

# EFFECT OF CLIENT PRESSURE ON MARKET VALUATION OF RESIDENTIAL PROPERTIES IN MINNA, NIGERIA

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Market valuation is required for several purposes, including the sale of real properties. In the residential property market in Minna, most property valuers are under pressure from clients (property owners) to sell their properties at asking prices determined by them, the valuers' valuation opinion notwithstanding. This study examines the effect of this pressure on the market valuation of residential properties in Minna, Nigeria. Data for the study were collected from real estate firms operating in Minna and analysed using multiple regression analysis. The primary objective of the study is to examine whether client pressure has significant influence on market valuation of residential properties in the city, using property owners' asking price as proxy for the source of pressure. Results of data analysis showed that clients' asking price which is a source of pressure in the determination of market values of residential properties by valuers in the city produced a negative regression coefficient (-0.05899) at  $p > 0.05$  when used in predicting the sale prices of the properties. This implies that although property valuers in Minna experience some form of pressure from clients, such pressure has no significant effect on the market valuation of residential properties in the city.

Keywords: client pressure; market valuation; residential property; valuer

## INTRODUCTION

Market valuation of real property is one of the core functions of the valuer worldwide. It is usually required for the sale, purchase and for the purpose of using real property as collateral for loan from financial institutions. In Nigeria, market valuation of real property is a professional service rendered by estate surveyors and valuers. Generally, the development of property valuation practice in Nigeria can be traced to the practice in the United Kingdom. This may be attributed to two main reasons. First, Nigeria is a former British colony. Second, real estate education and training in Nigeria is based on the UK real estate education model in which the education of the property valuer is focused on five main subject areas namely; valuation, law, economics, building construction and planning. The essence of this model is to achieve a deeper understanding of the role of the chartered surveyor in relation to the architect, builder, quantity surveyor, engineer, and the town planner. Thus, before the formation of the Nigerian Institution of Estate Surveyors and Valuers (NIESV) in 1969, qualification as property valuer in Nigeria was through the Royal Institution of Chartered Surveyors (RICS) in the UK. Presently, a good number of estate surveyors and valuers in Nigeria

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still maintain dual membership of RICS and NIESV. However, for a person to be qualified as an estate surveyor and valuer in Nigeria, such person must be registered by the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) and issued a seal and stamp in accordance with the relevant provisions of the Estate Surveyors and Valuers Registration Act No. 24 of 1975. ESVARBON is an agency of the Federal Government of Nigeria established by law, with the sole responsibility of regulating the practice of estate surveying and valuation in all its aspects and ramifications throughout the Federation of Nigeria. Furthermore, registration with ESVARBON is based on professional membership of the Nigerian Institution of Estate Surveyors and Valuers.

Market valuation of real property is a professional activity which involves the determination of the market value of such property. According to Millington (1982), market value can be defined as the money obtainable from a person or persons willing and able to purchase an article when it is offered for sale by a willing seller. Ifediora (1993) argued that market value is a measurement in money terms, of the worth of property in exchange, or its "exchange value". Johnson, Davies and Shapiro (2000) define market value or market price of a particular interest in landed property as the amount of money which can be obtained for the interest at a particular time from persons able and willing to purchase it. Kalu (2001) believes that it is the price arrived at under an open market, normal financing, non-cohesive, non-monopolistic condition. Market value is also taken to mean the objective long-term equilibrium price at which a property is expected to be sold in the open market (Ifediora, 2005). In the residential property market in Minna, most property valuers are under pressure from clients (property owners) to sell their properties at asking prices determined by them, the valuers' valuation opinion notwithstanding. It is on this note that this study examines the effect of this pressure on the market valuation of residential properties in the city.

## **LITERATURE REVIEW**

In general terms, property valuation for any purpose entails getting solution to a well-defined valuation problem. The valuation of real property may also be viewed as the output of a service offered by a professional valuer to the client. The client pays for this service and sometimes provides the valuer with relevant information necessary for the valuation. In the past two decades or so, several studies have been conducted on the nature, causes and sources of client influence on property valuations (Amidu and Aluko, 2007). Cole (1988) identified client influence as one of several factors contributing to appraisal smoothing. Smolen and Hambleton (1997) concluded that certain clients were more likely to apply pressure to valuers to influence their reported values. They further identified mortgage bankers as the primary sources of client pressure, followed by commercial banks. Similarly, Kinnard, Lenk and Worzala (1997) examined client pressure on appraisers and found the presence of a significant amount of client pressure with about 41% of the respondents stating that they would revise their value estimates when requested by their clients, even without supportive evidence. They also acknowledged the growing perception that valuers have lost some of their independence and that further regulations are required to deter client pressure and thus encourage more valuer independence. Levy and Shuck (1998) analysed the nature of client influence on reported values based on a survey of some senior valuers in New Zealand. They identified the potential factors affecting client influence as reported by those experienced valuers to include valuer and valuation firm characteristics, external characteristics, client characteristics and valuation characteristics. These are summarised in Figure 1. Gallimore and Wolverson (1999)

assessed the influence of clients on the behaviour of appraisers and valuers in the US and the UK and among other things, found that when the outcome of the valuation does not support the pending sale price, clients do provide feedback to appraisers and valuers. Yu (2002) examined client pressure in residential valuations in Singapore. In this study, a sample survey was carried out to examine the extent to which clients of valuation firms apply pressure on appraisers to modify their appraised values. The findings of the study indicate that 85% of the valuers sampled agreed that they are sometimes pressured by clients to modify their appraised values. The study further concluded that client pressure does exist in the valuation of residential properties in Singapore, particularly for mortgage loan purposes.

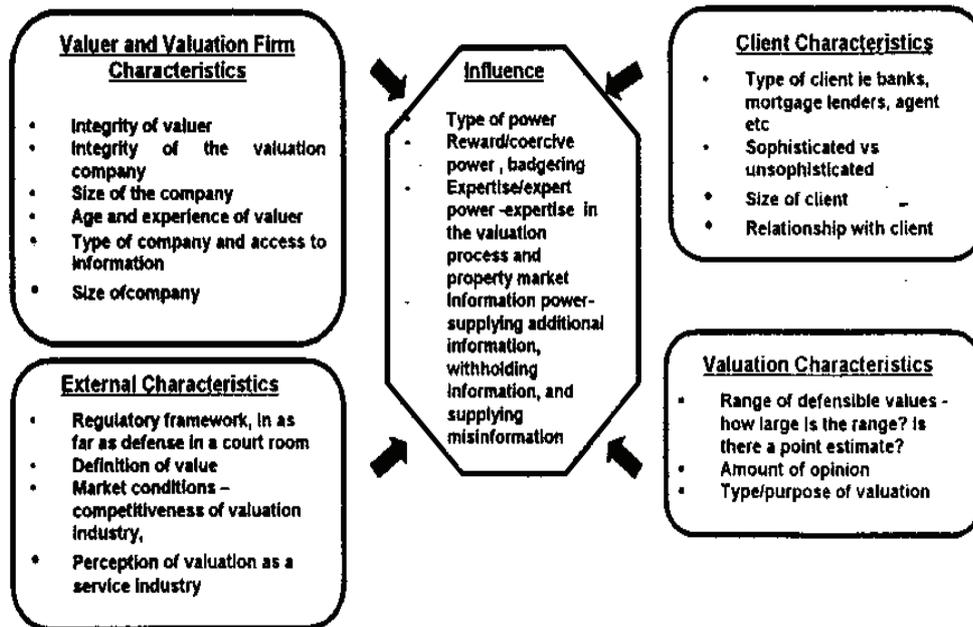


Figure 1:

Potential Factors Affecting Client Influence as Reported by Experienced Valuers

Source: Levy and Shuck (1998)

In Nigeria, one of the aspects of property valuation practice influenced by clients is market valuation, particularly when such valuation is required for the sale of real property. Kalu (2001) attributed this problem to the attitude of Nigerian property owners and reported as follows:

“Most Nigerian property owners equate their financial problem with their asset values. They will want to realize not less than the equivalent of their financial needs with the money realized or realisable from their property. Yet the property market is so imperfect that only a few have information of property transactions and therefore able to advise as to property value trends. In this circumstance, only the experienced valuer/estate agent will be of relevance. Without the valuer, the parties to property transaction will be groping in the dark.”

Amidu and Aluko (2007) assessed client influence on valuation based on a survey of some estate surveyors and valuers in Lagos, Nigeria and found that client influence exists in the valuation industry in Nigeria. They also identified integrity of valuer or valuation firm, importance of the valuation outcome to the client and client size as the three most significant clients’ influencing factors from the viewpoint of the responding estate surveyors and valuers. Furthermore, Chen and Yu (2008)

comparatively examined client influence on valuation in Taiwan and Singapore and concluded that client influence on valuation exists in both countries with differences in the degree and extent of the problem. Based on the literature reviewed for this study, there is a consensus regarding the existence of client influence on valuations. On this note, this study examines the effect of this pressure on the market valuation of residential properties in Minna, Nigeria.

## METHODOLOGY AND DATA

Data for the study was collected from real estate firms operating in Minna, using purposive sampling technique. This sampling technique was adopted due to the small number of real estate firms operating in the city and paucity of reliable property market data. Real estate firms which are active in the residential property market and registered estate surveyors and valuers in the city were identified through the current Directory of the Nigerian Institution of Estate Surveyors and Valuers, Niger State Branch (NIESV, 2011). The professional status of registered estate surveyors and valuers in the city is presented in Table 1. Valuers who are Fellows of the NIESV constitute about 11% of registered estate surveyors and valuers in Minna. This indicates that most valuers in the city are relatively young in property valuation practice. In Nigeria, a professional Associate (ANIVS) of the Nigerian Institution of Estate Surveyors and Valuers is usually transferred to the Fellowship grade (FNIVS) if such estate surveyor and valuer had been in active professional practice for not less than 10 years and has also made positive contribution to the development of the estate surveying and valuation profession in the country. The implication of this is that, the residential property market in Minna is dominated by valuers who do not possess up to 10 years post-registration experience.

Table 1: Professional Status of Registered Estate Surveyors and Valuers in Minna

Professional Status	Frequency
Associates(ANIVS)	24(88.9%)
Fellows(FNIVS)	3(11.1%)
Total	27(100%)

**Source:** Computed from NIESV (2011)

Also, 92.6% of valuers in Minna are male as presented in Table 2. This further indicates the existence of gender-disparity in property valuation practice in the city.

Table 2: Gender Composition of Registered Estate Surveyors and Valuers in Minna

Gender	Frequency
Male	25(92.6)
Female	2(7.4%)
Total	27(100%)

**Source:** Computed from NIESV (2011)

In terms of the sectors in which valuers in the city are employed, 29.6% of valuers in the city are engaged in full-time private practice while 25.9% are engaged as full-time civil servants in government agencies such as the State Ministry of Lands and Housing and the State Housing Corporation. About 44.4% of valuers in the city also engage in private practice in addition to full-time employment in public institutions as presented in Table 3. These valuers include some lecturers at the Federal University of Technology, Minna and the Federal Polytechnic, Bida. These institutions offer Bachelor of Technology (B.Tech) and Higher National Diploma (HND) in Estate Management respectively. Lecturers in these institutions who are registered estate surveyors and valuers are permitted to engage in private practice provided such enterprise does not conflict with their official duties at the institutions.

Table 3: Employment Sectors of Registered Estate Surveyors and Valuers in Minna

Employment Sector	Frequency
Private Sector	8(29.6%)
Public Sector	7(25.9%)
Both	12(44.4%)
Total	27(100%)

**Source:** Computed from NIESV (2011)

Data obtained for the study from real estate firms in the city are mainly data on residential properties recently sold in the city. These comprise their owner's asking price, the Valuer's valuation opinion and the actual sale price as presented in Table 4. As earlier stated in the literature, most property owners want valuers to sell their properties at asking prices fixed by them, the Valuer's valuation opinion notwithstanding. This study identifies property owners' asking price as a source of pressure in the determination of the market value of real properties by valuers in Minna. Regression analysis was adopted to predict the actual sale price of the properties, using the owner's asking price and the Valuer's valuation opinion as independent variables. This analysis was done using Analyse-it statistical package (version 2.25). This package was used because of its simplicity and flexibility in multivariate data analysis. The regression equation is of the form:

$$y = a + b_1x_1 + b_2x_2 + e$$

Where  $y$  = actual sale price of property

$a$  = intercept

$x_1$  = property owner's asking price

$x_2$  = Valuer's valuation opinion

$b_1, b_2$  = regression coefficients for independent variables  $x_1$  and  $x_2$  respectively

$e$  = error term

Table 4: Residential Properties sold recently in Minna

Description of Property	Location	Property Owner's Asking Price (₦)'m	Valuer's Valuation Opinion (₦)'m	Actual Sale Price (₦)'m
3-bedroom residential bungalow, plus 2No 2bedroom apartments	Tudunfulani	8.0	5.0	4.5
3-bedroom residential bungalow	Makunkele	1.7	1.4	1.3
3-bedroom residential bungalow	Makunkele	1.5	1.2	1.25
3-bedroom residential bungalow	Makunkele	1.6	1.1	1.1
2No 3-bedroom residential bungalows	Makunkele	3.5	2.0	2.2
3-bedroom residential bungalow	Makunkele	2.0	1.0	1.0
3-bedroom residential bungalow	GRA	15.0	9.0	8.5
3-bedroom residential bungalow with boys' quarters	Tunga	12.0	6.0	6.0
2-bedroom residential bungalow	Bosso	2.5	1.8	2.0
2No 2-bedroom residential bungalows with boys' quarters	Bosso	7.0	5.0	4.7
2No 2-bedroom residential bungalows	Tunga	6.0	5.0	5.5

**Source:** Field Data from Estate Surveying and Valuation firms active in the residential property market in the city

The properties presented in Table 4 comprise 3-bedroom and 2-bedroom residential properties. These are the dominant residential property types recently sold in the city. The difference between the Valuer's valuation opinion and actual sale price for all the

properties was lower than the difference between the property owner’s asking price and actual sale price. Also, for some residential properties sold recently in the city, there was no difference between the Valuer’s valuation opinion and actual sale price. For example, in Makunkele, the owner’s asking price for a 3-bedroom residential bungalow was ₦ 2.0 million. The valuation opinion of the valuer was ₦1.0 million and the property was eventually sold for ₦1.0 million. Similarly, the owner’s asking price for a 3-bedroom residential bungalow with boy’s quarters in Tunga was ₦ 12.0 million. The valuation opinion of the valuer was ₦6.0 million and the property was eventually sold for ₦6.0 million. The percentage variation between the owners’ asking price and actual sale price for all the properties was between 17.6% - 50%.

## RESULTS AND DISCUSSION

Based on data in Table 4, there are significant differences between the property owner’s asking price and actual sale price for all the properties under study. The percentage variation between the owner’s asking price and actual sale price was found to be in the region of 17.6% - 50%. Also, clients’ asking price which is a source of pressure in the determination of market values of residential properties by valuers in the city produced a negative regression coefficient (-0.05899) at  $p > 0.05$  while the valuers’ valuation opinion produced a positive regression coefficient (1.046) at  $p < 0.05$  when used in predicting the sale prices of the properties, among other things. Thus, a unit increase in asking price of the properties will produce 0.059 decrease in sale price while a unit increase in Valuer’s valuation opinion will produce 1.046 increase in sale price of the properties, all things being equal. This implies that although property valuers in Minna experience some form of pressure from clients, such pressure has no significant effect on the market valuation of residential properties in the city. Based on the results of regression analysis as presented in Table 5, the regression equation is:  $\text{Sale Price} = 0.1227 - 0.05899\text{Asking Price} + 1.046\text{Valuers' Opinion} + e$ .

Table 5: Results of Regression Analysis

n	11				
R <sup>2</sup>	0.99				
Adjusted R <sup>2</sup>	0.99				
SE	0.290				
Term	Coefficient	SE	t statistic	DF	p
Intercept	0.1227	0.15351	0.80	8	0.4472
Asking Price	-0.05899	0.086187	-0.68	8	0.5131
Valuers' Opinion	1.046	0.1499	6.98	8	0.0001
Source of variation	Sum squares	DF	Mean square	F statistic	p
Model	62.850	2	31.425	372.70	<0.0001
Residual	0.675	8	0.084		
Total	63.524	10			

## FINDINGS AND CONCLUSION

In the residential property market in Minna, one of the aspects of property valuation practice influenced by clients is market valuation, particularly when such valuation is

required for the sale of real property. This influence is in the form of pressure by clients (property owners) to the extent that their properties should be sold at the asking price fixed by them, the independent valuation opinion of the valuer notwithstanding. This study examined the nature of the predicted sale price, given the scenario in which clients put pressure on valuers to sell their properties at asking price fixed by them and valuers insist on their independent valuation opinion. The percentage variation between the owner's asking price and actual sale price was found to be in the region of 17.6% - 50%. Using the owner's asking price and the Valuer's valuation opinion as independent variables, and the actual sale price as the dependent variable, the results of regression analysis show that asking price produced a negative regression coefficient (-0.05899) at  $p > 0.05$  while the valuers' valuation opinion produced a positive regression coefficient (1.046) at  $p < 0.05$  when used in predicting the sale prices of the properties. Thus, a unit increase in asking price of the properties will produce 0.059 decrease in sale price while a unit increase in Valuer's valuation opinion will produce 1.046 increase in sale price of the properties, all things being equal. The implication of this finding is that, although property valuers in Minna experience some form of pressure from clients, such pressure has no significant effect on the market valuation of residential properties in the city. This finding may also be attributed to the influence of valuers on the operation of the residential property market in the city, but this is subject to further research.

## **LESSON LEARNT**

Professional valuation is very essential in the sale of real property. In order to predict the actual sale price of the property with significant degree of accuracy, such professional valuation should be independent and free from all forms of pressure by the client.

## **RECOMMENDATIONS**

The Niger State Branch of the Nigerian Institution of Estate Surveyors and Valuers (NIESV) should establish property market databank for all property market transactions in Minna. The property databank when established should be consistently updated with current market information on sale prices of residential properties in the city. Such initiative will make the residential property market in the city more open and transparent to its participants including property owners (prospective property sellers), buyers, agents and property valuers. Such market information will equip clients, particularly property owners with knowledge of current market prices of residential properties in the city. This will in no small measure reduce the pressure by clients on property valuers in the city to sell their properties at asking prices fixed by them as such clients would have been aware of current property prices before placing their properties in the property market for sale.

Also, most property owners in the city perceive estate surveyors and valuers as mere agents who should be hired to sell a real property at any price fixed by them without professional valuation. This wrong perception should be corrected. The NIESV should continue to enlighten members of the public on the role of estate surveyors and valuers in the Nigerian real estate industry. Finally, the NIESV should also ensure that estate surveyors and valuers in the city consistently adhere to professional ethics and code of conduct as this would encourage valuers to resist any form of pressure from clients regarding market valuation of their real properties.

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