuation accuracy and/or variance. Valuation accuracy is the extent to which valuation accurately predicts actual market prices while valuation variance is essentially a theoretical measure used to indicate the reliability of valuations, expressed as the distribution of valuations around the mean or median valuation that would result if a number of valuers value the same property simultaneously.

Hager and Lord (1985) started the debate on the subject matter of valuation accuracy in United Kingdom and since their pioneering effort, volumes of literature have been written in such countries as UK, USA, Canada and Australia on the topic. The debate on ccuracy of valuation in the UK was triggered by the problems which came to the fore during the 1990-1994 economic recession which resulted in the banks and other lending institutions in the country blaming the valuers for their inability to dispose mortgaged properties at previous valuation figures advisedv by the valuers for the properties and also by the publicity on the apparent conflicting valuation figures on the same properties by different valuers (Herd and Lizieri, 1994). With regard to conflicting valuation figures on same property by different valuers, the case of of valuation of Queen's Moat Hotel Chain by two firms of estate valuers in the UK readily came to mind and which was the immediate main reason why Michael Malison RICS Presidential Working party was set up to investigate and address the growing critisms of valuation reports emanating from va;luers (Adair et at, 1996). Also in Australia, the case of the valuation of Governor Place in Sydney by two estate valuers that produced a difference of $120 million or 16.6%, and the commissioning of Professor Neville Normans Property Economic Task Force was another case study (Parker, 1988). These two cases (in the UK and Australia) drew considerable public attention and attracted negative comments from the press, academia and the general public with damaging effects on the public confidence in both the valuation profession and the valuation process.

Crosby et al (1995) conducted a survey to examine clients' view on the information content of property investment valuation report. The authors surveyed four major groups of clients namely insurance companies, pension funds, property companies and banks. The findings identified inadequate information on market trend, tenant strength and valuation methodology as the major drawback of valuation reports from the professional valuers. However, the study indicated that the valuers in the UK were well regarded by clients. The only cause for concern by the lenders' clients had to do with the quality of the report. The clients expect more information on the state of investment market generally.

Crosby, Laver and Foster (1998) study of the perception of lenders about the valuation reports in the UK showed that there was a general perception that valuers reports contained too little information regarding property locations in their national and regional context, planning situations and the general state of property markets. Clients wish to see detail information on the state of the wider investment market opportunities, market trends, tenant strengths and valuation methodology employed.

Newell (1999) undertook a survey of 140 major external users of valuation reports comprising of insurance companies, superannuation funds, property trust companies, property developers, banks and fund managers in Australia. The study indicated that the clients as represented by respondents surveyed would wish for detailed instructions to valuers, greater emphasis on market dynamisms/future performance and that too much generalisation and unrealistic future projections in valuation reports be do away with. Newell (2005) observed increasing use of Discounted Cash Flow (DCF) analysis for ascertaining the market worth of real estate properties and the fact that a greater number of clients were satisfied with the valuation report emanating through the process from the UK valuers.

Baum et al (2000) maintained that valuation accuracy was at the heart of client confidence and the fact that the profession needs to keep its house in order. It is for such reason that the debate for valuation accuracy has been sustained in the UK academic and professional cycles since the debate started in the country in the mid 1980s. This has resulted in such studies as Hager and Lord (1985), Brown (1985), IPD/Jonas series spanning 1988 up till lately as 2008, Cullen (1994) and Matysiak and Wang (1995). In the same vein, in the US similar studies such Cole et al (1986), and Fisher et al (1999) has also been carried out.

Aluko (2007) in a study conducted in Nigeria examined mortgage valuation process in Lagos metropolis. The researcher administered questionnaires on practicing Estate Surveying and Valuation firms and lending institutions with a view to ascertaining whether the contents of mortgage valuation reports being prepared for them by their external valuers meet their expectations as well as meeting the standards set for such valuation assignments by the professions' regulatory bodies in the country. The study revealed that mortgage valuation reports emanating from valuers were very far from meeting the needs and demands of the lending institutions. Other studies has equally been carried out in the country on the subject matter of valuation accuracy and the likes including that of Ogunba (1997), Ogunba and Ajayi (1998) Ajibola (2006) Oloyede and Ayedu (2009) and Ayedun (2009).

Even though various researches have been carried out to address this topical issue, however the various studies conducted in this field have largely examined valuation with respect to methods, processes, risk analysis and database from which valuers obtain valuation estimates. In Nigeria especially, little or no attention has been devoted to the issue of the study of the perception of valuation clients as much of the research works on valuation standard in the country have centred on valuation variance and accuracy, the influence of clients on valuation outcome and the influence of valuers' behaviour on valuation reliability. If the opinion of Baum et al (2000) that accuracy is the heart of clients' confidence is to hold and to be taking seriously, then there is serious need to investigate into the perception of these clients since they are the users of the valuation reports emanating from the professional valuers. Their feelings cannot be taking lightly, hence the need for this study.

3. The Study Area

Lagos State covers an area of about 3,577 square kilometers, representing 0.4% of Nigeria's territorial landmass according to Esubiyi (1994). The State shares boundary in the North with Ogun State, West with the Republic of Benin, and stretches for over 180 kilometers North of the Guinea Coast of the Atlantic Ocean. Politically, Lagos State according to Ogunba (1997) had expanded as a result of rural-urban drift and had become a metropolis enclosing settlements such as Mushin, Oshodi, Ikeja, Agege, Shomolu and Bariga. The 2006 National census put the population of the State at 9,013,534.

Lagos Metropolis has been chosen as the study area because it is the most important commercial city in Nigeria thus providing a sufficiently vibrant economic base and valuation activity which the researcher hopes to provide a vigorous and robust study base. Lagos metropolis, apart from being Nigeria's former capital, is the largest metropolitan city in Africa. The metropolis is located within the coastal frontage of Lagos State and is bounded in the West, by the Republic of Benin, in the East by Ondo State and Atlantic Ocean in the South and in the North by Ogun State. The metropolis covers an approximate land area of 2,350 square kilometers spreading over four main islands of Lagos, Iddo, Ikoyi and Victoria islands. In the economic scene, Lagos metropolis has grown from a small farming and fishing settlement to become an important centre of commerce, finance and maritime in Nigeria, housing the headquarters of several banks, industries and commercial enterprises. According to the NIESV Directory (2009), most Estate Surveyors and Valuers aggregate around major business districts of the metropolis such as Lagos Island, Ikeja, Apapa/Ijora, and Lagos Mainland where there is the expectation of a very active property market.

4. Research Methods

The research study population consist of twenty four (24) commercial banks operating in the study area and fifty (50) property companies that constituted the major external users of valuation reports. The contact details of the property companies were obtained from the Real Estate Business in Nigeria Directory (2003) while that of the commercial banks were obtained from the publications of Central Bank of Nigeria (2006). Structured questionnaires were administered on the respondents. Questionnaires were sent to the twenty four commercial banks and fifty property companies. A total of fifteen responses were received from the banks and thirty two responses from the property companies with the resulting survey response rates being 62.5% and 64% from the banks and property companies respectively. The study used descriptive analysis to analyse the data collected from the respondents.

5. The Results and Discussion

The clients as represented by commercial banks and the property companies were asked the frequency of their commissioning valuers for valuation assignments. The number and frequency of valuation assignments commission by both the banks and the property companies varied considerably from one another as shown in Tables 1 & 2 below. The response by the banks indicated that 47% of the banks commission valuation assignments on monthly basis while 33% of the banks indicated that they commission valuers for valuation assignments on 3-monthly basis. On the other hand, 40.6% of the property companies affirmed that they normally request for valuation services from their external valuers on yearly basis while 25% of the property companies were of the opinion that they commission valuers for valuation services on 3-monthly basis as indicated in the Table 2 below.

Table 1. *Frequency of Valuation Assignments Commissioned by the Banks*

Frequency of Valuation	Frequency Count	Percentage
Monthly Basis	7	47
3- Monthly Basis	5	33
6- Monthly Basis	3	20
Yearly Basis	-	-
Total	15	100

Source: *Field Survey (2011)*

Table 2. *Frequency of Valuation Assignments Commissioned by the Property Companies*

Frequency of Valuation	Frequency Count	Percentage
Monthly Basis	6	18.75
3- Monthly Basis	8	25.0
6- Monthly Basis	5	15.6
Yearly Basis	13	40.6
Total	32	100

Source: *Field Survey (2011)*

Tables 3 and 4 below concerns the purposes for which valuation estimates are always required by both the banks and the property companies clients. As for the commercial banks, valuation for the purpose of determining financial statement ranked first amongst the purposes for which valuations are required while mortgage lending, performance measurement, tax, sale and purchases were ranked second, third, fourth, fifth and sixth respectively in the hierarchy of purposes and types of valuation often asked for by the banks. On the other hand, sale, mortgage lending, purchases, financial statement, performance measurement and tax ranked first, second, third, fourth, fifth and sixth respectively among the purposes for which valuations are commissioned by the property companies.

Table 3. *Types/Purposes of Valuations Often Requested by Banks*

Types of Valuations	Always	Most of the time	Sometimes	Never	RII	Ranking
Mortgage/Lending	10	3	2	-	3.53	2nd
Financial Statement	12	2	1	-	3.73	1st
Sales	6	4	2	3	2.86	5th
Purchases	5	5	2	3	2.80	6th
Tax	7	5	2	1	3.20	4th
Performance Measurement	9	3	3	-	3.40	3rd

Source: *Field Survey (2011)*

Table 4. *Types/Purposes of Valuations Often Requested by Property Companies*

Types of Valuations	Always	Most of the time	Sometimes	Never	RII	Ranking
Mortgage/Lending	18	8	4	2	3.31	2nd
Financial Statement	12	14	1	1	2.94	4th
Sales	22	7	3	-	3.60	1st
Purchases	15	12	4	1	3.28	3rd
Tax	7	7	13	5	2.50	6th
Performance Measurement	8	12	4	6	2.56	5th

Source: Field Survey (2011)

To ascertain the issue of reliability of valuation estimates by professional estate surveyors and valuers as perceived by the clients, the property companies and the banks were requested to give their impression of the valuation estimates emanating from the valuers based on their experiences. The respone of both the banks and the property companies are as indicated in Table 5 and 6 respectively. 60% of the banks were of the opinion that valuation figures by Nigerian valuers were not reliable while 26.66% agreed that the valuation are fairly reliable and only 13.33% believed that the valuation estimates by the valuers is absolutely reliable. On the part of property companies 56.25% of them concluded that the valuations by the valuers to be unreliable while only 15.625% affirmed the valuation estimates from valuers to be absolutely reliable. Based on the results of the responses of both the banks and the property companies, it can be concluded that the clients are far from being satisfied with the reliability and accuracy of valuation opinions being received from their external valuers.

Table 5: *Perception of Bank (Client) on Reliability of the Valuers' Valuation Estimates*

Reliability of Valuation	Frequency	Percentage
Absolutely Reliable	2	13.33
Fairly Reliable	4	26.66
Not Reliable	9	60
Total	15	100

Source: *Field Survey (2011)*

Table 6. *Perception of Property Companies to the Reliability of the Valuers' Valuation Estimates*

Reliability of Valuation	Frequency	Percentage
Absolutely Reliable	5	15.625
Fairly/Just Reliable	9	28.125
Not Reliable	18	56.25
Total	32	100

Source: *Field Survey (2011)*

When asked about the acceptable margin of error they could take, both the banks and the companies chose a margin of error of between 1-5%. The results of their responses as contained in Tables 7 and 8 showed that while 47% of the banks chose between 1-5%, 56.25% of the property companies also indicated 1-5% as their most acceptable margin of error. 40% of the banks indicated 6-10% as their ideal margin of error while 13% of the banks accepted 11-15% for margin of error. On the other hand, 31.25% of the property companies indicated 6-10% as margin of error acceptable to them. From the analyses, it can be concluded that majority of clients as represented by banks (47%) and property companies (56.25%) wanted the valuation estimates from the valuers to be as close as possible to the market prices of properties as expressed in their responses which indicated that majority preferred the valuation figures falling within 1-5% of the sale prices of such properties.

Table 7. *Acceptable Margin of Error to the Banks*

Margin of Error (%)	Frequency	Percentage (%)
1-5	7	47
6-10	6	40
11-15	2	13
16-20	-	-
21-25	-	-
Total	15	100

Source: *Field Survey (2011)*

Table 8. *Acceptable Margin of Error to the Property Companies*

Margin of Error (%)	Frequency	Percentage (%)
1-5	18	56.25
6-10	10	31.25
11-15	2	6.25
16-20	2	6.25
21-25	-	-
Total	32	100

Source: *Field Survey (2011)*

It can be concluded that the clients of valuation profession do not seem to agree with majority of the literature which recommended +/-10% as the margin of error. The majority of clients favoured between 1-5% as the acceptable margin of error and that the clients are far from being satisfied with the kind of of valuation opinions being offered by the Nigerian valuers.

6. Conclusion and Recommendations

This study examined clients' perception of reliability of valuation figures emanating from estate surveyors and valuers practising in Lagos metropolis with a view to ascertaining their satisfaction or otherwise so as to proffer necessary recommendations. Valuation practices as one of the core aspect of Estate Surveying and Valuation profession in the country may be suffering from a number of inadequacies, however, the focus of this study is its inability to meeting the expectation of the clients. The study revealed that the clients were of the opinion that valuation opinions offered them by Nigerian valuers were not absolutely reliable. This conclusion was based on their experiences with the opinion of valuation given them by their professional valuers in the past which gave wide disparity between the valuation opinions given them and the market prices of such properties. The study further revealed that the clients were far from satisfied with literature which established a margin of error of +/_ 10%, rather they would want the margin of error of the valuation opinion emanating from the valuers to fall between +/_ 5% which they feel will give them enough confidence while delving into real estate investment. This development should of necessity be of concern to both Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) and Nigerian Institution of Estate Surveyors and Valuers (NIESV) the two bodies responsible for the regulation of valuation practice in Nigeria.

There should be greater understanding between the clients and their external valuers with respects to needs and expectation of the clients' in the area of valuation accuracy as well as greater understanding of the limitations of valuation figures. Afterall, a professional exists to meet his clients' needs. The professional services of the estate surveyors and valuers are meant to satisfy the needs of clients, hence professional valuers owe it a duty not to mislead his clients by giving them unreliable and inaccurate valuation opinions since many interested stakeholders of the real property investors often rely on the valuation opinions from the valuers for their investment decisions. The estate surveyors and valuers should as a matter of necessity strive hard to meet the yearnings and expectations of their clients by way of producing accurate and reliable valuation opinions at all times. The challenge for building the confidence of the clients in the valuation figures emanating from Nigerian valuers by way of reducing the level of inaccurate and unreliable valuation estimates falls across the practitioners and the Nigerian

Institution of Estate Surveyors and Valuers (NIESV) as well as Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) the two bodies responsible for the regulation of valuation practice in the country. While the contributions of both bodies are in the areas of providing valuation standards of international standard and putting in place a more effective regulatory framework, the practicing valuers must as a matter of necessity cease from settling for the mediocrity of inaccuracy; pursue professionalism; embrace continued professional development; global alliance with foreign firms and membership of international bodies for better exposure and exchange of ideas and more importantly, be willing to adopt necessary changes in practice.

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