Global Jour. of Engg. & Tech.
Vol. 4, No. 1, (2011) 45-51

ASSESSMENT OF ACCURACY OF VALUATION IN THE PROPERTY MARKET IN LAGOS METROPOLIS

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Abstract : Valuation is not a precise science and therefore assessment of the worth of interests in properties bears some subjective inputs which manifests in discrepancies in value that is often realised at the eventual reality of market-confirmed 'assessment' upon sale. Previous studies had established that there was valuation inaccuracy everywhere in the world, including Nigeria. This study examined the causes of such inaccuracies. Survey approach was used in carrying out the study and a total of 150 questionnaires were administered on respondents randomly selected from the Nigerian Institution of Estate Surveyors and Valuers (NIESV) Directory. Analysis of the data collected revealed that valuation inaccuracy in Lagos Metropolis result from the dearth of market evidence (data), use of outdated valuation approach, inadequate academic training, inexperience in valuation practice and clients' influence. The study therefore recommends that NIESV should establish central databank and intensify efforts on Mandatory Continuing Professional Development (MCPD) so as to keep members updated on contemporary methods of valuation.

Introduction

At the beginning in the universe were only Adam and Eve whose relationships were that of companions and partners (in the Garden of Eden) bearing no pecuniary interest. Their lives were characterised with 'next-to-nothing' wants and endeavours/activities to the extent that no known exchange transaction transpired in their lives. Thereafter, humans continue to multiply and started transactions on the perceived face values of the items/articles of exchange devoid of inflation. With the advent of inflation and recognition of the role landed properties play in exchange transactions, the art and science of valuation evolved to certify and standardise measurements to be accorded landed properties in exchange transactions. Hence, in virtually every part of the world (save for socialist economies), the practice of valuation of properties in/for exchange transactions prevails. Ajibola (2006) observed that the property market, by nature, is characterized by heterogeneous commodities and coupled with the fact that there is no centralized market for real property; this makes it difficult to accurately determine the market price of real property. In other words, the property market is characterized by high level imperfection and this has given rise for variation. Because of the imperfections of the real property market and the need for valuers to assume efficient pricing, consistency among valuations, usually is not one of the attributes claimed for the valuation profession (Aluko, 1998).

With the establishment and multiplicity of industrial and commercial economic activities and given the prime role property holdings play especially as collateral for the release/production of capital funds, the corresponding role of valuation can only be directly increasingly proportional. However, since most interactive human endeavours are fraught with disputes,

Keywords : Data, Lagos Metropolis, National Valuation, Specilisation, Valuer

claims and counterclaims, the valuation practice is no exception. So, more often than not, occasions arise when valuation figures become suspect as clients find it difficult to realise the appraised value when eventually the property is taken to the market for disposal. Or, on the other hand, some clients still suffer from the inconsistency if their properties got disposed at values in excess of appraisal. This inconsistency on either side does not portend professionalism as it waters down the perception of clients and the general public on valuers as they may ascribe guess-work as the basis of valuation assessments. This in turn generates probing suspicion of incompetence and incredibility on appraisers. It also creates an avenue for charlatans to enter the profession.

It need be pointed out that in Nigeria; there had been incursions by other professionals into the realm of property valuation. The Engineers, in the past had claimed to be the best placed professionals to value plant and machinery. Also, the Accountants and Bankers believe that the conventional valuation methods are shrouded in mystery and indefensible. The average layman, these days, believes that Valuer's advice is driven by the quest to earn bumper fees. While it has been agreed that valuation is imprecise hence, some level of inaccuracy and variation expected, it is equally important to ensure that valuation is close to the sale price due to the essential roles it performs in property market. For example, it provides advice on prospective purchase and sale, and supply material information to underpin the property lending decision. Also valuation plays important role in the internally generated revenue (IGR) of any economy. The various taxes on property are usually based on the value of the property under consideration.

The courts had equally been involved in the determination of the acceptable margin of valuation inaccuracy. It is however important to note that the courts are mindful of the use to which a property is put before putting down their feet on the size of range to apply to bring a valuation within the permissible accuracy bracket. The courts has however made pronouncements with respect to acceptable margin of ±10% in respect of valuation of a large rural site intended for residential development while there are examples of higher "brackets" adopted in commercial properties such as ±15 % for the valuation of an hotel.

Literature Review

Since 1973 when UK experienced a fall in the valuation figures and market prices of real properties, a lot of criticisms have been trailing the Valuer and his methodology. To check this, the Royal Institution of Chartered Surveyors (RICS) sponsored series of research works so as to identify the cause and to tackle valuation inaccuracy. Valuations of the same assets by different valuation surveying firms acting for various interest groups showed substantial discrepancies and assets of privatised companies were sold off at prices substantially in excess of their valuation (Crosby, Lavers, Foster, and Williams 1997). Hager and Lord (1985) conducted pioneering research works into valuation accuracy using a small sample survey of ten Surveyors who were invited to value two properties and in one case a range of valuation was ±10.6% and in the other was ±18.5% suggesting a relatively low level of valuation accuracy. They concluded that inadequacy of valuation methods is the bane of property market collapse. However, Reid (1985) was of the opinion that the information and instructions given to the Valuers and the quality of their response, given the absence of a fee, could have contributed to the level of accuracy observed in Hager and Lord (1985) study. In 1988, Investment Property Databank in conjunction with Drivers Jonas (Drivers Jonas/IPD 1988) used a sample of 1442 properties sold between January 1982 and March 1988. They adopted figures from at least two professional valuations conducted in the previous two calendar years prior to the sale. In other words, all valuations were done between January 1980 and December 1987. They ensure that the sales price was not known at any of the valuation dates used in the analysis. Valuations were therefore carried out at least 4 months and with an average of 9.7 months before the sale date. The result was an R^2 of .93; the valuation predicted 93% of the eventual sale price. However, the result also indicated a conservative bias in valuations.

In 1990, Drivers Jonas and IPD updated and extended the study, including 2,384 transactions and assessing results year by year between 1982 and 1988 (IPD/Drivers Jonas, 1990). Over this period, the number of valuations which fall within ±10% of the sale price was 30%. The number of valuations falling within ±20% was 67% therefore 33% or one-third of valuations fell outside the 20% bracket. These figures hide a distinctive trend. Since 1992, the proportion of valuations within 20% of the sale price has increased to 80% (this is also true for the unpublished 1995 transactions). Between 1982 and 1991 the number of valuations within ±20% averaged only 63%. As expected in the rising market of 1988 and 1989, Drivers Jonas/IPD found that the number of valuations within 20% of the sale price reduced considerably, 56% in 1988 and 52% in 1989. Matysiak and Wang (1995) conducted a study on commercial property market prices and valuation between 1973 and 1991 using 317 sales transactions from the JLW Property Performance Analysis System. The valuations were conducted between 3 and 6 months prior to the sale. They found that 177 properties were undervalued by an average of 21.1% and 134 properties were overvalued by an average of 11.5%. Additional analysis found that there was undervaluation in the heavily rising market of 1987 and 1988. Although evidence was not conclusive in other rising and falling markets during the period under analysis, tentative conclusions were that valuers undervalue in bull and overvalue in bear markets. It was also concluded that the probability of achieving a valuation within ±10% of the sale price was only 30%, between ±15% was 55% and ±20% only 70%. Matysiak and Wang suggested that valuations are higher than sale prices when the market is falling and lower than selling prices when the market is rising.

The major valuation accuracy study in the United States of America was carried out by Cole, Guilkey and Miles (1986) in the survey that was conducted between 1985 and 1986. The National Council of Real Estate Fiduciaries provided a database of valuations and subsequent transaction prices to the researchers. The study was based on 144 transactions, which took place between January 1974, and June 1984.The lag period was taken into account by adjusting the valuation according to inflation between the date of valuation and the date of sale. The results indicated that the last appraisal value was on average, over 75% (inflation adjusted) different from the sale price. A range of +18.1% to –28% was found. The study also examined the standard deviation of the absolute percentage difference. They found it rather disturbing that the most current appraisals exhibit nearly as great a standard deviation as the more distant appraisals. It was concluded that the overall results do not indicate a high degree of reliability in the individual commercial appraisal product.

The first known valuation accuracy study in Australia was carried out by Newell and Kishore (1998). The study was conducted on the accuracy of commercial property valuations as an effective proxy for sales using the commercial property monitor (CPM) database. A total of 218 commercial property sales (consisting of 101 office and 117 retail properties worth $15.5 billion from Sydney over the period of 1987-1996) were examined for the study. The Regression-based procedure adopted in Matysiak and Wang (1995), was adopted in their statistical analysis after proper adjustment had been made to take care of the lags between the time the valuations were carried out and the time the respective sales were made using the PCA property indices. Having accommodated the time lag between valuations and subsequent sales of the properties as well as the differences on the market conditions by introduction of dummy variables, the resultant regression equation portrayed that valuation generally on average are an effective proxy for sales particularly after necessary adjustment are made for timing and the state of the market.

The first known study into valuation accuracy in Nigeria was carried out by Igboko (1992). This was followed by Ogunba and Ajayi (1998), the study looks into the accuracy and variation in investment valuations in Nigeria using Lagos metropolis as the study area. Based on the results of the tests they concluded that valuations are not a good proxy for market prices, since the results obtained from the statistical calculations demonstrated a dispersion of values far in excess (33.43% - Victoria Island property and 36.47% for Ikoyi property) of the accepted norm of ±5%. However, the fact that only two (2) properties were considered for the study make the eventual conclusions arrived at suspect just like what happened to Hager and Lord (1985) study, where the sample size was considered small as a result of which it was declared unrepresentative. Secondly, the study used properties located in Lagos Island axis to the detriment of other parts of Lagos metropolis, hence the conclusions arrived at cannot be said to be the true reflection of what happens in other parts of the metropolis and hence the need to expand the scope of this study with a view to covering a wider part. Expanding the study coverage to the whole of Lagos and increasing the number of properties to three (3), in different locations, Ajibola (2006) got a range of between ±24.82% for Ikoyi and ±51.54% for Ojodu Area. He posits that though there is relative bridging of gap with that of Ogunba and Ajayi (1999), the valuation is still not a good proxy for sale (transaction) prices.

Materials and Methods

Primary data used for this study was gathered through the use of survey methods, especially questionnaire and personal interviews. There are 500 Registered Surveyors and Valuers in Lagos Metropolis (Nigerian Institution of Estate Surveyors and Valuers NIESV Directory, 2009). However only a total of 300 of them are working in firms of Estate Surveying and Valuation and these were the respondents used for this study, out which only 150 questionnaires (representing 50%) was returned. The questionnaire was administered to elicit information on valuation accuracy. The data collected were analysed using descriptive statistics. Also, personal interviews were conducted on selected officials of the Nigerian Institution of Estate Surveyors and Valuers and 10 Valuation Lecturers from the three institutions of higher learning within the metropolis, offering Estate Management courses. Secondary data was collected from previous publications such as journal publications, textbooks, NIESV directory, to mention just a few.

Presentation of Result

The objective of this section is present data collected using questionnaire administered and the result of the personal interviews conducted. The analyses of the data collected are as shown in Tables 1 – 6 below.

Table-1 : Location of Firm

Location	Frequency	Percentage
Abule-Egba	1	0.7
Apapa	7	4.7
Ebutemetta	2	1.3
Festac	3	2.0
Ikeja	46	30.6
Ikoyi	3	2.0
Ketu	1	0.7
Lagos Island	55	36.6
Ogba	1	0.7
Surulere	2	1.3
Victoria Island	28	18.7
Yaba	1	0.7
Total	**150**	**100.0**

Source : Field Survey 2010

Table-1 shows the spread of the respondents on which copies of questionnaire were administered. The Table reveals that the largest proportion of the respondents (35.3%) is working in Lagos Island. This is closely followed by Ikeja with 31.3% of the respondents and Victoria Island (VI) making up 18.7%of the respondents.

Table-2 : Firm's Area of Specialization

Specialisation	**Frequency**	**Percentage**
Valuation	5	3.3
Property Development	27	18.0
Feasibility and Viability	1	0.7
General Practice	117	78.0
Total	**150**	**100.0**

Source : Field Survey 2010

Table-2 shows the characteristics of the firms, it can be seen that 78% are in general practice. While 18% stated that they specialised in property development, 3.3% and 0.7% reported that they specialise in valuation and feasibility and viability studies respectively. This shows that Nigerian Surveyors are yet to specialise and this could affect their performance in general and valuation in particular.

Table-3 : Sources of Firm's Information

Source	**Frequency**	**Percentage**
Use of In-house Databases	118	78.7
Other Local Valuers	11	7.3
Personal Experience	6	4.0
Use of In-house Valuers	3	2.0
Property Press	12	8.0
Total	**150**	**100.0**

Source : Field Survey 2010

Information gathering and application is very important in valuation assignments hence the respondents were requested to indicate the sources of their information. The result in Table-3 shows that 78.7% of the respondents relied on in-house databases for valuation assignments. Other sources of information used by respondent Valuers, albeit at insignificant proportions, include; property press (8.0%), other local Valuers (7.3%), personal experience (4.0%) and use of in-house Valuers (2.0%)

Table-4 : Is there any sufficient Market Evidence (Data) to produce Accurate Valuation?

Evidence	**Frequency**	**Percentage**
Yes	11	7.3
No	139	92.7
Total	**150**	**100.0**

Source : Field Survey 2010

Conducting valuation is predicated on getting accurate market evidence (data). However, Table 4 shows that such evidence (data) is not available. It is evident from the Table that while 92.7% of the respondents were of the opinion that there is not enough market evidence (data) to produce accurate valuation, only 7.3% had a contrary opinion. Once there is no accurate data, the result would be inaccurate valuation figure.

Table-5 : Subscribing to the idea of National Valuation Evidence Data (NVED) BY NIESV

NVED	**Frequency**	**Percentage**
Yes	128	85.3
No	22	14.7
Total	**150**	**100.0**

Source : Field Survey 2010

Having identified that there is a dearth of evidence (data) to conduct accurate valuation, the question then is how to make the information available. The respondents are willing to subscribe to the idea of National Valuation Evidence Data to be set up by NIESV. Table-5 shows that 85.3% of the Valuers are willing to make subscription to NVED any time NIESV come up with such an idea.

Table-6 : Ranking of the Factors Contributing to Valuation Inaccuracy in Nigeria

Rank	Very Important	Important	Less Important	Unimportant	Nil	Total
Inadequate academic training.	89 (59.4%)	59 (39.3%)	2 (1.3%)	–	–	**150 (100%)**
Influence of unscrupulous clients.	33 (22%)	37 24.7%)	80 (53.3%)	–	–	**150 (100%)**
Dearth of market evidence.	143 (95.3%)	7 (4.7%)	–	–	–	**150 (100%)**
Inexperience in valuation practice.	73 (48.7%)	77 (51.3%)	–	–	–	**150 (100%)**
Laziness on the part of the Valuer.	8 (5.3%)	122 (81.4%)	18 (12%)	–	2 (1.3%)	**150 (100%)**
Use of outdated valuation approach.	132 (88%)	14 (9.3%)	–	4 (2.7%)	–	**150 (100%)**
Valuer's over-reliance on agency in Lagos	45 (30%)	60 (40%)	42 (28%)	–	3 (2%)	**150 (100%)**

Source : Field Survey 2010

Table-6 x-rays the factors contributing to valuation inaccuracy. The range of importance attached to their influence is from 46.7% for the influence of unscrupulous clients to 100% for dearth of market evidence and inexperience in valuation practice.

Discussion

It is evident from Table-1 that there is a geographical spread of Estate Surveying and valuation firms in the study area however, 55.3% of the respondents are working firms located in Lagos Island/VI axis. The reason for this may be due to the desire to locate close to the institutions (finance and non-finance) that regularly request for valuation reports. Specialisation in a particular service or industry can be a very successful strategy for small firms, like we have in the study area. It makes it possible to focus finite resources on one or two practice areas, makes it easier to build a reputation in the field and can enhance the performance of the firm in the chosen aspect of the profession. The result contained in Table-2 shows that Valuers in the study area engaged in general practice. A follow up in-depth interview with NIESV officials showed that a general practice surveyor may not be able to provide valuation figure with minimum level of inaccuracy and this may affect any transaction based on such figure. Conducting valuation is predicated on getting accurate market evidence (data). The result of a valuation would be as good/bad as the information used. Reliance on in-house data source, as shown in Table 3 indicates that the Valuers use information that may not be properly processed and this could result in valuation inaccuracy. Table-4 further reveals that there is insufficient market data to produce accurate valuation. This could be due to the absence of centrally organised databank where Valuers could obtain reasonable information for valuation assignment at minimal level of inaccuracy. Having identified that there is a dearth of evidence (data) to conduct accurate valuation; Table-5 shows that the respondents are willing to subscribe to a centrally coordinated databank by NIESV. If this is followed through, there is no doubt that the level of valuation inaccuracy would be reduced to the acceptable margin. As x-rayed in Table 6, it is evident that all the factors listed contribute to valuation inaccuracy and are to be seriously monitored. In a situation as this, real estate development could be very risky and the fall-out may be slow and unsustainable economic development.

Conclusions and Recommendations

The various studies carried out in UK, USA and Australia showed that acceptable range of valuation inaccuracy fall between ±5% and ±10% for UK and USA while Australia has ±10% and ±15%. In Nigeria, outrageous figures were arrived at by Ogunba and Ajayi (1998) and Ajibola (2006). In other words, valuation as it is presently carried out, is not a good proxy for sale (transaction) prices for properties in Lagos. Access to market information is difficult and this constitutes a great contributor to inaccurate valuation. Non-availability of data results in Valuers relying on their experiences and unanalysed/unprocessed information for their valuation exercise. The value from such source will be as good as the information available -unreliable values. Lack of a reliable databank is at the heart of valuation inaccuracy. Valuations are a function of information. The better the information set the better the valuation. If a group of Valuers each have a different view of the market then the distribution of valuations would have a wider variance than those which are based on similar information. The spread of valuations will depend upon the completeness of the information set. In fact it is the difference in interpretation of the information which leads to possible transactions. Therefore NIESV should establish central databank and intensify efforts on Mandatory Continuing Professional Development (MCPD) so as to keep members updated on contemporary methods of valuation.

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