Evaluation of Corporate and Non-Corporates’ Clients Understanding of Valuation Reports in Bauchi Metropolis

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Abstract
This study highlighted financial institution understanding of valuation report in Bauchi metropolis. Study area is experiencing rapid business and property market development, valuation of real estate and property has thus been considered as a solution to a problem, and particularly as an answer to specific questions posed by a client. It is been done by following a systematic process, called the valuation process. Key issues regarding the quality and reliability of the valuation process and valuation reports have been the focus of considerable attention, these include ensuring greater credibility and clarity in general property valuations, assessing valuers’ compliance with the reporting standards and ensuring public confidence in the valuation process. It is essential that the valuation report communicates the information necessary for the proper understanding of the valuation, free of ambiguity, and providing the intended reader with a clear understanding of the assessment provided. The methodology adopted in this study is Non-probability sampling. The respondents of the research cross over the study area. And convenient sampling was used to distribute questionnaires. Both open and close-ended questions were used. The findings of the study show that commercial banks have an adequate understanding of valuation reports submitted to them by professional valuers. Mortgage institution also show a relative understanding of
valuation reports in the study area. The study concludes that Housing valuation are paramount in ascertaining the actual value of property at a given period of time. The results of the research study vindicated that understanding of valuation report within the financial institution within the study area. Professionals that provide the valuation report need to communicate the main issue in the valuation report. Future researches would be of great beneficial if the researchers would dwell on this aspect of research so that generalization of the result finding would vindicate current and future significant of clients’ understanding of valuation reports.

**Keywords:** Valuation reports, Mortgage valuation, commercial banks, Housing market and Professional valuers.

**Introduction**

Valuation, being the process, science and art of estimating the monetary worth of interest in land and landed property, is defined by many scholars and prolific writers in the area as “process of establishing an opinion of value for an interest in land and landed property/real estate (Babawale, 2013; Aluko, 2008; Aliyu et al, 2014). In the same vein, valuation is also described as a professional individual’s opinion of the capital estimates or value, worth of landed property (Wyman, Seldin, & Worzala, 2011). Valuation of landed properties are mainly and independently function of estate surveyor in Nigeria. Significant of valuation for different purposes are the main reasons why many non-corporate clients understanding is necessary for engaging surveyors for the job.

According to Baum, & Crosby, (2014) valuation of real estate and property has thus been considered as a solution to a problem, and particularly as an answer to specific questions posed by a client. It is been done by following a systematic process, called the valuation process. A valuation report is a formal presentation of the valuer’s opinion, the medium by which the valuer fulfils his agreement with his client, and thus, the tangible expression of the valuer’s rendering of services for which he will be entitled to receive a fee (Wilkinson, Antoniades, & Halvitigala, 2017). Yet, there is a known fact that clients attach so much importance to the quality and reliability of valuation report in meeting their intended investment objectives and decisions. It is
therefore pertinent that the values of such properties are accurately communicated (Adetokunboh, 2012). A thorough valuation report is expected to provide a substantial level of professional shielding to property developers from the risks and problems of wrong investment decisions being an avenue by which professional information is conveyed to clients who commissioned reports (Wanęcki, 2016). It must, therefore, meet the need of the client as well as uphold the standards set for the valuation profession (Oluwummi, Akinjare, & Joshua, 2014). Recently, key issues regarding the quality and reliability of the valuation process and valuation reports have been the focus of considerable attention, these include ensuring greater credibility and clarity in general property valuations, assessing valuers’ compliance with the reporting standards and ensuring public confidence in the valuation process (Amidu, 2011, De Cesare, 2012; Newell, Muhammad Najib, & Martin 2010). Most of these studies have pointed to the fact that there is a need for the client and valuer to be more fully aware and better informed of the expectations and requirements of valuation report content and standards. Given the significant changes in the Nigerian real estate market and industry in recent years, particularly relating to valuation practice, opinion of values are rejected by non-corporate clients claiming that they do not have full understanding of the prepared valuation reports leading to their inability to make quick and urgent decisions on their investments - and as a consequence, leading to unpaid professional fees of services well rendered by the valuers. It is against this background this study tends to evaluate the non-corporate client’s understanding of valuation report in Bauchi metropolis. There has been much body of empirical research over the years on non-corporate clients’ perception of valuation report quality. Crosby, Hughes, and Murdoch (2004) studied three groups of people involved in the preparation and use of valuation reports; commercial lenders, commercial valuers and residential valuers. The study revealed that lenders professed general satisfaction with valuation reports although satisfaction was less for the levels of analysis and interpretation.
compared with the overall quality and the perceived accuracy of the valuation figure.

In a similar Australian study, (Newell, 2004) evaluated the improvement in quality of valuation reports between 1998 and 2004 and discovered that a greater number of clients were satisfied with the valuation report standards.

Aluko, (2007) compared the views of both of estate surveyors and lending institutions with respect to the information content of mortgage valuation reports, He reported that mortgage valuation reports presented by valuers are not currently meeting the needs and demands of lending institutions.

Oluwunmi, (2008) examined clients’ perception of valuation report quality in Lagos Metropolis. Questionnaires were distributed to ascertain if the valuation reports of the estate surveyors and valuers met up with standards set by the Nigerian Institution of Estate Surveyors and Valuers (NIESV). Data collected were analyzed using non-parametric statistics and it revealed that valuers’ reports were meeting the institution’s set standard.

Oluwunmi, Ajayi, Olaleye, and Fagbenle, (2011) studied clients’ perception of valuation report with a view of determining clients' satisfaction level and thus improving on the quality of valuers' reports. The result revealed that 62% of the banks (clients) were at least satisfied with the overall content of the valuation report they received from valuers however, results showed that clients wanted more improvement on details of tenancies which seldom appear; details on specific comparables; general information on comparables; state of letting market; valuation calculations and uncertainty in valuation figures in their valuation reports.

Adetokunboh (2012) carried out a study on Examination of Clients’ Perceptions of the Quality and Reliability of Valuation Reports in Lagos; However, studies on the assessment of client's understanding of valuation report in Bauchi Metropolis, is lacking hence, the need for this study.

In Bauchi, it has been observed that valuation of property is not frequently carried out and client understanding of valuation report is low compare to other economic buoyant state like Lagos, Kano and Port Harcourt. It is therefore important to carry out a study on assessment of client understanding of
valuation report in Bauchi metropolis through the evaluation of the current valuation report standard of the study area, identification and assessment of issues and problems of valuation reporting in the study area, and assessment of range of factors in respect of clients’ views on the valuation reports.

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

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

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

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

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

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

**Research Methodology**

The methodology adopted in this study is Non-probability sampling. The respondent of the research cross over the study area. And convenient sampling was used to distribute questionnaires. Both open and close-ended questions were used. The questionnaires were used to obtain information concerning non-corporate clients’ understanding of valuation reports in Bauchi Metropolis. 50 questionnaires were administered to Mortgage institutions; Commercial banks, Insurance companies, micro finance banks, and discount houses.
Results Presentation

Table 1: Questionnaire Distribution

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Questionnaires Distributed</th>
<th>Questionnaires Retrieved</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Institution</td>
<td>22</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>18</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>6</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Micro Finance Banks</td>
<td>4</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td><strong>50</strong></td>
<td><strong>34</strong></td>
<td><strong>68</strong></td>
</tr>
</tbody>
</table>

Table 1 above revealed the financial institutions that required valuation report within the study area. 68% of the questionnaires were retrieved. Almost 32% were discarded due to various reasons.

Figure 1. Level of Valuation report understanding by the financial Institution in Bauchi

Source: (Researcher, 2020)
The level of valuation report understanding was measured within the financial institution within the study area. Mortgage institution in the study area confirmed that valuation report is satisfied in terms of understanding the report, while the least understood of valuation report in the study area is micro finance bank.

Data Analysis and Discussion
Data analysis for this study will involve the use of both descriptive and inferential statistical techniques. The sample frame that was used are the financial institutions which represent a large percentage of valuation report clients (end users) in Nigeria. Banks represented the largest percentage of respondents (65.08%), insurance companies (11.11%), savings and loans homes (11.11%) and discount houses (4.76%) (Adetokunbo 2012). The total questionnaires were 50 and the proportion for each respondent goes thus: Banks represented the largest percentage of respondents (25) Insurance Companies (5), Savings and Loans Homes (5) and discount houses (5). The result of the research agrees with that of (Monteiro et al., 2017). The findings of the study show that commercial banks have an adequate understanding of valuation reports submitted to them by professional valuers. This result agrees with (Acharya et al., 2019). Mortgage institution also show a relative understanding of valuation reports in the study area, this result is not in conformity with (Kularatna et al., 2013). The results of this study generally agree with many studies conducted in kenya (Kazimierczuk, 2019; Oerlemans et al., 2016), South Africa (Janosik, 2005), Ghana, (Asenso-Okyere et al., 1997). All these studies show the significance of understanding valuation reports to clients be it individuals or corporate entity.

Conclusion
Housing valuation are paramount in ascertaining the actual value of property at a given period of time. The results of the research study vindicated that understanding of valuation report within the financial institution within the
study area. Professionals that provide the valuation report need to communicate the main issue in the valuation report. Financial institution understanding of valuation reports has a great importance for smooth transaction for land and landed property. In the study area the generality of financial institution has an adequate knowledge and understanding of valuation report effectiveness.

References


