

Empirical Verification of the Clients' Perception of the Adequacy of the Valuation Reports of Nigerian Valuers

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ABSTRACT

The issue of professional valuation standards and quality of valuation reports has been subject of intensive debate at both local and international level in recent years. Studies on the subject of clients' perception of the quality of valuation reports have been extensively carried out in countries like UK, Australia and the US. However, the topic has not received much attention in most developing countries such as Nigeria. The purpose of this paper is to ascertain the perception of the clients who are the users of the valuation reports concerning the quality of valuations reports emanating from Nigerian Valuers. The survey was carried out with a view to addressing such issues regarding the quality of valuation reports with the intention of ascertaining the level of the clients satisfaction with the quality of valuations reports being given them by their professional valuers and to further identify the strengths/ weaknesses of the reports and make necessary suggestions for improvement if the views of clients suggest so. To achieve the objective of the study twenty four commercial banks and fifty property companies randomly selected were sampled in Lagos metropolis. Data collected were analyzed using descriptive statistical tools. The study revealed serious concern regarding the quality of valuation reports in Nigeria and necessary recommendations for addressing the identified problems were preferred.

Keywords: Valuation quality, Valuation reports, Client Perceptions, Lagos Metropolis, Nigeria.

INTRODUCTION

The valuation process, figures and the quality of valuation reports has been the focus of recent debate and controversy both within and outside the profession. The commercial valuation report is a key element in property investment decision making for institutional investors; particularly in view of the current global financial crisis resulting into loss of lifelong investment arising from wrong professional advisers in respect of real estates. Client perceptions of the quality of valuation reports have extensively carried out in such developed countries such as UK, Australia and the US. However, the topic has not been given serious consideration and attention in most developing countries like Nigeria.

In such developed economy such as US, the Financial Institutions Reform, Recovery and Enforcement Act had major implications for improving appraisal standards (Colwell and Trefzger, 1992; Lahey et al. 1993). This was further enhanced with the introduction of uniform standards of professional practice by the Appraisal Institute in 1999 (Tosh and Rayburn, 1999). Also, in Australia, the Australian Property Institute (API) has been in active development of valuation standards (API, 2004) and valuation risk management procedures (API, 2003) and these local valuation standard initiatives have further been enhanced by the development of regional valuation standards in countries like UK and US (McParland et al 2002; TEGOVA, 2000) and international valuation standards by the International Valuation Standards Committee (IVSC, 2000).

In most of these developed countries professional valuation practice standard developments have been complemented with researches into specific areas relating to valuation standards and practice including valuation variation (Boyd and Irons, 2002; Crosby, 2000; Crosby et al. 1998; Parker, 1999), valuation uncertainty (Brown et al, 1998; Mallinson and French, 2000) and valuation accuracy (Adair et al 1996; Newell and Kishore, 1998).

In addition to these studies on professional standards, procedures and valuation reports, it has been discovered that it is important that study is needed to be carried out to ascertain whether valuation clients' needs and expectations are being met by the current quality of valuation reports being given by the Nigerian Valuers. This concern has been expressed in the work of such researchers in the US (Colwell and Trfzgerger, 1992; Knitter, 1993, 1994; Shlaes, 1993; Dotzour and Le Compte, 1993; Ott and Lahhey, 1993; Rudolph, 1994 and Wilson, 1996) and in the UK (Crosby, et al 1997). The subject has of the quality of valuation reports has equally received some level of attention amongst Australian researcher as well as valuation practitioners as typified by the works of such authors as (Rothwell, 1990, 1991, 1994; Newell and Barrett, 1990; Newell, 1995, 1999, 2005, Newell and Fibbens, 1991).

In Nigeria however, little or no efforts has been made to address the issue of quality of valuation reports in valuation practices. Much of the research works on valuation standards and practices have rather focused on valuation variance and accuracy, clients influence on valuation outcomes and the influence of valuers' behaviour on valuation reliability. It has however become imperative that the assessment of quality of valuation reports from the perspective of the users and clients of valuation reports is needed to be carried. This study therefore set out to examine the external users' (i.e. clients) views of the quality of valuation reports in Nigerian valuation practice.

In addressing the aim of the study, the paper is structured into five sections. The first is introductory. The second section focuses on the literature review. The third section provides information on the study area (Lagos state in Nigeria), while section four discusses the research method. In section five, the paper discusses the results from empirical investigations while section six provides recommendations and concluding comments.

LITERATURE REVIEW

Most of the early studies on the issue of valuation standards and practices have tended to centre on assessing accuracy, reliability, variation, consistency, valuers' behaviour, heuristic, and the clients' influence on the valuation outcomes. However, in the recent time, academicians and the professionals alike in the valuation industry have realised that the perception of the clients to the quality of valuation reports is a topic that require serious consideration and attention so as to ensure attainment of high valuation standards and good practices. It has therefore become highly imperative that an empirical assessment of the clients perception of the quality of valuation reports is carried out. This explains why the topic in the recent time has been receiving a worldwide attention among professionals and academicians. These earlier studies on clients' expectations and perceptions of valuation reports have provided theoretical framework for the study.

Colwell and Trefzger (1992) in a study carried out on the impact of regulation on the impact of regulation on appraisal quality in the US revealed that an appraiser will not find it profitable to do more than to meet the minimum standards and that those appraisers who follow higher standards of diligence and thoroughness will drive out of the market those who not pay much attention to the issue of quality and standard of their valuation reports.

Dotzour and Le Compte (1993) in their study also carried in US provides the first measure of appraisal quality after Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) regulation was enacted. The study revealed that residential appraisers were providing high-quality appraisal reports and in a consistent manner. The study however identified some areas of valuation reports that require improvement. These areas include delivering report on time, analysing market trends in the area of sale prices, analyses of market trends as it concern rental rates and vacancies, more discussion of entrepreneur profit, better analyses of sale comparables and more rigorous discussion of both positive and negative features of the subject property of valuation report.

Shlaes (1993) survey was carried out when according to the author, the appraisal profession was being rubbished by the inability of the profession to establish and enforce proper report standards. The Uniform Standards of Professional Appraisal Practice (USPAP) appeared too loose and grossly inadequate thereby resulting into the clients dissatisfaction with the ponderous reports emanating under the USPAP. Clients often expressed their dissatisfaction with outdated data used, boring and insufficient contents of the valuation reports at meeting their needs, and most importantly, irrelevant for their purpose of requesting for the valuation reports and therefore unwilling to pay for such reports. The study further revealed that clients were generally not satisfied with appraisal reports because of the fact that the reports totally ignored the needs of clients whose interests may be focused more on debt coverage ratio, investment value, or downside risks than on market value as understood by appraisers as the following factors such as the actual condition of the relevant mortgage and credit markets, the availability or unavailability of willing sellers and actual buyers with access to funds, the soundness of the

property leases and the likelihood that they will be honoured and the rentability or re-rentability of tenant spaces in deteriorating local economy were noted to often be missing from most valuation reports. The study further identified characteristics which the clients expected quality appraisal to always contain to include: current (i.e. written in real time with up-to-the-minute financial and market information rather than old, obsolete data and methodology), complete (i.e. containing all the information needed to identify a property and make the appraiser's case), Correct (i.e. accurately reporting facts and explaining issues that pertain to an assignment), cogent (i.e. logically, clearly and convincingly taking a reader through steps of the argument on the shortest path to the correct conclusion), consistent (i.e. without internal discrepancies that might confuse or mislead a reader), convenient (i.e. making it easy for a reader to find the important elements) and concise (i.e. without wasting words or money).

Knitter in his 1994 study on clients need and expectations from appraisal reports found that clients prefer to have information on current comparable listing included in the report as well as specific estimate of value and will not want a tight value range. The study equally observed that some clients not to be clear about exactly when the marketing exposure period is assumed to have occurred and would want the appraisers to address this problem by clearly stating the assumed starting date of the exposure period for each appraisal.

In the UK, Crosby et al (1995) in a survey conducted in December 1994 to examine the views of clients on the information content of property investment valuation in the country identified inadequate information on the market trend, tenant strength and valuation methodology as the major drawback of valuation reports by the valuers. The study however confirmed that valuers were well regarded by clients in the UK.

Armitage and Skitmore (2003) undertook a study on property market analysis in the valuation process with acknowledgement to valuation reporting. The study revealed from informal interviews with clients/users of valuation reports that there was rather over emphasis on the descriptive components of the valuation reports at the expense of of analytical aspects of the valuation works which was an indication that the clients were more interested in seeing the analyses of their properties being valued than the descriptive aspect which the valuers often pay more attention to.

Crosby et al (2004)'s study focused on three stakeholders of valuation estimates namely commercial lenders, commercial and residential valuers. Both the commercial lenders and valuers were of the opinion that valuation reports ought to include the valuer's calculations, assumptions made and details of comparable properties used at arriving at the figures being recommended to the clients. The lender groups especially required more contextual and interpretative information to assist them in their understanding of the valuation figures and were more critical of some valuers who often overload their valuation reports with what they described as mere standardised information on the property market generally but fail to provide tailored or requested information. Conclusively, the lenders professed their satisfaction with valuation reports emanating

from valuers in the UK but expressed their dissatisfaction with the levels of analysis and interpretation of the valuation reports.

Newell (2005) a study carried out in 2004 established the increase in the use of Discounted Cash Flow (DCF) analysis in preference to the investment method of valuation and the fact that a greater number of clients tend to prefer the DCF analysis to the conventional method of valuation as represented by investment method. The study further revealed concern over the failure to understand the complexities and market position under the conventional method of valuation and the need for a greater emphasis on the current supply and demand situations in the property markets.

In Nigeria, Aluko (2007) carried out the study of mortgage valuation process in Lagos metropolis with a view to ascertaining whether the contents of mortgage valuation reports meet the needs and expectations of the clients as well as upholding the standards set for such valuation in the profession. His findings indicated that mortgage valuation reports by the valuers did not meet the needs and demands of the clients.

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.

THE RESEARCH METHODS

The study population consist of twenty four (24) commercial banks operating in study area and fifty (50) property companies that constituted the major external users of valuation re[ports]. The contact details of the property companies were obtained from the Property-Finder 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.

DATA ANALYSIS 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 depicted by Tables 1 & 2. The response by the banks indicated that 47% of the banks commission valuation assignments on monthly basis while 33% commission valuers for valuation assignments on 3-monthly basis. On the other hand, 40.6% of the property companies normally request valuation services on yearly basis while 25% of usually commission valuers for valuation services on 3-monthly basis. Table 4 and 5 show the purposes for which valuation estimates are always required by the banks and the property companies. 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 in the purposes for which valuations are commissioned by the property companies.

To ascertain the adequacy or otherwise of valuation reports by the Nigerian 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 reports by the valuers based on their experiences. The response of both the banks and the property companies are as indicated in Table 5 and 6 respectively. Using Relative Importance Index to rank the perception of the clients, locational descriptions of subject properties of valuation ranked first in the order of adequacy of the contents of valuation by the banks while valuation method was ranked second and valuation calculations raked last in the order of adequacy of content. On the other hand, the property companies ranked tenancy details, valuation method, locational description, general information on comparables and uncertainty of valuation figures ranked first, second, third, fourth and fifth respectively while physical description of the properties, state of the economy as at the date of valuation, suitability of property for purpose the valuation is prepared for, specific comparables, general state of

the economy, supply and demand situation for the property ranked sixth, seventh, eight, ninth, tenth, eleventh and twelfth respectively. The implication of this is that the expectations of the banks differs from that of the property companies in that while banks ranked locational descriptions of property as most adequately described in the valuation reports the property companies on the other hand ranked the description of tenancy details first ahead other areas of valuation reports that is most adequately catered for by the valuation reports.

On the perceived weaknesses of the valuation reports by the clients and users of valuation reports, the banks according to Table 7 ranked failure of valuers to comment upon likely market trends, lack of details and discussion of analytical aspects, limited use of comparables and inadequate market analysis first, second, third and fourth respectively in their order of the perceived weaknesses of valuation reports emanating from Nigerian valuers while too much reliance on historic aspects of market performance, inability to understand the complexities and market position of particular project and limitations on assumptions and qualifications of valuation reports were ranked fifth, sixth and seventh respectively. The property companies however according to Table 8 ranked failure or inability to understand complexities and market position of particular project, limited use of comparables and limitations on assumptions and qualifications of valuation reports as first, second and third respectively in their perception of the weaknesses of valuation reports by the valuers in the country while inadequate market analysis, failure or inability to comment upon likely market trends, too much reliance on historic aspects of market performance and lack of details and discussion of analytical aspects were ranked fourth, fifth, sixth and seventh respectively by the property companies as the clients and users of valuation reports.

CONCLUSION AND RECOMMENDATIONS

The study carried out the study of clients' perception of the quality of valuation reports by the practising estate surveyors and valuers in Lagos metropolis with a view to ascertaining their level of satisfaction or otherwise with the quality of valuation reports they are receiving from their external valuers with a view to proffering necessary recommendations. Valuation reports constitute the final documents emanating from valuers after they have been commissioned by clients or users of valuation opinions. The study revealed that the clients were satisfied with the overall contents of the valuation reports by Nigerian valuers but would want included in the valuation reports such areas which had hitherto not been given priority attention in the valuation reports such as:

- (i) Valuation calculations
- (ii) State of the of supply and demand in the property market;
- (iii) General state of the letting in the property market;
- (iv) State of the economy as at the date of valuation; etc.

These findings were seen as having important implication on the overall quality of valuation reports according to the clients and need to be addressed by the valuers in order

to meet the expectations of the clients so as to restore the credibility of the Nigerian valuers.

There should be greater understanding between the clients and their external valuers with respects to the needs and expectation of the clients' in the area of the expected contents and quality of the valuation reports After all, a professional exists to meet and satisfy 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 to their clients to give them not only reliable and accurate valuation opinions but well thought out and robust valuation reports that meet and satisfy their yearnings and aspirations. The estate surveyors and valuers should as a matter of necessity strive hard to meet the yearnings and expectations of the clients by way of giving them robust and comprehensive valuation reports that are all embracing.

The challenge for building the confidence of the clients in the valuation reports emanating from Nigerian valuers by way of incorporating all necessary information and details required by the clients in the valuation reports rest both 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 inadequate valuation reports; 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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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

Table2: 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

Table 3: Types/Purposes of Valuations Often Requested by Banks

Types of Valuations	Always	Most of the time	Sometimes	Never	Total	RII	Ranking
Mortgage/Lending	10	3	2	-	15	3.53	2 nd
Financial Statement	12	2	1	-	56	3.73	1 st
Sales	6	4	2	3	43	2.86	5 th
Purchases	5	5	2	3	42	2.8	6 th
Tax	7	5	2	1	48	3.20	4 th
Performance Measurement	9	3	3	-	51	3.4	3 rd

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

Types of Valuations	Always	Most of the time	Sometimes	Never	Total	RII	Ranking
Mortgage/Lending	18	8	4	2	106	3.31	2 nd
Financial Statement	12	14	1	1	94	2.94	4 th
Sales	22	7	3	-	115	3.60	1 st
Purchases	15	12	4	1	105	3.28	3 rd
Tax	7	7	13	5	80	2.50	6 th
Performance Measurement	8	12	4	6	82	2.56	5 th

Table 5: Adequacy or Otherwise of Contents of Valuation Reports According to the Banks

Details	Very Adequate	Adequate	Fairly Adequate	Inadequate	Grossly Inadequate	RII	Ranking
Physical Description	6	4	3	1	1	3.87	4 th
Locational Description	7	4	3	1	0	4.13	1 st
Tenancy Details	6	5	2	1	1	3.93	3 rd
Suitability of Property	3	2	2	2	6	2.60	6 th
Supply and Demand for the Property	2	2	3	3	5	2.53	7 th
General state of the Letting Market	3	2	1	4	5	1.67	11 th
Valuation Method	6	6	2	0	1	4.07	2 nd
General Information on Comparables	2	1	3	4	5	2.4	8 th

Specific Comparables	3	2	2	5	3	2.80	5 th
State of the Economy as the Date of Valuation	2	1	2	5	5	2.33	9 th
Uncertainty of Valuation Figure	2	2	1	3	7	2.27	10 th
Valuation Calculations	0	0	2	3	10	1.47	12 th

Table 6: Adequacy or Otherwise of Contents of Valuation Reports According to the Property Companies

Details	Very Adequate	Adequate	Fairly Adequate	Inadequate	Grossly Inadequate	RII	Ranking
Physical Description	12	8	5	4	3	3.69	6 th
Locational Description	15	9	5	2	1	4.09	3 rd
Tenancy Details	18	10	2	1	1	4.34	1 st
Suitability of Property	4	5	6	6	11	2.53	8 th
Supply and Demand for the Property	2	3	5	5	17	2.00	11 th
General state of the Letting Market	2	2	4	11	13	2.03	10 th
Valuation Method	15	8	7	2	0	4.12	2 nd
General Information on Comparables	12	7	10	1	2	3.81	4 th
Specific Comparables	3	2	12	6	9	2.50	9 th
State of the Economy as the Date of Valuation	4	6	8	13	10	3.25	7 th
Uncertainty of Valuation Figure	8	7	9	5	3	3.75	5 th
Valuation Calculations	1	2	1	10	18	1.69	12 th

Table 7: Perceived Weaknesses in Valuation Reports According to the Banks

Details	Very High	High	Neutral	Low	Very Low	RII	Ranking
Failure to understand Complexities and Market position of particular project	3	4	2	4	2	3.13	6 th
Inadequate Market Analysis	5	4	1	2	3	3.4	4 th
Lack of Details and Discussion of Analytical Aspects	6	5	2	1	1	3.93	2 nd
Failure to comment upon likely Market Trends	7	6	0	0	2	4.47	1 st
Limited Use of Comparables	5	6	1	1	2	3.73	3 rd
Limitations on Assumptions and Qualifications of Val.Reports	3	2	2	2	6	2.60	7 th
Too much reliance on historic aspects of Market Performance	4	4	1	3	3	3.20	5 th

Table 8: Perceived Weaknesses in Valuation Reports According to the Property Companies

Details	Very High	High	Neutral	Low	Very Low	RII	Ranking
Failure to understand Complexities and Market position of particular project	5	7	9	5	6	3.22	1 st

Inadequate Market Analysis	6	8	4	7	7	2.97	4 th
Lack of Details and Discussion of Analytical Aspects	3	7	6	6	10	2.59	7 th
Failure to comment upon likely Market Trends	7	5	6	6	8	2.91	5 th
Limited Use of Comparables	6	6	7	10	3	3.06	2 nd
Limitations on Assumptions and Qualifications of Valuation Reports	8	4	6	8	6	3.0	3 rd
Too much reliance on historic aspects of Market Performance	4	7	7	9	5	2.87	6 th