

Client's Perceptions of Valuation Reports in Nigeria

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Abstract: It is pertinent that the values of properties are accurately communicated to all stakeholders since it is an acknowledged fact that clients attach so much importance to the quality and reliability of valuation reports in meeting their intended investment objectives and decisions. Nonetheless, a number of key issues regarding the superiority and credibility of the valuation process and valuation reports have been the focus of considerable attention in recent time in Nigeria. As a result of this, the study examines the clients' perspectives on the superiority and reliability of valuation reports in Lagos State, Nigeria through the evaluation of the current valuation report standard of the study area, identification and assessment of issues and problems of valuation reporting in the study area, and assessment of range of factors in respect of clients' views on the quality and dependability of valuation reports. With the aid of 75 numbers of self-administered questionnaires to sample the opinion of the selected Lagos State-based financial institutions – banks, savings and loan homes, insurance companies and discount houses, the survey summarily reveals that most of these clients have no vivid understanding of the basic requirements of a standard valuation report, and are not informed about any stipulated provisions of valuation standards and guidance notes. Moreover, the study reflects concern for the need for significant increase in economic and market analyses in valuation reporting, i.e. greater emphasis on market position of particular projects and the need for the current demand and supply situation, and a call for considerable review of existing (and intended) valuation standards and guidance notes involving all stakeholders.

Background to the study

According to Ifediora (1993), we have considered the valuation of real estate (and property) as a solution to a problem, and particularly as an answer to specific questions posed by a client. We have also, in seeking solution or an answer to the problem, adopted the scientific approach to the solution of problems by following a systematic process, namely the valuation process. We have thus defined the problem or the question posed for its solution. We have also identified and carried out the assembly of all necessary data required for the solution, applied the various methods of valuation and correlated the respective value indications to arrive at a single opinion of value. All that remains is for us to communicate the solution to the client and that is where the valuation report comes in.

A valuation report is a formal presentation of the valuer's opinion, the medium by which the valuer fulfils his agreement with his client, and thus, the tangible expression of the valuer's rendering of services for which he will be entitled to receive a fee. Yet, there is a known fact that clients attach so much importance to the quality and reliability of valuation report in meeting their intended investment objectives and decisions. It is therefore pertinent that the values of such properties are accurately communicated (Adetokunboh, 2012).

In recent time, a number of key issues regarding the quality and reliability of the valuation process and valuation reports have been the focus of considerable attention, these include ensuring greater credibility and clarity in general property valuations, assessing valuers' compliance with the reporting standards and ensuring public confidence in the valuation process (Newell, 1995, 1999; Crosby et al, 1997; Razali et al, 2008). Most of these studies have pointed to the fact that there is a need for the client and valuer to be more fully aware and better informed of the expectations and requirements of valuation report content and standards.

In a separate study of the quality of valuation reports in Australia and Malaysia, Newell (1995) and Razali et al (2008) respectively submitted that the clients of valuation reports rated seven categories of weaknesses encountered in valuations of their properties; inadequate market analysis, failure to understand complexities and market position of particular project, failure to comment on likely market trends, lack of details and discussion of analytical aspects, limitation on assumptions and qualifications of valuation report, limited use of comparables, and over reliance on historical aspect of market

performance. Out of these investigated weaknesses, failure to understand complexities and market position of particular project, and inadequate market analysis clearly remain the highest ranked of the perceived weaknesses.

Given the significant changes in the Nigerian real estate market and industry in recent years, particularly relating to valuation practice, opinion of values are rejected by clients claiming that they do not have full understanding of the prepared valuation reports leading to their inability to make quick and urgent decisions on their investments - and as a consequence, leading to unpaid professional fees of services well rendered by the valuers.

It is therefore particularly important that an assessment is performed as to whether the needs and expectations of valuation clients are being met concerning the superiority and credibility of valuation reports. As a result of this, the study examines the clients' perspectives on the quality and reliability of valuation reports in Lagos State, Nigeria through the evaluation of the current valuation report standard of the study area, identification and assessment of issues and problems of valuation reporting in the study area, and assessment of range of factors in respect of clients' views on the quality and dependability of valuation reports.

Valuation Reporting Standards and Guidelines

The way a user perceives a valuation report is a window the way the valuer himself is perceived. Besides the claim that clients do express concern over their inability to have broad understanding of valuation reports causing an advance incapability to make swift and critical investment decisions, it has been further established that clients are also of the opinion that valuers are quite secretive about how they arrive at their opinions of values, with respect to the prepared valuation reports. What then makes a good valuation report? How can a valuation report attain maximum communication with the client? Or perhaps the most important question of all is: what does the inclusion of the particular items add to the development of the valuer's argument and to reader's understanding?

According to IVSC (2011), it is essential that the valuation report communicates the information necessary for the proper understanding of the valuation, free of ambiguity, and providing the intended reader with a clear understanding of the assessment provided. Though the type, content and length of a valuation report vary according to the intended user, legal requirements, the property type, and the nature and complexity of the assignment, but the better the understanding of how values are arrived at, the easier it will be for users to relate with the subjective opinions of valuer (Newell, 1999).

Aluko (1999) claimed that there is no specific format for a standard valuation report and all experts have the liberty of developing their in-house style. However, whatever style is adopted, the report must contain a minimum of the following; brief/introduction, date of inspection, purpose and scope, location, neighbourhood characteristics, site description, construction, services, state of repairs, planning permission, tenancy, tenure/title, assumptions, method/basis/analysis, opinion of value, caveat and appendixes. All these essential components are expected to be put together in a logical sequence - not necessarily according to a specific format but logical enough to permit a flow of thought. (Appraisal Institute, 2008; Ifediora, 1993; Kuye, 2000; NIESV, 2006).

In line with the submission of the International Valuation Standards Council (IVSC) on valuation reporting, the purpose of the valuation, the complexity of the asset being valued and the users' requirements should determine the level of detail appropriate to the valuation report; the format of the report and any exclusion from the content requirements of the International Valuation Standards 2011 should be agreed on and recorded in the scope of work. Furthermore, to provide comparability, relevance and credibility, the valuation report must set out a clear and accurate description of the scope of the assignment, its purpose and intended use, confirmation of the basis of value used and disclosure of any assumptions, special assumptions, material uncertainty or limiting conditions that directly affect the valuation (IVSC, 2011).

As well, under IVS 103 Reporting of the International Valuation Standards 2011, the valuer performing and reporting a value estimate must include reference to matters listed below;

1. Identification and status of the valuer

The valuer can be an individual or a firm. A statement confirming that the valuer is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation must be included; so also the signature of the individual or firm responsible for the valuation. If the valuer has obtained material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance must be referenced in the valuation report.

- 2. Identification of the client and any other intended users**
The party commissioning the valuation must be identified together with any other parties whom it is intended may rely on the valuation.
- 3. Purpose of the valuation**
The purpose of the valuation must be clearly stated.
- 4. Identification of the asset or liability to be valued**
Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset. If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation, excluded but assumed to be available or excluded and assumed not to be available.
- 5. Basis of value**
This shall be appropriate for the purpose. The source of the definition of any basis of value used must be cited or the basis explained.
- 6. Valuation date**
As defined in IVSC, the valuation date is the date on which the opinion of value applies. This may be different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed.
- 7. Extent of investigation**
The extent of the investigations undertaken, including the limitations on those investigations set out in the scope of work, must be disclosed in the valuation report.
- 8. Nature and source of the information relied upon**
The nature and source of any relevant information relied upon in the valuation process without specific verification by the valuer must be disclosed.
- 9. Assumptions and special assumptions**
All assumptions and any special assumptions made must be clearly stated.
 - a. Restrictions on use, distribution or publication**
Where it is necessary or desirable to restrict the use of the valuation or those relying upon it, this must be stated.
 - b. Confirmation that the valuation has been undertaken in accordance with the stipulated International Valuation Standards (IVS)**
While confirmation of conformity with stipulated IVS is required, there may be occasions where the purpose of the valuation requires a departure from the IVS. Any such departure must be identified, together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.
 - c. Valuation approach and reasoning**
To understand the valuation figure in context, the report must make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached. This requirement does not apply if it has been specifically agreed and recorded in the scope of work that a valuation report must be provided without reasons or other supporting information.
 - d. Amount of the valuation or valuations**
This must be expressed in the applicable currency.
 - e. Date of the valuation report**
The date on which the report is issued must be included; this might be different from the valuation date, as defined above (IVSC, 2011).

Moreover, a valuer's information gathering, analysis and conclusions are of little value if they are not effectively communicated to the client, it is however recommended that a comprehensive valuation report should be evaluated against the following background:

1. Presentation and appearance
2. Content
3. Arrangement and format
4. Composition and style

In addition, from the view point of Ifediora (1993) and Appraisal Institute (2008), a standard valuation report and presentation should be in three major divisions, and these are:

1. The preliminaries/introductory part
2. The main report (made up of the descriptive and analytical parts including the conclusions)
3. The supplementary part (made up of appendices)

Furthermore, Aluko (1999) identified that the under listed are the essential ingredients of a standard valuation report (and these ingredients must be given good consideration whenever a valuation report is being prepared):

- i. Good grammar
- ii. Brevity, simplicity and clarity
- iii. Adequate and correct use of punctuations
- iv. Avoidance of colloquial words and phrases
- v. Avoidance of complex statements and long words
- vi. Guard against use of first person singular e.g. "I", "Me"
- vii. Report should have heading
- viii. Report should be set to plan
 - a. Briefly recapitulate the instructions given
 - b. followed with descriptive and non-descriptive facts
 - c. Conclusion and advice
- ix. Exclusion of unnecessary facts
- x. Facts expressed as a definite conviction and not as a qualified or unverified half belief
- xi. Free from unverified hearsay
- xii. Opinion should feature at the last paragraph
- xiii. Should not show the calculations made to arrive at the value opinion
- xiv. Must be dated and signed
- xv. Free from typographical error
- xvi. Should contain details such as location, tenure, assumption, basis and method of valuation, accommodation details etc.

It is, however, fundamental to the operation of International Valuation Standards that valuation performed in compliance therewith should be provided by honest and competent professional valuers, free of bias or self-interest, whose reports are clear, will not mislead, and will disclose all matters essential to the proper understanding of the valuation (NIESV, 2006).

Survey Method, Data Analysis and Discussion

A survey designed to obtain information concerning clients' perceptions of valuation reports in Nigeria was conducted in which 75 questionnaires were administered to financial institutions; banks, insurance companies, savings and loan homes, and discount houses.

Data analysis for this study involves the use of both descriptive and inferential statistical techniques. Percentage responses were presented for all questions for the survey participants.

Clients' Profile:

A total of 63 surveys were returned, representing an overall response rate of 84% of which 71.43% had a graduate degree (HND or B.Sc.) while 28.57% had a postgraduate degree – and with an average of 4

years work experience . These statistics show that it is logical to assume that the respondents had a fair understanding of the issues being considered.

Table 1: Academic qualification of respondents

Academic qualification	Frequency	%
HND/B.Sc.	34	53.97
M.Sc./MBA/PhD	29	46.03
Total	63	100.00

Source: Field Survey, 2012

The sample frame used was financial institutions which represent a large percentage of valuation report clients (and users) in Nigeria. Banks represented the largest percentage of respondents (65.08%), insurance companies (11.11%), savings and loans homes (11.11%) and discount houses (4.76%).

Table 2: Financial institution involved in the survey

Type of financial institution	Frequency	%
Banks	41	65.08
Insurance Companies	7	11.11
Savings & Loan Homes	7	11.11
Discount Houses	3	4.76
Undisclosed	5	7.94
Total	63	100.00

Source: Field Survey, 2012

Purpose of Valuations

The reasons referred to for using valuations in these companies were for mortgage decisions (54%), for investment purposes (25.4%), and for accounting decisions (7.9%) and other undisclosed financial decisions (12.7%).

Table 3: Reason for using valuation

Purpose for valuation	Frequency	%
Mortgage Decisions	34	53.96
Investment Decisions	16	25.40
Accounting Decisions	5	7.94
Undisclosed Financial Decisions	8	12.70
Total	63	100.00

Source: Field Survey, 2012

Quality and Credibility of Valuation Report:

Evaluating the quality and reliability of certified valuation reports, the level of clients' satisfaction was at least adequate. Over 60 percent of the respondents have the perception that the quality and credibility of the reports are of average while over 35 percent decided that they are of high quality. This outcome infers that a greater percentage of the respondents perceived the quality and reliability of valuation reports to be within the average rank.

Table 4: Quality and reliability of valuation report by indigenous valuers

Rating	Frequency	%
Average	39	61.90
High	23	36.50
Very High	1	1.60
Total	63	100.00

Source: Field Survey, 2012

Content and Necessary Components of a Good Valuation Report:

With respect to occurrence rate of certain components in valuation reports, the outcome of the survey pointed out that *Brief, Purpose of Valuation, Basis of Valuation, Physical Characteristics of Property, Legal Characteristics, Assumptions, Opinion of Value, Disclosure and Certification of Report* occur frequently in valuation reports that the survey respondents have had access to prior to this survey – this represents over 84 percent level of occurrence for each component. Moreover, *Economic and Market Analyses* do not occur often – occurrence rate of each (of these two components) is less than 50 percent.

Table 5: Assessment of occurrence of certain components in valuation report

Components	Occurrence Rate (in %)
Brief	91.53
Purpose of valuation	93.33
Basis of valuation	95.00
Economic Analysis	48.00
Market Analysis	47.62
Physical Characteristics	95.08
Legal Characteristics	85.71
Assumptions	89.83
Opinion of value	95.08
Disclosure	84.62
Certification	91.67

Source: Field Survey, 2012

The above table shows that the respondents perceived economic and market analyses as poorly represented in valuation reports submitted by the valuers. This is evident as both components have the highest frequencies for “never” and the lowest frequencies for “frequently”.

Table 6 below presents that over 85 percent of the respondents agreed that *Title to Property, Limitations, Property Ownership, Encumbrances and Subsisting Tenure in Property* are necessary legal components that must be indicated in every valuation report.

Table 6: Necessary legal components required in a valuation report

Legal Components	Strongly Agree	Agree	Strongly Disagree	Disagree
	%	%	%	%
Title to Property	60.34	32.76	0.00	6.90
Limitations	51.85	42.60	0.00	5.55
Property Ownership	62.30	34.43	0.00	3.27
Encumbrances	51.67	33.33	0.00	15.00
Subsisting Tenure in Property	55.56	37.07	0.00	5.55

Source: Field Survey, 2012

Moreover, over 87 percent of the respondents agreed that some physical components must be indicated in any valuation report. This physical component incorporates *Location of Property, Description of Property, Accessibility to Property, Age of Property and Available Services to Property*. These identified physical components of a valuation report have been regarded as necessary – as presented in Table 7 below.

Table 7: Necessary physical components required in a valuation report

Physical Components	Strongly Agree %	Agree %	Strongly Disagree %	Disagree %
Property Location	73.77	26.23	0.00	0.00
Property Description	70.49	29.51	0.00	0.00
Accessibility to Property	69.84	26.98	1.59	1.59
Age of Property	62.50	25.00	3.57	8.93
Available Services to Property	64.91	29.83	1.75	3.51
Size of Property	64.29	33.33	1.79	0.00

Source: Field Survey, 2012

The outcome of necessary economic components required in a valuation report is given in Table 8. Over 85 percent of the respondents agreed that prevailing inflation rate, and level of demand and supply of subject property should be indicated in valuation reports, and over 71 percent of the respondents agreed that current interest rate and oil price should be indicated while 62 percent and only 53 percent of respondents agreed that prevailing exchange rate and the Nation's GDP should be indicated respectively.

Table 8: Necessary economic components required in a valuation report

Economic Components	Strongly Agree %	Agree %	Strongly Disagree %	Disagree %
Inflation	53.06	32.66	8.16	6.12
Interest Rate	41.67	31.25	8.33	18.75
Oil Price	20.51	20.51	20.51	38.46
Exchange Rate	21.62	40.54	18.92	18.92
Gross Domestic Product	25.00	27.78	13.89	33.33
Demand Level	27.46	60.78	7.84	3.92
Supply Level	42.86	50.00	5.36	1.78

Source: Field Survey, 2012

In determining the essential value estimation components of a valuation report, nearly all the survey respondents (i.e. over 95 percent of respondents) agreed that basis of valuation, valuation methodology, and valuation analysis must be indicated. The detail of the outcome is shown in Table 9.

Table 9: Necessary value estimation components required in a valuation report

Value Estimation Components	Strongly Agree %	Agree %	Strongly Disagree %	Disagree %
Valuation Analysis	60.00	36.36	1.82	1.82
Valuation Methodology	71.19	27.12	1.69	0.00
Basis of Valuation	62.71	35.59	1.70	0.00

Source: Field Survey, 2012

Table 10 shows the assessment of physical attributes of valuation reports prepared by valuers. Outcome of the assessment indicated that over 90 percent of respondents rated that composition, presentation and expression (language) styles adopted in preparing valuation reports are quite good and acceptable. Contents of the report and pictorial illustration were assessed good by 65 percent and 78 percent of respondents respectively – which are considered to be adequate and moderately acceptable.

Table 10: General evaluation of attributes of valuation reports prepared by valuers

Report Attributes	Excellent %	Good %	Fair %	Poor %
Content	17.24	58.62	3.45	0.00
Composition	26.31	66.67	7.02	0.00
Arrangement/Presentation	30.36	67.86	1.78	0.00

Expression (Language)	30.51	66.10	3.39	0.00
Pictorial Representation	21.57	56.86	19.61	1.96

Source: Field Survey, 2012

Prior Knowledge and Understanding of Valuation Report Standards and Guidance Notes:

In line with the survey, it was reliably confirmed that just 30 percent of these clients (and users) of valuation reports have prior knowledge of any valuation report standards and guidance notes.

Table 11: Prior Knowledge of existing valuation report standards and guidance notes

Prior Knowledge	Unit	%
Yes	19	30.16
No	36	57.14
Undisclosed	8	12.70
Total	63	100.00

Source: Field Survey, 2012

Of the 19 respondents that have prior knowledge of existing valuation report standards and guidance notes, only 63 percent have adequate understanding of the valuation report standards and guidance notes.

Additional Requirements perceived to be Necessary in a Valuation Report:

Respondents were also asked to give additional requirements perceived to be necessary in a valuation report. The following is a summary of the responses given:

1. Actual mathematical analysis adopted to arrive at the opinion of value.
2. Reflection of estimated life span of property valued.
3. Reporting language should be plain and understandable by laymen in which all professional jargons used in any valuation report are properly defined.
4. Inclusion of market performance of property valued.
5. Inclusion of market trend of property valued.
6. Expected duration of validity of opinion of value.
7. Exclusion of the caveat statement.

Summary of Findings

The following are the findings of this study:

1. Valuation reports are used for mortgage purpose more than they are used for any other purpose.
2. The quality and reliability of valuation reports by the valuers is widely rated as average.
3. Economic analysis and market analysis are generally perceived to be poorly represented in valuation reports.
4. Title, limitations, ownership, encumbrances and tenure are all perceived to be necessary legal components of a valuation report.
5. Location, accessibility, description, age, services and site area are all perceived to be necessary physical components of a valuation report.
6. Demand, supply, interest rate and inflation rate are perceived to be the most important economic components to be contained in a valuation report, while GDP, oil prices and exchange rates are perceived to be relatively insignificant.
7. Valuation basis, valuation methodology and valuation analysis are perceived to be necessary components in valuation reports.
8. Physical attributes of valuation reports are generally perceived as being satisfactory.
9. Most clients and users of valuation reports have no prior knowledge and adequate understanding of the valuation report standards and guidance notes, so they lack adequate

information on the provisions of the IVSC with respect to what and how a standard valuation report should be like.

10. Ignorance of clients of the valuation report standards has caused rejection of valuation reports and failure to pay the valuers for well rendered executed valuation briefs.

Conclusion and Recommendation

Valuation report is the final step in the valuation process and it is very important as it is used to communicate the opinion of value to the client and the general interested public. However, the appropriate adoption of the given standards must be strictly adhered to for best practices which will afford the required consistency, transparency, harmonisation and credibility. Yet, there is need to call for considerable review of these stipulated standards from time to time, and adequate communication of these provisions to the valuation clients for better knowledge and understanding of same – in order to afford clients and other users better understanding of how opinions of values are arrived at, ability to make swift and urgent investment decisions, and also prevent unnecessary rejection of valuation reports and unpaid professional fees, of well executed valuation instructions.

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