

CLIENTS INFLUENCE ON PROPERTY VALUE IN VALUATION REPORT (EMPIRICAL EVIDENCE FROM ABUJA, NIGERIA)

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ABSTRACT

Valuation is the pivot of all the activities of estate surveyors and valuers. However in recent times most estate surveyors and valuers influence the final outcome of the property value. The aim of this study is to identify ways and why clients influence the property value in valuation reports. Using semi-structured questionnaire targeted at selected estate surveyors and valuers in Abuja. The firms were selected based on pedigree and branch spread. The data collected was analysed using descriptive statistics. The results show the various reasons why clients influence the property values in the valuation reports and the percentage of influence. The paper concludes by suggesting a way forward

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INTRODUCTION

Valuation being the pivot of all the activities of the estate surveyors and valuers, it is seen as an act of assessing the worth of properties. It is also the act of valuing or estimating value. Valuation is the provision of written opinion as to capital price or value, or rental value, any given basis in respect of an interest in property, with or without associated information assumption or qualifications .

Valuation was regarded as act or science of estimating property values. But these days (valuation is perceived as more of science than art) MILLINGTON, 1988. Valuation has been likened to a science not because of any precision that may or may not exist, but because of the question on 'how much'? poses a problem that required a solution. The scientific approach to problem solving is not to follow a systematic process. Enumerate above are purely scientific process. Apart from this, the appraisals of other forms of investment have gone beyond institution by subjecting them to rigorous analytical technique using the computer (OLAYONWA, 2006).The aim of this study is to identify ways client influence values in valuation reports.

LITERATURE REVIEW

MEANING OF VALUATION

The oxford advanced learners dictionary 6th edition defined valuation as professional judgment about how much money something is worth and its estimate value. It could also be defined as the judgment about how useful or important something is and its estimated importance. The Royal institute of Chartered Surveyors (RICS) 1992 defined valuation as the provision of a written

opinion as to capital price or value, or rental value, on any given basis in respect of an interest in property without associated information assumption or qualification.

Olayonwa (2006) defined valuation as the science of estimating the monetary worth of real property taking into consideration the purpose of valuation and rigorous analysis of that factor that may affect such value.

MILINGTON (1988) sees valuation as an art or science of estimating the value of a specific of a particular interest in property and also considering all the underlying economic factors of the market including the range of alternative investment.

OLAYONWA (2007) noted that valuation report is normally prepared when rental or capital value of landed property is determined for various purposes. Rental or capital value of landed property is determined for various purposes. Rental value is an amount, which a property will let in the open market between a willing tenant and a willing landlord value. Capital value is the amount which a property will sell in the market where there is a willing buyer and willing seller.

PURPOSE OF VALUATION

Kuye (2008) sees purpose of valuation as the reasons for which valuation is carried out which is always determined by the use to which the valuation is put or the problem to which valuation would provide the solution (the why of the valuation) as the procedures differ and the resultant value also differ (it is possible to have a whole range of different values for one property at a particular point in time, depending upon the purpose for which it is required). Such purpose or reason of valuation is normally determined by the client, though such client may not even be sure of what he wants, thus it is the function of the valuer to clarify such purpose for him, this signifies the fact there could be different reasons for which valuation could be needed. Thus valuation services could be rendered to owners who have interest in land or those contemplating dealing in landed properties.

MORTGAGE PURPOSES

According to OLAYONWA (2006) landed property is normally used as security for loan with this arrangement, the borrower or property owner. The mortgage; so that the property can be sold to recover the mortgage loan if the mortgagor defaults in repayment. And for insurance purpose,

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building are insured against damage by accident which may include fire accident, vehicle accident and riot or from environmental element such as rain storm, lighting etc. the aim of insurance is to indemnify the property owner from all possible losses that may occur as a result of damage.

BALANCE SHEET PURPOSE

According to OLUSEGUN (2000) the asset side of a balance sheet normally reflects the values of fixed assets in which landed property is included. The values may be use for various purposes which may include sale of shares and or take-over bids on going concern basis.

SALE PURPOSES

Kuye (2008) , a valuer may be called upon to determine the prices a property will fetch if exposed for sale in the property market, thus the valuer will consider all the likely purchasers in the market at that particular time and all the alternative properties available to them; thus estimating what price would result from the competition between the various potential purchasers.

TAXATION PURPOSES

Real properties are subjected to all forms of taxation. Tax like property rating, is normally based on annual value of property i.e. the annual net income. Therefore, the basis of such tax should be the market rental value for such property, OLAYONWA (2006).

METHOD OF VALUATION

Ajayi (1998) identified methods of valuation in most standard text books on valuation recognize five standard method of valuation which are not necessarily mutually exclusive.

RESIDUAL METHOD

A valuation some times required of an undeveloped land ripe for development or not a building which has become less suitable for the occupiers business for a variety of reason (which may include functional or physical obsolescence) and which therefore requires redevelopment or refurbishment. (AJAYI, 1998).

INVESTMENT METHOD

According to OLUSEGUN (2008) this has to do with finding the present capital; value of a future expected income flow discounted at an appropriate rate of interest. In order to perform a valuation by this method. It is necessary to know or to be able to estimate the income which the property will produce and the appropriate rate of interest at which to capitalize that income. The rent passing on the property might be inconclusive because of certain factors; in such a case rent passing on other similar properties can be adopted.

COMPARATIVE METHOD

This method is usually use for property which readily changes hands in the property market, therefore having sale or rental evidence as the case may be. It is appropriate to adjust the value to be adopted because no two properties are completely the same, may be in terms of location design and even the accommodation they provide. OLUSEGUN (2000).

PROFIT METHOD

Valuer's are often required in respect of properties which are specialized and have limited potential for conversion to alternative uses other than for running a business. They are not let, bought or sold on a floor area basis like offices and shops. Rather they are bought and sold as full operational business and incorporating land, buildings, plants and fixtures, furniture and findings, licenses and good will.(AJAYI 1998).

CONTRACTORS METHOD

Entails determining the cost of replacement or substitution of the property putting into consideration expenses incurred in the course of replacing property e.g. cost of building, professional fees and cost of finances, amongst others. When considering cost of duplicating the present structure, but the cost of providing the same accommodation in substantially the same area which do not add to value of the property. OLUSEGUN (2000).

INFLUENCE

Studies by Schuck et-al (1999) show that when additional information is used in property valuation, in addition to the property specific information and property market information, it cause bias from the market value. Flectcher et-al (1994) noted that client influence existed in mortgage valuation; borrowers have motivation to minimize loan to value ratio, and lenders threaten valuers by losing business or re-valuation. Smill (2002) indicates that 98% of American valuers have the experience to provide higher valuation according to lender's requirement,

especially in the boom market. The lender can control valuers by opinion shopping to find a valuer willing to provide the desired value, or threaten to withhold payment for a low valuation. The lender can, as small valuation firms fear, threaten to cut high enough amount to make a given loan.

Hambleton et-al (1997) found that almost 80% of the respondent valuers in their study agreed with the statement that ‘ valuers are sometime pressured by clients to alter their values’. Levy et-al (1999) confirm the widely speculated belief that valuation are indeed influenced by clients in their study through in-dept interviews with practicing valuers in New Zealand. The study found that the primary factors affecting the degree to which clients influence valuation are the type of client, the characteristics of valuers and valuation firms, the purpose of the valuation, the information endowments of clients and valuers.

DATA PRESENTATION AND ANALYSIS

Table 1 questionnaire response:

Name of Organization	1	2	3	4	5
Purpose for valuation	For mortgage, For insurance, for sale & purchase	For insurance, for sale & purchase	For mortgage, for insurance, for sale & purchase	For mortgage, for insurance, for sale & purchase	For mortgage, for insurance, for sale & purchase
Method of valuation	Contractors, investment, comparative	Comparative	Contractors residual investment comparative	Contractors investment comparative	Contractors investment profit
Valuation per week	1(one) on average	4 (four)	Over 15	6	8
Instructors	Organization	Organization & Individual	Organization	Organization & individual	Organisation

Regular new client	New	Regular New	Regular New	Regular New	Regular
Adjustment of the values	No	Yes	No	Yes	Yes
Value meet the client need	Yes	No	None	Yes	Yes
Percentage for adjustment	None	Less than 10%	None	10-20%	10-20%
Name of organisation	6	7	8	9	1
Purpose for valuation	For mortgage, for insurance, for sale & purchase	For mortgage, for insurance, for sale & purchase	For mortgage, for insurance	None	None
Method of valuation	Contractors investment comparative profit	Contractors investment comparative	Contractors investment comparative	None	None
Valuation per week	5	8-10%	4	None	None
Instructors	Organisation	Organization	Organization	None	None
Regular or the Client	Regular	Regular new	Regular new	None	None
Adjustment value	Non	Yes	Yes	None	None
Value meet the client	Yes	Yes	Yes	None	None

need					
Adjustment Value	None	5-7%	Less than 10%	None	None

Source: field survey,2011

Table 2

PURPOSE FOR VALUATION

Organization	Purpose for Valuation
1	Mortgage, insurance sale and purchase
2	Mortgage, insurance sale and purchase
3	Mortgage, insurance sale and purchase
4	Mortgage, insurance sale and purchase
5	Mortgage, insurance sale and purchase
6	Mortgage, insurance sale and purchase
7	Mortgage, insurance sale and purchase, letting
8	Mortgage and insurance

Source: field survey,2011

VALUATION IN ABUJA

Based on the data collection the firm are mostly engage in mortgage valuation, insurance valuation sale and purchase valuation instruction are organization (Banks and Insurance Companies).

The clients are mostly regular which make them to influence some firms to adjust the final value to meet their clients need.

VALUATION PER WEEK

As for valuation per week, it is interesting to note that some selected firms feel that valuation for mortgage purpose are properties with clear market information are two factors that likely to have potential client influence rather than the valuation purpose and the amount of valuation fee first factor is understandable as borrowers and lenders to ask for higher valuation. Secondly, with greater information transparency, then are less opportunities for the clients to ask for adjustment.

Table 3

AVERAGE NUMBER OF VALUATION HANDLED BY FIRMS PER WEEK

S/No	Organization	Valuation per Week
1.	1	1
2.	2	4
3.	3	15
4.	4	6
5.	5	8
6.	6	5
7.	7	9
8.	8	4

Source: field survey,2011

ADJUSTMENT OF FINAL VALUE

The research and the response in the selected valuation firm in Abuja they adjust the final value to meet the clients request and to get the high valuation fee. They seem to imply that while the practice in firm generally accepts valuation as a means to attract and satisfy client, they are less open to adjusting value according to client asking for adjustment to value before submission of final report on significantly different before the selected firms. In some firms, more values seem to agree that it is quite common for clients to as for final value. Although it those observation, prima facie, pressure seems to exert a strong influence in some firm.

Table 4 Percentage Adjustment of Valuation

S/No	Organization	Percentage of Adjustment
1.	1	10%
2.	2	15%
3.	3	15%
4.	4	6%
5.	5	10%

6	6	64%
7.	7	97%
8.	8	97%
9.	9	38%
10.	10	64%

Source: Field Survey.

Client influences, due to the selfish interest of the valuers to comply with clients and they influence them by adjusting the final value to meet their need and the valuer demand for high valuation fee.

SUMMARY OF FINDINGS

This study dwell on an analysis of the influence of clients in valuation report in Abuja (of some selected firms). The values inform the client's final value before submitting the valuation report which makes the clients to influence the values. Familiarity and regularity of the clients makes

them to influence the values asking of high valuation fee, makes the clients to ask for adjustment of the final value.

RECOMMENDATION

Bases on the data analysed the following recommendation are proffered: The valuer's should send their valuation report online (internet) so that it can enable the Nigeria Institution of Estate surveyors and valuers to test it with a model format, once it passes that process it can be returned to the estate surveyors and valuers. The valuer's should avoid informing the client of the final value before submitting the valuation report. The valuer's should avoid taking any clients as familiar or regular client because they use that advantage to influence the values.

CONCLUSION

In the course of these research various finding were made concerning the influence on valuation report in the case study area (some selected firms in Abuja) most firms derives highest satisfaction from their clients (fee) but they don't give much consideration to the professional aspect, ethics, as outlined by the Nigerian Institution of Estate surveyors and Valuers (NIESV).

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