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An assessment of the current standard of real estate valuation practice in Nigeria

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ABSTRACT

This study appraised the current approach, methodology and reporting standards of real estate valuation in Nigeria. Primary data were sourced through structured questionnaires administered to practitioners in Lagos metropolis, while secondary data were mainly from valuation reports prepared by valuers (appraisers) operating within the study area and documents from the regulatory bodies. Using the yardstick of transparency, rationality and consistency - the universal hallmarks of reliable asset pricing; and the International Valuation Standards Committee's as well as the Royal Institution of Chartered Surveyors' recommended "minimum content of valuation report", the study revealed that the real estate valuation practice in the country presently falls short of international standards and best practices. While acknowledging remedial steps that were recently put in place, the study recommended other measures that will revolutionize the local practice. These include formation of bigger firms, a more proactive regulatory framework and a comprehensive review of training curricular. Substantial amendments to the present national valuation standards and guidance notes to reflect and accommodate the peculiarity and the particular needs of the local market place with adequate measures for enforcement/sanctions should also be considered. Above all, practitioners must be willing to embrace necessary changes in practice.

Introduction

The application of technical and professional standards is one element which distinguishes a professional from a trade or service industry. Absence of standards connotes lack of professionalism and constitutes a potential source of abuse, mediocrity, complacency and conflicts. The Webster Reference Dictionary defines standard as "anything taken by general consent as a basis of comparison, or established as a criterion, a grade or level of excellence or advancement generally regarded as right or fitting", while standardization is defined as steps taken "to conform to or regulate by a standard, bring to or make of any established standard size, shape, weight, quality or strength to compare; with or test by standard" (Webster, 1961). Standards therefore comprise technical specifications and other prescribed materials designed to be used consistently as a rule, guideline, or definition and are aimed at helping to simplify and to increase the reliability, comparability, and effectiveness of goods and services (BSI, 2006). In professional parlance, standards are a summary of best practice created to ensure reliability, comparability, and effectiveness of services provided. In particular, valuation standards serve as professional benchmarks or beacons enabling members to provide reliable valuations that meet the financial reporting requirements of the business community. Their purpose is to ensure that valuations produced by members achieve high standard of integrity, clarity, and objectivity and are reported in accordance with recognized bases that are appropriate for the purpose. Standards are imposed by personal conscience, by national professional institutions or by law.

The subject of standards in real estate valuation in Nigeria has been addressed in parts by a few studies (Babawale, 2005; Babawale and Koleosho, 2006; Ogunba and Ajayi, 2003, 2007). Both Babawale (2005) and Babawale and Koleoso (2006) examined the implications of globalization on real estate valuation practice in Nigeria; while Ogunba and Ajayi (2003, 2007) attempted to measure the response of Nigerian Valuers to increasing clients' sophistication in investors' requirements in terms of valuation accuracy, rationality, and risk analysis; using what the authors described as UK's pattern of transition towards investors-focused sophistication as basis. This follow-up study takes a more holistic and deeper look at the same subject by considering the purpose, modality, and the construction of standards in real estate valuation in Nigeria; and also investigated the level of standards presently attained by Nigerian real estate valuers (appraisers) in their valuations preparation. The ultimate goal is to ascertain the extent to which Nigerian valuation practice is responding to international standards and best practices from the point of view of transparency, rationality and consistency. Such investigation is needful given the central role of reliable valuations in the overall working and efficiency of the property and financial markets. The quickening pace in the globalization of investments market further underscores the need for valuations that are consistent, transparent and that are readily understood, applicable and accepted internationally (IVSC, 2003). The study is in five sections. This introductory section is followed by a review of relevant literature. Section three is an overview of the present valuation environment in Nigeria. The method of study is in section four, while we have

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the discussions of the results of the study as well as the conclusions and recommendations in the last section.

The need for standards in real estate valuation

Valuation standards first emerged at the national level in a bid to address local financial crisis which had roots in property related transactions (Barry and Preston, 2005). Examples that readily come to mind include the financial and property market collapse in the UK mid-1970s and the 1990s which exposed inconsistency and wide variations in the approach to property valuation, resulting in vastly different and often unrealistic figures for similar assets. Among others, the recessions prompted interests in alternative valuation techniques which birthed such more rational and explicit models as the modified all-risk yield and the discounted cash flow (DCF). The Royal Institution of Chartered Surveyors (RICS) also responded by commissioning a series of research including the Mallisson (1994) and in 1985 produced her Appraisal and Valuation Manual, colloquially referred to as "Red Book" (French, 1996). Similarly, the "savings and loans" debacles that rocked the US financial and property markets in the 1980s prompted a legislative intervention, which mandated the US appraisal profession to introduce a uniform Appraisal Standard (Yovino-Young, 1997).

Being a prediction, property valuation is to a large extent subjective as it depends on individual valuer's expectations about the future, his comprehension of the underlying assumptions as well as his dexterity in interpreting relevant facts and underlying assumptions to arrive at a defined value for the property. The unique characteristics of property interests together with the differences in individual valuer's characteristics and training further create room for divergence of methods and variations in approaches to valuation construction and reporting. Valuation has therefore been described as an inexact science (Harvard, 1995). As such, valuers must be assisted to reach their valuation opinions in an impartial and objective manner, without bias and giving no room to favor their own interest or accommodate the interest of their client.

The unprecedented cross-border business transaction promoted by globalization is another factor that spurred the development of standards that are universally acceptable and applicable. In this wise, standards help to mitigate the effect of differences in expectations, standard of living, culture and values, legal systems as well as the economic and political environment between countries and regions of the world and different parts of a country.

The internationalization of real estate service, the development of common indices for the analysis of pooled property data, and particularly the merger of property consultancy companies in the UK with their American counterparts acted as a driver for the development of common valuation standards (Mackmin, 1999). McParland et al., (2002) also observed that the advent of property performance index series is shown to be a major factor influencing the harmonization of valuation methods and standards. For instance, the US National Council for Real Estate Investment Fiduciaries (NCREIF) has contributed to the development of real estate standards in the US through its quarterly property index which shows real estate performance returns used as an industry benchmark to compare an investors own return against the industry average (Milgrim,2001). The IPD/Drivers Jones (now IPD/RICS), Lang Lasalle Property Performance Analysis System (PPAS) are some of the UK's prominent counterparts.

The recent developments in the banking world promoted by the Basle Accord on bank regulations; and the growing need to observe international Accounting Standards are other factors that have made the need for common standards for valuation more urgent and compelling. Milgrim (2001) observed that the emerging global client is driving international standards in accounting, banking and valuation. Valuations that will be used for lending purposes, financial reporting of multinational companies, cross-border property investments performance comparison or securitization of real estate, can therefore be produced only by a valuation profession that conforms to international standards of professional education, competence and practice.

The law courts have also added to the need for standards in real estate valuation. Sampson et al., (1988) noted that the courts have always looked up to the published standards of professional bodies for judgment guidelines. While failure to comply with these standards do not in themselves constitute a breach of the laws as they are not legislative enactments, the courts have always put these standards into consideration especially in liability cases such as negligence, breach of contract, and fraud.

Given the foregoing and beginning from the 1970s, there has been a proliferation of national valuation standards that addresses local conditions and practice. Examples include UK's RICS "Red Book", the Uniform Standards of Professional Appraisal Practice (USPAP) of the US Appraisal Foundation, and the Professional Practice of the Australian Property Institute. There are also regional and international valuation standards which have grown in response to cross- border investment property dealings and which are intended to be complementary and mutually supportive to various national standards. Notable regional valuation standards include the Approved European Property Standards produced by the European Group of Valuers Association (TEGOVA); the Asian Valuers Association (AVA); and the Union of the Pan American Valuers (PAV). At the international level is the International Valuation Standards (IVS) first published in 1985 and which is fast becoming a reference document for real estate valuation the world over.

Form and Contents of Valuation Standards Manual

Whether at the national, regional or international level, the goal of standards in valuation is the same. The objective is to build confidence and public trust in the valuation process by creating a framework for the delivery of credible valuation opinions by suitably trained valuation professionals acting in an ethical manner (IVSC, 2011). It is meant to assure valuation end-users that a valuation produced by a member is not only in accordance with best practice and internationally recognized standards but that there is an obligation placed on individual valuer to follow these standards and that there is an effective sanction in the case of a material breach (RICS, 2010).

Valuation standards is not so much concerned with valuation theory and methods but rather with the mechanics of practice including the assembly, interpretation and reporting of information relevant to the task of valuation (IVSC, 2003). The standards set a framework for best practice in the execution and delivery of valuations for different purposes but do not instruct valuers on how to value, nor do they discuss valuation methodology or techniques (RICS, 2010). Making a distinction between valuation " standards" and "methodology", Edge (2002) noted that while methodologies are dynamic, changing with the need, fashion, demand, and analytical techniques borrowed from other fields; standards should be consistent, a benchmark of 'good practice'. Valuation standards combine professional considerations with the practical needs of the market place. Some national standards provide for the codes of professional ethics or create review and enforcement procedures leading to censor or loss of professional recognition for members who violate either the standards or related ethical provisions.

Who sets valuation Standards?

A professional body whose standard is as numerous as the number of its members would soon loose integrity and relevance. For this reason, professional bodies whether at the national, regional or international level, have invariably been in the vanguard of advocating and setting up standard practice for their members. In some jurisdictions however, national valuation standards are set up by the government or its agency. In Germany, the standards and regulations for valuation are well entrenched in the national and federal legislations. In other countries like the US, standards for real estate practice have been a collaborative effort of the professional bodies working under the supervision of the central government agencies.

Generally, standards are created by bringing together the experience and expertise of stakeholders. McNamara (1999) observed that standard is a collective work requiring the inputs of committees of users, research organizations, government departments and consumers. Kohnstamm (1995) also noted that the tasks of assisting the formulation of uniform valuation standards often rests on academic researchers who must play a role in providing further analysis of the criteria employed in comparative international studies. In particular, the International Federation of Surveyors (IFS) observed that the main participants in the process of developing standards are generally the academia and the public servants i.e. the people whose organizations can offer for them to spend time on, and travel to, the necessary meetings (IGS, NO28).

Extensive and high level consultations are required to produce valuation standards that would stand the test of time and also enjoy wide acceptability. For instance, the IVS represents the collective work of the IVSC subcommittees made up of delegates to the IVSC, and who are representatives of various national valuation associations. The subcommittees work with several expert consultative groups which make recommendations in areas such as valuation for lending purposes and valuation for public sector assets. The subcommittees conduct outreach activities including round table discussions with invited constituents and targeted discussions with specific users or user groups (IVS, 2011). The subcommittees also work with other standard setting bodies especially in the area of accounting, banking and finance. It is through these linkages that IVS enjoys wide international and regional application today (Milgrim, 2001). The IVSC is fast becoming the powerhouse for setting valuation standards and its influence is getting increasingly wide, engulfing existing national and regional standards.

Among others, the IVS stipulates that valuers should be seen to have made their judgments in an environment that promotes transparency and minimizes the influence of any subjective factor on the process (IVS, 2011). It requires that valuation reports make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached (IVS, 2011). On valuation reporting, it emphasizes comparability, relevance and credibility. It further demands that valuation report shall 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. It prescribes that valuation report shall include reference to such matter as are listed in Table 6 (IVS, 103).

An Overview of the Nigerian Real Estate Valuation Practice Environment

As a former British Colony and an active member of the Commonwealth, Nigerian academic and professional training is rooted and patterned religiously after the British syllabus and practice, respectively. The profession of real estate valuation in Nigeria is however just evolving being only about 50 years old compared to Britain, which has a history of property valuation dating back to the 16th century (McNamara, 1999). The Royal Institution of Chartered Surveyors (RICS), for instance, was founded in 1786, and today has over 140,000 members from over 146 countries with extensive network of regional offices in every continent of the world (RICS-IPD, 2011). According to IPD/DJ (2003), over the years, RICS has developed a set of strict rules for professional conduct coupled with appropriate disciplinary powers to maintain the highest levels of integrity and professionalism that promote confidence in clients and third party users of valuations. The RICS'S valuation standards manual, the "Red Book", provides perhaps the most extensive and well considered rules and regulations to valuers. The RICS Valuations Faculty, one of her 16 faculties, promotes specialist skills and dedicated research, information and training for members. Thus the RICS is using the 'Red Book', the faculties, and effective research collaboration with the academia to promote and sustain transparency, consistency and rationality.

In Nigeria, the real estate valuation profession is regulated by two complementary bodies, the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON), a statutory body set up by Decree No. 24 of 1975 (now Cap E13, Laws of Federation of Nigeria, 2004); and the Nigerian Institution of Estate Surveyors and Valuers (NIESV), a non-profit, professional organization established in 1967 to cater for the interest of the land profession in the country. The two bodies are still undergoing pupilage problems. From records obtained at the national secretariat of the institution, full-fledged members of the institution as at the end of March, 2012, were under 5,000 (3,358 Associates and 438 Fellows). As at 2011, there were 16 private and public universities and 14 polytechnics where Estate Surveyors and Valuers are trained in Nigeria. The regulatory bodies have sponsored only one inconclusive research (Igboko, 1992) to date.

In her quest to promote the development of the valuation profession and ethical practices globally, IVSC recognized the peculiar economic, legal and institutional characteristics of the emerging and developing economics that generally make full compliance with international standards and best practices difficult or impracticable. These include poor or inadequate legal framework that does not allow for the proper functioning of the market; lack of published information or difficulty in obtaining information regarding market transactions, as well as data requisite for reliable valuation; lack of an adequate framework for land use planning which prevent valuers from undertaking highest and best use analysis in forming opinion of market values; the great volatility of property markets which leads to poor dissemination of market information; and inadequately trained professionals to support the market by providing sound analyses. Babawale (2005) observed that the evolution of the Nigeria property market has been held back by a number of structural problems, among which are the risks associated with unsecured titles, high interest rates resulting from high inflation, lack of reliable transaction information, discriminatory government intervention and lack of transparency in the market. Others include obsolete training curriculum, weak regulatory framework, lack of national valuation standards, predominance of small size firms, and lack of specialization. These factors hamper the development of the stock of valuation skill and expertise required to match the demand posed by globalization. The author opined that the foregoing combine to produce a weak, distorted property market; paucity of reliable market data leading to unreliable property performance indices; weak mortgage institutions; high cost of property transactions; and doubtful property titles. The overall effects on valuation practice include low valuation accuracy and variance (Ogunba, 2004, Ayedun et al., 2011; Babawale and Ajayi, 2011). Babawale and Ajayi (2011) and Babawale and Omirin (2011) identified individual characteristics of valuers and valuation firms, availability of comparable data, effectiveness of the regulatory framework, absence of mandatory valuation standards, number of valuations carried out in a period, principal valuation method employed, and valuers' years of experience and exposure, as part of twenty three (23) possible causes.

IVSC (2001) also linked the ability and capability to adopt and adhere to international standards and best practice to the level of market maturity. In his assessment of the maturity of the Nigerian property market, Dugeri (2011) rated the market generally low in terms of transparency, capital liquidity, availability and dissemination of market information, and performance of market professionals. Other drawbacks identified by the study include non-standardization of market process. The study noted that after about 50 years of existence, the real estate valuation profession has not been able to grow membership enough to exert its presence in the market.

The NIESV has however recently taken a number of decisive steps to improve the practice environment for better service delivery. The NIESV's Valuation Standards and Guidance note (2006), which replaced the 1995 maiden edition, was developed in context of the International Valuation Standards and the International Accounting Standards. It clearly provides in its section 8.13.1 that its provisions are to be used in conjunction with that of the International Valuation Standard and in the context of the International Accounting Standards. In particular, section 8.2.4 emphasizes the need to adhere to all sections of the International valuation Standards Code of Conduct pertaining to ethics, competence, disclosure and reporting.

Recently, the Nigerian Institution of Estate Surveyors and Valuers established ten faculties, reminiscence of the RICS's. The faculties, which include one for valuation, are mandated to hone members' skill in their respective areas and where possible, to promote specialization. Each member of the profession is encouraged to belong to at least two of the ten faculties. In addition, every valuer who desires to render valuation services to public entities in Nigeria must be duly registered with the Financial Reporting council, under a law (Financial Reporting Council Act, 2011) which domesticates in Nigeria, such international standards as International Reporting Standards, International Public Sector Accounting Standards, International Standards on Accounting, Bassel II Capital Adequacy Framework, Global Investment Performance Standards, and the International Valuation Standards. The Financial Reporting Council is an independent regulatory body set up to provide a legal platform for the monitoring and enforcement of compliance with prescribed standards in accounting, auditing, actuarial, valuation and corporate governance. In addition, at the just concluded 2012 annual national conference of the institution in Abuja, a major impediment towards formation of bigger and multi-disciplinary firms was removed by allowing firms to practice under pseudo names and operate as limited liability companies.

Study Area

The study area is Metropolitan Lagos, Lagos State, South-West Nigeria. Lagos State is one of Nigeria's 36 states. Lagos metropolis accounts for 37 per cent of the land mass of Lagos State but hosts about 85 per cent of the population giving an average population density of 20,000 persons per square kilometer.

The metropolis' present population is estimated at 17 million which confers on it the status of a mega city and is projected to be the third largest city in the world by the year 2015.

Lagos state accounted for 11.7 per cent (N 1, 700.97 billion) of the national GDP second only to the oil-rich Rivers state. The state commands 65 per cent of Nigeria's commercial activities, 60 per cent of national industrial investment and foreign trade, 40 per cent of manufacturing value added, 48 per cent of building and construction activities, and 55 per cent of wholesale and retail trade (Lagos Indicator, 2009).

Lagos is considered the most appropriate area for this study for a number of reasons. First, despite the fact that the seat of the Federal Government moved from Lagos to Abuja in 1991, Lagos metropolis has remained the nerve centre of the nation's commercial, industrial, and property investment activities.

For example, more than 90 per cent of the headquarter offices of banks and insurance companies are located within the metropolis. The mega city perhaps has the most developed, most diversified and the most active property market with the highest average property value and stock of investment in the country and indeed the West Africa sub-region (Babawale and Koleoso, 2006).

Furthermore, available records with the regulatory bodies - the Nigerian Institution of Estate Surveyors and Valuers; and the Estate Surveyors and Valuers Registration Board of Nigeria - showed that the number of registered firms of Estate Surveyors and Valuers in Nigeria as at January 2009 was 779, out of which 415 (53 per cent) have either their head office or at least a branch office within Lagos Metropolis (Dugeri, 2011).

The metropolis therefore has the highest concentration of both the providers and end-users of valuation services. Lagos practice could therefore be regarded as reasonably representative of Nigerian practice.

Research Method

The population of the study is primarily Estate Surveyors and Valuers who are heads of firms or heads of valuation unit/department of real estate valuation firms in Lagos Metropolis. By virtue of Decree 24 of 1975, Estate Surveyors and Valuers are the only professionals statutorily empowered to undertake valuation of proprietary interests in real estate and related assets in Nigeria.

To ensure that all categories of property valuation firms were covered regardless of size, age, organizational structure, practice standards, location etc., a survey of total population (all registered firms of Estate Surveyors and Valuers in Lagos Metropolis) was considered more appropriate. This is expected to enhance the reliability and validity of the outcome.

The sample frame for this study is therefore 415; representing the number of firms of Estate Surveyors and Valuers that have either their head office or at least a branch office within Lagos metropolis.

Two hundred and fifty (250) of the responses received were duly completed and therefore considered satisfactory for further analysis. This represents a response rate of above 60% which is good enough for reliable and valid conclusion.

The questionnaire were designed to elicit information on aspects of the valuation methods, procedures and reporting standards often employed and how certain critical parameters in valuation are defined and determined.

Secondary data were mainly from 70 valuation reports obtained from 70 of the sampled firms, as well as data obtained from the Nigerian regulatory authorities, the Nigerian Institution of Estate Surveyors and Valuers and the Estate Surveyors and Valuers Registration Board of Nigeria.

Data Analysis and Discussions

Table 1: Characteristics of Firms Surveyed (N=250)

	Characteristics	Frequency	%
	Firms that are sole proprietorship.	248	99
	Firms that are more than 5 years in operation.	171	69
	Firms having more than one branch.	121	49
	Firms having more than 5 registered valuers.	101	41
	Firms having affiliation with foreign firms or has a branch outside Nigeria.	2	0.8
	Firms that specialized in particular area(s).	0	0
	Firms having distinct valuation unit/department.	55	22
	Firms carrying out more than 5 valuations/month, on the average.	85	44
	Firms using industry-based software for valuation.	5	2
	Firms having distinct research unit/department.	50	20
	Firms that maintain a formalized data banking	108	43
	Firms having functional library	50	20

Table 1 summarizes the major characteristics of the firms involved in the study. Almost all the firms (99 per cent) operate as sole proprietorship, 69 per cent were established more over 5 years ago, 49 per cent has only one branch, and less than 1 per cent has foreign affiliation or has a branch outside Nigeria. Of the 250 firms, only 43 per cent make conscious effort to operate data bank, 20 per cent has designated research unit/department, and 20 per cent maintain a functional library. On the average, only 44 per cent of the firms carry out more than five valuation jobs in a month, 2 per cent make use of valuation software, while only 41 per cent has more than 5 registered valuers on their staff list. There are no specialist firms; that is, all firms carry out all manner of real estate consultancy services. These findings agree substantially with that of Babawale and Koleoso (2006) and Ogunba and Ajayi (2007).

Table 2: Most Frequently Used Method(s) to Value Commercial/Residential Properties (N= 250)

Method(s)	Frequency	Percentage (%)
Income Capitalization	46	18
Comparative	50	20
Cost	85	34
Income Capitalization + Cost	15	6
Comparative + Cost	34	14
Income Capitalization + Comparative+ Cost	12	5
DCF-based techniques	8	3
Others	0	0
Total	250	100

Table 2 is the summary of the valuation methods most often employed by the respondents. The cost method alone or in combination with the comparative method is the most often employed (54 per cent). The use of income capitalization alone or in combination with other methods is not popular (11 per cent), whilst only 3 per cent employed the more rational and transparent DFC-based or growth-explicit methods like the equated yield and the real value.

In Babawale and Koleoso (2006) respondents favored the replacement cost method above the comparative and income capitalization approach but the study, like the present, observed that most of the correspondents prefer the use of conventional methods of valuation to the more rational and explicit methods like the rational, equated yield and the real value.

Ogunba (1997) found that only 3.3 per cent of the 30 firms investigated employed the more rational DCF-based valuation techniques; while Ogunba and Ajayi (2007) bemoaned the attitude of Nigerian practitioners for continuing to regard the DCF-based techniques as superfluous and an unnecessary example of academic wizardry.

Koleoso (2000) opined that most Nigerian professionals are averse to statistical calculations that are often required in risk analysis and probability concepts. This study confirmed that the perception and the approach of majority of Nigerian valuers have not altered significantly over the year.

Table 3: Most Frequently Used Method to Estimate Accrued Depreciation (N=250)

Methods	Frequency	(%)
Comparable sales data method	0	0
Straight-line /Overall (age-life) method	104	42
Engineering breakdown method	0	0
Observed condition (breakdown) method	74	30
Depreciation tables	34	14
Capitalization of income loss method	0	0
Use formula/figure pre-determined by the firm	38	15
Total	**250**	**100**

Where the Depreciated Replacement Cost (DRC) approach is employed, it was found that the respondents estimated accrued depreciation differently.

From Table 3, a large proportion (42 per cent) of the respondents based their estimate on overall (age-life) which is highly subjective, while 15 per cent used formula/figure pre-determined by the firm, which is often calculated by the rule of the thumb based on property type, location and use type.

Age-life method requires that an estimate be made of both the effective age of the building and of its remaining economic life, which together sum up to the life span of the building. In a country like Nigeria where building attributes are hardly documented by individual, firms or government departments; and where research into useful/economic life of buildings is rare, the use age-life or the straight line method is suspect.

The overall (age-life) method may also be misleading as too many elements are lumped together without being given individual attention; and by assuming straight-line depreciation, the method does not make allowance for unusual functional or economic obsolescence. The danger in using depreciation tables include the fact that individual situations are not reflected in an arithmetical average.

Table 4: Method Most Often Used to estimate Yields (N=250)

No	Method	Frequency	Percentage (%)
1	Market analysis	35	43
2	Predetermined figures as provided by the firm based on property type and location	25	30
3	Theoretical calculations	14	1
4	Rule of thumb based on type and location of the property	8	10
	Total	82	100

From Table 4, the methods of yield calculation employed by respondents also revealed the same inconsistency and lack of transparency. Only 43 per cent obtained their yields most often through market analysis; 30 per cent used fixed rates predetermined by their respective firms, 17 per cent made use of textbook recommendations (majority of available texts are foreign); and 10 per cent employ a rule of thumb based on the type and location of property. These results bear close semblance to that of Ogunba and Ajayi (2007), where 13 per cent of the respondents used the rule of thumb, another 13 per cent used subjective assessment based on past experience, and 40 per cent used explicit calculation from market evidences. Ogunba and Ajayi (2003) equally observed that Nigerian practitioners used dissimilar methods for determining yields, and that there was a preponderant use of fixed yield rates.

Table 5: Principal Valuation Standards Manual in Use (N=250)

Standards Manual	Frequency	Percentage(%)
None	161	64
RICS's	31	13
IVSC's/NIESV's	50	20
TEGoVA's	8	3
Total	**250**	**100**

Going by the summary in Table 5, 64 per cent of the respondents made reference to no valuation standards of any type, while the remainder used one or combination of RICS's 'Red Book' or IVSC's 'White Book'. The current NIESV's version is more or less a replica of the IVSC's. The situation has therefore not departed significantly from the findings of Babawale and Koleoso (2006) where 23 per cent of the respondents claimed to use the RICS's 'Red Book', 14.5 per cent used the IVSC's 'White Book', and about 68 per cent of the respondents never had any opportunity to refer to any valuation standards.

Compliance with Minimum Content

Table 6 summarizes the extent to which Valuers in the study area are complying with best practices. The assessment is based on the extent to which the 70 valuation reports examined satisfy the "minimum content of valuation report" as prescribed by the RICS and IVSC (RICS, 2010; IVS, 2011). From the summary, 31 per cent of the reports failed to indicate the purpose of valuation, 33 per cent did not indicate the scope of investigation carried out, while 77 per cent did not report the "effective date of the valuation" different from the date the valuation report was prepared. Furthermore, 63 per cent did not disclose the source(s) of information used, while 80 per cent failed to indicate planning approval and as such could not furnish 'highest and best use' analysis. Though 47 per cent of the report employed the market-based comparison and/or income capitalization methods of valuation, only 21 per cent provided any form of market study analysis. Specifically, only 6 per cent provided evidences of rent, capital value or yield and none of the 70 reports employed any statistical technique to present or analyze data.

Table 6: Compliance with Minimum Content (N=70)

Valuation Report Subheads	Number of Firms		
	Included	Not included	%Not included
Executive Summary	11	59	84
Identification of the client	67	3	4
Purpose of the valuation	48	22	31
Identification of asset/liability to value	16	54	79
Extent of investigation	47	23	33
Effective date of valuation	16	54	77
Assumptions/Contingency conditions	66	4	6
Nature and source of information	5	65	63
Basis of valuation	62	8	11
Physical characteristic of property	70	0	0
Legal characteristic of property	65	5	7
Socio-Economic characteristics of property	15	55	79
State of repair of the property	56	14	20
Town Planning zoning/approval	14	56	80
Methods of valuation	45	25	36
Correlation of values	10	60	86
Valuation Opinion	67	3	4
Restrictions on use, distribution/publication	69	1	1
Certification	11	59	84
Signature and Stamp	41	29	41

One of the reports included "definition of terms'. One report described the legal characteristics of the property being appraised under two separate headings viz: "tenancies" and "interest", while 7 percent said nothing about the legal characteristics of the interest that was valued. In spite of the fact that only 9 per cent of the reports have more than 15 pages, as much as 21 per cent contained 'executive summary'. A particular report having only 7 pages included an executive summary. A particular report on 'asset valuation' included 34 pictures and five floor plans. The report has, in addition to the pages containing the inventory of the items that were valued, 38 pages of written report. Another report had 12 building plans and 3 pictures dotted over the pages of the report. On the whole, 40 per cent of the reports had diagrams, pictures, site plans, and building plans inserted indiscriminately within the body of the report rather than at the end as addenda.

Conclusions

From Table 1, valuation firms in the study area as represented by the 250 samples were dominated by small scale firms, localized practice, operating mainly as sole proprietorship, (limited number or no partnerships, limited or unlimited liability firms). None of the sampled firms is a specialist firm; all professional members of staff tended to carry out a range of real estate consultant services, of which valuation was only one. In fact, personal interviews confirmed that in several cases, valuation was subsidiary to property agency and management. Given the predominance of small scale firms, only a limited number of firms have research units (19 per cent), maintain a functional library (20 per cent), or maintain a formalized data bank (43 per cent). It also follows that only few of the firms are capable of investing in valuation software, have capacity to sponsor continuing profession development or other forms of training, or human capital development that promote best practices.

The comparison method of valuation was widely employed but with little evidence of a rigorous application like the use of more explicit and rational 'grid adjustment' technique, or the hedonic (regression analysis). The only research so far sponsored by the NIESV (Igboko, 1992) on valuation methodology, concluded that the investment methods of valuation were capable of predicting market values accurately but if it is applied with current yield. That is, if yields were revised regularly to reflect changing investors' expectations about rental growth especially in periods of inflation. The results of this study however showed that where the investment method is employed, the conventional 'term and reversion' is the only approach employed. That is, none of the respondents employed any of the growth explicit rational models – the rational, the equated yield, or the real value model. The conventional 'term and reversion' has been criticized on a number of critical grounds. Among others, the approach employs the initial yield rather than the overall yield (equated yield), making cross comparison between investment alternatives rather difficult. According to Baum and Crosby (1995) prior to 1960, investors in the UK had little faith in continuing rental growth, thus, investment valuation using initial yields which mirrored the no rental growth expectation was appropriate at the time making the yield from property investment at that time comparable with yield on gilts. However from 1960, rising rental incomes made investors to begin to expect rental growth which informed the changing the capitalization rate from being equated yield (IRR) reflecting no growth to a much lower "all risk" yield which adequately capture investors' expectation of growth potential. The changes in investors' expectations without a corresponding change in investment valuation approach were at the centre of Greenwell and Trott criticisms. Both the Greenwell (1976) and the RICS sponsored Trott (1980), noted that the conventional approach lack transparency, rationality and consistency. Trott (1980) put forward the equated yield technique (a variant of the Discounted Cash flow Analysis) as a remedy, which has since gained wide acceptability in the UK practice. From the results of this study, Nigerian valuers are yet to embrace this or any other remedy Furthermore, the comparison method may be the least appropriate in Nigeria today given the present state of the property market where comparable evidence of values (especially sale price) is hardly available in the right quality and quantity (Dugeri, 2011). The poorly developed mortgage system, among other factors, makes the rental market rather than the sales market, the more active and organized. The widespread use of the comparison method in the circumstance therefore put a question mark on the reliability of valuers' estimates of property values. End users of valuation reports in Nigeria, notable bankers and accountants, considered the conventional methods as "shrouded in mystery" (Ogunba and Ajayi, 1998).

The results of the study also revealed the apparent lack of transparency and consistency in accounting for accrued depreciation where the cost method is used. Generally, it appears that accrued depreciation is subjectively estimated based largely on rule of thumb. The accuracy of such subjective measures depends largely on valuer's individual skill and experience, availability of relevant data and the ability to interpret and apply the data appropriately. The research efforts into various aspects of building performance and cost estimates that would make the cost method more pragmatic and reliable, is presently wanting.

The dominance of conventional techniques despite their recognized limitations raises questions on the level of sophistication of valuation techniques and skill among valuers in the study area. It also raises questions on the practical problems of applying the more explicit and rational DCF-based techniques given the poor valuation environment and particularly the problem of reliable data. A large proportion of the valuers in this study apparently do not appreciate that the physical attributes alone do not account for the value of a property. Thus, while majority of the valuation reports include copious description of the physical characteristics of the property being appraised; description of legal and economic characteristics, particularly the economic characteristics, are generally scanty or completely missing. Value opinions are therefore neither persuasive nor traceable.

In summary, the result of the study generally portrays the Nigerian practice as evolving within a weak regulatory framework; a rather closed and difficult valuation environment; and the local practice as being rather too sluggish in catching up with the emerging global trends, international standards and best practices.

Recommendations

The regulatory bodies (NIESV and ESVARBON), would need to beef up local capacity building through formal and informal education, continuous professional development; acquisition of industry based software, a central databank, research and effective dissemination of research findings. Measures must be taken to encourage growth of bigger firms through mergers and acquisitions. The industry is presently too fragmented to make the desired impact and take advantage of emerging opportunities. Big and medium sized firms would be in a better position to fund research, support a standard library, promote specialized skill, fund staff training and acquisition of necessary technology, and afford better geographical spread, among others. Standardization of information set is central to consistent, transparent and rational valuations. The continuing development programme at the state and national level should be used to introduce and encourage Though the regulatory body has tried to put in place a document of standard practice, the document is still unpopular as it is barely used by practitioners. The manual, which is almost a verbatim copy of the IVSC version, should be revisited to accommodate local contents to make it more relevant, and to enjoy wide acceptability and easy enforcement.

There are encouraging developments. Recently, the Nigerian Institution of Estate Surveyors and Valuers established various foundations including one for valuation and a separate one for plant and machinery reminiscent of the RISC's. It also established a research foundation to liaise with academic institution and valuation consumers for purpose of funding property market research. A Real Estate Training Institute has also been established for continuous development of practitioners. Moreover, the obsolete valuation standards prepared in 1985 have been replaced in 2006 by a more IVSC-compliant valuation standards. The new constitution of the NIESV which was ratified at the 2012 Annual Conference in Abuja now permits firms to operate with pseudo names instead of erstwhile practice whereby firm's name must include the surname of the principal partner(s). This development is expected to promote growth of bigger firms and encourage partnership with foreign experts. As earlier noted, the recently promulgated Financial Reporting Council Act, 2011, is expected to strengthen existing regulatory framework by providing necessary legal platform for effective monitoring and enforcement of compliance with international standards and best practices. The academic community in Nigeria is already taking a lead in the vanguard for rationality, accuracy and consistency in real estate valuation, by under taking series of empirical studies on valuation standards and valuation accuracy (Ogunba and Ajayi, 1998; Ogunba, 2004; Babawale, 2008; Ayedun, 2009; Babawale and Ajayi, 2011; Babawale and Omirin, 2011; Ayedun et al., 2011).

The ongoing measures as well as the steps that are here suggested would yield the desired improvements in practice standards only if individual valuers and valuation firms avail themselves of the benefits and are willing to adopt necessary changes in practice. Regrettably, earlier studies have identified individual behavioral characteristics of the valuers as the main cause of valuation inaccuracy (Babawale and Omirin, 2011; Parker, 1999), while Wyatt (2003) noted that even in countries like Britain where the profession has tried to enforce more rigorous mandatory standards backed up by detailed guidance notes, valuers still fall below the required standards.

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