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# DYNAMICS OF PROPERTY INVESTMENT VALUATION THEORY AND PRACTICE: RELEVANCE AND POSITION IN NIGERIA

***Yusuf L. Gambo*[1] *and Esther M. Adamu*[2]**
[1 & 2] Department of Estate Management, University of Jos, Plateau State, Nigeria

## ABSTRACT

**Purpose:** The theory and practice of valuation is basically patterned after the UK practice and is evolving in Nigeria. The paper aims at examining the shift in property investment valuation theory and practice with a view to identifying the quality of valuation practice in the country.

**Design/methodology/approach:** Data were obtained through structured questionnaire administered to Estate Surveying and Valuation firms in Abuja, Lagos and Port Harcourt and analysed using frequency tables, simple percentages and Relative Importance Index.

**Findings:** The results showed how valuation practice firms are characterized by sole proprietorship ownership, and absence of specialized firms. Investment valuation in the country lags behind in the culture of best international practices by adopting valuation approaches that are inappropriate. Valuers in the country prefer the use of International Valuation Standards manual by IVSC and NIESV Valuation Standards. It was also found that about 27% of valuers do not consult any Valuation Standards in practice.

**Research limitations/Implications**: The study revealed that factors impeding the use of investment valuation method are absence of data bank; use of alternative methods of valuation; low capital value figure arrived at by valuers; and low rental income from property investments.

**Practical implications:** It is recommended that proactive steps be taken towards the use of appropriate investment valuation models and formation of bigger practice firms to meet clients' demands at national and international levels. The professional regulatory bodies should monitor valuers' practice and ensure strict compliance with the provision of International Valuation Standards.

**Originality/value**: The study documented the progress investment valuation underwent and the present practice in Nigeria; and also contributed to knowledge by identifying factors impeding the use of investment valuation method on income yielding properties.

**Keywords:** Estate valuers; Investment valuation; Nigeria; Valuation practice; Valuation theory.

## 1. INTRODUCTION

Valuation is the art and science of estimating the worth of an interest in property for a specific purpose. The purpose could be for sale, purchase, mortgage, rental valuation, insurance, balance sheet, going concern, compensation, auction reserve, redevelopment, rating/taxation, probate, and others (Udo, 2003; Ogunba, 2013). Real estate constitutes significant part of the world's wealth. Savills World Research (2021) reported that real estate forms two-third of the world's wealth and is worth $326.5 trillion in 2020; making it more valuable than all global equities and debt securities combined. This makes real estate about four times more than global GDP. This also makes valuation of real property of central importance for the effective functioning of global financial and property markets. The sophistication and fast changing economic environment in the global property investment combined with forces of globalization further underscores the need for valuations that are transparent, consistent and reflects best practice in accordance with internationally acceptable standards.

[1] Email: yusuf_gambo@yahoo.com

Globalization has ushered in needs to standardize professional practices and services as such, valuations that would be used to guide investment decisions must conform to generally acceptable standards and competence.

Property valuation theory and practice are evolving and being shaped by forces within and outside the profession. The external forces that greatly influence valuation theory and practice stemmed from criticism from other professions such as accounting, financial analysts, engineering and investors regarding the reliability and accuracy of valuers' estimates of value (Gambo, 2015). Among the forces from within the profession is the increasing awareness on the side of academics and practitioners of the need to improve the transparency of valuation processes and find a way to assess and report risk as well as present in clear terms uncertainties associated with opinion of value express by valuers (French & Gibrielle, 2005; Gambo, 2015). The external forces arise from sophistication of valuers' clients demanding refinement and standardization of professional services. The new accounting convention requiring sufficient asset capitalization as enshrined in Basle Accord and valuation reportage for financial records in consonance with International Accounting Standards now captured in International Valuation Standards. Others include unstable economy premised by uncertainty; discrepancies in the rent receivable from property investments and the capitalization models in the valuation tables.

The valuation profession today in Nigeria has come under scrutiny, with stakeholders expressing concern over the wide variation in the opinion of value of two valuers on the same property. The irrationality in valuation accentuated by inappropriate investment valuation models demonstrates a significant departure from theory to practice, which in turn makes valuers' clients question the approach and reliability of valuation opinions expressed by the valuers. The valuation theory and practice is fashioned after United Kingdom's (UK) texts which does not reflect Nigeria's peculiarities (Ogunba, 2012).

Property market dynamics and global situations influence valuation theory and professional practice. It is against the foregoing that this paper examines the development of investment valuation theory and practice with a view to investigating the extent to which the profession in Nigeria has attuned its practice to reflect global acceptable best practice.

## 2. Literature Review

This section will start by looking at some historical development on valuation theory and practice structure in the UK and Nigeria. The subsequent headings under this section will review work on valuation methods and methodology; development in valuation practice in Nigeria; and practice standards and regulatory framework.

### 2.1. An Overview of Developments in the Valuation Profession and Practice in the UK and Nigeria

Property valuation is what confers prestige and professional independence to the Estate Management discipline. The profession has existed for over three centuries (Gambo, 2015). There are short accounts of valuation traces even in the Biblical era; as it is fondly put that Adam was the first Estate Surveyor and Valuer in charge of managing Garden of Eden. However, Yovino-Young (1997) formally reported the account of the first property valuation textbook published in 1523 in England by John Fitzherbert. It was titled, 'Book of Surveying'.

Nigeria, a member of the Commonwealth, was a former British colony which patterned its valuation professional practice after the British practice. The valuation profession in Nigeria came into existence in the middle of the 1950s. F. G. Gleave, an expatriate was the first Chartered Surveyor to establish a general practicing firm in Nigeria (Babawale, 2012). According to Ogunba and Ajayi (2007) prior to the 1950s, the valuation profession was not known; however, the need of valuation for secured lending, insurance and other purposes exigent to economic development birthed the valuation profession in colonial Nigeria. The valuation profession in Nigeria is just about 53 years old compared to the more matured practice in Britain where the valuation profession was traced back to the 17th century (McNamara, 1999). The Royal Institution of Chartered Surveyors was founded in 1868 and today has 140,000 members from nearly 150 countries with offices in all the continents of the world (RICS/IPD, 2011); while the Nigerian Institution of Estate Surveyors and Valuers (NIESV) has 8, 895 with 8, 059 Associate Members and 836 Fellows as at April 2023.

The early valuers who are the foundation members of the profession in Nigeria were trained in the UK and got their professional qualification through the RICS (Gambo, 2015). In 1957, a sub-professional course leading to the RICS intermediate qualification was established in the Nigerian College of Arts, Science and Technology, Enugu. About that time, there was no Nigerian academics in the field of estate management despite the early graduation of Mr. John Wood Ekpenyong in 1954 as the first Estate Management graduate in Nigeria who studied in London. Later in 1963 Professor John Anene Umeh became the first academic in Estate Management in Nigeria and with the support of some UK academics – Dr. D. R. Denman and Dr. Derek C. Nicholls established the first Estate Management Department at the University of Nigeria, Nsuka (Ogunba &Ajayi, 2007). A second Estate Management Department was established at the Obafemi Awolowo University Ife, Ile-Ife in 1969. Later the Department of Estate Management of the University of Lagos which was in contemplation of being established since 1965 was finally established in 1982. The Department of Estate Management University of Lagos was established with plurality of purposes-to fill in the manpower gap the earlier established universities could not fill; and considering Lagos as the then capital city of Nigeria (Gambo, 2015). Today in Nigeria however, the academia has witnessed tremendous growth with 56 tertiary institutions (33 universities and 23 polytechnics) offering courses in Estate Management at undergraduate and some at postgraduate levels. As at April, 2023, there are 39 professors of Estate Management in Nigeria and with many more to join the rank soon (NIESV Academic Forum, 2023)

Professional real estate practice has grown substantially in Nigeria since the end of colonial rule in 1960. The first conference of Estate Surveyors and Valuers in Nigeria which was more of a meeting of the Nigerian chapter of the RICS was held in the city of Ibadan as a precursor to the formation of the Nigerian Institution of Estate Surveyors and Valuers (NIESV) the same year. In 1975, the then military government promulgated the Estate Surveyors and Valuers Registration Decree (No. 24) of 1975; Cap 111 LFN 1990, now E13 LFN 2007) which granted the profession official government recognition and formally established the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON). In Nigeria, the valuation profession is regulated by two complimentary bodies- the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) and the Nigerian Institution of Estate Surveyors and Valuers (NIESV). ESVARBON or the Board as popularly known is a regulatory body recognized by the Federal Government of Nigeria through the constitution charged with the responsibilities of determining who are Estate Surveyors and Valuers; determining what standard of knowledge and skill are required of surveyors and valuers; securing, establishing and maintaining a register of persons entitled to practice as Estate Surveyors and Valuers and the publication from time to time of names of such persons etc. (ESVARBON, 2012). The Nigerian Institution of Estate Surveyors and Valuers is a non-profit, voluntary professional association established in 1969 to cater for the interest of the landed profession in Nigeria. The Institution (NIESV) is saddled with the responsibilities of establishing a high and reputable standard of professional conduct and practice in landed profession throughout Nigeria; securing and improving the technical knowledge of its members and facilitating the acquisition of such knowledge by close collaboration with universities, other institutions of higher learning and other professional bodies etc. (NIESV, 2019). However, there is a strong and complimentary relationship between the two bodies, which are the Nigerian Institution of Estate Surveyors and Valuers (NIESV) and the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON).

## 2.2. Developments in Investment Valuation Methods

Valuation methods refer to approaches or techniques employed in estimating value. Methods of valuation are now referred to as approaches to value which are basic techniques used in estimating worth of an interest in property. The IVSC (2020) recognizes basically three methods (approaches) that are universally accepted- the market approach, income approach, and the cost approach. The UK practice and most of the Commonwealth Countries have five methods of valuation- the market approach, income approach, cost approach, profit method, and the residual method (Gambo, 2015). These are known as traditional or conventional methods of valuation. There are other advanced or contemporary valuation methods which include artificial neural networks (ANNs); hedonic price method; spatial analysis methods; fuzzy logic; autoregressive integrated moving average (ARMA); real options method; and rough set method (Pagourtzi, Assimakopoulos, Hatzichristos& French, 2003; Lorenz, 2006). Those methods that rely on a range of valuers' observations to influence the model are known as the traditional or conventional method; while those methods that try to analyse the market by directly mimicking the thought process of the players in the market to estimate the exchange price are referred to as the advanced or contemporary methods (Pagourtzi et al., 2003).

The investment valuation which is based on the principles of anticipation- that investment involves giving up of capital sum today in anticipation of stream of income in the future or capital gain. The investment valuation method is employed in estimating value of income yielding properties. The pricing or value estimate model of investment yielding property where rent is received in arrears (at the end of the year) is given as:

$$\frac{1}{(1+i)} + \frac{1}{(1+i)^2} + \frac{1}{(1+i)^3} + \text{-----------} + \frac{1}{(1+i)^n} \ldots \ldots \ldots \ldots \ldots \ldots (1)$$

The investment valuation model in equation 1 was borrowed from the UK where rent is receivable at the end of the tenancy or lease. The circumstance for which ordinary annuity assumptions as represented in equation has changed with the pattern of rent payment and investors' expectations (Ogunba, 2012). In Nigeria, incomes from investment properties are received in advance (beginning of the period) which is called an annuity due. The rent received in advance (beginning of the period) coincides with the end of year (n – 1) and is represented as:

$$1 + \frac{1}{(1+i)} + \frac{1}{(1+i)^2} + \frac{1}{(1+i)^3} + \text{-------} + \frac{1}{(1+i)^{n-1}} \ldots \ldots \ldots \ldots \ldots (2)$$

From above equations 1 and 2, a difference is noted in annuity streams between ordinary annuity and annuity due circumstances. This by implication gives rise to variation in the YP models for rent in arrears and rent in advance situations. Ajayi (2010) asserted that valuers in active private practice and their clients rely on the debated theories by the academics to discover new line of thinking and new techniques that improve quality of practice. Change in the valuation industry is forced by clients' sophistication and refinement of valuation models occasioned by demands from users of valuation services.

The investment valuation has evolved in the UK for over 400 years. The investment method of valuation was first applied when the Court of Augmentation was to sell monastic lands over 400 years ago on behalf of King Henry III at what was known as "Twenty One Years' Purchase" (Jefferries, 2009). The approach then determined capital value of land by the flow of rent receivable for 21 years with no interest charged and time value of money not taken into account. This approach to value of income yielding properties was appropriate and met the expectations of the investors. It was therefore considered accurate and reliable. Time value of money and interest payment were not factored into the early investment valuation models because of restriction imposed by the Catholic Church on interest payment (Babawale, 2012). The promulgation of the Interest Act of 1545 gave right for charging of interest; that enabled valuation to reflect interest in real estate transactions. However, interest in valuation was based on simple interest until late 17th century when compound interest was introduced as basis of investment valuation (Ajayi, 2010).

After the Second World War, inflation started influencing valuation theory and models which led to the development of 'Real Value Models' in the early 1970s in the UK to reflect the peculiarities of their market (Baum & Crosby, 1995). Ernest Word first introduced the Real Value Model in the UK in the 1960s using Inflation Risk Free Yield (IRFY), which is a yield that excludes inflation and real value change (Babawale, 2012). Later in 1985, Neil Crosby came up with Real Value Hybrid Model. The argument for the introduction of Real Value Model was that the traditional All-Risks-Yield (ARY) overvalues the term and undervalues the reversion. Jefferies (2009) criticized the Real Value Hybrid Model that it was complex, likely to be only understood by few; and lacked sound theoretical underpinning. Trott (1980) recommended the use of nominal Equated Yield (EY), a version of Discounted Cash Flow (DCF) model and it has gained popular acceptance in the UK. The DCFs are employed to serve as checks on Equated Yield when properties with unusual cash flows are valued (Wright, 2000). Ogunba (2007) asserted that one of the most daunting challenges in valuation at the moment is how to identify and measure risk. The concern to adequately capture and reflect uncertainty in valuation has been on the front burner since in the early 1990s expressed by the Mallinson Report, a research sponsored by RICS (RICS, 1995). Until recently, valuation has been reported as an unchanged and non-risk figure. Clients in the UK are now requesting for downside risk to be measured and adjusted just like in the capital market and financial markets (Ajayi, 2010).

Globalization has also influenced conduct of professional practice along national and international boundaries. Recently, valuation standards at international, regional and national levels have been developed to promote consistency, uncertainty and transparency in practice. The banking reforms initiated by Basle Accord and the need for valuation reporting that are consistent with accounting norms compelled the need for uniform standards (Gambo, 2015).

## 2.3. Development of Valuation Firms

Forces of globalization have impacted on all sphere of professional practice; thus, emphasis is now shifted towards professional collaboration and partnership. In the context of this paper, partnership is the relationship between two or more persons with common practice interest with a view to establishing professional business network so as to make profit. The British Partnership Act of 1890 still regulates partnership relationship in Nigeria.

Global economic situation has necessitated a move towards cost efficiency, thereby making many organizations to go into merger and partnership for optimum productivity. Size of a firm determines productive potentials and possible expertise in service delivery. Large firms are believed to take advantage of economy of scale and enjoy more negotiation power over clients and suppliers (Serrasqueiro & Nunes, 2008). In the same vein, Yang and Chen (2009) asserted that firms of larger formation easily access credit facilities, have broader base of qualified human resource, and could achieve better diversification horizon. Small size firms on the other hand, display characteristics that appear to augment their weakness of being small (Symeou, 2011). Yang and Chen (2009) are of the opinion that small firms have less problem of agency issue and are more flexible where the firm wants to change business direction.\

According to Statista Research Department (2023), the world's largest company by number of employees is Walmart in the US with 2,300,000 staff strength as at 2022. Valuation firms are also restructuring and getting bigger networks in the last few decades. Foreign valuation firms are merging and forming partnership to extend their frontiers of professional services across international boundaries. Foreign valuation firms are partnering with indigenous firms to overcome the disadvantage of local knowledge and expertise (Babawale, 2012). LaSalle Partners, a valuation firm in the US merged with Jonnes Lang Wotton in the UK in 1999 to form Jones Lang LaSalle (JLN) with staff strength of 30,000 and 750 offices in 60 countries (Symeon, 2011). There seems to be an absence of large partnership among valuation firms in Nigeria. It would appear sole proprietorship is common.

## 2.4. The Impact of International Accounting Standards and Banking Reforms on Valuation Practice

Contemporary valuation practice is being shaped by a combination of strong forces within and outside the profession. Investors' requirements for cross-border investment are perceived as a cardinal driving force in pushing for the harmonization of valuation standards in Europe (McParland, Adair, & McGreal, 2002). They also asserted that cross-border investment not only boosts the harmonization of standards, but also acts as a propelling factor for common taxation and legal systems, which international investors are particularly sensitive to. The research further remarked that international Accounting Standards Board (IASB) is one of the facilitating factors in the harmonization process. Accounting standards setting has taken a new dimension in the direction of regulating the banking sector (Basel Committee), investment in general, Corporate Governance, International Public Sector Accounting Standards (IPSAS), insurance and the likes. The Accounting standards body also pays attention to valuation because of its importance in the efficient functioning of both property and financial markets.

In an attempt to examine the relationship between IVS, fair value and the Basel Accord as it affects valuation standards in Malaysia, Fernandez (2006) started by defining fair value as "the amount for which an asset could be exchanged or liability settled between knowledgeable, willing parties in an arm's length transaction". From the definition of fair value, he noted that it suggests a mark-to-market concept but the readings of various IFRS and exposure drafts as well as available literature suggest that fair value is strictly not a mark-to-market concept as it includes non-market elements. He observed that although the IVSC considers fair value and market value as similar, they are not synonymous. To the valuer, where fair value of fixed asset is required under IFRS, the valuer reports market value.

In considering Basel II, Fernandez (2006) explained that it is a revised framework for banking supervision that replaced Basel I which came into effect in 2006; although in many counties it was implemented slowly. Basel I, Basel II, and now Basel III are all known as Basel Accord. Basel I was in effect from 1989 and required the solvency ratio (total capital divided by the credit risk-adjusted asset) to be 8% higher. Under Basel II, two methods were recommended for determining credit requirement. The first is the Standard Approach where lending that is fully secured by mortgages on residential property will be risk weighted at 35% and subject to strict prudential criteria, such as the existence of substantial margin of additional security over the amount of the land based on strict valuation rules and supervisors such as Central Bank in Nigeria’s cases, should increase the standard risk weight where they judge that the criteria are not met. The second approach for determining credit requirement is the Internal-Ratings Based (IRB) approach where credit risk-adjusted capital requirements are determined through internal credit risk models. Basel III provides an international framework for liquidity risk measurement. It also provides standards and monitoring to strengthen global capital and liquidity rules with the overall goal of promoting a more resilient banking sector (RICS, 2022). Basel committee on Banking Supervision is a committee of banking supervisory authorities that is highly influential and accepted by most Central Banks. The committee meets at the Bank of International Settlement (BIS) in Basel, Switzerland.

The Basel committee is proactive by subjecting banks to a capital charge for potential mark-to-market losses (i.e Credit Valuation Adjustment-CVA-risk) associated with deterioration in the credit worthiness of the counterparty. While Basel II standard covers the risk of a counterparty default, it does not address such Credit Valuation Adjustment (CVA) risk, which during the financial crisis was a greater source of losses than those arising from outright defaults. This gap the Basel III fills. The committee is also strengthening standards for collateral management and initial margining. (Basel Committee, 2023)

The adoption of these financial reporting standards and some of the reforms in the banking sector by any country affects their practice requirement which in turn influences valuation practice. Countries that are attuned to the requirements of financial reporting standards and banking reforms compelled valuers to also align their practice to their requirements and adopt the use of International Valuation Standards as it is in consonance with the provisions of International Accounting Standards.

Recent developments in Nigeria show that users of valuation, particularly banks, cast doubts on valuations carried out by valuers, and these valuations are not a good proxy for sales and mortgage transactions (Aluko, 2000; Adegoke et al. 2011; Ayedun et al. 2011) This situation probably compelled some banks to come up with their valuation templates and enlist valuers who will be consultants for them. It is in view of the foregoing that Adjekophori, et al. (2014) investigated the implication of valuers’ enlistment and fees standardization by banks on real estate profession in Nigeria. They reported that banks are now in the habit of enlisting (selecting) valuation firms for credit based (lending) valuation jobs. The banks have their set of divergent and unilateral basis for selecting valuers and also dictate fees payable to the retained valuers. The authors also reported reasons advanced by the banks for engaging in this two-pronged practice basically as a cost saving strategy; to address issues of connivance, compromise and corrupting influences; to promote retail/consumer banking; and unwieldy number/proliferation of valuation firms. They recommended that the mutual relationship between banking and valuation sectors required a proactive regulatory intervention by stakeholders so as to avoid compromising the strategic risk management function of valuation.

## 3. METHODOLOGY

The target population for the study is Estate Surveyors and valuers who are head of practice in Abuja, Lagos and Port Harcourt. These cities are selected for the study because they are the most vibrant property markets in the country and constitute over 60% of Estate Surveying and Valuation firms in the country (Ogunba 2013; Gambo 2015). The latest edition of NIESV Directory indicates that there are 768 Estate Surveying and Valuation firms in the country, with 320 based in Lagos, 105 in Abuja and 55 in Port Harcourt. This by implication means that the number of practicing firms in the study areas (Lagos, Abuja and Port Harcourt) represent about 63% of the total practicing firms in the country which is a good representation for generalization.

A structured questionnaire was distributed to Estate Surveying and Valuation firms to get information on yield estimation method, technology employed in real estate practice, forces that direct change in valuation theory and practice in the country; and valuation standards in use. The required size for the sample frame was determined using the sample size table developed by Krejcie and Morgan (1970) and recently used by Adewunmi (2014) and Gambo 2015. A total of 87 respondents were obtained from Abuja; 203 from Lagos and 48 from Port Harcourt, giving a sum total of 338 respondents.

## 4. PRESENTATION AND DISCUSSION OF RESULTS

Table 1 reflects the characteristics of firm in the study area. Majority of the firms (56%) have between 5 and 20 years in practice, while 37% are above 20 years in practice. Most of the firms (95%) operate sole ownership while partnership constitutes only 5%. Valuation firms with more than a branch are just 11%; firms with more than 5 Estate Surveyors and Valuers are 44%. Valuation firms with special data bank are 46%; firms with specialized departments are 56%. It is seen that 61% of the valuation firms have distinct valuation unit. Only 22% of the firms have special research units; while 26% of the firms indicated they have separate library.

**Table 1:** Characteristics of Estate Surveyors and Valuers' Firms (N=338)

| Characteristics | | Frequency | % |
|---|---|---|---|
| Age of firm in Professional Practice | < 5 Years | 28 | 8 |
| | 5- 20 Years | 189 | 56 |
| | > 20 Years | 121 | 36 |
| Firms operating sole ownership | | 321 | 95 |
| Firms in Partnership | | 17 | 5 |
| Firms with more than one branch | | 37 | 11 |
| Firms with more than 5 ESVs | | 148 | 44 |
| Firms with special data bank | | 156 | 46 |
| Firm with specialized department | | 190 | 56 |
| Firms with distinct valuation Unit | | 206 | 61 |
| Firms with special research unit | | 74 | 22 |
| Firms with Library | | 87 | 26 |

Table 2 presents approaches to value valuers employ in valuing income yielding properties. Majority of valuers (54%) use cost approach (depreciated replacement cost method) even in cities like Lagos, Abuja and Port Harcourt where there is evidence of high rental values on income yielding properties. Those who use market approach (comparison method) are 21%; while those who use the appropriate investment valuation model (income approach) are 16%. Those who utilize Discounted Cash Flow (DCF) technique or explicit growth model are just 1%; while those who combined two or more approaches are about 8%. The attitude of Nigerian valuers in employing cost approach to value in the valuation of income yielding properties over the years has not changed. Valuers are averse to using appropriate investment valuation method separately or in combination with other methods; this is probably because investment valuation models involve mathematical expressions than other valuation approaches. Earlier study by Ogunba and Ajayi (2007) lamented the attitude of Nigerian valuers for using other valuation approaches other than income approach in valuing investment properties.

**Table 2:** Methods of Valuing Income Yielding Property (N=338)

| Method | Frequency | % |
|---|---|---|
| Cost Approach (Depreciated Replacement Cost Method) | 183 | 54 |
| Market Approach (Comparison Method) | 71 | 21 |
| Income Approach (Investment Method) | 54 | 16 |
| DCF Based Techniques | 4 | 1 |
| Cost + Income Approaches | 12 | 4 |
| Market + Income Approaches | 8 | 2 |
| Income + Cost + Market Approaches | 6 | 2 |
| Others | 0 | 0 |
| Total | 338 | 100 |

The result of analysis on method of yield estimation in table 3 reveals that 26% use rule of thumb in estimating capitalization rate, 51% derive yield through market analysis. Also, 8% derive capitalization rate from rates based on theory from textbooks; while 15% use yield recommended by their firms. It is evident that a significant number of Nigerian valuers (26%) use rule of thumb to estimate yield (capitalization rate). Ogunba and Ajayi (2000) reported that 13% of valuers in Lagos employed rule of thumb in deriving capitalization rate; while similar study by Babawale (2012) in Lagos reported that 10% of valuers used rule of thumb to estimate yield in investment valuation. The use of rule of thumb and other non-market ways of deriving capitalization rate (yield) makes the valuation process irrational, inconsistent, lacks transparency and objectivity.

**Table 3:** Method of Yield Estimation (N =338)

| Method | Frequency | % |
|---|---|---|
| Rule of thumb | 88 | 26 |
| Market derived yield | 172 | 51 |
| Rates based on theory from commonly used textbooks | 27 | 8 |
| Rates provided by the firm | 51 | 15 |
| Others | 0 | 0 |
| Total | 338 | 100 |

Table 4 shows the forces shaping valuation theory and practice in Nigeria. The result shows that the major stakeholder influencing valuation theory and practice is the academia (35%), followed by the Valuers' Association in the country, the Nigerian Institution of Estate Surveyors and Valuers (NIESV) (28%) and also Valuers' clients. This position agrees with earlier study by Ogunba and Ajayi (2007), and Gambo (2015). Ogunba and Ajayi (2007) reported that the academia and the valuers' professional association (NIESV) are the major drivers in valuation theory and practice in the country. Gambo (2015) observed that change in valuation practice most especially attuning to use of valuation standards was provoked by valuers' clients growing sophistication demanding standardization of practice.

**Table 4:** Stakeholders influencing Valuation Theory and Practice in Nigeria (N=338)

| Stakeholders | Frequency | % |
|---|---|---|
| ESVARBON | 41 | 12 |
| NIESV | 95 | 28 |
| Academia | 118 | 35 |
| Government | 37 | 11 |
| Valuers' Client | 47 | 14 |
| **Total** | **338** | **100** |

Table 5 shows the valuation standards manual Nigerian valuers use in practice. The result shows that valuers prefer the use of International Valuation Standards Council's (IVSC) standards manual known as the White Book which records 29.3%. The next preferred valuation standards employ by valuers is the NIESV valuation standards which a is national valuation standards known as the Green Book. This is in line with study by Gambo (2015) which reported that valuers in Nigeria prefer the use of international valuation standards (IVSC White Book) and national valuation standards by NIESV. The international valuation standards manual provides minimum benchmark for uniformity of application; while the national standard captures peculiarities of practice in a country which might not be captured by the international valuation standards. It can be seen that about 27% of the valuers do not consult any valuation standards manual in practice. This will certainly affect quality of professional service delivery in accordance with international best practice. Apart from the IVSC standards and NIESV standards, the use of other regional and national valuation standards is very low.

**Table 5:** Valuation Standards Manual in Use by Valuers

| Valuation Standards in Use | Frequency | % |
|---|---|---|
| None | 90 | 26.6 |
| IVSC | 99 | 29.3 |
| RICS | 1 | 0.3 |
| NIESV | 84 | 24.9 |
| NIESV+RICS | 11 | 3.3 |
| NIESV+ RICS+IVSC | 20 | 5.9 |
| RICS + IVSC | 8 | 2.4 |
| NIESV + IVSC | 25 | 7.4 |
| Total | 338 | 100.0 |

Table 6 shows factors hindering the use of income approach in the valuation of income yielding properties. The first four most impactful factors based on their ranking and Relative Importance Index (RII) are absent of data bank; use of other alternative valuation methods, low capital value figure valuers arrive at; and low rental income from investment yielding properties. Other factors include complexity of investment valuation model because it involves a lot of mathematical processes; and also difficulties in establishing capitalization rate which makes valuers to employ rule of thumb in estimating the yield. The result also shows that unstable property market, and absent of monitoring by the regulatory bodies are factors that hinder the use of investment valuation models.

**Table 6:** Factors hindering the use of Investment Valuation Method

| Factors | Strongly Agree W=4 | Agree W=3 | Disagree W=2 | Strongly Disagree W=1 | Weighted Frequency ∑Wf | RII | Ranking |
|---|---|---|---|---|---|---|---|
| Absence of data bank | 203 | 101 | 12 | 8 | 1147 | 3.54 | 1st |
| Low rental income from investment yielding properties | 101 | 81 | 79 | 65 | 870 | 2.69 | 4th |
| Use of alternative methods of valuation | 196 | 98 | 16 | 9 | 1119 | 3.51 | 2nd |
| Absence of monitoring by the regulatory bodies | 49 | 60 | 103 | 108 | 690 | 2.16 | 8th |
| Unstable property market | 62 | 79 | 64 | 1087 | 712 | 2.30 | 7th |
| Difficulties in establishing capitalization rate | 71 | 89 | 68 | 90 | 772 | 2.44 | 6th |
| The method is complex and difficult to understand | 90 | 103 | 60 | 71 | 860 | 2.65 | 5th |
| Low capital value figure | 116 | 86 | 54 | 64 | 894 | 2.79 | 3rd |
| Client preference for other methods | 29 | 51 | 110 | 128 | 617 | 1.94 | 9th |

## 5. Conclusions and Recommendations

Valuation practice is fast changing to reflect the growing sophistication ushered in by forces of globalization and refinement of professional practices across national and international boundaries. The study revealed shift in theory and practice of investment valuation; and reviewed how external and internal forces greatly shaped valuation theory and practice in the country. The study also looked at changes in the conventional investment valuation practice from term and reversion to explicit growth models. The paper revealed how valuation practice firms are characterized by sole proprietorship ownership, and absence of specialized firms. Investment valuation practice in the country lags behind in the culture of best international practices by adopting valuation approaches that are inappropriate as against investment valuation models which translates into doing what is easy than what is right.

After over 50 years of providing professional valuation services, it is obvious that Nigeria valuation practice is still rooted and patterned after the UK traditional practice with unrefined annuity model which doesn't reflect the rent payment pattern. The valuation theory and practice in the country is still stagnant in the area of practice firm formation, information gathering, yield derivation, use of appropriate valuation approach to value and unresponsiveness of valuers to adjust to shift in valuation theory and practice. Valuers in the country prefer the use of international valuation standards manual by IVSC and NIESV valuation standards. It was also found that about 27% of valuers don't consult any valuation standards in practice. The study revealed that factors impeding the use of investment valuation method are absence of data bank; use of alternative methods of valuation; low capital value figure arrived at by valuers; and low rental income from property investments.

This paper advocates for proactive steps towards the use of appropriate investment valuation models and formation of bigger practice firms to meet clients' demands at national and international levels. The academia and valuers' professional association are in better position to lead the change in practice in the country. It is therefore recommended that the academia and professional bodies should derive the change from culture of next to best thing to culture of professional best practice. The professional regulatory bodies should monitor valuers' practice and ensure strict compliance with the provision of international valuation standards. Valuers should embrace the use and application of national valuation standards where there is departure in scope of work not covered by IVSC's standards and that should be clearly stated.

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