

FACTORS INFLUENCING MORTGAGE VALUATION INACCURACY OF  
RESIDENTIAL PROPERTY MARKET WITHIN KADUNA METROPOLIS  
(NIGERIA)

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A thesis submitted in partial fulfilment of the  
requirement for the award of the degree of  
Master of Science (in Real Estate)

Faculty of Geoinformation and Real Estate  
Universiti Teknologi Malaysia

AUGUST 2017

## DEDICATION

To my Father Alhaji Adamu Aliyu Whose Sacrifice

To My Late Mother Hajiya Hafsat Adamu Aliyu Whose Dream

To My Brothers And Sisters Whose Support And Encouragement

And

My Children Hafsat, Muhammad And Abdallah for their endless Love, Support and Sacrifice

*“Thank you for all the patience and endurance during this masters voyage.”*

## ACKNOWLEDGEMENT

My gratitude goes to Almighty Allah in his infinite mercies for sparing my life up to this moment in a healthy condition to witness the end of my MSc program successfully.

I would like to acknowledge my supervisors in person of PROF. MADYA DR DZURLLKANIAN BIN DAUD and DR IBRAHIM @ ATAN BIN SIPAN for there tireless effort and constructive criticism to see this project is successful, also my appreciation to the entire staff at the faculty of geo-information and real estate.

Finally, I wish to acknowledge and appreciate the effort of Dr Abdulhakeem Mohammed Dobi, Dr Sani Habibu, Dr Isah Abdullahi, Aminu Musa, Hamza Usman and all those who supported me in any aspect during the conduct of this research as well as the entire studies.

## ABSTRACT

The measure of sale price of actual transaction of a particular property at a particular date and proximity is termed as valuation Accuracy. Errors contributing to this problem are Dearth of rental evidence, Inaccurate capitalization rate, Abodon of the correct procedures of arriving at opinion of values. The objective of this study is to identified factors that influence mortgage valuation inaccuracy in Kaduna Residential property market, also identify the acceptable margin of error in valuation among the practitioners in the study area as well as to develop a model of significant factors influencing valuation inaccuracy. A stratified sampling technique were used and a sample size of 67 respondents was determined using the sample size formula of Yamane (1968) of which were administered and only 51 were retrieved and analyzed. The study used multiple Regression Analysis (MRA), perception index Likert scale of measurement, with the aid of statistical package of social sciences (SPSS version 24). The key findings of the statistical analysis revealed that 16-20% percent was the perception of the valuers on the maximum acceptable margin of values in residential property valuation within the study area which is proxied to represent mortgage valuation inaccuracy. The findings also indicated, familiarity with property market, client pressure, Absence of national valuation standard, problem of relevant data, Regulatory framework and valuation methodology were the most contributing factors to valuation inaccuracy in the study area, while a model of significant factors contributing to valuation inaccuracy has been successfully developed to measure inaccuracy in valuation in the study area. Finally, this research will be of interest to the practitioners and academic researchers with an interest in mortgage valuation as an eye opener for empolying accurate methods in conducting mortgage valuation in the study area.

## ABSTRAK

Ukuran harga jualan urus niaga sebenar sesuatu harta tertentu pada tarikh dan jarak tertentu dipanggil sebagai ketepatan penilaian. Kesalahan yang menyumbang kepada masalah ini adalah Ralat bukti sewa, Kadar permodalan yang tidak tepat, Abodon prosedur yang betul untuk mencapai pendapat nilai. Kajian ini bertujuan untuk menyumbang kepada sastera yang jarang berlaku dalam empirikal mengenai faktor-faktor yang mempengaruhi ketidaktepatan penilaian gadai janji dalam pasaran harta kediaman di Kaduna, dan mengenal pasti margin nilai yang boleh diterima dalam penilaian di kalangan pengamal di kawasan kajian serta untuk membangunkan model faktor penting Mempengaruhi ketidaktepatan penilaian. Teknik pensampelan berstrata digunakan dan saiz sampel sebanyak 67 responden ditentukan menggunakan formula saiz sampel Yamane (1968) yang mana ditadbir dan hanya 51 diambil dan dianalisis. Kajian ini menggunakan pelbagai Analisis Regresi (MRA), skala persepsi Indeks Likert pengukuran, dengan bantuan pakej statistik sains sosial (SPSS versi 24). Penemuan utama analisis statistik mendedahkan bahawa 16-20% peratus adalah persepsi para penilai pada margin nilai maksimum yang boleh diterima dalam penilaian harta kediaman di kawasan kajian yang proksi untuk mewakili ketidaktepatan penilaian gadai janji. Penemuan ini juga menunjukkan, kebiasaannya dengan pasaran hartanah, tekanan pelanggan, tidak ada standard penilaian nasional, masalah data yang relevan, rangka kerja peraturan dan kaedah penilaian merupakan faktor yang paling menyumbang untuk ketidaktepatan penilaian di kawasan kajian, sementara model faktor penting yang menyumbang kepada Ketidaktepatan penilaian telah berjaya dibangunkan untuk mengukur ketidaktepatan dalam penilaian di kawasan kajian. Akhirnya, penyelidikan ini akan menjadi kepentingan kepada para pengamal dan penyelidik akademik dengan minat dalam penilaian hipotek sebagai pembuka mata untuk memesongkan kaedah yang tepat dalam menjalankan penilaian hipotek di kawasan kajian.

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**LIST OF ABBREVIATIONS**

DRC	-	Depreciated Replacement Cost
ESVARBON	-	Estate Surveyors and Valuers Registration Board of Nigeria
IPD	-	Investment Property Data
IVC	-	International Valuation Committee
IVCS	-	International Valuation Committee Standard
MV	-	Market value
NIESV	-	Nigerian Institution of Estate Surveyors and Valuers
RICS	-	Royal Institute of Chartered Surveyors
MLV	-	Mortgage Lending Value
ERP	-	Estimated Realization Price
ERRP	-	Estimated Restricted Realization Price
OMV	-	Open Market Value
ANIVS	-	Association Nigeria Institution of Valuer and Surveyor
FNIVS	-	Fellow Nigeria Institution of Valuer and Surveyor
PPNIVS	-	Past Present Nigeria Institution of Valuer and Surveyor

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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Background of the Research**

The practice of real estate Valuation profession in Nigeria was largely dominated by the people of the southern part of Nigeria, and the Majority of the researches conducted has only covered the southern and eastern part of the country and the reason behind is the fact that the profession has been started long time ago within the axis of the south and east zone of the country. With recent development and the transfer of government headquarters from the former capital city (lagos) of the country which is part of the southern state to the new capital city situated at the center of the country (abuja) all the commercial activities have started moving and growing and exhibited the need for the demand of real estate practioners who are to take charge of the responsibility of real estate agency and the need for valuation of government properties for privatization and individual properties for mortgage loan emerged. With the recent report of the Nigeria Institution of Estate Surveyors and Valuers Directory (NIEVS 2009) the total number of the registered estate firms in the country are at the range of 3123, and the total number of the practicing estate firms in the study area (kaduna) is 67. However the real estate practice is still at its infancy stage in the country when it has been compared with some countries in the developed economy, the issue of Valuation accuracy is very important as Majority of the Valuers in practice are lacking experience in valuation due to the infrequent conduction of Valuation

Lately, the issue of valuation specifically the inconsistent quality of residential property valuation as a compelling intermediary for property deals has gotten extensive universal intrigue and open deliberation in the UK, Canada, Australia and



US. This has been exuberant as a result of the expanding the overall pattern of speculation on portfolio premise and the way that majority property portfolio choices on valuations rather than prices” (Brown & Matysiak, 2000; Ogunba, O.A., 2007). Indeed, even in nations where portfolio management is still in sample frame, clients to a large extent rely on valuation opinions to make decisions related to mortgage, insurance, and some other purposes. Clients of this property valuation expect accurate valuation for properties so as to make efficient and effective investment decisions.

In well develop nations such as the UK and US, the study of accuracy has made an effort to investigate such allegations. Though, the results in such countries are not yet final, there is at least an effort to investigate inaccuracy and ascertain if there is a requirement for remedial procedure. (Gabriel Kayode Babawale & Omirin, 2012). It is not only advance countries that are finding ways to address the inaccuracy challenges: all nation should investigate the accuracy of valuation so that challenges leading to inaccuracy can be addressed so that customers can be have full confidence on estimated value of properties (Ogunba, O.A., 2007). In a situation where there is a satisfactory level of accuracy both the property developers and investors as customer of the valuers would be encouraged to base their investment decision on the estimated valuation. Considering the above mentioned arguments, developing nations need to conduct studies determining the accuracy level of valuation despite the principal limitation of information base toward that path as distinguished by (O. A. Ogunba, 2004; O. A. O. Ogunba, 1997).

Valuation and Surveying is an essential portion of Real Estate Surveying and Valuation profession over the world, it shapes the establishment on which the land calling is created. Valuation plays a critical role in exchanging resources for finances and credit, ownership transfer, tax related matters, advises on investment, accounting, control and record management and making decision in measuring investment performance (GK Babawale, 2008; Institute, 2001). In this manner, there has to be a satisfactory level of accuracy in order to provide reliable ground for making assessment. (M. Ajibola, 2006) in his research noted that the property market, by characteristics, is portrayed by diversified products and in addition to this is the fact that there is no single market for genuine property; this makes it difficult to

accurately define the cost of genuine property in the market the market cost of genuine property. That is, the property market is characterised by the abnormal state of defect and this has set rise for variation among valuers and inaccuracy between valuation and market price. The aftereffect of the flaws of the genuine property display and the demand for property valuers to adopt efficient pricing system, ensuring valuation consistency is most times not among the characteristics maintained in the valuation profession (B. Aluko, 1998).

The creation and the diversification of both the industrial and the commercial economic practices and the critical function property holdings does especially as a surety for the release and creation of capital funds, the matching role of valuation can only increase proportionally. Nevertheless, it is a known fact that a lot of human interactions are full of assertion and counter assertions, conflicts and difference of opinions, the valuation practice is not left out. Consequently, numerous times there are incidence when the clients do not have or have partial confidence in the estimated valuation figures, this is because clients to get the appraised value when the valued property is taken the market for sale. Also, a number of valuation clients bore the consequence of inaccurate valuation as their property is sold at a price that is low compared to actual market price of the property. These inaccuracies doesnot align with professionalism, this leads to lack of confidence in valuers, and this may cause the clients and general public to believe that the valuation assessment is based on speculations. This makes the clients to have a level suspicion on ineffectiveness and unreliabilty on appraisals. It also results in incompetent and imposter to enter the profession (Oluseyi Joshua Adegoke, 2016; Akinjare, Ogunba, Ayedun, & Iroham, 2013).

However, in Nigeria; there are a lot of property valuers who do not have the professional competence of property valuation as there do not have property valuation qualifications. For examples engineers have in previous occasion claimed to be the one most qualified to value plant and machinery. Also, the Bankers and Accountants claim that the customary are full of enigma and untenable. Averagely, the general public believe that valuation advice by valuers is based on the desire to earn attractive fees. It has been decided that is not well defined, hence, inaccuracy and inconsistency

is expected, it is at the same time crucial that the estimated value of property is the selling property price because of how important it is in the property (Oluseyi Joshua Adegoke, 2016; M. Ajibola, 2010; C. Ayedun, 2009). There is a need for addressing these challenges else there would be total loss of confidence in Nigerian valuation profession and hence result in rejection of their proposed estimate.

Conducting valuation process on real estate property is not an easy task. Real property is characterised by some fundamental properties that affect the purpose of the valuation; Mortgage Valuation is not left out. A substantial reason that may cause a property owner to decide to mortgage a property is a high capital required for development of property and the property does not have sufficient money to completely develop property. Valuation can be conducted for many reasons, it could be for mortgage, purchase, sales, compensation, insurance, balance sheet and so on.

The resulting consequences of valuation inaccuracy in Nigeria as of now may not only result in loss of confidence on valuation profession but may also have negative effect on the property industry and market. Nigeria bank decisions are based on some factors. The bank is required to abide by the capital adequacy requirement of both the market and capital. In order to maintain confidence in Nigeria banks, the banks are required to maintain a minimum level of capital, a specified percentage of the banks total asset. The liquidity ratio of Nigeria banks is 40% of the individual total bank deposits (Obamuyi, 2009). Thus, this restricts the ability of a bank to borrow people money as they have to comply at least with the minimum adequate requirements. In addition to this is the danger that the collateral used as a guarantee to grant a loan may be insufficient to offset the loan given as a result of over valuation, which is a contributing factor to banks' negative attitude in granting loans. This is evident in the fact that loans are given in a low loan-to-value ratio, very high rates of interest, and some very strict lending conditions which lead to a reduction in the amount of money that flows to the real estate industry.

The basis of this study relates to residential mortgage valuations in Kaduna State, Nigeria. The analysis adopts a particular approach to the determination of factors responsible for the differences of value for mortgage valuation. Previous studies have

made comparison between valuations and subsequent selling price of properties transacted in the market place. In this study, accuracy is interpreted as the extent to which a valuation for mortgage purposes reflects comparable evidence from the market. The factors responsible for wide differences between valuation and market price are explored in this study. An important distinction of the Nigerian market is that valuations are based on list price, as sale price is not in the public domain and not available to valuers.

## **1.2 Problem Statements**

The Nigerian mortgage industry, according to Walley (2009), generated less than 100,000 transactions between 1960 and 2009 (a period of about 50 years). The sector's aggregate loans to total assets fall far below best practices of at least 70% as stipulated by Central Bank of Nigeria. According to his report, mortgage to loan funds for the five years ending 2009 averaged a dismal 14.51% while the total mortgage market is up at a mere ₦127.5 billion (US \$850 million). The contribution of mortgage finance to Nigeria's GDP is close to negligible with real estate contributing less than 5%, and mortgage loans and advances at 0.5% of GDP. The Minister of Lands, Housing and Urban Development recently put Nigeria's debt to mortgage ratio, a measure of the penetration of mortgage section at a dismal 4% (Peeble, 2012). In spite of the relative growth in Nigerian mortgage sector, the 4% figure is one of the lowest in Africa behind South Africa (30%), Namibia (20%), Morocco (15%) and Tunisia (13%).

Property valuation is considered being the main integral part of the real estate discipline and also played a vital role in property transaction, since valuation is regarded as a proxy for transaction prices. When valuation was considered to be inaccurate in this context the issue of acting as proxy to sale prices is compromised, which would cause a serious problem when measuring investment performance of real estate property, since it can only be measured with valuation indices. This issue arises as a result of incapability of the valuation estimates emanating from the trained valuers to accurately represents/translate market price or serving as a reliable

instrument/document in banks loans would affect or damage the real estate property markets and valuer's reputation. Hence, understanding the sources or factors influencing this sharp differences in values between mortgage valuation and market price will play a tremendous role in reducing the challenges.

Most of the previous researches have worked on inaccuracy of valuation in diverse way, some have looked at it based on property type, (Oduyemi, 2016), some are based on purpose of valuation (Babawale, 2008), whose purpose was on sale valuations whereas, (Ayedun, 2009), is on auction valuation, though, (Jamilu, 2015), worked on factors affecting inaccuracy of valuation in general without narrowing down to purpose of valuation. More so, (Olaeye and Olojede, 2013) recorded clients dissatisfaction on reliability of mortgage valuation caused by large disparity between final option of value and fixed sales price on foreclosed mortgage properties values. Similarly, according to (Chukwu and Osmund, 2014), valuers have formed the habit of total neglect of valuation standards in the course of their assignment, this in addition to inadequate supervision by subordinated assigned by principle of the firm.

Other inaccuracies contributing to this problem are; dearth of rental evidence and inaccurate capitalization rate (Ayedun, 2009). To worsen the situation, some valuers abandon the correct procedures of arriving at opinion of values and resort to satisfying the mortgagor's demand in terms of value by way of demanding and accepting gratification from the mortgagors (Effiong, 2015; Munshifira, et.al 2016; Babawale et.al 2012).

Having seen the issues and problems that the estate surveyors are facing when valuing residential properties for mortgage in the study area, it is necessary to investigate so as to have an in depth on factors that leads to the sharp differences and proper solution aimed at improving mortgage valuation of residential properties in the study area.

### **1.3 Research Questions**

The study is therefore asking some pertinent question on mortgage valuation in Nigeria. The question for this study are:

- i. What are the factors contributing to mortgage valuation inaccuracy?
- ii. What is the model of the significant factors influencing mortgage valuation inaccuracy?
- iii. What are the proposed solution to mortgage valuation inaccuracy?

### **1.4 Objectives of Study**

The main aim of this study is to identify the factors that are responsible for the difference of value for mortgage valuation in residential property market in Kaduna Metropolis (Nigeria) with a view to improving the quality of mortgage valuation practice.

- iv. To identify factors that contribute to the difference of values for mortgage valuation.
- v. To determine the acceptable margin error and develop a model for factors influencing mortgage valuation accuracy.
- vi. To propose the solution to mortgage valuation inaccuracy within the case study.

### **1.5 Scopes of Study**

This section clearly defines the study limit of this research. Real estate investment is a hot topic in Nigeria. The coverage of the whole country will definitely provide more insights. However, there is limited to conduct this research on the entire

country. Considering this fact, the scope of this research has been restricted to Kaduna metropolis (Nigeria) only.

Also, this study will concentrate on valuation of residential property for mortgage transaction alone. This is boundary is important since it is near impossible for research to be conducted on all property valuation sector by a lone researcher in limited time. In other to chose valuers, there are three basic classification use to classify estate surveyors and valuers, the private sector (i.e the estate valuers and surveyors doing private practice), public-sector estate surveyors and valuers (i.e. estate valuers and surveyors working in various government parastaters such as Ministries, Corporations etc.) and personal in the educational field. This study concentrate on estate valuers who are private practitioners, this is because they form the major group and are the most involved in valuation process in Nigeria.

## **1.6 Significance of Study**

In Britain, the Real Institute of Chartered Surveyor (RICS) in conjunction with the Investment Property Databank (IPD) conducted a research on the accuracy of valuation on a yearly basis. The body responsible for valuation in Nigeria, the Nigerian Institution of Estate Surveyors and Valuers (NIESV) and the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) have not conducted such investigation, it is therefore necessary for education researchers to investigate the accuracy of mortgage valuation in the country and consequently share the results with counterparts in the practicing field. This can also facilitate the sponsorship of future research by field workers. A lot of money is committed to real estate on a yearly basis. US economy is currently affected by the bubble burst in the mortgage sector. The huge sums of money invested in real estate on an annual basis are enormous. Nigeria has to learn from this and avoid such occurrence, this study will provide valuable information to estate valuers and surveyor in practice, and other stakeholders of interest to know the extent to which valuation is inaccurate and the level of potential risk involved. The findings of the research both professional and stakeholders in employing accurate method in the conduct of mortgage valuation in

the study area. The study will also help the stakeholders in mortgage transaction e.g. lenders, borrower and the professional that prepare the reports.

The study is also a response to the challenges of globalization on real estate valuation practice in Nigeria. Globalization necessitates, among the need to standardize the ways goods and services, including investments assets, are described and measured so as to minimize conflicts and promote consistency, transparency, credibility and comparability. It is essential to know whether or not local valuations are, on average, a good proxy for transaction prices. In countries like Nigeria where the property market and the valuation practice are evolving the one-to-one relationship between valuations and transaction prices that are observed in countries like the UK may not necessarily hold.

The need to conduct this study is also informed by the present dearth of literature on mortgage valuation accuracy in Nigeria. As reported studies in the vast area of valuation accuracy debate in Nigeria are limited in scope and depth (M. Ajibola, 2010; C. Ayedun, 2009; C. . Ayedun, 2011; Gabriel Babawale, 2013; Gabriel Kayode Babawale & Omirin, 2012; GK Babawale, 2008; Chukwuma, Nwuba, S., Babatunde, & Salawu, 2015; Effiong, 2015b; O. A. Ogunba, 2004; O. Ogunba & Ajayi, 1998; Olufolahan, Michael, & Oluwaseun, 2016; Otegbulu & Babawale, 2011; UDOBI, KALU, & ELEKWACHI, 2016). Apart from the contribution of the study to the debate among academia and professionals across the globe the study is significant in filling part of the existing gap in the body of knowledge relating to mortgage valuation accuracy in study area in Nigeria.

## **1.7 Chapter Layout**

The thesis comprises of five (3) chapters.

**Chapter one** presents the background of the research, research problem, research objectives, research question scope and significance of the study respectively.



**Chapter two** is the detailed academic review of literature related to valuation inaccuracy, acceptable margin of error and description of factors influencing valuation inaccuracy.

**Chapter three** provides the research methodology, research design, sampling and sampling techniques adopted for the study, describes are methods of data collection and analysis as well the study area.

**Chapter four** in this chapter described are the data analysis of the various respondents including findings which are analyzed and presented in tabular format. Similarly, discussion of the various results were also presented.

**Chapter five** presents the conclusion of the study including the summary of the research findings. Recommendations were also suggested base on the research finding for further research activity.

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