

AN OVERVIEW OF THE QUALITY OF PROPERTY VALUATION REPORT IN KADUNA METROPOLIS, NIGERIA

Bilkisu Adamu Aliyu, Muhammad Hassan, Ibrahim Sipan*

Department of Estate Management and Valuation, Nuhu Bamalli Polytechnic, Zaria,
Nigeria

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*Corresponding author

ibrahimsipan@utm.my

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ABSTRACT

The study examines the quality of valuation reports in Kaduna metropolis with a view to examining their satisfaction level and thus improving on the quality of the valuers' reports. The survey method employs the use of self-administered questionnaire coupled with interview to obtain the relevant data. A total of 15 Banks and 20 estate surveying and valuation firms were studied. Data collected were analyzed using tables and relative importance index. The result of the examination of 18 valuers' reports in comparison with the standard expected shows that valuers' reports were meeting the standard. The result also showed 53.3% of the banks are at least satisfied with overall contents of their valuation reports. However, the examination of clients' needs revealed that they would prefer to see more details on the reports. The result shows that "clients demand more information on the larger property market and valuation calculation to convince them on how the valuers arrived at the value; a portion stating the complexity of the market and the position of the property in the market; more emphases on the analytical aspects of the valuation and the estate surveyors and valuers should state how certain they are about the valuation figures". The study concluded that there should be greater understanding between the clients and estate surveyors with respect to the needs of the clients in the area of valuation reports as well as greater understanding of the limitation of the value figure.

Keywords: Property Valuation, Valuation Report, Clients, Estate Surveyors and Valuers

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1. Introduction

Valuation reporting has recently been a subject of research by valuation scholars in some countries of the world; notably in Australia and United Kingdom. At the center of this; is the issue of quality (Martin, Razali, Newell and Eni, 2011). General issues regarding the accuracy and reliability of valuation reports have been addressed in these countries. These include emphasis on reliability, credibility, and ensuring clarity in the valuation of commercial property (Mallinson Report, 1994), assessment of valuers' compliance with the standard of valuation reporting of the RICS Red Book (Waters Report,

2000) and ensuring people's confidence in the valuation procedure (Carlsberg Report, 2002). Crosby et al (1997) as in Martin et al, (2011), examined UK's end users of valuation reports to assess the quality of commercial property valuation reports, with implications for improvements to UK commercial valuation reports identified. Research on the quality of property valuation reporting has also been given considerable attention in the United States (Colwell and Trefzger, 1992; Dotzour and Le Compte, 1993; Knitter, 1995).

In Australia, leading valuation scholars have actively debated on a range of key issues pertaining the quality

of valuation report. For example (Newell and Barrett, 1990; Newell, 1995, 1999, 2004; Newell and Fibbens, 1991). There is an agreement amongst these scholars is that the procedure of the valuation and the quality of the reports have significantly improved within this period (Newell, 1999, 2004). “Key factors evident in these quality of valuation reports survey, have been the increased use of DCF analysis, increased levels of analytical detail in valuation reports, positive impact of the implementation of the APiIs valuation standards and the decreased perception of weaknesses in valuation reports, resulting in improved and better-researched valuations” (Newell, 1999, 2004 as in Martin et al, 2011).

According to Martin et al, (2011), “this research into the quality of valuation reports in the UK and Australia has been very positively received and actively supported by the RICS and API and has seen enhanced integrity and support for the quality of valuation reports in the UK and Australia. In particular, these studies showed the high and improving level of the quality of these valuation reports, as well as making positive suggestions as to how these valuation reports could be improved. These suggestions were seen as positive input by both the API and RICS”.

In Nigeria, the profession of valuation is regulated by the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) and Nigerian Institute of Estate Surveyors and Valuers (NIESV). The professional code of conduct provides rules and guidance to valuers, and a number of quality control mechanism exists. However, because of the valuation market is highly competitive and according to Aluko (2007), when client are not comfortable with the quality of services rendered to them, they might choose to look elsewhere to meet their demand (Adedamola, Ajayi, Abel and Olabosipo, 2011). This may lead to others who are not estate surveyors and valuers intruding into the domestic domain of valuers in the country. In addition, to this, it is particularly significant to assess the quality of valuation reports on a regular basis (Newell, 2005). This, according to the author is because of the recent changes in the real estate industry when relating to valuation practice particularly in Australia, the Nigerian property industry is no exception. As a result of this development, this study examines the external users’ (client) perception of the

quality of property valuation report in the Nigerian mortgage valuation practice.

2. Method and Procedures

The research addressed two study populations. The first was real estate firms in Kaduna metropolis, Nigeria. Kaduna is the headquarters of the old Northern region of Nigeria and presently housing the highest number of valuation firms head offices in that region. Accordingly, a total of 20 questionnaires were distributed to real estate practitioners and Valuation firms in Kaduna metropolis. Respondents were selected based on a simple random sampling framework.

The second study population was the clients of estate surveyors and valuers in Kaduna metropolis. Clients (users of valuation report) include Banks/Lending institutions (Mortgage Valuation), Insurance Companies (Insurance Valuation), Kaduna State Valuation Office (Rating Valuation), Internal Revenue (Probate Valuation), Property Developers (Development Valuation) and Individuals. However, the study only covered the client of Mortgage Valuation which in this case is Banks. The sample size of these Banks is 15 out the 24 Mega Banks licensed for operation in Nigeria as at July 2016 (Central Bank of Nigeria). Accordingly, a total of 15 questionnaires were administered to these Banks based on a simple random sampling. To measure the perception of driven factors, the paper employed ordinal scale (Likert type) questioning. Such data were analyzed using the relative importance index (RII). The RII of each factor was determined using the following expression: $RII = \sum wf/N$. Where: $w = \text{weight}$, $f = \text{frequency}$ of specific responses and $N = \text{total frequency}$.

3. Main Results

Valuation firms, questionnaires were distributed in February 2017 while the questionnaires of valuation firms’ clients were distributed in April 2017. With regard to the valuation firms’ questionnaires, of a total of 20 questionnaires distributed, 18 were correctly completed and retrieved, representing a 75% retrieval rate. Most of the respondents were University and Polytechnic graduates with B. Sc. or HND qualifications. The target respondent within each firm

was the managing/principal partner of the firm. Generally, the average respondent’s firm was found to have been in practice for a period of about 11-15 years.

The researcher sought to determine the quality of valuation reports Valuers prepared for their clients (Banks). The results are documented in table 1.

Table 1 Multivariate analysis of quality of valuation report prepared by estate surveyors and valuers

features	Always (weight=4)	Sometimes (weight=3)	Seldom (weight=2)	Never (weight=1)	Weighted frequency Σwf	Relative importance index
Physical features	16	2	0	0	70	3.89
General location	16	2	0	0	70	3.89
Details of tenancy	0	2	4	12	26	1.44
General suitability for lending	7	5	2	4	51	2.83
Specific location	16	2	0	0	70	3.89
Supply and demand for property	0	2	4	12	26	1.44
Market condition	2	3	6	7	36	2.00
Valuation method	15	3	0	0	69	3.83
General information on comparables	0	3	4	11	28	1.56
Loan suitable	10	4	2	2	58	3.22
General suitability for lending	9	5	2	2	57	3.17
Specific comparables	0	2	4	12	26	1.44
economic	7	2	5	4	48	2.67
Uncertainty of valuation figure	0	0	8	10	26	1.44
Valuation calculations	0	0	0	18	18	1.00

Source: Field Survey February 2017

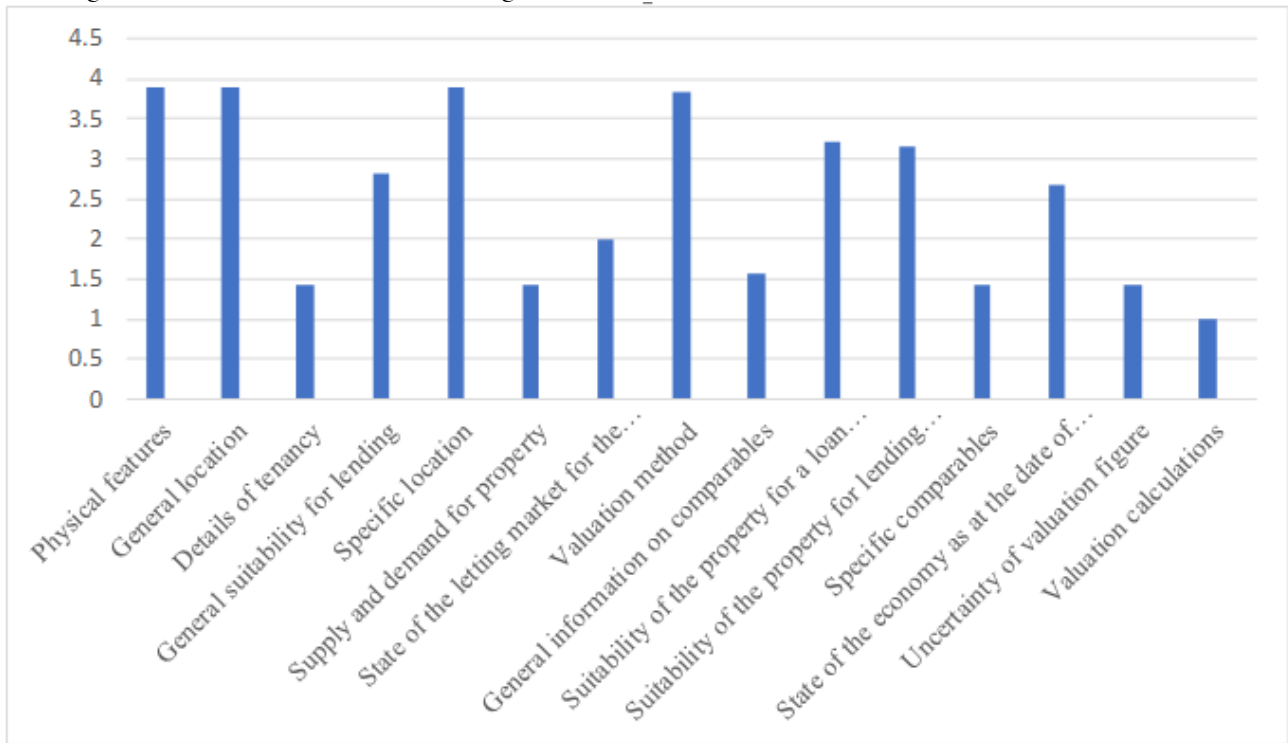
Drawing from the analysis in table 1, most, if not all the valuers did not consider the following features in their valuation reports: uncertainty of valuation Figures (RII = 1.44), valuation calculation (RII = 1.00); details of tenancies (RII = 1.44) specific comparables (RII = 1.44); information on supply and demands for the property (RII = 1.44); and the general information on comparable (RII = 1.56. while Majority of the valuers consider the following features in their valuation reports: physical feature of the property (RII = 3.89);

general location (RII = 3.89); specific locations (RII = 3.89); method of valuation (RII = 3.83); suitability of the property for lending purpose generally (RII =

3.17); loan suitability of the property (RII = 3.22); general suitability for lending (RII = 2.83) and economic conditions as at the date of valuation (RII = 2.67). Figure 1 shows the visualization of relative important index found in Table 1. With regards to the clients’ perception of the quality of valuation reports, of a total of 15 questionnaires distributed, 8 were correctly completed and retrieved, representing 53.3% retrieval rate. The target respondent within each Bank was the Branch Manager or the head of the department of credit/risk unit of the area office of the Bank. Generally, the average respondent’s officer was found to have a working experience of 16 – 20 years. First, the researcher sought to know the clients’ needs

and expectations on the quality of valuation reports. This is done with a view to determining the needs and expectations of the clients with respect to the overall quality of the valuation reports. Their responses were then assigned 4, 3, 2 and 1 to “Most Significant”,

“Significant”, “Less Significant” and “Not Significant” respectively. The results are documented in Table 2 and Figure 2 visualize the relative important index value which was found in Table 2.



Source: Field Survey April 2017

Figure 1. Relative importance index of the attribute of valuation reports prepared by estate surveyors and valuers

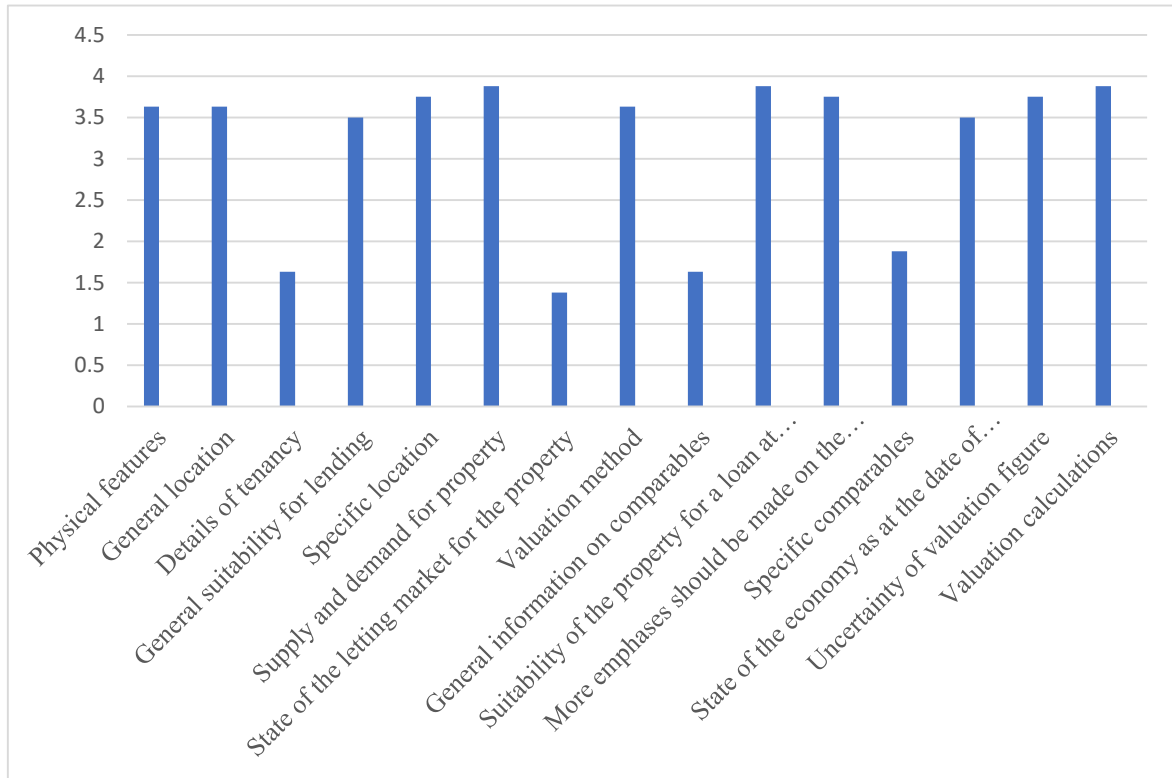
The responses in Table 2 shows economic condition as at the date of valuation, general location, physical features, general suitability for lending, valuation methodology, loan suitability of the property, specific location, uncertainty of valuation figures, valuation calculation, emphasizes on the analytical aspects of the valuation and availability of a portion stating the complexity of the market and also the position of the property in the market are information that are considered necessary and which they would prefer to see in their valuation reports except items like specific comparables (1.88), general information on comparables (1.63), details of Tenancies (1.63) which they believe are less significant even when they are included in their valuation report while they are of the opinion that adding market condition is not significant to them at all. The banks, according to the

analysis above would prefer mostly to see a portion of the report stating the market demand for the property, the valuers’ calculation and the loan suitability of the property. This is because they have the highest resulting mean of 3.85 when compared to others. In particular, the banks are interested in seeing valuers’ calculations because they believe that such can assist them in appreciating how the valuation figures are arrived at. Lack of detailed formal instructions, in some cases, might be the reason why some of the clients’ needs are not met in addition to the provision of minimal information in support of valuation figures on the part of valuers as can be seen in the analysis above. Table 3 addresses the satisfaction of client with the contents of the valuation reports and Figure 3 shows the bank’s satisfaction with the valuation reports.

Table 2 Multivariate analysis of assessment of banks' needs and expectations of valuation report

Features	Most Significant (weight=4)	Significant (weight=3)	Less Significant (weight=2)	Not Significant (weight=1)	Weighted frequency Σwf	Relative importance index
Physical features	5	3	0	0	29	3.63
General location	5	3	0	0	29	3.63
Details of tenancy	0	1	3	4	13	1.63
General suitability for lending	5	2	1	0	28	3.50
Specific location	6	2	0	0	30	3.75
Supply and demand for property	7	1	0	0	31	3.88
Market condition	0	0	3	5	11	1.38
Valuation method	6	1	1	0	29	3.63
General information on comparables	0	1	3	4	13	1.63
Loan suitable	7	1	0	0	31	3.88
More emphases should be made on the analytical aspects of the market	6	2	0	0	30	3.75
Specific comparables	1	0	4	3	15	1.88
Economic condition as at the date of valuation	5	2	1	0	28	3.50
Uncertainty of valuation figure	6	2	0	0	30	3.75
Valuation calculations	7	1	0	0	31	3.88

Source: Field Survey April, 2017



Source: Field Survey April, 2017

Figure 2. Relative Importance Index of Bank's Need and Expectation of Valuation Reports

Table 3: Clients' satisfaction with the contents of valuation reports

Clients' Satisfaction	Frequency	Percentage (%)
< 39%	0	0.00
40% - 50%	2	25
51% - 60%	3	37.5
61% - 70%	2	25
>70%	0	0.00
Not Indicated	1	12.5
Total	8	100

Source: Field Survey April 2017

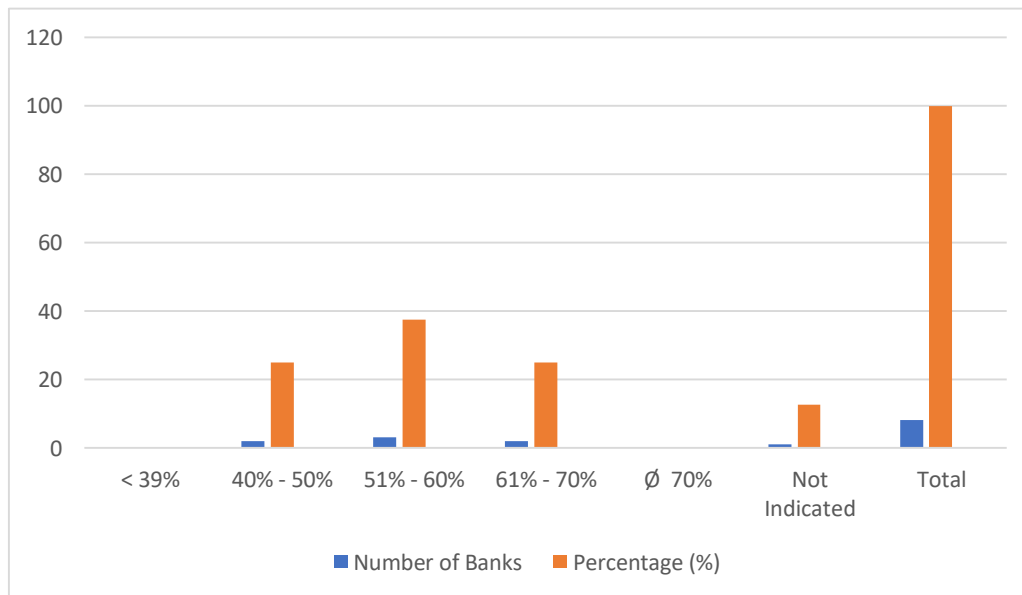


Figure 3. Bank's satisfaction with valuation reports

The Table and chart above revealed that two (2) out of the eight banks sampled had their level of Satisfaction lying between 61-70% while three (3) were 51-60% satisfied, two (2) were 40-50% satisfied and two (2) did not indicate whether they were satisfied or not. The above analyses suggest that majority of the banks were at least satisfied with the content of their valuation reports.

4. Summary and Concluding Remarks

The paper examined Clients' (Banks) perceptions of the quality of mortgage valuation reports in Kaduna metropolis. The result showed that most of the banks are at least satisfied with the overall content of their valuation reports but would prefer to see more of those things that would guarantee the recovery of the loan if the mortgage defaults in payment as at when due. From the research, issues that fascinate the interest of the banks and which they would prefer to see more in their reports but which most of the valuers have not been including in the reports include:

- Economic condition as at the valuation date.
- Demand for property in the larger property market.
- Valuation calculations in order to appreciate how the valuers arrived at their values.
- There should be a portion stating the complexity of the market and also the position of the property in the market.

- The estate surveyors and valuers should state how certain they are about the valuation figures given.

Therefore, in meeting the needs and expectations of clients, the above-listed items need to be included in the report to curb them from looking elsewhere to satisfy their needs.

The result also revealed that valuers at times fail to comply with some of the instructions given to them by clients that are in agreement with the standard of the Nigerian Institution of Estate Surveyors and valuers.

In conclusion, the authors were with the opinion that even if professional guidance is silent regarding the inclusion of some information, this is not a defense against providing it if a competent estate surveyor and valuer believe it should be included. The converse is also true. Non-provisional of some information required by professional guidance is not necessarily a breach of duty of care. While adherence to the professional guidance will usually be a good practice and good risk avoidance on the part of the valuers, it will also not shield them if they fail to aid which they, as competent estate surveyors and valuers, generally known to be necessary to their clients. The situation, where valuers refuse to disclose necessary information to clients or the provide information which they know or believe to

be of no use to the clients without reference to that effect, may constitute an abdication of professional responsibility and, as such, a breach of the duty of care. If valuers are to satisfy the needs of their clients, they must not only provide what the client requires but also the professional input expected from them.

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