Paradigm Shift in Investment Property Valuation Theory and Practice: Nigerian Practitioners' Response.

G.K Babawale, PhD

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

Doi: 10.5901/mjss.2012.v3n3p217

Abstract This paper examined the response of Nigerian property valuation professionals to observed shifts in valuation theory, valuation construction process, firms' structure and regulatory framework, over time (particularly in the UK from where Nigerian practice took its root), with the aim of ascertaining the dynamism of the local practice and the extent to which it is keeping pace with international standards and best practices. Structured questionnaire was used to elicit information from local practitioners. The study revealed comparatively negligible shifts in valuation theory, valuation construction process and firms' structure; while the regulatory framework has witnessed remarkable shifts. The study provides a benchmark for gauging the development of real estate valuation in Nigeria in the light of contemporary international standards and best practices. The results point the way to improving valuation practice in Nigeria, and also revealed the extent to which such improvements are feasible. The study identified the academia, individual valuation firm, and the Nigerian Institution of Estate Surveyors and Valuers (NIESV) as the major drivers of the required shifts in theory and practice. The study also proffered the means whereby the required shifts can be fast-tracked including an overhauling of the training syllabus; creation of a central database; and a stronger collaboration between the academia and the practitioners particularly in research and information dissemination.

Keywords: property valuation, paradigm shifts, theory and practice, Nigeria.

1. Introduction

Property valuation is a process or procedure for estimating the value or worth of an interest in property for various purposes including investment analysis, mortgage analysis and transactions, capital budgeting, merger and acquisition transactions, financial reporting, property taxation, and litigation. According to the International Valuation Standards Committee (IVSC), "real property represents a considerable portion of the world's wealth, and its valuation is fundamental to the viability of global 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). In the emerging globalized world, valuations that would be relied upon internationally can therefore be produced only by a valuation profession that conforms to international standards of professional education, competence and practice.

Property valuation theory and practice were birthed and are continually being shaped by a combination of forces within and external to the profession. The external forces include the changing needs of valuers' clients especially institutional investors and lenders; challenges posed by unstable economics accentuating risk and uncertainty; the quest for standardization; a mismatch between actual income streams and the basic assumptions underlying the valuation tables; the wide range of opportunities offered by advancement in information technology and especially in computerization; continuing globalisation of property investment; and academic pre-occupation with innovation and evaluative enquiry (Omirin, 2000). Others include adoption of new capital adequacy rule for international banks (Basle Accord), and the development within the sustainability account and performance arena, a general shift in accounting convection from depreciated historical cost to market value reporting as well as the growing acceptance of International Valuation Standard (IVS) which is closely interconnected with developments in the accounting arena (Gilbertson and Preston, 2005).

Among the internal forces that have impacted significantly on valuation theory and practice standards are the damaging criticisms from other professions and investors regarding the accuracy of valuer's estimates and reliability of his advice; and the growing awareness of academics and practitioners of the need to increase the transparency of valuation process and to adopt procedures that systematically assess and report property risks as well as to account for the uncertainties associated with valuers' opinion (French and Gabrielle, 2005; Omirin, 2000).

Today's real estate valuation profession in Nigeria stands at a crossroads necessitating a revisit in order to reposition it to perform its expected roles more effectively. Presently, not only are clients beginning to question Nigerian valuers' approach and cast doubts on the reliability of their advices, other professionals, notably engineers and accountants, are not only encroaching into areas which are the traditional purview of the valuers/appraisers (officially referred to in Nigeria as Estate Surveyors and Valuers), but are claiming to be more competent (Babawale and Koleosho, 2006). Babawale and Omirin (2012) observed that financial institutions, the main clients of real estate valuers in Nigeria, are getting weary of mortgage valuations prepared by valuers. Financial institutions now advance a very low percentage of values recommended by valuers, while insisting on additional collateral in order to mitigate the imminent credit risk accentuated by uncertainty in valuations (Babawale and Ajayi 2011; Ayedun et al., 2011)

Recognising that valuation theory and practice, as we have it today the world over, have been shaped by a combination of circumstances and factors, this study examined such shifts under three broad headings with a view to evaluating how the local practice in Nigerian has fared and responded. The study thereby sought to promote the development of local standards and benchmarking that would help to link local practice to international best practices. The ultimate goal is to identify and optimize existing opportunities as well as identify inhibitions on the way to best practice, and then proffer ways of eliminating or at least minimizing them.

The paper is structured into five parts. This first part is followed in part two by review of literature. Part three described the method of study. The penultimate part discussed the results of the empirical investigation, while the last part covered the conclusions and recommendations.

2. Review of Literature

History of property valuation dates back to over three hundred years. There were valuation anecdotes from biblical times, the Persian, Asian, and Roman Empires. However, the first book on property valuation, entitled *Book of Surveying* was published in 1523 in England by Johnn Fitzherbert (Yovino-Young, 1997). The first professional body of surveyors was formed in 1834 in London as a precursor of the Royal Institution of Chartered Surveyors which was founded in 1868.

As a former British colony and an active member of the Commonwealth, Nigeria's academic and professional training is rooted and patterned religiously after the British syllabus and practice standards, respectively. In evaluating the dynamism of the Nigerian local practice therefore, we have tried to identify the paradigm shifts that the British valuation theory and practice have witnessed over the years, as benchmarks. This study, in particular, examined shifts in three broad areas viz: valuation theory and methodology; firms' structure and practice standards; and the regulatory framework.

2.1. Shifts in Valuation Methodology and Toolkits

The common characteristic of all forms of investment is the given up of capital today in exchange for benefits to be received in the future. For property, the benefit is expressed as future income (rent) and/ or future reversionary capital value. This is the underlying economic basis for the Investment Method of valuation, which is commonly used to value income producing properties. Investment property pricing model is therefore of the form:

$$P_o \text{ (or } V_o) = \frac{C_1}{(1+r)} + \frac{C_2}{(1+r)^2} + \frac{C_3}{(1+r)^3} + \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad \text{(i)}$$

Where Po = Current price of property interest

Vo = Present value of property interest

$C_{1,2,3,}$ = Expected cash flow in periods 1,2,3

r = Investors' required return (or target IRR)

Expressed in words, the model says that the price (or value) of an income earning property is the present value of expected income flows, discounted over the period to elapse before each flow is received. That is, the price (or value) of an income earning investment property is a function of time, investors' income expectation and their required returns.

The pricing model seeks to duplicate the behaviour of average investor in the local marketplace. Provided the model mirrors the thinking and perceptions of investors of the time, it will be logical and reasonably accurate (Ajayi, 2010). Valuation models have therefore evolved over time, changing with investors' perceptions and behaviour, which in turn reflect the changing social and economic parameters in the society. Ajayi (2010) further remarked that those who work in the frontlines of valuation practice and their clients are always looking to theoreticians to discover new ways of thinking, new approaches, new applications that change and improve the practice. Crosby (2010) also observed that the assemblage of calculative practices that constitute established business and professional activities is constantly

changing. Such changes have either been compelled on the valuation industry or made voluntarily by the responsible stakeholders.

The current investment property valuation approach in the UK has evolved over the course of four centuries (Jefferies, 2009a). The earliest application of the investment valuation method was about the 17th century when the Court of Augmentations started to sell former monastic lands on behalf of Henry VIII at what was called "twenty one years' purchase". By this approach, the capital value of land was regarded simply as the rent receivable for twenty one years without interest and without taking into account the time value of money. This early investment method of valuation sufficiently mirrored the thinking and perception of the investors at the time and was therefore adequate and accurate for that time.

The early valuation practice did not reflect interest or time value of money owing to the restriction placed by the Catholic Church on interest charge. It was not until the passage of the Interest Act of 1545 which gave legal recognition to the charging of interest in business transactions that valuation of real estate started to reflect accrued interest on investment; howbeit understanding and application was then limited to simple interest; a practice that persisted until late seventeenth century when a better understanding of investment performance replaced valuations based on simple interest with valuations based on compound interest (Ajayi, 2010).

The invention of mechanical (movable type) printing press and the invention of logarithms in the 15th century encouraged the compilation of Valuation Tables developed to assist in the laborious manual calculations involved in investment valuation (Jefferies, 2009b). The incorporation of sinking funds in the valuation table published by Estate Gazette (Parry's valuation table) in 1913 also marked the beginning of the application of dual rates to capitalised income from terminable interests like leaseholds. Ajayi (2010), however, observed that this particular shift represents one instance where the shift in valuation theory and practice did not reflect investors' perception nor prompted by market practice; as leaseholders (both then and now) rarely take out sinking fund policy in practice.

A remarkable shift was provoked by the aftermath of the First World War and the depression leading to the Second World War. In order to cushion the effects of scarce capital, labour and materials on property investment climate at the time, and an attempt to house the rapidly growing population; most countries introduced various forms of rent and price controls. To beat the implications of ensuing static rents, landlords resorted to granting long leases (upwards of 21 years) with no rent reviews. This development was reflected in investment valuation methodology of the time; the traces of which can still be found in some text books today notwithstanding the marked differences between the economic conditions of today and then (Jefferies, 2009b; Ajayi, 2010).

Post 1960 UK witnessed two major developments that provoked a number of remarkable shifts in valuation theory and practice. First is the post Second World War inflation which led to rent increases. To take advantage of rental growth, the usual long rent review period prior to 1960, changed gradually from 21 years to 5 years by 1980 (Baum and Crosby, 1995). To account for the ensuing growth potential in property investment, the income capitalization rate in investment valuation changed from being the equated yield (internal rate of return) that reflected no growth (pre-1960 situation) to a much lower "all-risks" yield (or initial yield) that reflected growth potential (of post-1960 situation). This made the rent multiplier (all risks yield) to be more akin to the yield from equities.

The second factor that provoked post-1960 shifts was the recognition of property as an asset class. With their funds buoyed by a constant flow of new money in the 1960s, insurance companies, pension and superannuation sought to diversify their investments beyond fixed securities, equities and mortgages by including property in their investment portfolios (Jefferies, 2009a; Ajayi, 2010). This development required that valuation theory and practice realign to stock market terminology, formulae, concepts, and measures to permit inter-asset portfolio performance measurement. For instance, whereas the stock market measures return using internal rate of return, the property market used the initial yield or all-risk yield. On this note, the conventional investment methods of valuation (term and reversion, equivalent yield, and the layer method) which made use of the all-risk yield were roundly criticized as incorrect, illogical and by deductions, capable of leading to inaccurate valuations (Greenwell, 1976). This criticism was corroborated by a RICS sponsored research (Trott, 1980). The latter report recommended the equated yield technique to replace the conventional term and reversion, equivalent yield, and the layer techniques.

The 1970's also witnessed a change from valuations based on rent payable in arrears to rent payable in advance. In the early part of the twentieth century, rent in the UK was received annually in arrears. Early editions of the standard Parry's valuation tables were therefore computed on an 'in arrears' basis to reflect the economic situation that was current in the UK then (Jefferies, 2009b). However, by mid-twentieth century, due to changes in the economic situation in the UK, rents on most classes of property investment began to be received quarterly in advance. Thus, in the 1970s, Rose produced rent in advance tables that reflected the reality of rent payment patterns (based on rent receivable quarterly in advance) with interest accredited yearly, while Bowcock produced a table based on quarterly rent in advance

with interest credited half yearly. However, subsequent revisions of Parry's tables continued with the assumption of rent paid annually in arrears until the 2002 edition when it included tables with rents receivable quarterly in advance (Ajayi, 2010).

The effects of inflationary growth on both valuation theory and practice prompted the development of the basic 'real value' valuation models in the UK in the early 1970's as a more realistic investment valuable model. UK real value models were first heralded by Ernest Wood in the 1960s with his Inflation-Risk-Free-Yield (IRFY) model defined as a 'yield excluding inflation and real value change'. This was followed by Neil Crosby's real value hybrid model in 1985. The principal argument for using the real value model over the traditional UK ARY model is that the latter over-values the term (as it capitalises the rental cash flows at the initial capitalization rate); and under-values the reversion (as it capitalises the current rental value at the capitalization rate). However, the real value approach foundered in the 1980s as it was considered too complex and esoteric especially in its first formulation – its theoretical soundness was rubbished by the complicated formulary and calculation required (Jefferies, 2009a). A friendlier nominal 'equated yield' (EY), a variant of the Discounted Cash Flow (DCF) model, was recommended (Trott, 1980); and has remained the most popular valuation model in use in UK since the end of the 1970s.

The Discounted Cash Flow (DCF) techniques gained widespread use in the UK especially in the last two decades, and particularly in the valuation for individual property investments in relation to companies and institutions meeting their target returns (Jefferies, 2009b). The DCFs approaches are being extensively used as a check on the traditional EY valuations and for properties that have unusual cash flows (Wright, 2000).

The need to identify and express for risks and uncertainty within the scope of property valuation is currently one of the key concerns in contemporary UK valuation literature (Ogunba, 2007). The debate on the need to expressly reflect risks and uncertainty in valuation started in 1994 with the publication of the Mallinson Report that outlined a number of initiatives which the RICS should undertake to help improve the quality of valuations and the standing of the valuation profession in the business world (RICS, 1995). Hitherto, valuation have been expressed as a single unchallenged, single-point, non-risk adjusted figure. Advising on the purchase of a property or mortgage value based on non-risk adjusted past market trends is increasingly becoming inadequate advice to sophisticated clients because such deterministic (unadjusted) calculations ignore the other possible capital values, which could be derived if changes occur in rental income/growth rate/yield forecasts. Sophisticated UK clients are therefore increasingly advocating downside risk quantification, measurement, and adjustments from valuers similar to what is obtainable in other markets like the capital and the financial markets (Ajayi, 2010).

Globalization has also contributed in no small way to changes in real estate valuation theory and practice standards. In response to globalization, standards have to be developed to promote consistency and the standardization of investment valuation concepts and terminology, which has led, among others, to the growth of national, regional and international valuation standards - RICS's 'Red Book', TeGova's 'Blue Book', and the IVSC's 'White Book', respectively. Internationalization of real estate services 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). The recent developments in the banking world promoted by the Basle Accord on bank regulations; and the growing need to observe International Accounting Standards has made the need for common standards for valuers all over the world more urgent and compelling.

Technological advance in IT and computer has affected the valuers approach and handle certain valuation jobs, provoke innovations in practice, and push back the frontiers of theory. The application of ICT in handling various aspects of valuation jobs including data processing and the use of Automated Valuation Models (AVM) is well entrenched in the UK practice as it helps to comply with the capital adequacy requirement of Basel II, and because its ability to value large number of properties bring advantages in terms of cost and time saving.

Lastly, the pressing need to ensure sustainability in property development in general and in property markets in particular present another force that is significantly impacting on the theory and practice of property valuation in the UK. The UK practice already recognizes and is allowing for 'green' value. Already, there is growing usage of industry rating tool, performance rating tools, and 'green star'. There are cases of introduction of green leasing because there is market for sustainable buildings.

2.2. Shifts in Firms' Structure and Practice Standards

Firms' practice standards and structure refers to the ways valuation jobs are approached and carried out, and how real estate valuation firms are organised for efficient service delivery, respectively. Drucker (1969) posited that firms should strategize in order to gain competitive advantage. Gilbertson and Preston (2005) cautioned that the future belongs to

those valuers who understand the dynamics in the market place and who are willing to anticipate and respond to change. Pascale and Athos (1990) argued that in pre-globalization era, it was enough to achieve success in business by focusing on what he referred to as 'hard factors' (strategy, structure, and system) alone; but that in a globalizing world, businesses need to extend their focus on what he termed 'soft factors' (skill, staff, style and shared values) in order to survive and grow. Pascale and Athos (1981) further posited that the concept of shared values is significantly driven by supraordinate goals, and that all over the world emphasis is now on collaboration, partnership, and team building. True to Pascale and Anthos' opinion, recent worldwide happenings in most economies have forced corporations to move towards cost efficiency and improved productivity via merger, acquisition, take-over and partnership, among others. Organisations now look towards enjoying synergy through buying, acquiring, and partnering with other organisations.

In the same vein, valuation firms are restructuring and getting bigger, over the last few years. Foreign firms are cooperating or merging with indigenous partners to overcome the disadvantage of local knowledge, expertise and contacts. Examples of mergers and cooperation include LaSalle Partners from the US combining with Jones Lang Wotton of the UK in 1999 to become Jones Lang LaSalle (JLN) with strength of 30,000 staff in 750 locations in 60 countries. On the strength of JLW's strong position in Europe and Asia Pacific, and LaSalle's standing in the US and its leadership in real estate investment management, the new firm aspire to becoming a global services management organisation (Annual Report, 1998). The CBRE Group, Inc. is another UK multinational real estate firm. The company was the world's largest commercial real estate firm in 2011 (in terms of revenue). The firm was listed on the New York Stock Exchange (NYSE: CBG), a fortune 500 and S & P 500 (in terms of 2011 revenue). The company has approximately 34,000 employees (excluding affiliates) worldwide. CBRE offers strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting. Aldair (2005) also cited Knight Frank & Rutley, Wright and Partners, G. Crossley & Son, Ealing Surveys & Valuation Ltd., Burns & Webber Surveyors as among the several real estate firms that are taking advantage of the international market by penetrating into several countries. The UK practice therefore has considerable high number of large firms operating as partnerships, Limited Liability Company and with pseudo names. Other relevant features of the UK practice include departmentalisation of job functions, specialization, relatively large number of valuers engaged by firms, and larger number of branches. Firms operating under limited liability structure or large partnership have an avalanche of funds to support strong R&D department that carry out market surveys and researches from time to time; maintain library and data bank; and invest in staff training and re-training, among others.

The need to improve on data procurement, construction, and management within the real estate market has witnessed the emergence of firms like Investment Property Data (IPD), WM Company, Chronicle CB Hillier Parker (ICHP) and Jones Lang LaSalle in the UK. The RICS maintains a working relationship with the Investment Property Databank (IPD) with a view to using the data generated by the latter to compute the reliability of valuations provided by UK valuers; and also liaise with the academic community on how such data can be analyzed further to provide better information. In addition, RICS as a body has also been able to maintain a symbiotic relationship between town and gown. The last ten years in particular, had also witnessed dedicated researches focusing on valuation methods, valuation accuracy and related behavioural issues in response to changes in investors' perceptions as a result of changing economic climate both at the local and international fronts (Crosby, 2000). For instance, Jones Lang Wotton (as it was then called) a property firm in the U.K has been able to cooperate with researchers at both Reading University; while RICS had facilitated a number of researches including that carried out by Lizieri (2001) for London Corporation on the implication of financial innovation on commercial property in London, among others.

2.3 Shifts in the Regulatory Framework

The regulatory bodies of various professions are concerned primarily with issues such as ethics; best practices; research and market analysis; enforcement of rules and regulations guiding the trade; issues of continuous professional development; advancing national, regional and international standards, among others. Real estate valuation regulation in the UK dates back to the 16th century (McNamara, 1999). The principal regulatory body, the Royal Institution of Chartered Surveyors (RICS), for instance, was founded in 1786 and as at 2011 had over 100,000 qualified members and over 50,000 students and trainees spread over about 140 countries. The RICS valuation manual, the Red Book provides perhaps the most extensive and well considered rules and guidelines to valuers. The RICS Valuation Faculty, one of her 16 faculties, promotes specialist skills and dedicated research, information and training of members. RICS is affiliated with the European Group of Valuers Association (TEGoVA), a regional standard setting body, and also with the

International Valuation Standard Committee (IVCS), the most widely recognised international standard setting body made up of 35 full member states (RICS, 2003)

Over the years, RICS has developed a set of strict rules for professional conduct coupled with appropriate disciplinary powers to maintain the highest standard of competence, integrity and professionalism among members that promote confidence in clients and third party users of valuations. RICS has a Valuation Practice Control System (VRS) - an initiative which monitors all RICS Valuation Standards (the Red Book) which provide a regulated framework and practice guidance. It is an initiative set out to raise confidence in the delivery of valuation advice and reinforce the highest professional standards in property valuation and in compliance with Basel II.

3. The Property Valuation Profession in Nigeria

The profession of real estate valuation in Nigeria followed in the wake of colonialism. F.G.
Cleave, an expatriate, was the first known chartered surveyor to set up a general practice in Nigeria in1955. About the same time, Mr. J.W Wood Ekpenyong, the first Nigerian Estate surveyor and Valuer, graduated from the University of London with a B.Sc degree in Estate Management. Since then the profession has grown in number and influence (ESVARBON, 2003).

Decree 24 of 1975, now known as Cap E13, Laws of Federation of Nigeria 2004, formally and officially established the profession of real estate valuation in Nigeria by making valuations of proprietary interests in land (for various purposes) an exclusive preserve of professional Estate Surveyors and Valuers, among others. Unlike in the UK, where the profession is unilaterally controlled by the RICS, the profession in Nigeria is jointly regulated by the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON), a statutory body established by Decree 24 of 1975, and the Nigerian Institution of Estate Surveyors and Valuers (NIESV), a voluntary professional organization established in 1969 and incorporated in 1970. Notwithstanding, there is strong and complementary relationship between the two bodies. Beside the inconclusive Igboko (1992) research into property yields, neither the NIESV nor ESVARBON had initiated any other researches to date. Practitioners had therefore been operating largely on presumptions, guesstimates, or rule of the thumb which are inimical to rationality, consistency and transparency.

Membership of the institution (NIESV) as at 2012 is still under 5000. The institution produced the maiden edition of its valuation standards in 1985, and a revised edition in 2006. The Continuing Professional Development (CPD) committee at both state and national level organises seminars and workshops, the attendance of which is mandatory and is a pre-requisite for annual renewal of membership. 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. It is mandatory for each member of the profession to belong to at least two of the ten faculties. The NIESV is affiliated to the International Real Estate Federation (FIABCI), Commonwealth Association of Land Survey and Economy (CASLE), and the International Valuation Standards Council (IVSC).

Today, forty eight tertiary institutions (universities and polytechnics) in the country offer courses in Estate management at the undergraduate and some at the post graduate levels. Valuation teaching tended to depend entirely on UK textbooks not until late 1990s when Nigerian textbooks, which are more or less a duplication of British texts were being authored by Nigerians (Ogunba, 2007). Presently, the professional valuation practice flourished largely in the state capitals and other major commercial and industrial cities. Rural practice is virtually non-existent. There is a very low presence of foreign firms.

Using the yardstick of market openness, number of professionals, sophistication of professional services, property market liquidity, the level of research and real estate activities, among others, the Nigerian property market has been classified as immature (Dugeri, 2011). Though there is already a growing awareness of the need to mainstream sustainability into real estate valuation practice in Nigeria, Babawale and Oyalowo (2010) in their study found that the respondents tended to define real estate sustainability in terms of its social, rather than economic or environmental features. The authors therefore, suggested that Nigerian valuers must improve on their present knowledge of sustainability to effectively account for all three features in their valuations.

4. Study Area

The study sample is drawn from Lagos metropolis which today represents the hub of the Nigerian property market. Though Lagos has ceased to be the seat of Federal Government of Nigeria since 1991, the sprawling metropolis retained number a prime in terms of concentration of industrial and commercial activities; concentration of financial institutions;

largest and most patronized sea port, airport and capital market; the highest concentration of professional offices, among others (Falade, 2005). For example, more than 90% of the headquarters offices of post-consolidated banks and insurance companies are located within the metropolis. The mega city is said to have the most developed, most diversified and the most active property market with the highest average property value and stock of investment Babawale and Koleosho, 2006).

Available records with the Nigerian Institution of Estate Surveyors and Valuers, one of the Nigerian regulatory bodies, puts it that 53% of the 779 registered firms of Estate Surveyors and Valuers have either their head office or at least a branch office within Lagos Metropolis. The above suggests that the metropolis has the highest concentration of both the providers and the end users of valuation reports. Lagos practice is therefore fairly representative of the Nigerian practice.

5. Research Methodology

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, 1997; Ogunba and Ajayi, 1998; Ogunba, 2004) had used the cluster sampling technique. This was based on the fact that firms of Estate Surveyors and Valuers are to be found in clusters or pockets of settlements around major business districts of major urban centres. Using the NIESV latest directory (2002 edition) as the sampling frame, Ogunba (1997), and Ogunba and Ajayi (1998) for instance, identified six such clusters for their respective study.

For this study, 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 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.

Information on valuation toolkits and methodology and on firm's structure and practice standards were garnered through structured questionnaires administered to heads of valuation department/unit, where one exists or a senior valuer, as representative of each firm. It is believed that departmental heads should be able to provide reliable information on the practice structure, standards and ethics of their respective firms. The issues covered in the questionnaire include how capitalization rate is determined, number of registered valuers engaged by firms, average number of valuation jobs done, and firm ownership and structure, among others. Data on regulatory framework were from secondary sources.

5.1 Data Analysis and Discussions

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

Characteristics	Frequency	%
Firms operating as sole proprietorship.	248	99
Firms that have been operating for more than 5 years.	171	69
Firms operating in more than one branch.	121	49
Firms that employ more than 5 registered valuers.	101	41
Firms affiliated with foreign firms/has a branch outside Nigeria.	2	0.8
Firms that specialized in particular area(s) of the profession.	0	0
Firms having distinct valuation unit/department.	55	22
Firms carrying out more than 5 valuations/month averagely.	85	44
Firms having a copy of any Valuation Standards in their office	60	24
Firms having distinct research unit/department.	50	20
Firms that have created data bank	108	43

Table 1 summarizes the major characteristics of the firms involved in the study. Almost all the firms (99 per cent) operate as sole proprietorship, 31 per cent were established less than 5 years ago, only 51 per cent has more than one branch, and less than 1 per cent are either affiliated with foreign firms or has a branch outside Nigeria. Of the 250 firms, only 43 per cent operate data bank, 20 per cent has designated research unit/department, and only 24 per cent had a copy of any valuation standards or guidance notes at the time of our survey. Only 56 per cent of the firms carry out less than five valuation jobs in a month on the average, 59 per cent has less 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. As of the time of the field survey, only 24% of the firms have a copy of valuation standards, whether national, regional or international.

Table 2: Most Frequently Used Method(s) to Value Investment 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 summarises 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). There is a limited use of income capitalization whether solely or in combination with other methods (28 per cent), whilst only 3 per cent employed any of the more rational and transparent DFC-based or growth-explicit methods like the equated yield and the real value. Babawale and Koleoso (2006) in a similar study for the same study area found that the respondents favoured the replacement cost method above the comparative and income capitalization approach; and also preferred the conventional methods above the more rational and explicit rational, equated yield or the real value. Ogunba (1997) found that only 3.3 per cent of the 30 firms investigated employed the DCF-based valuation techniques; while Ogunba and Ajayi (2007) bemoaned the attitude of Nigerian practitioners for their apparent continuous misconstruing the DCF-based techniques as "superfluous and an unnecessary example of academic wizardry". Koleosho (2000) also remarked that most Nigerian professionals are averse to statistical calculations which are often required in risk analysis and probability concepts. The result in Table 2 confirmed that the most commonly used valuation method (s) by majority of Nigerian valuers has not changed significantly over the years.

Table 3: Method Most Often Used to Estimate Yields (N=250)

No	Method	Frequency	Percentage (%)
1	Market analysis	108	43
2	Predetermined figures as provided by the firm based on property type and location	75	30
3	Rates found in textbooks	39	16
	Theoretical calculations	3	1
4	Rule of thumb based on type and location of the property	25	10
	Total	250	100

Results in Table 3 suggest that the methods for deriving capitalization rates (or yields) by respondents lack consistency, objectivity and transparency – the universal hallmarks of reliable asset pricing. For instance, only 43 per cent often obtained their yields through market analysis; 30 per cent used fixed rates predetermined by their respective firms, 16 per cent made use of textbook recommendations (majority of available texts are foreign or have foreign origin); and 10 per cent employ a rule of thumb based on the type and location of property.

These results do not differ significantly from 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 only 40 per cent used

explicit calculation from market evidences. Ogunba and Ajayi (2003) observed that Nigerian practitioners used dissimilar methods for determining yields, and that there was a preponderant use of fixed yield rates.

Table 4: Type of ICT Nigerian Real Estate Valuation Firms Use (N=250)

ICT	Frequency	Percentage (%)
Word processing	250	100
Property Management Software	28	11
Valuation/Investment Analysis Software	8	3
Internet Surfing	94	38
Data Analysis Packages (e.g. SPSS)	22	9

The application of IT in real estate valuations in the study area is still in its infancy going by the results summarised in Table 4. Beside the limited use of Microsoft Excel spreadsheet and MS-Word for processing and storage of office information, very few of the firms employ any form of information technology to assist either in data analysis or computation of valuations. The reason for this is not far-fetched. Given that firms in the study area are predominantly small-scale, the fact that only 44% carry out more than 5 valuations in a month on the average, as well as the paucity of relevant data, investing in IT may be considered uneconomical or completely unnecessary.

Table 5: Which of these Stakeholders is the Foremost Driver of Necessary Changes in Valuation Theory and Practice in Nigeria (N=250)

Method	Frequency	Percentage (%)
NIEVS	52	21
ESVARBON	18	7
Government	25	10
Individual valuation firm	57	23
Academic institutions	73	29
Valuation end users	25	10
Total	250	100.0

Going by the results in the Table 5, majority of the respondents believed that the Nigerian Institution of Estate Surveyor and Valuers, individual valuation firm, and particularly the academic institutions, are best placed to drive the required shifts in theory as well as practice standards. This is in line with Ogunba and Ajayi (2007) and Babawale and Omirin (2011).

Table 6: Which of these is the Foremost among the Changes Required to Reposition Real Estate Valuation Theory and Practice Standards in Nigeria?

Method	Frequency	Percentage (%)
Larger number of registered valuers	16	8
Stricter enforcement of standard & ethics	26	10
Greater government intervention/regulation	10	4
Greater collaboration between academia/ practitioners/end users	25	10
More research	35	14
Larger firms	10	4
Review of academic curriculum	9	4
Stricter requirement for admission to corporate Membership	12	5
Mandatory valuation standards	14	6
Investment in data procurement/analysis	58	23
Investment in industry-based software	11	4
Specialization in training/practice	24	10
Total	250	100.0

Going by the results in Table 6, respondents appreciate the central place of research and data procurement/analysis in driving the required changes in both theory and practice standards. Of the twelve identified possible changes required to reposition real estate valuation practice in the study area, data procurement and analysis is considered foremost, research is second, while stricter enforcement of standards, specialization in training and practice, and a greater collaboration between academia and practitioner tied at the third position.

6. Conclusions and recommendations

This study has unearthed some critical issues germane to valuation practice in Nigeria. First, the predominant use of the conventional valuation particularly the 'term and reversion' technique reflects the extent to which valuation practice in Nigeria has lagged behind international standards and best practices. Secondly, the absence of specialist firms, the lack of departmentalisation of operations, predominantly small-scale firms and virtual absence of foreign firm within the industry, limited use of information technology and the apparent lack of conscious approach to information procurement and analysis, reflect the conservative stance of real estate valuation theory and practice in the study area. In a similar study, Ogunba and Ajayi (2007), scored Nigerian real estate valuation theory and practice to be just at the second-stage of the seven-stage evolution model which the UK practice has gone through 'over the past 40 years' to sustain the rationality of the valuation process and to satisfy the yearnings of the emerging sophisticated clientele. The Nigeria property valuation profession has not recorded any significant shift in over 50 years of its existence in spite of the enormous changes that the economy has witnessed (Dugeri, 2011). After over thirty years of formal recognition as an independent profession by the Nigerian government, it is to be expected that indigenous professional practice procedures and methods would have evolved in response to the peculiar Nigerian valuation environment. Such methods would have been researched, documented, and presented as standards and guidelines for indigenous practice and made available to students through education and professional training institutions. This however has not been the case in Nigeria. The profession has remained largely static in the inherited UK theory and practice of the 1950's and early 1960's and has not kept pace with the paradigm shifts in the UK since then, and worse still, it has not considered its own unique economic environment where it diverges from the UK practice (Ajayi, 2010). This dangerous trend was foretold by Jefferies when he observed that "Valuation traditions become entrenched from one generation to another reliant on the education system in place, reinforced by apprenticeship type post-graduation work experience, as required for professional recognition/membership/certification/registration. This has traditionally limited the acceptance of both new technologies -- as the employer seeks to catch up with the employees of skills and reluctance reliance thereon – and advances in valuation models and the methodologies to support them. The experienced professionals undertaking the professional certification/registration of valuers and appraisers take considerable time to accept changes in the way appraisals and valuations are done by the younger generation – who in turn are dependent on their educators often from of the same "old" school as the leading professionals in practice" (Jefferies, 2009).

Babawale (2005) reasoned that the evolution of the Nigerian property market (the Valuers' primary working environment) had been held back by a number of structural problems which had impacted negatively on the growth and development of valuation theory and practice standards that would sufficiently reflect the peculiarity of the local market place and that meet international best practices, at the same time. These include the general low par capital income, non-availability or high cost of capital, hyper inflation, the risks associated with unsecured titles, lack of reliable transaction information, indiscriminate 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 firm, lack of specialization. These factors and circumstances combined to produce a weak, distorted property market; paucity of reliable market data leading to unreliable property performance indices; weak mortgage institution; high cost of property transactions; and doubtful property titles. The overall effect of all these is a valuation environment that is far from conducive and which make attainment of consistency, rationality and transparency of the valuation process an uphill task for Valuers.

A number of Nigerian studies have therefore espoused the need for drastic change from an approach that is based essentially on intuition to one that is based on an explicit analysis of variables (Ajayi, 1997, 2006; Babawale, 2005, 2012). In particular, <Ajayi and Ogunba (2007), Omirin (2002), Babawale (2008), Ibiyemi (2009), and Ajayi (2010) have all posed brilliant arguments to justify the need for Nigerian valuers to hone their skills and to update obsolete tools for real estate investment analysis and valuation; emphasizing that the continued use of inappropriate tools and non-standardization of the valuation process in a globalizing world is bound to generate conflicts and accentuate investment risk exposure.

This study lends credence to the calls for significant paradigm shifts towards a more globalized valuation culture through major reform of the valuers' working environment through advocacy and direct participation. Change is required

in resolving the myriads of institutional and ethical problems bedevilling the profession. Specifically, changes are required in firm size; research and data procurement, regulatory framework, and incorporating both sustainability and risks in valuation and valuation reporting, among others.

The study suggested that the academia, individual firm and the regulatory body are best placed to drive the required shifts in real estate valuation theory and practice. This is in line with the thought expressed by Jefferies, that "breakthroughs came when an educator discovers, employs, creates, or learns a new methodology, skill, or application through research and then applies that in teaching students, who hopefully embrace those new ideas skills and application and take them out into the workforce on graduation to educate and influence their employers, masters and the accreditation bodies" (Jefferies, 2009a). Baum and Crosby (1998) are also persuaded that "Valuers will change in their attitudes and techniques if a long substantial argument is put forward from a logical platform"

Recently, the NIESV took a number of initiatives aimed at making the valuers' working environment more conducive. The NIESV's Valuation Standards and Guidance note (2006) replaced the obsolete 1995 maiden edition. It 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. In addition, every valuer rendering 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, Basel 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. The provisions of the Financial Reporting Council Act (2011), if faithfully implemented, is expected to strengthen existing regulatory framework, promote transparency in the industry, and provide the required legal backing for monitoring and enforcement of compliance with international standards and best practices.

At the just concluded 2012 Annual National Conference of the Institution (NIESV) in Abuja, Nigeria, 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.

The impact of these recent measures on both theory and practice remains to be felt. The ultimately impact will depend on the attitude of individual valuers and valuation firms in terms of their readiness to identify themselves with the required shifts and their willingness to adopt necessary changes in practice. Ethical decisions have been found to rest squarely in the hands of the individual valuers and to a lesser degree the ethical culture of the firms they work for (Levy and Schuck, 1999).

References

Ajayi C.A. (2003), The Income Approach to Valuation: the Preference of its Investors. Paper Delivered at a Continuing Professional Development Workshop Organised by Lagos State Branch of the Nigeria Institution of Estate Surveyors & Valuers, Lagos.

Ajayi, C.A. (2010). Property Market Dynamics and Paradigm Shifts in Property Investment
Valuation Methodology. Inaugural Lecture Series 234 Obafemi Awolowo University Press Limited.

Ajayi, C.A. (1998). Property Investment Valuation and Analysis, Ibadan: De Ayo Publications.

Ajayi, C.A. (2006). Towards New Directions for Property Valuation Paradigm, Paper Presented at the International Conference on The Built Environment: Innovation, Policy, and Sustainable Development, Covenant University, Otta, Nigeria.

Ayedun, C.A., Oloyede, A.S., Iroham, O.C. and Oluwunmi, A.O. Clients' Perception of the Reliability of Property Investment Valuation in Nigeria. *Mediterranean Journal of Social Sciences.* Vol.2 (3), pp.539-546, doi:10.5901/mjss.2011.v2n3.539

Babawale, G.K.(2012) An Assessment of the Current Standard of Real Estate Valuation Practice Nigeria. *Elixir Social Science*, 47 (2012), pp. 9094-9102

Babawale, G.K. & Omirin, M.M. (2011). Valuers' and Valuation Firms' Characteristics as Causes of Inaccuracy in Valuation in Nigeria. *Mediterranean Journal of Social Sciences* Vol.2 (3), September 2011, pp. 11-22, doi:10.5901/mjss.2011.v2.n3.11

Babawale, G.K. & Ajayi, C.A. (2011).Variance in Residential Property Valuation in Lagos, Nigeria. *Property Management* Vol.29 (3), pp.222-237.

Babawale, G.K. & Koleoso, H. (2006), Real Estate Valuation Practice in Nigeria: Implication in a Globalization 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 the Relative Impacts of Factors Affecting Inaccuracy in Residential Property Valuation in Lagos Metropolis" Unpublished PhD Thesis, Department of Estate Management, University of Lagos, Lagos.

Babawale, G.K. & Oyalowo B.A. (2011). Incorporating Sustainability into Real Estate Valuation: the Perception of Nigerian Valuers. *Journal of Sustainable Development* Vol.4 (4); August 2011, pp.236-248.

Babawale, G.K.(2005).The challenges of globalisation for property Valuation Profession in Nigeria. Globalisation, culture and the Nigerian Built Environment (vol.1). Faculty of Environmental Design and Management, Obafemi Awolowo University, Ile-Ife

Baum, A .& Crosby, N. (1995), *Property Investment Appraisal*, 2nd ed., Rutledge, London.

Baum, A & Crosby, N (1988), Property Investment Appraisal. Pont ledge, London.

Crosby, N. (2000), Valuation Accuracy, Variation and Bias in the Context of Standards and Expectations, *Journal of Property Investment & Finance,* Vol. 18 (2), pp. 130-61

Drucker, P. (1969), *The age of Discontinuity:* Heinemann

Dugeri, T.M (2011), Evaluation of the Nigerian maturity of the property market. PHD Thesis submitted to the Department of Estate Management, University of Lagos, Nigeria.

Falade, J.B. (2005). Globalisation, culture and the Nigerian Built Environment: problem, Challenges, and Benefits. Paper delivered at the Conference on Globalisation, Culture, and the Nigerian Built Environment, Obafemi Awolowo University, Ile-Ife.

French, N., Gabrieli, L.,& Edge, A.J. (2002). The Globalisation of Real Estate Valuation, Paper presented at the International Federation of Surveyors XXII International Congress Washington, D.C. USA.

Gilbertson, B. & Preston, D. (2005), A Vision for Valuation, *Journal of Property Investment & Finance*, Vol.23 (2), pp.123-40

Greenwell, W. (1976). A Call for New Valuation Methods, *Estate Gazette*, 238, pp.481-4.

Jefferies, R. L. (2009a).A Short History of Income Property Valuation Models – The 17th To 21st Century. A Paper Presented for Presentation at the European Real Estate Society Conference, Stockholm, Sweden.

Jefferies, R.L. (2009b), A brief History and Development of 'Real Value' Valuation models- The last four Decades, Paper presented at the pacific Rim Real Estate society conference, Sydney, Australia

Ibiyemi, A.O. (2009). Rational Property Investment Valuation Practice in Lagos: An Investigation from the Perspective of Risk and Growth Explicit Techniques Application Vol.32 (1), pp.29-38.

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

Koleoso H.A. (2000). Construction Risk and its Implications for Project Viability. A case Study of LSDPC Residential Estate. Urban Behaviour and Property African Environmental

Research, Department of Geography University of Lagos, Vol. 2 (9), pp. 1-9

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

Mallinson Report (1994). Commercial Property Valuations. - RICS. March.

McNamara, P. (1998). Exploring Liquidity: Recent Survey Findings, Paper presented at the 7th Investment Property Data Conference, Brighton.

Ogunba, O.A. and Ojo, O. (2007) Resolving Reliability, Consistency and Rationality Problems of Professionally Prepared Valuations in Nigerian Practice. The *Estate Surveyor and Valuer*; Vol.30 (1); pp. 39-48

Ogunba, O.A. & Ajayi, C.A. (1998): "The Response of Nigerian Valuers to Increasing Sophistication in Investors' Requirement" *Journal of Property Investment & Finance, Vol.25 (1), pp.43-61.*

Ogunba, O.A. (1997), A Study of Valuation and Pricing in the Residential Property Market in Lagos Metropolis, An Unpublished M.Sc. Thesis Submitted to Obafemi Awolowo University, Ile-ife.

Omirin (2000), Development in Valuation Techniques and Practice- being a paper presented at Continuing Professional Development Workshop on Current Issues in Property and Asset Valuation organised by the Lagos State Branch of the NIESV at Peninsular Resort, Victoria Island, Lagos 29th Nov. 20000.

Pascale, J & Athos, R. (1990) Managing on the Edge. New York, Simon and Schuster

RICS (2003), Appraisal and Valuation Manual. The 'Red Book'. Royal Institution of Chartered Surveyor, UK.

Trott, A.(1986). Property Valuation Methods: Research Report, London Polytechnic of the South Bank/Royal Institution of Chartered Surveyors.

Trott, A. (1980). RICS Research Project into Property Valuation Methods: Interim Report. Polytechnic of the Southern Bank, London.

Trott, A. (1980): Property Valuation Methods: An Interim Report, Polytechnic of the South Bank/ Rics London.

Wood, E. (1972). Property Investment: A Real Value Approach. An Unpublished PhD Thesis, University of Reading, UK.

Wyatt P. (1996). Using a Geographical Information System for Property Valuation. *Journal of Property Valuation and Investment*. Vol 14 (1), pp. 67-79.

Yovino- Yong M.G. (1997). Appraising – From the Middle Ages to Now.
http//www.appraisaltoday.com/appraisai.htm ((accessed on 23rd June, 2005).