

# **Sustained Forced Sale Value Opinion Advice in Nigerian Valuation Practice: The Recurring Face of a Bad Coin**

**Terzungwe Timothy Dugeri**

Department of Estate Management, Kaduna State Univeristy

## **Abstract**

This study, the first in a series testing for standardisation of practice among professional Valuers, explores the issue of level of awareness of International Valuation Standards (IVS) provisions among Nigerian Valuers. This is with respect to mortgage valuations in the face of increased volume of secured lending by commercial banks. It seeks to bring to fore the danger posed by unguided or unbridled issuance of Forced Sale Value (FSV) advice for mortgage lending.

**Keywords:** *Forced sale value, mortgage valuation, Nigeria, valuation standards*

## Introduction

Evolving an ideal mortgage valuation practice is proving quite a handful even for developed economies like the United Kingdom (UK) served by a relatively more advanced professional property society - the Royal Institution of Chartered Surveyors (RICS). The recurrence of property market induced recessions in the UK have sustained the blame on valuers advising for secured lending and caused a constant remodelling of what should be the ideal mortgage valuation practice (Crosby, French & Oughton, 2000). The pace of economic globalisation and the emerged investment practice have imposed greater scrutiny of professional advisers' role in moving transactions (Ogunba & Ajayi, 2007).

The issue appears not to be so much of a lack of valuation skill on the part of valuers but that of satisfying opposing interests in a common transaction. The quantum of loan that a borrower gets is contingent on the assessed Market Value (MV) of the property tendered as collateral. The lender though prepared to grant a facility on the expressed MV of the property is justifiably more concerned with the future capacity of the property to repay the loan in the event of borrower's default on the mortgage. The valuer is usually required to give value opinion (which proxies for the price of property) today on the capacity of property to satisfy a mortgage debt in the future in the event of default by the borrower.

Concerned with the likelihood of not realising the disclosed market value of a collateralised property, lending institutions in addition to

requesting the current market capital value of property on agreeing a mortgage transaction will request the valuers' opinion on a forced sale value. This is generally taken as the lower level of what would be realised in the event of a foreclosure while the advised market capital value remain the upper level. For the very reason that a forced sale only occurs in the future when the mortgage debt is foreclosed, it becomes difficult if not impracticable to predict with any reasonable sense of accuracy what conditions will hold in the market about then. Furthermore, there is no knowing how the sale will be conducted.

These circumstances have led valuers to consider the forced sale value as descriptive of a sale circumstance hence cannot be a value basis (see International Valuation Standards (IVS) 2011, IVS 2007 and European Valuation Standards 2012). Equally noteworthy is the fact that given the rather large set of unknowns with its futuristic state, valuers cannot advise on forced sale value with any good degree of a justifiable basis. They are impressed upon to obtain some idea of the circumstances in which the forced sale is envisaged and to completely define these in making a forced sale value opinion.

It would appear that the absence of a market-induced lender loss on mortgages within the Nigerian economy has caused Nigerian Estate Surveyors and Valuers to gloss over mortgage valuation related problems. As have happened in other parts of the world, Nigerian valuers have been operating in total ignorance of the trappings of mortgage valuation. The stage is

now set where with the opening up of the economy and consequently increased foreign investment into the Nigerian economy, the valuer's role in mortgage transactions stands to be challenged as has happened in the developed economies. This study explores the issue of level of awareness of IVS provisions among Nigerian valuers with respect to mortgage valuations in the face of sustained requests by lending commercial banks for FSV advice bringing to context the implications of unguided issuance of FSV advice.

### **Related Literature**

#### *Property valuation an art not a science*

Property valuation can be described aptly as an art deriving from a scientific process. The process that yields the value figure is usually obtained through modelling of past trends and subsequent analysis of recent market behaviour in the context of the subject property. The decision and adoption of a particular value figure as representing the price for which a property should exchange hands in the market at a particular point in time calls in the valuer's judgement as to whether it fits; and this judgement is necessarily anchored on a valuer's experience. For this reason, and deriving from the fact that no two properties are the same, it will imply that the valuation process cannot yield a one precise value figure and whatever opinion given by a valuer remains an estimate. Various studies have established that valuation accuracy is difficult to achieve on a large scale in valuation practice (Crosby, 2000).

It is equally a settled fact that two valuers using the same set of data may not necessarily arrive

at the same value opinion on a named property. Though considered inevitable, the valuation profession recognises need for standardisation in valuation practice to reduce inaccuracy in valuation, and for establishing and achieving an acceptable margin of variation. The twin issues of valuation accuracy and variation have thus retained topicality both globally and within national societies out of need to not only sustain public confidence for the valuation profession but also minimise claims against valuers for negligence (Crosby, 2000 and Crosby, French & Oughton, 2000). A number of related studies on valuation accuracy, variation and bias in Nigeria include Ogunba and Ajayi, 1998; Babawale, 2006; Babawale and Ajayi, 2011 among others.

#### *Are property valuation needs changing?*

The need for valuation services has become increasingly relevant in the emerged world economic system. Valuations of property assets are required to proxy for price for various transactions for which on account of the nature of assets and property, or nature of transaction involving the assets or property have to be dealt with without necessarily engaging the market to test for the value of property. At each point in time the valuer must interpret prevailing market conditions and in the context of a given property, advice on the value of property. In the majority of these circumstances where a valuation is required the transactions are shortlived as the valuation itself.

In some cases however, the transaction requiring a valuation have an extended life. It is

therefore not surprising that stakeholders particularly users of valuation reports have raised their expectations on accuracy, and challenge reliability of valuations whenever they have cause to believe their businesses have suffered loss from negligent valuation advice. The concerns with and subsequent research on valuation accuracy, variation and bias can be seen as measures directed at identifying root causes of these problems and providing a premise for agreeing a convergence in practice among valuers.

The corollary of this relates those studies or guidelines issued by professional valuation societies from time to time bordering on how valuers report to their clients. Crosby, French, & Oughton (2000) have traced the commissioning of research and issuance of the first Guidance Notes on valuation by the RICS in the mid 1970s to be in response to a rise in claims for valuation negligence by lenders in the wake of the 1970s UK recession. According to Crosby et al. (2000) lenders who rely on valuations for mortgage transactions in UK turn aggressive during periods of economic recession with an inclination for making negligence claims on valuers for losses suffered during periods of economic recession. And that the UK professional valuers society, the RICS, has in the face of these 'confrontations' remained largely reactionary.

The nature of the problem with mortgage valuation practice had until the dawn of economic globalisation by the end of the 20th century appeared to be country specific and was handled as such. In reaction to financial crisis

that occurred within some economies, valuers were forced to seek adoption of common valuation practice standards. Gilbertson and Preston (2005) explained that valuation standards first emerged at the national levels in a bid to address local financial crisis which roots were traced to property related bank transactions (see also French, 2003; McParland et al., 1997). These crises were traceable to poor quality advisories on the values of property used to secure bank loans. They cite the RICS issuance of the Red Book in the 1970s in the aftermath of the UK property crash and the US Government's response to the savings and loans crisis of 1980s insisting on uniform appraisal standards and licensing across states (Gilbertson & Preston, 2005). A combination of factors besides the issue of national economic crisis has culminated into the adoption of International Valuation Standards globally in 2007.

On the local scene, while banks have over the years suffered their fair share of distress cycles with their fortunes changing as the nation's economic fortunes turned cyclical, their going down has not been directly traced to the quality of valuation reports. Aluko (2007) cited the Nigeria Deposit Insurance Corporation (NDIC) to have identified nine periods of upheavals in the banking sector between 1988 through to 2002. He also cited a 1996 study by Central Bank of Nigeria (CBN)/NDIC which attributed this to a surge in non-performing loans assets among other factors. Subsequent recapitalisation and consolidation of Nigerian banks in 2005 saw the emergence of 25 banks out of 75 banks in compliance with the N25

Billion paid up capital requirement. The crisis in the banking sector was attributed mainly to unethical banking practices which could not be sustained by the low capitalisation state of the banks thus threatening the sector (NDIC, 2006). The problem today is in the significantly enhanced capacity of the sector to create new loans in the aftermath of a successfully executed Bank Recapitalisation and Consolidation Policy. It is noteworthy that the CBN has taken proactive steps to stem insider abuse and reckless exposure in Nigerian banks, it will thus be difficult to deny contributory culpability of valuers in the event of any loans induced distress in the Nigerian banking sector. In the aftermath of the 2005 Banks Recapitalisation and Consolidation Policy, Aluko (2007) drew particular attention to the extent of usefulness of mortgage valuation reports issued by Nigerian valuers which he criticised for failing to meet requirements of their clients. He specifically decried reliance on suspect valuation instructions, turning in mortgage valuation reports with incomplete information, and the jettisoning of forced sale value advice (Aluko, 2007).

The matter at issue now is how do Nigerian valuers understand the issues bordering on the instruction requirements, information set for a mortgage valuation report, and most specifically the circumstances to be catered for in submitting a Forced Sale Value advice. This is the thrust of investigation for this paper. In the section that follows a brief description is given on the method adopted for this study, the next outlines the findings of this study, and a final section is a discussion of the findings.

## Method

This study was conducted through a questionnaire survey. Besides the primary data sourced using a semi-structured questionnaire, secondary information in the nature of literature was obtained from published materials like books, journals, and web sites of relevant institutions. A total of 250 questionnaires were administered on practising Nigerian estate surveyors and valuers who converged on Uyo for the 2014 annual conference. A total of 81 were retrieved of which 75 are found usable for this study representing 30% response. The questionnaire items were drafted as multiple choice queries and Likert-Scale opinion rating items. Sampled respondents were surveyors who engage in private practice. This sampled data is analysed using SPSS (V. 15) with descriptive frequencies.

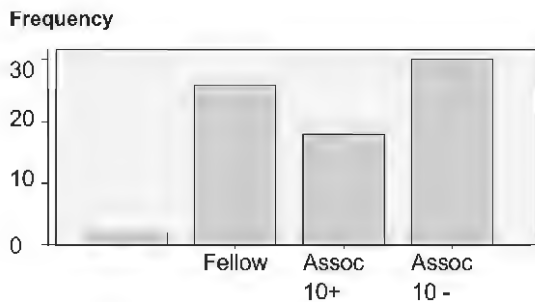
## Findings

### *Characteristics of respondents*

On the basis of the practicing society membership classification 39.5% of the respondents are Associate Grade Valuers with less than 10 years of practice experience on the property market, 34% are Fellows who being the senior grade of membership are the most experienced, and about 24% are Associates with more than 10 years practice experience (see Fig. 1 below).

It follows from this evidence that the sampled respondents are mostly senior members of the Estate Surveying and Valuation profession giving valuation advice on mortgage transactions.

Figure 1. Respondents' Grade of Membership



The respondents' distribution across states as surveyed mirrors the current distribution of valuation practitioners in Nigeria as Lagos respondents constitute 29% of the sample, Rivers State 16%, Akwa Ibom State approximately 10%, Abuja and Edo States approximately 7%. It is noteworthy that other states were not represented (see Table 1 below).

Table 1: Distribution of Respondents by State of practice

	Frequency	Percent	Cumulative Percent
Abia	1	1.4	6.8
Ebonyi	1	1.4	8.2
Edo	5	6.8	15.1
Imo	2	2.7	17.8
Kaduna	3	4.1	21.9
Kano	1	1.4	23.3
Kwara	1	1.4	24.7
Lagos	21	28.8	53.4
Niger	1	1.4	54.8
Ogun	2	2.7	57.5
Akwa Ibom	7	9.6	67.1
Oyo	1	1.4	68.5
Plateau	2	2.7	71.2
Rivers	12	16.4	87.7
Abuja FCT	5	6.8	94.5
Anambra	2	2.7	97.3
Bauchi	2	2.7	100.0
<b>Total</b>	<b>73</b>	<b>100.0</b>	

This somewhat mirrors the distribution of valuation practitioners in Nigeria as Lagos remains the main practice hub followed by Abuja. It equally noteworthy that other major cities are under-represented but this does not invalidate findings as a significant proportion of the firms have a branch or head office in Lagos. The sampled valuers appear to have considerable practice experience as over 73% have more than 10 years working experience (see Table 2 below).

**Table 2 Years of Experience**

	Frequency	Percent	Cumulative%
0 - 5 yrs	8	10.	11.
6 - 10 yrs	11	14.	26.
11 - 15 yrs	19	25.	51.
16 - 20 yrs	12	15.	67.
Over 20 yrs	25	32.	100.0
Total	76	100.0	

Also approximately 58% of the respondents' work in practice firms listed by banks for purposes of valuation of properties/ assets for mortgage transactions (see Table 3).

**Table 3: Listing of firms by banks**

	Frequency	Percent	Cumulative %
Yes	44	57.9	61.8
No	29	38.2	100.0
Total	76	100.0	

It was further shown that 84% of these respondents' firms as a policy do advice banks on Forced Sale Value when engaged for valuation for mortgage transactions (see Table 4).

**Table 4. Firms with a Policy for FSV advising**

	Frequency	Percent	Cumulative %
Yes	64	84.2	88.2
No	9	11.8	100.0
Total	76	100.0	

Source: Survey, 2014

And the volume of mortgage valuations they undertake on a weekly basis is given in Table 5. It is observed that the over 32% of the total volume of valuations tasks occurring are handled by practice firms working on more than 10 briefs in a week. This is considered a significant volume of valuation activity as an aggregation of these briefs across firms can prove messy where poor mortgage valuations are being turned out.

The implication of over 84% of firms giving opinion on FSV underscores the fact that lending institutions are taken seriously the likely situation of a default and need for recovery of mortgage debt through sale of the collateral property.

**Table 5: Average No. of Valuation Reports per week**

	Frequency	Percent	Cumulative %
0 - 5	48	63.2	68.4
6 - 10	17	22.4	90.8
11 - 20	3	3.9	94.7
Over 20	4	5.3	100.0
Total	76	100.0	

However the survey in testing respondents understanding of the FSV concept revealed that there is some hazy appreciation among Nigerian valuers. The IVSC contemplates the

Forced Sale (FS) occurring where i) under a set of circumstances the seller is under pressure to sell which does not permit adequate exposure for proper marketing; 2) that the seller under such circumstances suffers the disadvantage of accepting whatever is offered within the allowed time for sale; and 3) that it becomes impracticable to reasonably advise on a FS Value without a clear definition of the circumstance under a forced sale will occur.

**Table 6: Forced Sale envisages inadequate exposure time**

	Frequency	Percent	Cumulative Percent
Yes	28	36.8	6.6
No	43	56.6	43.4
Total	76	100.0	100.0

About 56% of the respondents in Table 6 are unsure if the imposed time constrain on the part of the seller clouds a FS, and this explains why in Table 7, only 30% appreciate why it becomes difficult to define in a meaningful sense the circumstances of a FS. 61.8% do not appreciate the difficulty in capturing the envisaged circumstances of FS for purposes of giving a value opinion in this regard.

**Table 7 Appreciation of Impracticality of defining FS Circumstances**

	Frequency	Percent	Cumulative Percent
Valid	6	7.9	7.9
No	47	61.8	69.7
Yes	23	30.3	100.0
Total	76	100.0	

For not fully grasping the weight of FS circumstances on the FS Value opinion, it

would appear that Nigerian valuers have arbitrarily relied on the derived market value to reach a FS value opinion. Tables 8 and 9 below indicate that over 61 % base their FSV opinion on the derived Market Capital Value of the property, however only 37% reflect the expected potential or likely market performance in the context of the property. And a fewer proportion, 25% bother to trend past performance (See Table 10)

**Table 8: Anchoring of FSV on derived MCV**

	Frequency	Percent	Cumulative Percent
Yes	47	61	67.0
No	25	32	100.0
Total	76	100.0	

**Table 9: Considering Expected Market Potential in FSV**

	Frequency	Percent	Cumulative Percent
Valid	5	6.	6.
Yes	28	36.	43.
No	43	56.	100.0
Total	76	100.0	

**Table 10: Respondents Trending Performance**

	Frequency	Percent	Cumulative Percent
Yes	19	25.	31.
No	52	68.	100.0
Total	76	100.0	



## Discussion of findings and conclusions

It would appear that while Nigerian valuers have continued to offer lending institutions a FSV advice for mortgage valuations they do so without giving serious consideration to the circumstances that constrains an otherwise market sale to make it a FS. The act of not factoring in these circumstances may have come about from ignorance of these circumstances and the very implications these circumstances hold on the final selling price in the event of a disposal during a FS. In this way Nigerian valuers have failed to seek necessary clarifications from banks and lending institutions of the circumstances they envisage for a FS. They have neither bothered to define in their submissions on FS, the circumstances they have factored in reached their FSV opinion.

It is important that the Nigerian Institution of Estate Surveyors and Valuers on the need to bring to the notice of her members the implication of engaging in the arbitrary practice of rendering FSV opinion without heed to the International Valuation Standards provisions on FS. This is not just to show compliance as a member of the International Valuation Standards Council but to forestall the likely umbrage and deluge of claims litigation that would follow in the event of mortgage induced distress in the Nigerian economy.

## References

- Aluko, B. T. (2007). Implications of the current trend in mortgage valuation practice in Nigeria. *International Journal of Strategic Property Management*, 11(1), 17-31.
- Babawale, G. K. (2006). The Growing Concerns over Valuation Accuracy in Nigeria. *Journal of Land Use and Development Studies*, 2(1).
- Babawale, G. K., & Ajayi, C. A. (2011). Variance in Residential Property Valuation in Lagos, Nigeria. *Property Management*, 29(3), 222-237.
- Crosby, N. (2000). Valuation accuracy, variation, and bias in the context of standards and expectations. *Journal of Property Investment & Finance*, 18(2), 130-161.
- Crosby, N., French, N., & Oughton, M. (2000). Bank Lending valuations on commercial property. Does European mortgage lending value add anything to the process? *Journal of Property Investment and Finance*, 18(1), 66-83.
- French, N. (2003). The RICS Valuation and Appraisal Standards. *Journal of Property Investment and Finance*, 21(6), 495-501.
- Gilbertson, B., & Preston, D. (2005). A vision for Valuation. *Journal of Property Investment and Finance*, 23(2), 123-140.
- International Valuation Standards Council. (2007). *International Valuation Standards 2007*. London: International Valuation Standards Council.
- International Valuation Standards Council. (2011). *International valuation Standards 2011*. London: International Valuation Standards Council.
- McParland, C., Adair, M., & McGreal, S. (2002). *Valuation Standards: A comparison of four European*

Countries. *Journal of Property Investment and Finance*, 20(2), 127-141.

Nigeria Deposit Insurance Corporation (NDIC). (2006). 2005 Annual Report. Abuja: Nigeria Deposit Insurance Corporation.

Ogunba, O. A., & Ajayi, C. A. (2007). The response of Nigerian Valuers to increasing sophistication in investors' requirements. *Journal of Property Investment & Finance*, 25(1), 43 - 61.

Ogunba, O., & Ajayi, C. A. (1998). An assessment of the Accuracy of Valuation in the Residential Property Market in Lagos. *The Estate Surveyor and Valuer*, 21(2), 19 - 23.

The European Group of Valuers' Association. (2012). *European Valuation Standards 2012*. Brussels: The European Group of Valuers' Association.