Valuers' and Valuation Firms' Characteristics as Causes of Inaccuracy in Valuation in Nigeria

Dr. G. K. Babawale

Lecturer Department of Estate Management
University of Lagos, Akoka, Lagos, Nigeria
Email: gkbabs@yahoo.co.uk

Dr. M. M. Omirin

Senior Lecturer Department of Estate Management
University of Lagos, Akoka, Lagos, Nigeria
Email: momirin@unilag.edu.ng

Abstract *Studies in a number of countries have identified certain factors as major contributors to inaccuracy in real property valuation. Of these, individual characteristics of valuers and to a lesser degree, the ethical culture of the firms that engage them, are foremost and universal. This study evaluates the predictive and relative importance of individual characteristics of valuers/valuation firms that contribute to inaccuracy in residential property valuation in Lagos, Nigeria. It also includes the results of an empirical study on the level of accuracy achieved by valuers in the study area. Information elicited from senior partners of 250 firms of Estate Surveyors and valuers (appraisers) operating within Lagos metropolis were analyzed using both descriptive and inferential statistics. The study revealed a degree of inaccuracy that is beyond the industry's tolerance limits. The study also identified the experience and exposure of valuers; the number of valuations undertaken by valuers within a period of time; professional status of valuers; valuers' familiarity with relevant markets; and interestingly, the gender of valuers, in that order, as factors that significantly contribute to inaccuracy in residential property valuation in the study area. The paper prescribes, among others, quality assurance measures, and a more proactive regulatory framework, as immediate measures required to curb complacency and excesses among valuers and valuation firms in the study area.*

Keywords: *inaccuracy, contributory factors, valuers' characteristics, firms' characteristics, Nigeria.*

1. Introduction

Real estate valuation is a very complex task and many factors may account for its inaccuracy. Wyatt (2003) noted that inaccuracy can enter the valuation process at any stage from the inception up to the final valuation. There already exists a consensus among academia, the professionals, as well as the courts, that inaccuracy is inevitable in real property valuations. For instance, the Royal Institution of Chartered Surveyors (RICS), UK's leading regulatory body on property matters, once remarked that "the valuer and most informed users of valuation recognize that there will be a degree of uncertainty attached to the figure provided" (RICS, 1994:26). In *Singer and Friedlander Ltd Vs John D. Wood & Co (1997),* the learned Judge remarked that valuation is an art, not a science and that pinpoint accuracy in the result is not therefore to be expected by those who request for it.

Authors like Harvard (2001a) and Wyatt (2003) noted that valuations are carried out within a number of complex interrelated and often conflicting frameworks, and that valuers themselves have their individual characteristics, all of which, one way or the other, influence the valuation process resulting ultimately in inaccuracy or variance. In a study carried out among 97 UK lenders, finance brokers, valuers and investors, all respondents subscribed to the fact that one-to-one relationship between valuation and

transaction price is not to be expected always (Bretten and Wyatt, 2002).

While inaccuracy in real estate valuation may be widely accepted more or less as lore within property valuation fraternity, the repercussions are nonetheless far-reaching (Parker, 1999). Inaccurate valuation, for instance, is a threat to the credibility and relevance of the valuation profession. If valuations have only a limited likelihood of accuracy, clients may question why valuation is necessary at all and it could mean that performance measurement for investment properties would be a fruitless exercise (Brown, 1991). Inaccurate valuation is also inimical to healthy development of the property market as it tends to undermine investors' confidence in the operations of the property market, and can lead to sub-optimal decisions by investors and portfolio managers. This in turn, may result into incalculable financial loss to real estate investors and financial institutions. The collapse of the finance and property market in the UK in the 1990s, the "savings and loans" debacle that rocked the USA financial and property market in the 1980s, and the collapse of the Jorgen Schneider property group in Germany in 1994 were associated largely with valuation opinions that were ill-advised (Isaac & Steley, 2000; Yovino-Young, 1997; Baum & Crosby, 1995). With globalization, the world's economies are more closely linked than ever before, giving the impact of inaccurate valuation wider implications. The international banking community through the medium of Basel Committee is therefore calling for harmonization of valuation standards, due to the large number of loans that are secured on real estate. Inaccurate valuation also contributes to low valuation ratios in property tax administration with both equity and poor revenue yields implications.

By investigating the impact of the contributory factors as it relate to role of the practitioners, it may be possible to decrease the impact of each of the contributory factors systematically and ultimately reduce variance and its potentially grave consequences (Wyatt, 2003).

This paper is in five sections. The next section is literature review. Section three describes the study area and the methodology while section four discusses the results of the empirical study. The last section includes the conclusions and recommendations.

2. Review of Literature

Commentaries on valuation accuracy have so far been both quantitative and qualitative. Quantitative commentaries in Britain and Australia have generally suggested a high level of valuation accuracy (Brown 1991; IPD/DJ, 1990; Parker, 1998); while in the USA the degree of accuracy is much less (Guilkey, Cole & Miles, 1986). The limited reported Nigerian studies have suggested low levels of accuracy (Ogunba, 1997; Ogunba & Ajayi, 1998; Ogunba, 2004).

While these quantitative commentaries provided insight into whether or not valuation inaccuracy does actually exist and the level of accuracy achieved by valuers, they failed to provide any clue to why valuations may be inaccurate. Clues to why valuers often miss their targets are however essential requirements for finding appreciable solutions to the phenomenon of inaccuracy in real estate valuations (Harvard, 2001a).

The emphasis of early research on quantitative analysis rather than the process may be justified on the grounds that the primary concern of stakeholders is the reliability of the final valuation figure rather than how the value was arrived at. However, it has become a widely held belief that most questions raised on inaccuracy in valuation would remain unanswered until sufficient light is shed on the procedural and behavioral aspects of the valuation process and particularly on factors contributing to inaccuracy (Gallimore & Wolverton; Harvard, 2001a, 2000; Diaz, 2002). More attention has therefore been focused lately on causes of inaccuracy in valuation (Diaz 1990a and 1990b; Kinnard, Lenk, and Worzala, 1997; Levy & Schuck, 1999; Harvard, 1999, 2001; Gallimore, 1994 and 1998; Gallimore & Wolverton, 2000; Diaz, 2002; Bretten & Wyatts, 2002). In Nigeria, behavioral research is at present scanty. Amidu (2006), Amidu & Aluko (2007) considered clients' influence, while Adegoke & Aluko (2007) considered the effects of heuristics. Other authors have only referred to anecdotal evidence on the subject.

The fundamental reason for inaccuracy in real property valuation remains the fact that the true market value which the valuers seek to predict is unobservable and therefore not realizable. For this reason, the valuation profession adopts market prices as proxies for underlying true market values. Thus, the International Valuation Standards Committee defines *market value* as:

 ….the estimated amount(price) for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. (IVSC, 2003:96)

The Royal Institution of Chartered Surveyors (RICS) has officially adopted this definition *(RICS, 2010:1)*.

Moreover, even when true value is approximated to market price, the heterogeneity of property and the peculiar characteristics of the property market make valuation (price prediction) inaccuracy virtually inevitable. Unlike the market for equity and gilts, where market prices of securities are easily determined by reference to the prices of similar assets traded in the secondary market, the property market is characterized by heterogeneous commodities; infrequent sales, and lack of centralized trading floor and register – necessitating valuations and largely contributing inaccuracy in valuations.

Beside these conceptual limitations, studies have also identified certain other factors that significantly contribute to valuation inaccuracy. Babawale (2008) identified twenty three such causal factors which were classified into four groups as: property characteristics, the valuation environment, the valuation process, and individual characteristics of valuers/ valuation firms. Similar studies have identified the nature and state of the property market (Millington, 1985; Aluko, 1998, Olaleye, 2004), dearth of market data (Ratcliff, 1975; Olaleye, 2004; Ajibola, 2010); definition of value (Millington, 1985; Baum and Crosby, 1988), client pressure (Aluko, 1998; Levy and Schuck, 1999), type of property (Rushmore, 1993, Bretten and Wyatt, 2002), valuation methodology (Harvard, 2001a), absence of national valuation standards and guidance notes (Valuers and Appraisal Manual, 2001, IVSC, 2001), effectiveness of regulatory framework (Wyatt, 2003), skill, experience and judgment of valuers (Ajayi,1997; Aluko, 1998), and individual characteristics of valuer and valuation firm (Wyatt, 2003; Levy and Schuck, 1999).

Levy and Schuck (1999) noted particularly that ethical decisions are found to rest squarely in the hand of the individual valuers and to a lesser degree the ethical culture of the firm he works for. Such valuers may behave unethically due to the competitive nature of the valuation market. Valuers are often compelled by economic incentives to act contrary to professional ethics to satisfy their client and avoid conflict over fees and precipitate repeat business. Wyatt (2003) also identified individual behavioral characteristics of the valuers as the main cause of valuation variance and that even in countries like Britain where the profession has tried to enforce more rigorous mandatory standards backed by detailed guidance notes, valuers still fall below the required standard.

This study examines the influence of individual characteristics of valuers and the valuation firms that engage them on inaccuracy in residential property valuation with particular reference to Lagos metropolis. Individual characteristics of a valuer invariably affect his capability to apply established valuation principles, methodology and process efficiently to achieve accurate valuation. Specifically, it includes the gender, academic qualifications, professional status, experience and level of exposure, and familiarity with the market. The relevant characteristics of firms include the age and size of the firm; the structure and the practice standards and ethics.

3. The 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% of the land mass of Lagos State but hosts about 85% 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 become the third largest city in the world by the year 2015.

Lagos is considered the most appropriate area for this study for a number of reasons. First, in spite of the fact that the seat of the Federal Government has moved from Lagos to Abuja, Lagos metropolis has remained the nerve centre of the nation's commercial, industrial, and property investment activities. Lagos metropolis has the most active property market with the highest average property value and stock of investments (Babawale and Koleoso, 2006).

Second, 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 (appraisers) in Nigeria as at January 2009 was 779, out of which 415 (53 %) have either their head office or at least a branch office within Lagos Metropolis. A large proportion of both the providers and the end users of valuations are therefore resident in the study area.

4. Research Method

The study population comprised primarily, registered firms of Estate Surveyors and Valuers (appraisers) within the study area, and secondarily the heads of valuation units/departments in these firms. The

residential properties sub-sector is chosen because it represents the largest stock of real estate assets in Lagos metropolis like most cities of the world (Burke, 1980). Furthermore, the market for residential properties in Lagos is the most active sub-market where sufficient information can be readily garnered for the type of analysis required.

The study was also limited to residential properties sold by private treaty by sampled firms within the last two years prior to the survey, for which there were prior formal valuations. Sales by other methods such as auction, forced sale arising from mortgage foreclosure, and sale by tender do not satisfy the condition of the 'open market value' which was specified for the purpose of this study. The poor record-keeping culture observed among most of the real estate consultancy firms in the study area informed the limiting of the time period covered to two years. This same factor renders the adjustments required to make valuations and sales events reasonably contemporaneous impossible without compromising reliability.

Field survey revealed that only government departments and corporate organizations consider it mandatory to obtain a formal valuation report prior to a sale or purchase, while private individuals and businessmen who constitute the bulk of participants in residential property market of Lagos consider prior formal valuation unnecessary. This informed the need to limit the number of residential properties sold within the last two years required from each firm to only one.

Primary data were gathered through a combination of well-structured questionnaire and in-depth personal interviews in selected cases. In either case, the respondent was the head of the valuation unit, where one exists, or a senior valuer connected with valuation assignments in the firm.

4.1 Sampling Design and Procedure

Previous studies on valuation accuracy in Nigeria that have used Lagos Metropolis as either the sole study area or as part of the study area (Ogunba & Ajayi, 1998; Ogunba, 2004) have used the cluster sampling technique. This was based on the fact that firms of Estate Surveyors and Valuers are to be found in clusters around major business districts of major urban centres.

This study was intended to be wider in scope and more in-depth. As such, a survey of total population (all registered firms of Estate Surveyors and Valuers in Lagos Metropolis) was considered more appropriate as it ensures that all categories of property valuation firms were covered regardless of size, age, organizational structure, practice standards, location etc. This is expected to enhance the reliability and validity of the outcome.

The sample frame for this study is therefore 415 – number of firms of Estate Surveyors and Valuers in Nigeria that have either their head offices 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.

Secondary data for the study were sourced from journals, text books, and seminar papers on valuation accuracy and related issues within and outside Nigeria especially from the official records of the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON), and that of the Nigerian Institution of Estate Surveyors and Valuers (NIESV).

4.2 Model Specification

Though the main thrust of this study is to investigate the effects of individual characteristics of valuers and valuation firms on valuation inaccuracy, it was considered necessary, as stated earlier, to ascertain first the level of accuracy currently achieved by the sampled valuers as a way of establishing whether inaccuracy does in fact exist among residential property valuers in the study area. Traditionally, valuation accuracy was determined by simply comparing valuations with transaction prices (Guilkey, Cole & Miles, 1986; Brown 1991; Cullen, 1994; Matysiak & Wang, 1995: McAllister, 1995; Parker, 1998; Newell & Kishore, 1998; IPD/Driver Jonas, 1998). This aspect of the study therefore hypothesized that there is no significant difference between valuations and subsequent transaction prices of residential properties transacted in Lagos metropolis.

Comparison of valuations and subsequent transaction prices is done usually by calculating the Mean Average Error and the Mean Absolute Error. The Average Error is a measure of bias towards over-valuation or under- valuation and is given by the formula:

AVE = 1/n $\square$ (transaction price – valuation) ……………….…..(i)
The Mean Absolute Error is similar to the Average Error in calculation except that the sign of the individual differences is ignored as follows:

D = 1/n $\square$ |(transaction price – valuation)| ………. ………… (ii)

The predictive as well as the relative importance of the explanatory factors is measured by multiple regression analysis. Regression tests, unlike the error metric tests, distinguish any systematic patterns in the differences from pure random elements. Usually, transaction price as the dependent variable is regressed on the independent variable, valuation.
The regression equation employed is therefore of the form:

Sale Price = α + β valuation + €…………..................………… (iii)

Where,
α is a constant which may be required to permit a best fit estimation of beta.
β is the slope of the fitted regression line and captures the relationship between valuations and transaction prices.
€, the error term, which may arise from specification error suggesting that the model has left out important explanatory variables; or as a result of measurement error suggesting that the variables cannot be accurately measured.
R^2 and beta are perhaps the key indicators from the regression tests. The beta measures the predominant trend across the whole data set of sales. A beta of 1 indicates no systematic bias, while a score of above 1 would indicate that prices are generally higher than valuations. On the other hand, R^2 score measures how much of the variation in sale prices is explained by valuations.

In Table 1, we have the descriptions and measurements of the eight continuous and dummy variables employed in the multiple regression analysis.

Table 1. *Description and Measurement of Variables Included in the Regression Analysis*

S/No	Variable Code	Variable Description	Variable Measurement
1	ACURF	Measure of accuracy	((Price-Valuation)/Price)*100. Low Acurf suggests low level of inaccuracy (or high level of accuracy) and vice versa.
2	GENDER	The sex of respondents (Estate Surveyors and Valuers)	Male = 1 Female = 0
3	ACAQULI	Academic qualification of respondents	University graduate = 1 Polytechnic graduate = 0
4	PROQULI	Professional status of respondents	Registered with the Nigerian Institution of Estate Surveyors and Valuers = 1 Not registered = 0
5	EXPN	Experience of respondents in real estate valuation	Number of years in practice after graduation.
6	FAMLIA	Respondent's familiarity with the market where property locates.	Property locates within firm's primary market (local government area where firm locates) = 1 Otherwise = 0
7	SIZFRM	Size of the firm	Number of Estate Surveyors and Valuers in employment.
8	AGEFRM	Age of the firm	Number of calendar years since established.
9	NUMAVAL	Number of valuation	Average number of valuation carried out in a month.

5. Data Analysis and Discussions

Table 2. *Error Metric Analysis of Valuations and Transaction Data (N= 250)*

S/N	Statistics	Percent
1.	**Range**	
	i. Valuation exceeding market price	70%
	ii. Market price exceeding valuation	24%
	iii. Valuation equals market price	5%
2.	Mean **Average Error (AVE)**	.64%
3.	**Mean Absolute Error**	68.80%
4.	**Levels of accuracy**	
	i. ≥ 95%	30%

ii.	$\geq 90\%$	45%
iii.	$\geq 85\%$	68%
iv.	$\leq 80\%$	18%

Wilcoxon Signed Rank Test Z = -5.976, Ass. Sig. (2-tailed) = 0.001

The results in Table 2 reveal that valuations of residential property among the sampled valuers were accurate to within 5% of the selling price in only 30% of the 250 transactions, 45% were between $\pm 10\%$ of transaction prices, 72% are within $\pm 15\%$, while 18% of the valuations are more than 20% in error. Although the data revealed a measure of consistency, there were few extreme values such that the range of valuations exceeding market prices (70%), to market prices exceeding valuations (24%) is quite wide. The Mean Absolute Error is 68.80%, while the Average Error is 0.64, indicating a tendency towards over-valuation.

To test the null hypothesis that *there is no significant difference in (the mean score of) the valuations and the subsequent transaction prices for the sampled residential properties*, the study employed Wilcoxon Signed Rank Test which is a non-parametric alternative to the repeated measures of T-test. This is used here following the violation of the normality assumption of the two variables (valuations and transaction prices). From Table 2, the Z- value under the test statistics was found statistically significant at 1% level; Sig. < 0.005. This result suggests that the two sets of scores - valuations and transaction prices were significantly different.

Thus, the null hypothesis that *there is no significant difference between valuations and subsequent transaction prices of residential properties in Lagos metropolis* is rejected. The alternative hypothesis that *there is significant difference between valuations and eventual transaction prices of residential properties in Lagos metropolis* is therefore accepted. The summary statistics in Table 2 confirm the existence of a considerable degree of inaccuracy in residential property valuation in the study area.

Table 3 (a-f). *Characteristics of the Respondent Estate Surveyors and Valuers*

Variable	Frequency	Percent
(a) Gender of Valuers		
Male	235	94
Female	15	6
Total	**250**	**100%**
(b) Academic Qualifications		
National Diploma (plus direct final)	1	1
Higher National Diploma (HND)	104	41
B.Sc. Degree	93	37
B.Sc. Degree + Post Graduate Diploma	15	6
HND + Masters' Degree	10	4
B.Sc + Master Degree	27	11
Total	**250**	**100%**
(c) Professional Qualifications		
ANIVS	214	85
FNIVS	27	11
ANIVS + RICS	5	2
FNIVS + FRICS	2	1
FNIVS + RICS	2	1
Total	**250**	**100%**
(d) Experience		
1-5 years	66	26
6-10 years	94	38
11-15 years	58	23
15+ years	32	13
Total	**250**	**100%**
(e) Average Number of Valuations/month		
0-5	165	66
6-10	56	22
11-20	25	10
20+	4	2
Total	**250**	**100%**
(f) Acceptable margin of error		
< 5%	56	22
6-10 %	138	55
11-15 %	34	14
16-20 %	22	9
20%+	0	0
Total	**250**	**100%**

Table 3(e-f) contains relevant characteristics of the Estate Surveyors and Valuers that participated in the study. Table 3(a) shows that 94% of the respondents are male. This suggests that the present generation of Estate Surveyors and Valuers in the study area is predominantly male. According to Table 3(b), all the respondent Estate Surveyors and Valuers are holders of relevant academic qualifications in estate

management. Specifically, 41% are holders of Higher National Diploma (HND), 37% have Bachelor of Science degree (B.Sc.), about 1% i.e. 2 people have National Diploma (ND) certificate while 21% have additional post-graduate qualifications including Master of Science (M.Sc.) degrees in Estate Management, Construction Management, Project Management or Business Administration. This suggests a very high minimum academic qualification for practicing Estate Surveyors and Valuers. This is good for the profession in particular and the economy as a whole as it assures valuation users that whoever is registered as a professional estate surveyor and valuer can be reasonably relied upon to provide reliable valuations.

On professional qualifications, Table 3(c) shows that 85% of the 250 respondents are in the "associate" membership category, while 11% were Fellows of the Nigerian Institution of Estate Surveyors and Valuers (NIESV). Four per cent (4%) are in addition, members of the Royal Institution of Chartered Surveyors (RICS), London. Of the 250 respondents, 66 (26%) have less than 5 years experience in private practice while only 13% have more than 15 years experience (see Table 3(d)). On the whole, the 250 sampled valuers represent approximately 2,280 man-years of experience.

Table 3(a-d) shows that all respondents are certified and registered practitioners with cognate experiences in private consultancy services. That is, the research instruments were invariably targeted at senior members of the profession who were expected to have a wider experience of valuation practice and procedure. This group of respondents is also expected to have a greater knowledge base regarding issues related to valuation inaccuracy.

According to Table 3(e), 66% of the respondent valuers carry out between 0 and 5 valuation jobs on the average in a month, only 22% undertake an average of between 6 and 10, and none did anything more than 20. This low average number of valuations carried out by majority of respondents raises questions on scope and depth of experience. All respondents were of the opinion that 100% valuation accuracy is unattainable, 55% suggested an acceptable 'margin of error' of $\pm$ 5-10%, 14% suggested $\pm$11-15% and none suggested anything above $\pm$ 20%. The arithmetic mean of acceptable margin of error based on the mid-point of the class interval was $\pm$ 8%. Respondents' opinion on inevitability of valuation variance and the support of 78% of the respondents for a 'margin of error' of between 0 to 10% either side of the "correct" figure are in line with the widely accepted *Singer and Friedlander Ltd. Vs. John D. Wood & Co.(1997)* benchmark. That none of the respondents suggested above 20% also reasonably agrees with the views of valuers in countries like the UK, USA, and Australia (Wyatt, 2003; Crosby et al., 2003).

Table 4 summarizes the general characteristics of the 250 firms of estate surveyors and valuers covered in this study. From Table 4(a) 31% of the firms were established within the last 5 years and only 9% have existed for more than 15 years. The average firm age is 8.4 years, while the modal age class is 6-10 years. This suggests that majority of the firms were established within the last 10 years; a pointer to the fact that real estate valuation practice in Nigeria is still at its infancy compared to the UK which has the history of property valuation dating back to the 16th century (McNamara, 1999).

Table 4. *General Characteristics of the Sampled Firms of Estate Surveyors and Valuers.*

Variable	Frequency	Percent
(a) Age of firm (years)		
1-5	79	31
6-10	92	37
1-15	57	23
15+	<u>22</u>	<u>9</u>
Total	**250**	**100%**
(b) Number of branches		
1	129	51
2	71	29
3	26	10
4	17	7
5 and above	<u>7</u>	<u>3</u>
Total	**250**	**100%**
(c) Number of Estate Surveyors and Valuers engaged		
1-5	149	59
6-10	85	34
11-15	12	5
15+	<u>4</u>	<u>2</u>

Total	**250**	**100%**
(d) Valuation Standard Manual used		
None	161	64
Red book	31	13
White book	50	20
Blue book	8	3
Total	**250**	**100%**
(e) Firm's Mode of Operation		
Sole proprietorship	248	99
Partnership	2	1
Limited Liability	0	0
Unlimited Liability	0	0
Total	**250**	**100%**

Table 4(b) reveals that 51% of the 250 firms have only one branch office, 29% have 2 branch offices and only 10% have more than four (4) branch offices. From Table 4(c), the number of Estate Surveyors and Valuers engaged by sampled firms averaged 5 with 59% of the firms engaging between 1 and 5, and only 7% have more than 10 valuers in their employment. Table 3(d) reveals that 64% of the sampled firms employed no valuation standards of any type, while others use one or a combination of the RICS 'Red Book' and International Valuation Standards Committee's (IVSC's) 'White Book'.

Table 5. *Practice Characteristics of sampled Firms of Estate Surveyors and Valuers.*

Characteristics	Yes (%)	No (%)	Total (%)
a) Maintenance of data bank	43	57	100
b) Availability of a research department or unit	20	80	100
c) Availability of functional library	20	80	100
d) Availability of a distinct valuation unit/department	22	78	100
e) Whether involved in General practice (Yes) or specialized practice (No)	100	0	100

Table 5 contains additional information on the characteristics of the sampled firms. Table 5(e) suggests that none of the 250 firms is a specialist firm. Personal interviews revealed that all professional members of staff tended to carry out a range of real estate consultancy work, of which valuation was only one. In several cases, valuation was subsidiary to property agency and management. Of the 250 firms, according to Table 5(a-d), 43% maintain databanks, 20% have research departments/units, 20% maintain a library and only 22% are big enough to afford a distinct valuation department or unit.

Table 6. *Regression Analysis Results - Individual Characteristics of Valuers and Valuation Firms.*

S/N	variables	Tolerance	b coeff.	beta weight	t-value	Sig.	Ranking
1	GENDER	.896	-1.167	-.102	-2.173*	.031	5th
2	ACAQULI	.475	.218	-.027	.425	.672	8th
3	PROQULI	.564	-1.995	-.222	-3.766**	.000	3rd
4	EXPN	.426	-2.294	-.272	-4.003**	.000	1st
5	FAMLIA	.474	-1.305	-.155	-2.416*	.016	4th
6.	SIZFRM	.660	.332	-.038	.669	.485	7th
7	AGEFRM	.653	.349	-.044	-.797	.426	6th
8	NUBAVAL	.587	-2.008	-.226	-3.913**	.000	2nd
9	Constant		39.391		22.684**	.000	

Multiple R = .726; R^2 = .528 (52.8%); Durbin-Watson = 1.648; Sig. = Significance
Sig. at 0.05 level of significance; **Sig. at 0.01 level of significance; N = 250.

Table 6 summarizes the results of the multiple regression analysis carried out to determine the predictive and relative influence of the explanatory variables employed in the model on inaccuracy. Of the eight explanatory variables only five entered the model and only three of them five make significant contribution to valuation inaccuracy at 1% level. They are: valuer's years of experience and exposure (beta= 0.272), average number of valuations undertaken by the valuer over a period (beta= 0.226), and

valuer's professional status (beta= 0.222), in that order of importance. Two other descriptors contributed significantly at 5% level. These are; valuer's familiarity with the relevant market (beta= 0.155) and interestingly valuer's gender (beta= 0.102) – 94% of the respondents are male (see Table 3a). None of the other variables - the size of the firm, the age of the firm, and, valuer's academic qualification (that is, whether the valuer is a B.Sc. or HND graduate) made any significant contribution. $R^2 = 0.528$ implies that the explanatory variables explain 52.80% of variance in valuation inaccuracy which is significant at 99% (F = 33.666) suggesting a good fit for the regression model. The multiple regression equation for the model is given in equation (vi) while Figure 1 is a graphical illustration of the model.

Acurf = 39.391 − 1.167gender − 1.995proquli − 2.294expn − 1.305familia − 2.008nubaval...…....……..(iv)
The variables are defined in Table 1. Inaccuracy, as measured by Acurf, is inversely related to all the explanatory variables – professional qualification, experience, familiarity with the market, average number of valuations undertaken in a month, and whether the valuer is a male or female.

Figure 1. *Relative Influence of Individual Characteristics of Valuers/Firms on Valuation Inaccuracy.*
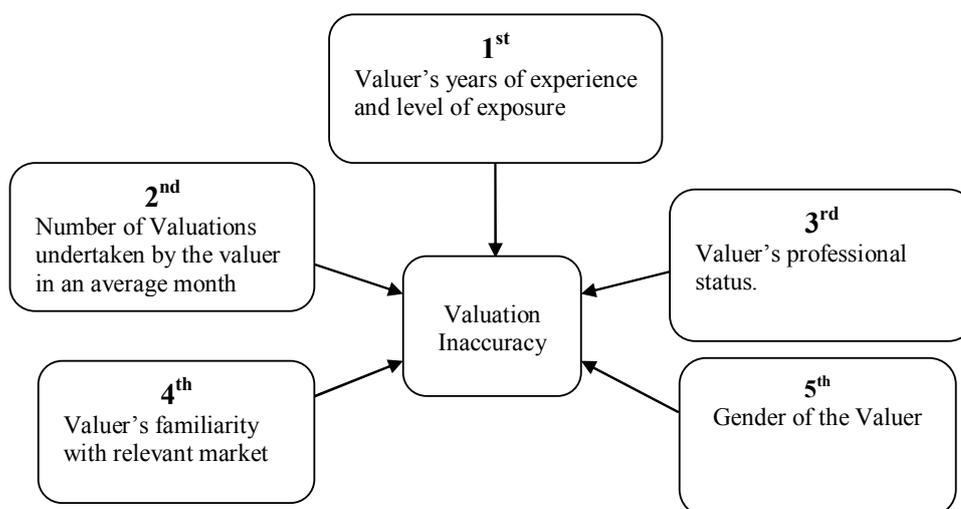
6. Discussion

Valuation of real property is invariably complex, demanding that valuers assemble, analyze and apply a large amount of data. The valuation process goes beyond mere substitution of data into mathematically proven formula. Considerable judgment is involved. Valuation also does not take place in a vacuum; valuers work within a series of complex and interacting frameworks, including that provided by the enabling laws; the regulatory body(ies); the firm the valuer works for; the property characteristics; and an array of market participants. Valuers themselves differ in training, experience, and exposure. All these factors ultimately impact on the works of the valuer and invariably on the accuracy of his valuations.

Of the 250 cases considered, only in 5% did valuations exactly match market prices supporting existing qualitative commentaries that 100% valuation accuracy is a happenchance. The level of accuracy observed exceeded the 10% parameter in 55% of the cases, and exceeded 15% parameter in 32% of the cases. This is close to the average suggested by the quantitative commentaries and precedent reviewed (Matysiak & Wang, 1995; Parker, 1998; IPD/DJ, 2003 and 2004). Given that majority of the residential properties involved in this study do not come under the description "exceptional circumstances", it can be reasonably concluded that majority of valuations (55%) in the study area exhibited a level of accuracy which is below indutry's acceptable standards. Considerable inaccuracy therefore exists in residential property valuation in Lagos metropolis.

The high academic and professional qualifications exhibited by the respondent valuers suggests that most estate valuers in Nigeria as represented by the respondents are well trained and have considerable years of experience. Although Decree 24 of 1975 (otherwise known as Cap E13, Laws of the Federation of Nigeria, 2007) which established the profession of estate surveying and valuation in Nigeria, makes valuations of proprietary interests in real estate an exclusive preserve of the Estate Surveyors and Valuers, the average number of valuations carried out by the sampled Estate Surveyors and Valuers in this study is

so meager as to raise questions on scope and depth of experience. This limited scope and activities in valuation assignments could impact negatively on skill acquisition, experience, efficiency and ability of the valuers to ascertain value. Frequent exposure to valuation of property assets of different composition, magnitude and complexity and for various purposes is a prerequisite for the development of a broad based experience and expertise required to bring the local practice to international standards and minimize inaccuracy.

The study reveals that firms within the study area operate mainly on sole proprietorship basis with limited number of partnerships and none operated as limited or unlimited liability companies. Field survey confirmed that a number of thriving partnerships had been dissolved in the past. The practice regulation in Nigeria forbids the use of pseudo names (the name of the firm must include the surname of the sole proprietor or partners) and precludes firms from operating as limited liability companies. The practice is therefore dominated by small-scale firms which may be partly responsible for the low percentage of firms that could afford a functional library, fund research, or have distinct valuation units or departments. Sole proprietorship is naturally limited in scope; innovation; investment in research, information and technology acquisition, among others. Another possible implication of this phenomenon is that only a few of the firms may be able to finance continuous professional development and pursue best practice.

Judging from the proportion of the 250 sampled firms that maintain a functional library (20%), have a research unit or department (20%), and that operate databanks (43%), as well as the number of heads of valuation units that are associated with foreign, national, regional, or international professional bodies for purpose of exposure and development in valuation methodology among others (4%), it can be reasonably concluded that insufficient efforts and resources are committed to information procurement and analysis, skill acquisition and development, and indeed to virtually the entire valuation construction process.

The consensus of all respondent valuers on inevitability of valuation inaccuracy, and their views on the acceptable "margin of error" suggest that valuers in the study area are reasonably conversant with the ongoing worldwide debate on valuation accuracy as well as the potential dangers of inaccuracy and that their views reasonably agree with the opinion held by their counterparts in countries such as the UK, USA and Australia. The valuers in the study area, as typified by the respondents, are therefore reasonably qualified to provide reliable opinion on issues of valuation inaccuracy in the study area.

This suggests a reasonable level of awareness on the subject of 'valuation accuracy' among the valuers in the study area. The 250 respondent valuers could therefore be relied upon to provide authentic and reliable information on the subject under study.

The dominance of small-scale firms, sole proprietorships, and general practice does not augur well for the growth and development of valuation profession in the country. This is partly responsible for the low percentage of firms that could afford a functional library, fund a research department, departmentalize by creating a distinct valuation units or departments. The trend of globalization particularly underscores the need for larger firms that are better positioned to have distinct valuation units; maintain functional library and research units with computerized database and therefore acquire more access to information and intra-firm communication.

7. Conclusion

This study confirmed that individual characteristics of valuers in particular, and that of the firms they work for to a lesser degree, contribute significantly to valuation inaccuracy accounting for approximately 53% of inaccuracy in real estate valuation in the study area. This is in line with Levy and Schuck (1999). In particular, the valuers' years of experience and level of exposure made the strongest contribution to valuation inaccuracy in the study area. Experience and exposure of valuers refers to the duration, scope and depth of valuers' practice which have direct implications on skill acquisition and expertise. The average number of valuations undertaken by valuers over a given period of time also made unique significant contributions at the desired level of significance probably because this has a direct correlation with skill acquisition and expertise. In a similar study conducted in the UK by Bretten & Wyatt (2002), the respondent valuers were of the opinion that the principal cause of valuation inaccuracy is the knowledge and experience of valuers regarding the property type and more particularly the location.

Going by the results, older and larger firms have not turned their long years in practice and/or their size to any advantage for improved services as inaccuracy is a phenomenon common to all firms in the study area regardless of their size and age. The study also implies that valuations carried out by graduates

of polytechnics (holders of HND certificate) could be as accurate as those carried out by their university counterparts (holders of B.Sc. degree) under the same circumstances.

8. Recommendations

Valuation being an inexact science, valuers must be assisted to reach their valuation opinions in an impartial and objective manner. A set of well formulated, mandatory and rigorously enforced national valuation standards founded on proven professional ethics and which combines professional considerations with practical needs of the local market place while sufficiently reflecting global best practices in information disclosure, among others, would go a long way to improve the level of accuracy presently achieved in the study area. The new valuation standards prepared by the Nigerian Institution of Estate Surveyors and Valuers which is almost an exact copy of the IVSC version should be revisited to accommodate local contents if it is to be relevant, enforceable and widely acceptable.

Valuation firms should be encouraged to put in place comprehensive quality assurance measures that will make it unlikely for erroneous valuations to slip through the system. The most common of these is internal peer review. This can be achieved by setting up a quality control committee within the firm, whereby before any valuation report is signed out of the firm, it is checked and vetted by a registered valuer to minimize risks of mistakes, omissions and valuations that cannot be substantiated.

The existing valuers' task environment needs to be greatly improved for competitive professional services. To this end, the regulatory bodies, Nigerian Institution of Estate Surveyors and Valuers (NIESV) and Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON), must promote measures that will encourage the formation of bigger firms through mergers, acquisitions and takeover as is currently being witnessed in other industries and professions the world over. For example, the existing regulation forbidding firms from operating as Limited Liability and Unlimited Liability Companies and from using pseudo names should be revisited to attract foreign partners and affiliates.

The regulatory bodies should beef up local capacity building through continuous professional development programmes including sponsored research and systematic data procurement and banking. Nigerian valuers should recognize the enormity of the assets under their management and the importance of the property sector to the overall prosperity of the nation and be ready to improve on old practices. This will involve continuous training and conscious unprovoked efforts to embrace international standards and best practices.

References

Adegoke, O.J. and Aluko, B.T. (2007). Heuristic Behaviour in Valuation Practice in Lagos Metropolis. *The Estate Surveyor and Valuer,* 30(1) p.5-12

Ajibola, M.O. (2010). Valuation Inaccuracy: An Examination of Causes in Lagos Metropolis, *Journal of Sustainable Development*, 3 (4), pp.187-193.

Amidu, A. (2006). A Study of Client Influence on Residential Property Valuation in Lagos Metropolis. M.Sc. Thesis submitted to Department of Estate Management Obafemi Awolowo University, Ile-Ife. Nigeria.

Amidu, A., & Aluko, B.T. (2007). Client Influence on Valuation: Perceptual Analysis of the Driving Factors. *International Journal of Strategic Property Management, 11, p.77-89.*

Babawale, G.K., & Koleoso, H. (2006). Real Estate Valuation Practice in Nigeria: Implication in a Globalizing World. Paper presented at the International Conference on The Built Environment: Innovation, Policy, and Sustainable Development, Covenant University, Ota, Nigeria.

Babawale, G.K.(2008) An Evaluation of Factors Influencing Inaccuracy in Residential Property Valuation in Lagos Metropolis. Unpublished PhD Thesis submitted to the Department Of Estate Management, University of Lagos, Akoka, Lagos.

Bretten, J., & Wyatt, P. (2002). *Variance in Property Valuation for Commercial Lending,* RICS Foundation, London.

Brown, G. (1991). *Property Investment and the Capital Market,* London: E&FN Spon.

Cullen, I. (1994). The Accuracy of Valuation Revisited. Royal Institution of Chartered Surveyors, 1994 Cutting Edge Conference, London.

Diaz, J. (1990a). How Appraisers Do Their Work: A Test of the Appraisal Process and the Development of a Descriptive Model. *The Journal of Real Estate Research*, 5(1) p.1-1

Diaz, J. (1990b). The Process of Selecting Comparable Sales. *The Appraisal Journal,* 58(4), p.533-540

Diaz, J. (2002). Behavioural Research in Appraisal and some Perspective on Implications for Practice. Royal Institution of Chartered Surveyors Foundation Research Review Series, London.

Gallimore, P.(1994). Aspects of Information Processing in Valuation Judgment and choice.*Journal of Property Research,*

11(2) p.97-110.

Gallimore, P. & Wolverton, M.L. (2000). The Objective in Valuation: A Study of the Influence of Client Feedback. *Journal of Property Research,* 17(1), p.47-58.

Guilkey, D., Cole .R., & Miles, M. (1986). Towards and Assessment of the Reliability of Commercial Appraisals. *The Appraisal Journal,* 54 (3), p.422-432.

Hager, D.P., & Lord, D.J., (1985). The Property Market, Property Valuations and Property Performance Measurement. *Journal of the Institute of Actuaries,* p.1-27.

Harvard, T.M. (1999). Valuation Variance: A Study of the Relationship between Process, Character and Behaviour. Centre for Property Development and Management. UMIST, Manchester.

Harvard, T. M. (2001a). Valuation Reliability and Valuer Behaviour, Royal Institution of Chartered Surveyors Foundation Research Paper Series 4(1)

Herd & Lizieri, C. (1994). Valuing and Appraising New Lease Forms: The Case of Break Clauses In Office Market. *Paper presented at* Royal Institution of Chartered Surveyors Cutting Edge Conference, City University Business School, London.

International Valuation Standards Committee (2005). Why Standards? http://www.ivsc.org

IPD/DJ (1988). *The Variance in Valuation*, Investment Property Databank/Drivers Jonas, London.

Isaac, D. & Steley, N. (2000). *Property Valuation Techniques* (2n ed.), Palgrave New York.

IVSC, (2003). International Valuation Standards (6th ed.), International Valuation Standards Committee, London.

Kinnard, W.N Jr; Lenk, M., & Worzala, E. (1997). Client Pressure in the Commercial Appraisal Industry: How Prevalent is it? *Journal of Property Valuation and Investment*, 15(3) p. 233-244.

Levy, D. & Schuck, E. (1999). The Influence of Clients on Valuations. *Journal of Property Investment and Finance,* 22(3), p.259-268.

McAllister, P. (1995). Valuation Accuracy: A Contribution to the debate. *Journal of Property Research*, 1 (2), p.203-216.

Newell, G. & Kishore, R. (1998). The Accuracy of Commercial Property Valuations, Paper presented at the 4th Pacific Rim Real Estate Society Conference, Perth.

Ogunba, O.A. (1997). A Study of Valuation and Pricing Methods in the Residential Property Market in Lagos Metropolis. M.Sc. thesis submitted to the Department of Estate Management, Obafemi Awolowo University, Ile-Ife, Nigeria.

Ogunba, O.A. & Ajayi, C.A. (1998). An Assessment of The Accuracy Of Valuation In The Residential Property Market in Lagos. *The Estate Surveyor and Valuer,* 21(2) p.19-23.

Ogunba, O.A. (2004). CD of the Proceedings of International Symposium on Globilization and Construction, Thailand.

Pallant, J. (2005). *SPSS Survival Manual (2nd ed.). UK:* Open University Press.

Parker, D. (1999). Valuation Accuracy: An Australian Case Study. *Journal of Property Investment and Finance*, 17 (4) p.401-411.

RICS (2010). RICS Valuation Standards (6th edn.), Royal Institution of Chartered Surveyors, London.

Wyatt, P. (2003). How Much Wrong is Right? Variance in Commercial Property Valuation, Available on *http://*www.ricsfoundation.org*/ publish/document.aspx?did=2893&f=y (accessed on 8th Sept.2003).*

Yovino – Young M.G. (1997). Appraising – Form the middle Ages to Now, http://www.appraisaltoday.com/ appraisi.htm (accessed on 23rd June, 2005).