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Valuation Discrepancies in the Value Opinion of Professional Valuers' in Lagos, Nigeria

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ABSTRACT

Although no two valuer could perhaps arrive at the same value, the disparities in the variation of values poses a point of concern. This work is therefore aimed at discovering the prevalent causes of error/variance amongst the different valuation figures of Nigerian valuers. The study involved the distribution of 130 questionnaires to practicing estate surveyors and valuers in Lagos metropolis, one of the most buoyant property markets in the country.

By adopting the use of weighted arithmetic mean, it was discovered that presently the variance amongst Nigerian valuation is principally attributable to the adoption of different yield and lack of adequate market information by Nigerian valuers while carrying out valuation.

To curb these excesses in variance/excesses in margin of error, the Nigerian Institution of Estate Surveyors and Valuers (NIESV) is encouraged to adopt reviewable standardized yield for valuers while carrying out valuation of land and property.

1. Introduction

Valuation, which is the estimate of property value at a given point in time, is required to reflect the exchange price of real properties in the open market. How possible it has achieved this feat is a question that has brought about researches in areas such as variance in valuation.

As it is well known, valuation is more of an "art" than a science and as such certain behavioral traits / characteristics of the valuer are being employed in the valuation process that could inversely becloud his judgment. This cannot be unconnected with the researches that have sprung up in relation to human behavioral issues on "heuristics" that have been studied in relation to property values. Heuristics, on the other hand has been identified by [19] state, "heuristics" refers to a situation where a valuer forms a preconceived opinion on the worth of the property being valued and then works to the preconceived answer (as it were). Hence, behavioral issue of valuers could foster these would – be errors in valuations [14].

In line with the aforementioned, researches conducted on accuracy in valuation could be termed superfluous [3]; [7,8,9], [5]; [16]; [20]; [19] and [1] as any inaccuracy existing in valuation could be attributed to behavioral traits of valuers. These behavioral traits are also discovered in terms of negligence in relation to variance in valuation.

Hence, for valuation to be accepted and held in high esteem by all stakeholders as a viable proxy there is need for the valuer's ability to influence decisions in the market place and also stand as a guide to values of subsequent valuations without misleading valuation report users.

Thus the margin in these values must of necessity, be determined within certain range. Therefore, the valuer has a role to play in the determination of values that will predict a fair market situation. Since no two valuers are likely to arrive at the same value, valuers bear the responsibility of acting carefully in order to ensure they arrive at reasonable values that can predict variations in their values and as such lead to a logical market situation / conclusion during valuations.

2. Study Area.

The history of Lagos state is traceable to 1472 when the Portuguese first visited the old Yoruba settlement then and still known as Eko and named it a port for ferrying both human and material cargo to Europe. By 1861, it was annexed by the British who at this time opposed

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slavery sternly and governed it as a crown colony. In 1914 Lagos became the capital of the Colony and Protectorate of Nigeria. In 1960 the city became the capital of independent Nigeria. As Nigeria's oil industry boomed in the early 1970s, Lagos began developing rapidly. Located between latitudes 6^0 21^1N and 6^0 34^1N and longitudes 3^0 01^1 E and 3^0 27^1E, Lagos state is located in the south western region of Nigeria and is bounded in the north and east by Ogun state, south by the Atlantic ocean, west by Cotonou in Benin Republic.

Located on a total landed area of 3,345 sq km (1,292 sq mi) on four principal islands and adjacent parts of the Nigerian mainland, the islands are connected to each other and to the mainland by bridges and landfills. Major sections of the old city include Ebute-Metta, Yaba, Surulere, and Somolu, which now serve as the commercial district, on western Lagos Island; Ikoyi Island, situated just east of Lagos Island and joined to it by a landfill; Apapa, the chief port district, located on the mainland; residential Victoria Island; and industrialized Iddo Island. Importantly, mainland suburbs which formerly were part of the old western region were incorporated as part of the city in 1967. These areas included Agege, Ikeja, Alakuko e.t.c. [17].

Deductions from the result of the 2006 population census, indicates that Lagos state is believed to be the most populous state in Nigerian after Kano with a population of over 9 million people even though the result was refuted by the then Lagos State Government who conducted a separate census exercise for the state resulting to a population about 14 million people [23].

3. Previous Studies

In the UK, a study by final year valuation students from the Nottingham Trent University and Heriot-Watt University [9] examined various approaches to anchoring and adjustment. Their findings suggest that in anchoring, valuers are more willing to adjust low previous valuations upwards than to adjust high previous valuations downwards. Later, Harvard extended the above study to a more comprehensive investigation into the relationship between valuer behaviors, valuation practice and valuation reliability in commercial investment valuation in the UK [9]. The research revealed a greater risk of reported anchored values to clients while working in relatively unfamiliar areas. However, the use of simulation brings up questions as to the seriousness attached to the valuations by the respondents, as there were no fees paid. [9] Also considered bias from anchoring heuristics as a function of insufficiency in the available information during the placement of the first anchor.

[6], examined appraiser anchoring behavior in circumstances where available information on finished properties is unavailable. They discovered that appraisers operating in such unfamiliar markets anchor on available information such as uncompleted (unclosed) contract prices on a subject property and on such other comparable properties.

In New Zealand, [10] undertook a different kind of behavioral study; they attempted to identify the ethical and moral values that influence valuers' capital values. In particular, they examined factors such as fraud, coercive power, client influence (influence dealing), self-interest and deceit, as they cause valuers to tilt values. By means of responses to self administered questionnaires, the authors determined that the tendency to adjust values unethically is determined by respondents beliefs and values which is in turn influenced by variations in age, valuation experience, education, type of employment, and whether they had taken a professional ethics course or not.

[7] in a bid to discovering the factors responsible for the periodic fluctuations in real estate prices discovered that such fluctuations principally results from the interaction between the behavior of real estate investors whom he classified under momentum and disposition agents. He described the former as being prone to loss aversion while the latter are geared towards regret aversion. Guan thereby explains that fluctuations in real estate prices go beyond the real estate construction cycle and basic economic factors but also includes attitudes of investors.

One major behavioral issue as it affects valuation in recent literature is that of clients influence on property values. Research into the nature and causes of influences exerted by clients on valuers in order to modify capital/rental values is relatively recent. Nevertheless, professional bodies across the world have for long envisaged the occurrence of such influence and even frequently legislate against it. For example, the Code of Ethics of the [18] as well as other Ethical codes around the world recognize the likelihood of clients' influence and seek to prevent it. In this regard, Article 1.7b and c of the New Zealand Institute of Valuers specifies that:

"A member must maintain the strictest independence and impartiality in the performance in the members' professional duties. To this end no member shall:

Allow the performance of that members' professional duties to be <u>improperly</u> influenced by the preferences of clients and others as to the result of their professional work

Rely <u>improperly</u> on information supplied by clients or others in the performance of their professional duties"

In the UK, there is also recognition that clients influence valuers. An instance of this is the statement in part 6 of an RICS commissioned report [4] which recommended changes to the manner the RICS guided valuers to ensure transparency in the interaction between clients and valuers when the former are providing information crucial to the valuation.

Early studies into the influence of clients on valuers were conducted by [15] and [22] who identified factors (powers) employed by clients to influence valuers. Factors (powers) identified include reward/coercive power, expert power/expertise and information power. Reward power was described as the ability to provide material or non-material benefits to those to be influenced, while coercive power is the ability to provide material punishment to such individuals. Expert power/expertise was described as the power that comes with having necessary and relevant knowledge in certain issues. Information power is defined as an individual's access to and control of information.

3.1 The Nigerian Experience

Although the research focus on behavioral valuation has been sparse in Nigeria, certain efforts have been geared towards that. For instance, [20] examined thirty surveyors to ascertain the existence of client influence among valuers in Lagos metropolis. The results showed that 80% of valuers agreed that clients habitually influence valuers to increase capital values especially for mortgage valuations.

[1] considered the theoretical potentials for client influence to bias valuations and empirically analyse the factors impacting on the extent of influence client exert on estate surveyors and valuers. The study involved the issuance of questionnaires randomly to samples of estate surveyors and valuers in Lagos metropolis. Using mean rating point, the survey ranked three factors; the integrity of the valuer or the valuation firm, importance of the valuation outcome to the client and client size as the most significant client influencing factors. The result of the chi – square test didn't however provide any statistical relationship between the size of the firm, amount of experience and education of the estate surveyors and valuers and their perception on the comparative importance of the identified clients influencing factors.

[1] examined Heuristic Behavior in valuation practice in Lagos Metropolis. This study delved into valuers' behavior when carrying out commercial property valuation exercise in Lagos metropolis in a bid to improving valuation reliability. Self-administered questionnaires were issued to 122 estate-surveying firms. The study revealed that estate surveyors in a bid to arrive at valuation opinions adopted the anchoring and adjustment heuristic. Approximately 95% of the total respondents agreed to the fact that, decision is reached by forming an initial judgment about valuation tasks. The study concluded that if the reliability of valuations are not enhanced, commercial property investors may be misleading.

[14] discovered that values arrived at by valuation firms mimic those of development companies/property investment portfolios and banks in method and figure. These valuations however do not stand above the market but have a causal influence on price. Moreover, clients do influence valuations, and such influenced valuations also affect prices, with the added effect of extended lagging of 38.62% between valuations and realized prices. The research involved the distribution of 95, 54 and 25 questionnaires backed up with interviews to valuation firms, property development/property investment portfolios managers and the surviving mega banks respectively. Data was measured by means of Likert scales and analyzed using weighted average frequency distributions and the Kruskal-Wallis test on non-parametric data. The implications for these results on the valuation accuracy debate are that comparisons of sale prices and prior valuations by means of statistical tests must now be interpreted with caution. The study accordingly recommended that future researches into valuation accuracy should move from statistical tests of accuracy to behavioral investigations of inaccuracy traits. The study also suggests that the increasing spate of client influence must be controlled by means of stronger professional disciplinary enforcements.
In line with the above literature, this present attempt identifies the factors fostering discrepancies of valuation figures in valuation reports of valuers operating within metropolitan Lagos. The result of this study might also be relevant in understanding the Nigerian scenario as Lagaos metropolis has a fair representation of registered valuers in Nigeria. Lastly, this study is aimed at complimenting past researches in this field of study.

4. Research Methodology

For the purpose of this study, 130 questionnaires were administered to practicing estate surveyors and valuers in Lagos metropolis, one of the most buoyant property markets in the Nigeria. The study simply investigated and ascertained the factors affecting the noted variation in the value opinion of estate surveyors and valuers in their various valuation reports. By adopting the use of weighted arithmetic mean, the collated data was analyzed and the impact of each factor ranked.

5. Data Analysis and Discussion

In ascertaining the factors influencing valuers decision of valuation exercises, the relative impotence index with weights attached to variables in a descending order of magnitude was used to determine the endogenous (innate) factors and exogenous (external) factors facilitating variations in valuation results.

5.1 Endogenous Factors

The relative importance index analysis for endogenous factors is as computed in Table 1 below.

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Table 1. Relative Importance Index Tabulation for Endogenous Factors.

Variables	Weights				
	1	2	3	4	R.I.I
Adjusting values to suit recent valuations of similar properties (A)	20	12	8	8	0.729
The use of different methods of valuation. (B)	36	12	8	2	0.854
Working with different parameters such as yield etc (C)	42	14	6	2	0.898
Professional experience of valuer. (D)	36	14	12	8	0.821
Others (E)	Nil	Nil	Nil	Nil	Nil

Source: Author's Fieldwork.

Even though all variables ranked relatively high, results from the variables after analysis indicate that majority of the respondents affirm that variable C (working with different parameters such as yield e.t.c) is the most prominent innate cause (endogenous factor) militating against valuers arriving at the same values. Perhaps, this could tend to increase any acceptable margin of error during valuation. Another prominent factor is the use of different methods of valuation. Both factors could possibly explain the rule of thumb approach associated with the Nigerian valuers while carrying out valuation. The use of anchoring heuristics whose existence in the Lagos State Property Market has been confirmed by [1] ranked the least cause of this variation.

5.2 Exogenous Factors

The following external (exogenous) causes of valuation variation were analyzed equally using the relative importance index with weights attached to variables in a descending order of magnitude in the below Table.

Table 2. Relative Importance Index for Exogenous Factors.

Variables	Weights				
	1	2	3	4	R.I.I
Working in an unfamiliar terrain. (A)	5	3	7	2	0.662
Clients influence on valuation. (B)	18	11	5	2	0.813
Lack of adequate market information. (C)	35	10	2	0	0.926
Lack of support from other valuers conversant with the market. (D)	4	4	0	6	0.607
Other factors (E)	Nil	Nil	Nil	Nil	Nil

Source: Author's fieldwork February 2008.

Although the analysis as the previous one indicates that all variables ranked high. However, deduction from the above relative importance index analysis reveals that majority of respondents attribute lack of adequate market information (variable C) as the external factor (exogenous factor) mostly responsible for variance in valuation. Perhaps, a situation that is likely to increase any acceptable margin of error. Another prominent cause is that attributed to clients' influence on valuation, a situation that has arisen in recent valuation literature. The lack of support from other valuers conversant with the market ranked the lowest variable. This has once more indicated the fact that Nigerian valuers do not work in isolation as support is gotten from one another when the need arises.

6. Findings

Using the Relative Importance Index, it was discovered that the prevalent margin of variance amongst valuers in the Lagos metropolis valuation is attributable to the predominant use of different parameters such as yield by valuers, the use of different methods of valuation while carrying out valuation, lack of adequate market information and clients influence on valuation.

7. Recommendations

The way forward requires a collective effort on the part of the Nigerian Institution of Estate Surveyors and Valuers, Estate Surveyors and Valuers Registration Board of Nigeria, Practicing Estate Surveyors, and Surveyors in the academia. First, the institution should put in place reviewed standard and consistent parameters for the execution of valuation jobs. Such parameters should include yield, which could be a function of property types, location, and other relevant features of the property and the market terrain as a whole.

Second, there should be the establishment of an effective databank by the institution (NIESV). This will curb the unfamiliarity of the property market in the country. Nigerian valuers are used to practicing any where in the country contrary to what is obtainable in the U.S. With an effective data bank relevant information will be easily assessed for details of various properties and the market at large.

Furthermore, client influence on valuation should be curbed. This is another predominant factor triggering excesses in margin of error. The presence of client influence can also be ascertained by excess in variance. The institution should take drastic measures against this menace of clients influence as it is gradually getting foothold in the Nigerian property market. This will discourage its continuance. Also, the Institution (NIESV), the Board (ESVARBON) and the academia should sponsor research on behavioral valuation. It has been discovered that these "would be errors in valuation" are as a result of behavioral traits in valuers. Therefore, the need to study how valuers think should also be a point of concern. Valuation is an art; hence the human judgment factor needs to be considered.

Lastly, regular trainings and workshops on mode of operation, ethos and ethics of the profession cannot be overemphasized. Hence, the need for committed development of all members through this medium is worthwhile. Activities of this nature should be faced squarely and not period for display of wealth.

8. Conclusion

An agreeable range of variance in valuation when attainable increases the confidence, transparency and certainty in real estate investment. Values of properties can be predictable from other values. This will result in the stability of the property market. A long run effect of influx of investors as experienced in the stock market becomes the order of the day.

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