A Search for an Acceptable Margin of Valuation Error: A Case Study of Valuers and Their Clients in Nigeria

Ogunba Olusegun Adebayo[19],
Iroham Chukwuemeka Osmond[20]

Abstract

In the search for accuracy and consistency in valuations, there has been a recurrent problem of identifying the accuracy/consistency benchmark (a maximum acceptable margin of error), beyond which valuations should be considered negligent. This work is aimed at discovering such a margin of error in the Nigerian context (for stable market conditions) from the view points of both valuers and their clients. The research method involved the distribution of questionnaires to 195 estate surveyors and valuers in Lagos metropolis, and all the 25 commercial banks in the country. The responses demonstrated that the benchmark for valuation variance in Nigeria could range between ±11.1% (as suggested by valuers) and ±13.16% (as suggested by their mortgage valuation clients). It was noted that the appropriate implementation of such a margin of consistency in unstable market conditions must be cautious and flexible, taking into consideration the availability of data.

Keywords: Valuation Variance, Consistency, Margin off, Contemporaneous Valuations

Introduction

Market valuation involves the estimation of property value to reflect the exchange price of real properties in the open market a given point in time. In the past thirty years, there have been several research studies into the reliability of market valuations. In such inquiries, the disparity between a firm's valuation estimate and realized market price or between a firm's valuation estimate and the valuation estimate of another firm is usually regarded as a *margin of error* (the term was first coined in the case of Singer & Friedlander Ltd v John D Wood & Co (1977) 2 EGLR 84). This paper examines the margins of error of professionally prepared valuations and seeks to determine the maximum acceptable margin of error from the view point of the valuer and his clients. The establishment of a benchmark

[19] Ogunba Olusegun Adebayo, (PhD Estate Management, ANIVS, RSV), Department of Estate Management, Faculty of Environmental Design, Obafemi Awolowo University, Ile-Ife,Osun State

[20] Iroham Chukwuemeka Osmond, (M.Sc Estate Management, ANIVS, RSV, AMNIM, Department of Estate Management, College of Science and Technology, Covenant University, Ota, Ogun State

margin of error is important because of the need to have a generally acceptable standard (acceptable to valuers, their clients and the courts) to measure valuation accuracy/consistency in valuers' research studies, clients decision making and court/arbitration cases involving valuation negligence. Hitherto, different research studies and courts have adopted dissimilar benchmarks

Discussions on margins or error take their root from research into valuation accuracy and variance (consistency). In the UK, research in valuation accuracy has been undertaken by Brown, (1985), Drivers Jonas/IPD. (1988, 1990, 1994, etc), Cullen, (1994) and McAllister, (1995) and others, while research into valuation variance/consistency has been carried out by researchers like Hager and Lord (1985) and Hutchinson et al (1996). In Nigeria, related research has been undertaken by Ogunba (1997), Ogunba & Ajayi (1998), Aluko (2000), Ogunba (2003), Ajayi (2003), Ojo (2004), Iroham (2006) etc. Accuracy research tends to relate a valuer's capital values with actual sale prices while variance/consistency studies relate to the divergence between contemporaneous valuations carried out by different valuation firms on a subject property. This paper focuses on margins of error as they relate to both valuation accuracy and variance, and it is hoped that the margins generated will provide an example of how the valuation community in one study area (academia and practitioners) can agree on a benchmark tool to measure the reliability, consistency and usefulness of their product in stable market conditions. UK and Nigerian researches have shown that valuation variation does exist (see Hager & Lord, 1985; Hutchinson et al, 1996; Brown, Matysiak and Shepherd, 1998; Crosby et al, 1998, 1999, Ogunba, 1997 etc), but there has been no national or worldwide consensus as to the maximum acceptable margin of such valuation variation. This paper should provide some indication in this direction though it is acknowledged that the results provided are relevant only to a particular time and a particular place in the world. A degree of variation/inconsistency between contemporaneous valuations of a property is to be expected. Valuation is after all an art, which implies that is that no two valuation opinions might ever exactly equal each other, even where such valuations are contemporaneous. On the other hand, a situation where very disparate value estimates are placed by different valuation firms on the same property in the same time frame could make the valuation/appraisal profession look uncoordinated and clumsy. If such negative perceptions among clients are left unchecked, it is envisaged that ultimately, clients may regard valuers as producing mere guesstimates and may accordingly begin to call for a review of the statutory provisions that make valuation the exclusive preserve of the valuer/appraiser. In other words, there is the danger that valuers may ultimately not only lose face but also lose their unilateral statutory

prerogative of placing values on real estate to allied professionals. Against the foregoing, we believe certain questions should be addressed: What is the margin of error that valuers feel they can reasonably work in? Does such a margin of error tally with the margin of error considered by the valuer's clients? Can valuation surveyors value property within the margins of error (theirs and their clients)? If not, what are valuer perceptions of intrinsic and extrinsic causes of operation outside of the margin of error?

To answer these questions, the remainder of the paper is structured into five sections. Sections 2 and 3 review literature on margin of error discussions in courts and academic papers. Section 4 addresses the research method for a case study of one country while section 5 presents the results from surveys of the respondents. The paper closes in section 6 with suggestions and concluding comments.

Margin of Error Concepts in UK Courts

In the UK and Australian courts[21], the margin of error concept has been employed in considering whether a valuer exercised reasonable care and skill in carrying out a valuation. The concept is used to determine the extent to which a valuation departs from the "true value" of the property. In negligence cases, a court is usually required to decide on two issues: the "true value" of the subject property on the date of the defendant's valuation; and the "bracket" around that value within which any competent valuation could be expected to fall. The most important of these two questions in a "margin of error" case is the size of "bracket" which is appropriate in the particular case.

In the first case of such cases: *Singer & Friedlander Ltd v John D Wood & Co* [1977] 2 EGLR 84 (cited in Parker, 1998), a UK court used the concept of "margin of error" for the first time in a professional negligence action brought against a property valuer. In summarizing the evidence put forward by the expert valuation witnesses in that case, the trial Judge, Watkins J said:

> *"The permissible margin of error is said by Mr. Dean [the defendants' expert witness], and agreed by Mr. Ross [the employee of the defendants whose valuation provoked the legal action] to be generally 10 per cent either side of*

[21] An inquiry with Court Registrars in Nigerian (Lagos) courts suggests that there have been not been any court cases investigating valuer negligence/margins of error as at the time of this research. Accordingly, the discussion in this section focuses for the most part on available cases in the UK and Australia.

> *a figure which can be said to be the right figure, i.e. so I am informed, not a figure which later, with hindsight, proves to be right but which at the time of valuation is the figure which a competent, careful and experienced valuer arrives at after making all the necessary inquiries and paying proper regard to the then state of the market. In exceptional circumstances the permissible margin, they say, could be extended to about 15 per cent, or a little more, either way."(Parker, 1988)*

In *Trade Credits Limited V Baillien Knight Frank (NSW) Ltd (1985)* the judge held that a "permissible margin of error of 10% either side of the "correct figure" extending up to 15% in "exceptional circumstance" is acceptable. In another case (*Private Bank and Trust Co. Ltd vs. S (UK) Ltd, 1983),* the trial judge accepted a permissible margin of error of "15% either side of a bracket of value

An additional case is *Banque Bruxelles Lambert SAV. Eagle Star Insurance Co. Lt and others (1994)* where the valuation of three office properties differed from market prices by between 39% and 74%. The trial judge declared that these differences were unacceptable. In *Corisand v Druce & Co* [1978] 2 EGLR 86, the plaintiff agreed that 15 per cent margin of error was appropriate for the valuation of a hotel. A related Australia case is *Interchase Corporation Ltd v CAN 010087573 Pty Ltd and Others* (2000) QSC 013 (usually referred to as the Myer Centre case), where it was agreed that a margin of error as low as 7% was appropriate, being the mid-point of various ranges of valuation obtained.

As for cases involving development valuations (residual method valuations), there has been a readiness by courts to apply higher margins - margins of more than 10 per cent - for the reason that the courts have observed the high sensitivity of residual method valuations to relatively minor changes in the underlying assumptions. The Court of Appeal in *Nykredit Mortgage Bank plc v Edward Erdman Group Ltd* [1996] 1 EGLR 119 noted, when two valuations before the court were compared, that they showed that a difference in gross development value of 17 per cent, which, with almost identical costs and profits, led to a difference in residual land value of 114 per cent. The judge considered this as absurd. On the other hand, the trial judge in *Nykredit Mortgage Bank plc v Edward Erdman Group Ltd* (1993, unreported) refused to allow a margin of more than 15 per cent on what was clearly a very difficult residual valuation, describing the plea of the defendants' expert witness for a bracket of some 18.7 per cent as too generous. Other residual valuation cases are *Mount Banking Corporation Ltd v Cooper & Co* [1992] 2 EGLR 142, where the plaintiff accepted 17.5 per cent on a

residual valuation and *Private Bank & Trust Co Ltd v S (UK) Ltd* [1993] 1 EGLR 144, where the parties agreed that the valuer was entitled to a bracket of 15 per cent around a residual valuation, carried out in a falling market, which was itself expressed as a range (between £1.35 and £1.45 million). The odd case is that of *Nyckeln Finance Co Ltd v Stumpbrook Continuation Ltd* [1994] 2 EGLR 143 where the expert witnesses agreed that the appropriate bracket was a mere 10 per cent.

In cases involving residential property, both judges and expert witnesses suggest margins of error of less than 10 per cent. For example, Staughton LJ in *Beaumont v Humberts* [1990] 2 EGLR 166 opined that 10 per cent seems a high standard to impose. In *BNP Mortgages Ltd v Barton Cook & Sams* [1996] 1 EGLR 239, the expert witnesses agreed that on a standard estate house the acceptable margin might be no more than 5 per cent. A bracket of roughly this size was applied by the judge in *Axa Equity & Law Home Loans Ltd v Goldsack & Freeman* [1994]1 EGLR 175 despite his acknowledgement that this was a case where the valuer would not have had access to any true comparables. In general, it appears that a 10 per cent margin of error would be acceptable, rising towards 15 per cent if the type of property or the state of the market is such as to present the valuer with a particularly difficult challenge. In a recent case of *Legal & General Mortgage Services Ltd v HPC Professional Services* (20 February 1997, unreported), where the defendant had valued an unusual house at £400,000, the plaintiff's expert witness was prepared to accept a bracket from £200,000 to £300,000 (equivalent to 20 per cent). The judge, however, was convinced by the defendant's expert that the true value of the property was £350,000 and that the defendant's valuation therefore fell within the slightly more modest bracket which he proposed (from £300,000 to £400,000, equating to 14.3 per cent).

A gap that stands out in the foregoing discussion is that there is no consensus in courts as to the acceptable margin of error. Moreover, as Crosby et. al. (1998) argues, the use of expert witnesses to determine maximum margins of error are questionable as it is is lacking in any empirical basis. This paper would assist in clarifying the margin of error issue (for stable market conditions) in one country from an empirical viewpoint by means of a perceptual case study of its valuation community.

Table 1: Summary of UK and Australian Court Cases Stating Margins of Valuation Error

Commercial valuations	Margin of Error	Development valuations	Margin of Error	Residential valuations	Margin of Error
Friedlander Ltd v John D Wood & Co [1977] 2 EGLR 84	10% extending up to 15%	*Nykredit Mortgage Bank plc v Edward Erdman Group Ltd* [1996] 1 EGLR 119	114% unacceptable for residual valuations	Staughton LJ in *Beaumont v Humberts* [1990] 2 EGLR 166	Less than 10%
Trade Credits Limited V Baillien Knight Frank (NSW) Ltd (1985)	"up to 15%",	*Mount Banking Corporation Ltd v Cooper & Co* [1992] 2 EGLR 142	17.5 %	*BNP Mortgages Ltd v Barton Cook & Sams* [1996] 1 EGLR 239	5 %
Private Bank & Trust Co. Ltd Vs (UK) Ltd (1983)	15%			*Axa Equity & Law Home Loans Ltd v Goldsack & Freeman* [1994]1 EGLR 175	5%
Banque Bruxelles Lambert SAV. Eagle Star Insurance Co. Lt and others (1994)	39% and 74% are unacceptable				
Corisand v Druce & Co [1978] 2 EGLR 86	"15%				
Interchase Corporation Ltd v CAN 010087573 Pty Ltd and Others (2000) QSC 013	7%				

Margin of Error Discussions in Academic Papers

As is the case with court pronouncements, there is as yet no country specific or worldwide consensus in margin of error discussions in academic papers. In the UK, the first paper on valuation accuracy was Hager & Lord (1985) whose work provoked much of the later works on the valuation accuracy/variance. These authors conducted a small sample survey where ten surveyors were invited to value two properties. In one case the deviation of sale prices to valuations was ±10.6%, and in another ±18.5% suggesting a relatively low level of valuation accuracy relative to the accuracy standard (maximum margin of error) of ±5% considered by these authors. However, the choice of ±5% by these authors was not based on any empirical mode of determination.

In Nigeria, a survey of 30 valuation firms by Ogunba (1997) and Ogunba & Ajayi (1998) adopted the 5% margin set by Hager and Lord in the UK and found that valuers were not able to value properties within this margin of error. The adoption of ±5% is subject to the same criticism as the Hager & Lord survey as it is is lacking in any empirical basis. Moreover, 5% was considered unnecessarily stringent by later researchers. In a later Nigerian survey (Ogunba, 2004) this margin was increased to ±10% margin following the comments in Baum & Crosby (1995) which suggest margins between 10 – 15%. However, the higher maximum margin of 10% is still subject to the criticism of not being empirically determined.

In the UK, surveys sequel to that of Hager and Lord also suggest higher margins of error than 5% (usually between ±8% and ±20%). For example, Matysiak and Wang (1995) analyzed 317 properties over the period 1978 to 1991 using the Lasalle Property Performance Analysis database. Accuracy was measured with mean/standard deviations from market price. They discovered that 30% of valuations were within ±10% of the selling price, 55% of valuations were within a ±15% margin while 70% of valuations were within ±20% of the selling price. This general result is useful in showing the ranges of accuracy, but the results are difficult to interpret in the absence of a definite maximum margin of accuracy.

Hutchison et al (1996) conducted a research into variance in property valuation that involved a survey of major national and local firms. They discovered a 9.53% overall variation in the mean valuation of each property and found differences in the variance of valuation of 8.63% and 11.86% respectively for national and local firms due principally to the superior transactional information available for the national firms. Hutchison et al's study suggests that a maximum margin of

variance error of 8.63% - 11.86% might be acceptable, but still a definite maximum benchmark was not established.

Bretten and Wyatt (2002) investigated the possible causes of variance as well as the acceptable margin of error in investment valuations for commercial lending. 220 questionnaires were distributed to a range of stakeholders: lenders, finance brokers, valuers and investors. The survey revealed that the main cause of variance was individual valuer's 'behavioural influences' and that ±10% was the most acceptable margin of error. This result is useful in the effort to ascertain a definite benchmark of valuation error, but the views of clients in this regard were not sought.

Crosby et. al. (1998) examined the margin of error principle currently used by the English courts as a test of negligence in valuations. In particular, they considered whether the "bracket" of 10-15% which is routinely accepted by UK judges for commercial valuations is justified by reference to existing empirical studies of valuation accuracy and variation. The paper concludes that the margin of error principle, as it is presently applied by the English courts, is lacking in any empirical basis and indeed runs counter to the available evidence. The paper rightly calls to question the use of expert witnesses in establishing margins of error for negligence cases in preference to empirically determined margins.

In the US, a survey of appraisal values vis-à-vis sale values by Clayton, et al (2001) found an appraisal error (sale price – appraisal value) between 6% and 13% but this study did not establish a maximum acceptable margin of error. Another (sale price – appraisal value) survey was conducted by Hordijk (2005) covering the US, UK and Netherlands the Netherlands. Using data from the NCREIF index (US), ROZ/IPD index (Netherlands) and IPD index (UK), he found that the average deviations of valuations from sale prices were – 0.1% (SD = 5.1%), 7.9% (SD = 4.9%), and 5.7% (SD = 5.9%) for the US, Netherlands and UK respectively. These results were useful from a comparative basis, but do not provide a benchmark margin of error to interpret or measure the accuracy of the results.

In Australia, a survey carried out by Parker (1988) among major valuation consumers in his country established an acceptable valuation error bracket of ±5% to ±10% with a mode of 5% and arithmetic mean of 6.04%. However, the results of this study are subject to the same criticism as the Clayton and Hordijk papers; they do not provide definite benchmarks. For example, it is not clear whether one should adopt the mode or mean. Moreover, the views of valuers themselves on appropriate margins were not sought.

The foregoing suggests that a lack of worldwide consensus obtains within the academic community as to maximum margins of error. Margins of error suggested in the above papers by valuers or their clients range from ±5% to as much as ±20%. In the absence of a definite worldwide consensus focusing on both valuers and their clients, the Nigerian surveys in sections 4 and 5 of this work are offered as an example of how the valuation community in one country responds to perceptual questions on maximum margins of error for commercial valuations.

Research Method

The study was based in the Lagos metropolis, the commercial nerve centre of Nigeria which houses about fifty-five per cent of the head offices of the Nigeria valuation community. The study populations within the Lagos metropolis were two: first, firms of valuers in private practice and second, their clients, represented in this study by the 25 banks in the country. Banks are used as a proxy for all clients because in an earlier work carried out by one of the authors (Iroham, 2007), it was seen that banks are the single most recurrent client of the valuer in Nigeria (the majority of valuations carried out in the country are for mortgage purposes).

The sample frame of practicing estate surveying firms in Lagos State was secured from recent records of the Nigerian Institution of Estate Surveyors and Valuers (NIESV). NIESV records contain a list of 228 practicing firms of Estate Surveyors and Valuers in Lagos state. The sample frame of the second study population - commercial banks - was obtained from a Central Bank of Nigeria press conference of 16th January, 2006 as addressed by the Central Bank Governor (Soludo, 2006). There are 25 banks in this cohort.. To ensure the right individuals completed the survey, the most senior officers in the property/loan recovery sections of the banks were the focus of survey, while the focus for the valuation firms was on either a partner in the firm or the head of the valuation department. The data required for this work centered on the need to examine the acceptable valuation range of error among the two principal valuation stakeholders – valuers and their principal clients. It was also considered expedient to secure data on the intrinsic and extrinsic factors influencing valuers' opinion of values while carrying out valuation. A total of 195 Estate Surveying firms in Lagos Metropolis were sampled. This sample size represents 60% of the 228 Estate Surveying firms in the study area. As for banks, the decision was to survey all the 25 banks since the sample frame is below thirty. Sampling of valuation firms followed a stratified random sampling approach. In this approach, Lagos metropolis was first stratified

into 6 business districts based on the stratification adopted in some earlier studies: (Ogunba, 1997; Ogunba and Ajayi, 1998; and Iroham 2007 etc), namely Lagos Island, Victoria Island, Ikoyi, Apapa , Surulere and Ikeja business districts. The number of firms in each stratum was in proportion to the total number of firms in the total population (that is, 60% in each stratum).

The Results

The field survey was commenced in March 2008 and lasted for about 8 weeks. Table 2 below provides highlights of the response rate of the two stakeholders.

The following Table shows that response rates of 75.89% and 79.17% were recorded for valuers and their clients. The first group of questions sought to ascertain from valuers whether they have carried out contemporaneous valuations of the same property with other valuation firms and whether such contemporaneous valuations yielded equal or very close results. First, valuers were questioned as to whether they had carried out contemporaneous commercial valuation jobs on the same property with other firms. The responses showed that a majority of the respondents (108 or 72.97% of respondents) had carried out such contemporaneous valuations.

Table 2: Questionnaires Distributed to Valuers and Banks in Lagos Metropolis.

Sample frame	Sample size	Number retrieved	Response rate %
Valuers			
325	195	148	75.89%
Banks			
25	24	19	79.17%

Source: Authors' fieldwork March 2008

Then, as a follow up to the first question, the 108 valuers that had carried out contemporaneous commercial valuations of the same property were asked on whether they obtained equal or very close (within 10%) results. The answers were requested on a five point ordinal scale as is tabulated in Table 3. The majority response (42.59%) in the above table is that of valuers who indicate that they

arrive at equal or very close valuations 50 per cent of the time. This should not be considered a very encouraging result from the view point of our profession that wants to demonstrate to its clients that its valuations (between firms) are largely consistent. It is also noted that these are commercial valuations. It is likely that the results would be more consistent for residential valuations where market information is generally considered more available.

Table 3: Frequency of Attainment of Equal or Very Close (within 10%) Results in Contemporaneous Commercial Valuations between Firms

	Frequency	Percentage (%)
Always (100% of the time)	0	0.00
Most times (75% of the time)	22	20.37
Sometimes (50% of the time)	46	42.59
Rarely (25% of the time)	28	25.93
Never	12	11.11

Source: Authors' fieldwork, March 2008.

The next question sought to examine clients' assessment of the ability of valuers to provide contemporaneous estimates that demonstrate consistency by being equal or very close (within 10%) results. The responses are documented on a nominal scale in Table 4

Table4: Clients' Rating of the Margin of Consistency of Contemporaneous Valuation

Rating by Client	Number of clients'	(%)
Consistent: equal or very close (within 10%)	9	47.37
Not Consistent (outside 10%)	10	52.63

Source: Authors' fieldwork March 2008.

It is clear that the majority of banks (52.63%) are of the opinion that valuers are not able to provide contemporaneous mortgage valuation estimates within a margin of consistency as strong as 10%. This result is comparable with the findings of Hager and Lord (1985) in the UK and Ogunba (1997, 2004) in Nigeria who

demonstrated lack of consistency from an examination of valuers. We must however point out that a margin of error/consistency of 10% was based on the margin in the earlier work of Ogunba (2004) rather than an empirically determined margin.The next question therefore sought to ascertain from both clients' and valuers on what maximum margin of error is suitable to them. Table 4 depicts the responses of all banks surveyed in this regard. The respondents were promised confidentiality, and therefore, no bank names are stated in the Table 5.

The range of client responses is 15% (that is 5% to 20%) with six no responses. The modal responses are 10% and 20%. The mean margin of error calculated from the above Table is ±13.16% (Standard Deviation = 2.27). Using similar statistics as above, the maximum margin of error posited by valuers was calculated as ±11.1 with a standard deviation of 2.05, a range of 5% to 15% and a mode of 10%. This means that valuers posit a mean margin of error from their valuations that is lower (by 2.06%) than the mean margin of error required by their bank clients (13.16%). This is as it should be; a professional should strive for a higher standard of excellence than that demanded by his client.

The next attempt was to examine the degree to which valuers could fall in line with the maximum margins of inconsistency as suggested by valuers and clients above. To achieve this, valuers were asked to value the same property - a recently sold property - without being aware of the sales price/rent paid in the manner of Ogunba & Ajayi (1999).

The property presented for valuation was a 4 bedroom apartment located at the Ijaiye medium income Housing Estate in Ogba Nigeria with 3 toilets, 3 bathrooms, a kitchen, a living room, and a dining room. The certificate of occupancy had an 80 year unexpired term. The actual sale price paid was N10 million.

Table 5: Margin of Error Postulations from Surveyed Banks

S/N	BANKS	RESPONSE
1	Bank A	±10%
2	Bank B	±10%
3	Bank C	±5%
4	Bank D	±10%
5	Bank E	±10%
6	Bank F	±5%
7	Bank G	No response
8	Bank H	±15%
9	Bank I	No response
10	Bank J	±5%
11	Bank K	No response
12	Bank L	±5%
13	Bank M	±20%
14	Bank N	±10%
15	Bank O	±20%
16	Bank P	±15%
17	Bank Q	±20%
18	Bank R	No response
19	Bank S	±20%
20	Bank T	No response
21	Bank U	±15%
22	Bank V	±20%
23	Bank W	No response
24	Bank X	±20%
25	Bank Y	±10%

Source: Authors' fieldwork March 2008.

The results obtained are presented in Table 6 below.

Table 6: Capital Valuations by Respondent Valuers

Valuations Million (₦)	**Number of valuers who arrived at this valuation**	Valuations Million (₦)	**Number of valuers who arrived at this valuation**	Valuations Million (₦)	**Number of valuers who arrived at this valuation**
8.0	3	11	3	13.4	2
8.2	4	11.2	1	13.5	5
8.5	6	11.5	4	13.8	2
8.6	5	11.6	1	14.0	4
8.8	3	11.7	1	14.2	1
9.0	6	12	5	14.3	1
9.1	3	12.1	3	14.4	2
9.3	7	12.3	2	14.5	3
9.35	1	12.4	4	14.8	5
9.5	6	12.5	6	15	4
9.7	2	12.7	4	15.2	2
10	7	12.8	3	15.3	2
10.3	3	13.0	6	15.5	5
10.5	6	13.2	3	15.7	2

Source: Authors' fieldwork March 2008.

The range of valuations in the above Table is quite wide (N 7.5 Million). The mean valuation and standard deviation (margin of inconsistency) calculated from the above figures are N11.63 Million and 17.5% respectively. This 17.5% margin of inconsistency (between firms) is higher than the maximum margin of error recommended by valuers and their clients for the Nigerian situation (±11.1% and ±13.16% respectively). It is also higher than that recommended by the UK courts for residential property (5-9%). It must however be pointed out that the valuers involved did not visit the property valued and were not paid fees. This might have somewhat reduced the seriousness with which the simulated valuation exercises were conducted. Yet, even with this limiting observation, the charge of inaccuracy/inconsistency can be substantiated via other studies where the valuers did inspect the properties and were actually paid (Babawale, 2008, Ayedun 2009 etc). It is clear therefore that a substantial degree of work would be required in

Nigeria to bring valuations to within the acceptable maximum limits of inconsistency.

The paper's next inquiry was into valuers' opinions on the reasons why inconsistency is so high relative to the respective margins of error stated above. Tables 7 (intrinsic factors) and 8 (extrinsic factors) apply in this regard. Taking the two tables together, the responses point to ten groups of factors (five per table) which bring about inaccuracy/inconsistency. The responses to these factors were measured on a five point ordinal scale ranging from very high influence (ascribed a weight of 1), to no influence (ascribed a weight of 5). that inexperience/inadequate training of the valuer (RII = 1.730), followed by inadequate valuer

The resulting data was analyzed using the relative importance index (a method which ranks factors using weighted average scores). Results from Table 7 indicate that majority of the respondents are of the opinion judgment in the use of valuation parameters such as yield, depreciation etc (RII = 1.865) are the most significant intrinsic variables causing inconsistency beyond the margin of error of 11.1%. Similarly, responses in Table 8 show that property market volatility (RII = 1.628) followed by client influence on valuation (RII = 2.459) are the most prominent extrinsic factors causing inconsistency beyond the 11.1% margin of error.

Table 7: Valuers' Responses on Intrinsic Factors Which Result in Levels of Inconsistency beyond the Margin of Error of ±11.1

Variables	***Weights***					**Sum of Weighted frequencies**	**RII**
	1	**2**	**3**	**4**	**5**		
Availability of comparable evidence/data banks (A)	22	18	38	67	3	**455**	3.074
The use by valuers of different methods of valuation for the same property. (B)	39	41	47	19	2	**348**	2.351
Valuer judgment in the use of valuation parameters such as yield, depreciation etc (C)	49	73	23	3	-	**276**	1.865

Inexperience/inadequate training of the valuer (D)	32	13	40	59	4	**256**	1.730
Other reasons (heuristics etc) (E)	6	3	-	-	139	**707**	4.777

Table 8: Valuers' Responses on Extrinsic Factors Which Result in Levels of Inconsistency beyond the Margin of Error of ±11.1

Variables	***Weights***						
	1	**2**	**3**	**4**	**5**	**Weighted frequencies**	**RII**
Working in an unfamiliar terrain or	11	29	43	65	-	**523**	3.534
Clients influence on valuation. (B)	33	41	47	27	-	**364**	2.459
Property Market Volatility. (C)	83	45	12	8	-	**241**	1.628
Conflicting market information (D)	21	33	46	48	-	**417**	2.817
Other factors	-	-	-	-	-	**-**	

Source: Author's fieldwork February 2008.

The Way Forward

Crosby (1998) has called to question the use of expert witnesses in establishing margins of error for negligence cases in preference to empirically determined margins. This paper has provided an example of how the valuation community in one country can determine such margins of error in a survey. It has been demonstrated that the benchmark for valuation variance in the case study (Nigeria) ranges between ±11.1% (as suggested by valuers) and ±13.16% (as suggested by their mortgage valuation clients). It is suggested that in stable market conditions, courts and regulatory institutions might consider adopting and enforcing the lower of the valuer/client maximum margins of valuation error for commercial and residential valuations. Valuations beyond this margin might be considered as not rendering the full due duty of care to clients in stable market conditions. Adoption of such maximum margin of error would provide a needed, empirically determined benchmark for valuation accuracy/consistency in courts and academic research and should hopefully increase the confidence, transparency and certainty in real estate valuations. However, we must emphasize with regard to such prescriptive benchmarking, that the ability to come up with consistent values will vary significantly depending on the market conditions, that is, the amount of data

available at a given pint in time. The maximum margins generated in this paper were the product of a period where market conditions were stable in the study area and data was readily available (March 2008). The appropriate implementation of such a margin of consistency in other conditions must be cautious and flexible, taking into consideration the availability of data. An inflexible prescriptive benchmark might be regretted when markets go to pot (as is occurring in the 2009 global economic downturn), and little data is available to peg the price of the property.

The paper would close with a few specific recommendations to the valuation community in the case study (Nigeria), subject to the items of caution noted above. It has been demonstrated that most valuations conducted by valuers in the study area do not yet fall within the maximum benchmarks of inconsistency identified by valuers and their clients. The paper has identified and rated a number of causative factors which contribute to inconsistent valuations (these factors are not necessarily the only factors), and the Nigerian valuation community would benefit from an effort at addressing these factors. The most significant factors identified are inexperience/inadequate training of the valuer, inadequate valuer judgment in the use of valuation parameters such as yield, depreciation etc property market volatility and client influence on valuation. The way forward in that country should require a collective effort on the part of the regulatory Institutions (the Nigerian Institution of Estate Surveyors and Valuers and the Estate Surveyors and Valuers Registration Board of Nigeria), practicing firms and the academic community. To address the extrinsic factors causing inconsistency we suggest that there is need for more rigorous academic and practical training of would be valuers. There might also be the need to develop specialization among practicing surveyors to replace the present situation where many surveyors are in general practice and accordingly may not develop the maximum proficiency. In addition the situation would be greatly helped if the Institution would enforce the use of valuation standards (either the IVSC, 2007 or NIESV 2006) on valuers for all valuation assignments, so as to provide best practice guidance towards valuation consistency. To address the extrinsic factors, it might be necessary to develop a regularly updated property data bank (subscription to which must be made mandatory for all valuers), to counter the effects of volatility. Client influence on valuation must also be curbed. This may involve efforts at instituting moral values into all would-be valuers and taking stern action against any valuation firm found to be erring in this regard.

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