What Lenders Want from Mortgage Valuation Reports: A Survey of Nigeria Banks

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Abstract

Nigeria property market is witnessing enormous and continuous growth and changes for some years. This calls for an urgent need to explore the needs of the users of valuation report which serves as an important input to lenders' decision making. Focusing on banks in Nigeria, this study examined the needs of the banks with respect to the content of valuation reports. This is with a view of determining their needs so as to improve on the quality of valuers' reports. The study surveyed the twenty-two (22) banks in Nigeria to obtain the relevant data. Their needs were examined according to the content of valuation reporting formate in Nigeria. Using mean, raking and relative importance index (RII) methods, the findings shows that what lenders want from valuation reports are to see more details relating to some important aspects of the property market; they are valuation calculations and uncertainty in valuation figures. The study concluded that the estate surveyors and valuers should be mindful of their clients' needs and try as much as possible to meet those needs.

Keywords- Property Market, Clients' Need, Valuation Reports, Nigeria

Introduction

A well prepared valuation report is expected to provide a substantial level of professional shielding to property developers from the risks and problems of wrong investment decisions. It is a way of conveying the information to the client who commissioned the report. It must, therefore, meet the needs of the client as well as uphold the standards set, for such valuation, in the profession (Aluko, 2000). However, it is observed that sometimes an appraiser may not necessarily be meeting the needs of the client but rather focuses on meeting a long list of requirements and rules within a defined format (Knitter, 1993). Shlaes (1993) also asserted that the reports that clients are getting are hardly what serious clients want and need and that what they want is the truth, packaged in a convenient form. The author further stressed that serious clients deserve reports that let them find what they want to know without plowing through reams of confused thinking and bad writing. They want enough content to evaluate the appraiser's findings, but not so much as to waste time and money as they are busy people.

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In Malaysia, Razali, Juanil and Newell (2009) carried out a study which focused on specific issues regarding the quality of valuation reports including current procedures, satisfaction with current valuations reports etc. This, according to the authors is essential because commercial valuation report is a key element in property investment decision making for institutional investors; particularly at the current global financial crisis. Even in the UK, the Royal Institution of Chartered Surveyors (RICS) valuation standards and procedures (RICS, 2003) and various industry reports as well as professionals have addressed a range of key issues regarding the quality of valuation reports and clients needs (Waters Report, 2000).

Crosby, Hughes and Murdoch (2004) study focused on three groups of people that are involved in the preparation and use of valuation reports; commercial lenders, commercial valuers and residential valuers. Overall, the findings showed that lenders professed general satisfaction with valuation reports, although satisfaction was less for the levels of analysis and interpretation compared with the overall quality and the perceived accuracy of the valuation figure. In Australia however, Newell (2005) examined the improvement in the quality of valuation report between 1998 and 2004. The author discovered that there was an increase in the use of DCF analysis and a greater number of clients were satisfied with the valuation report.

Armitage and Skitmore (2003) undertook a study on property market analysis in the valuation process with special acknowledgment to valuation reporting. In contrast with the Newell and Barrett (1990) and Newell (1995,1999) surveys, the feedback from the informal interviews revealed a long-perceived criticism from some clients of valuation reports' over-emphasis on descriptive components at the expense of analytical ones. The results of this survey suggested that, while the former is still the single largest component, with an average of 38% (20% standard deviation) of the total content, the latter items in the report - which deal both with data analysis and synthesis - of market analysis, calculation, reconciliation and forecasting, together exceed it by comprising some 58% of an average report. Of this latter group, market analysis - at an average of 30% (13% standard deviation) content is the largest section.

Aluko (2007) examined the mortgage valuation process in Lagos metropolis by administering questionnaires randomly on Estate Surveying and Valuation firms as well as lending institutions with the intention of discovering whether the contents of mortgage valuation report meet the needs of client as well as uphold the standards set for such valuation in the profession. When the researcher compared the view of estate surveyors and lending institutions with respect to the information content of mortgage valuation reports, the author's findings revealed that mortgage valuation reports presented by valuers are not currently meeting the needs and demands of lending institutions.

In Germany, Lorenz and Lützkendorf (2008)'s study made an effort to explain the rationale for integrating sustainability issues into property valuation theory and practice and also suggested ways by which valuers can account for sustainability issues within valuation reports. Findings revealed that there are five (5) main reasons for rigorously integrating sustainability issues into property valuation: (1) the urgent need for more sustainable patterns of behaviour to sustain the viability of the Earth's ecosystems; (2) a huge untapped market potential exists for sustainable property investment products and consulting services; (3) sustainable buildings clearly outperform their conventional competitors in all relevant areas (i.e. environmentally, socially and financially); (4) neglecting the benefits of sustainable design leads to distorted price estimates; and (5) reflecting sustainability issues in property price estimates is already possible and the validity of this decision depends solely on the

valuer's capability and sophistication to explain and justify his/her assumptions within the valuation report. The study further revealed that efforts should be made to improve the description of property assets in transaction databases in order to provide the informational databases necessary to empirically underpin a valuer's decision to assign a "valuation bonus" to a sustainable building or a "valuation reduction" to an unsustainable/conventional one. They recommended that the following three (3) additional elements should be included in valuation: (i) a clear description of the availability of certain sustainability-related property characteristics and attributes; (ii) a statement of the valuer's opinion about the benefits of these characteristics and attributes; and (iii) a statement of the valuer's opinion about the impact of these benefits and/or risks on property value.

Oluwunmi (2008) examined clients' perception of the quality of property valuation reports in Lagos Metropolis. Questionnaires were distributed to a total number of twenty-five (25) banks and one hundred and sixty-three (163) estate surveying and valuation firms. The study also compared seventy-eight (78) valuation reports to ascertain if the valuation reports of the estate surveyors and valuers are meeting up with the standard set by the institution. Data collected were analyzed using non-parametric statistics. The result of the examination of seventy-eight (78) valuers' reports in comparison with the standard expected shows that valuers' reports were meeting the standard, sixty-two percent (62%) of the banks are at least satisfied with the overall content of their valuation reports. However, the examination of clients' needs revealed that they would prefer to see more details on demand information in the larger property market" and "valuation calculations to convince them how the valuers arrived at the value" ranked first in what the clients required with a mean rank of 3.85 while "a portion stating the complexity of the market and also the position of the property in the market" ranked second with a mean value of 3.77. "More emphases on the analytical aspects of the valuation" and "the estate surveyors and valuers should state how certain they are about the valuation figures" ranked third (mean = 3.69) in their reports. The study concluded that there should be greater understanding between the clients and the estate surveyors with respect to the needs of the clients. A further study by Oluwunmi, Ajayi, Olaleye and Fagbenle (2011) considered clients' perception of the quality of property valuation reports with a view to determining clients' satisfaction level and thus improving on the quality of valuers' reports. The result revealed that 62% of the banks (clients) were at least satisfied with the overall content of the valuation report they received from valuers. However, the results showed that clients wanted to see improvement on details of tenancies which seldom appear; details on specific comparable; state of letting market; general information on comparable; valuation calculations and uncertainty in valuation figures in their valuation reports.
It is obvious from the foregoing that nations of the world are persistent concerned with the desire to satisfy clients' needs through quality valuation reporting (Waters Report, 2000; Crosby, Hughes, and Murdoch, 2004 in UK; Newell, 2005 in Australia; Razali, Juanil and Newell, 2009 in Malaysia; Lorenz and Lützkendorf, 2008 in Germany and Aluko, 2000, 2007; Oluwunmi, 2008, 2011 in Nigeria). The general conclusion from some of these studies shows that the overall quality of valuation reports has fallen, hence they are not meeting clients' needs. Therefore, there is a need to carry out a study on what mortgage valuation clients actually want from their reports with a view of meeting such needs.

Theoretical Framework
Crosby *et al* (1995 & 1997) and Newell (1999 & 2004) proposed a theoretical framework upon which clients' needs and expectations of valuation report should be based. According to these authors, the needs and expectations of clients are that: (i) there should be adequate information on market trend, tenant strength and valuation methodology; (ii) clients want to

see more regulation of valuers through professional institutional guidelines while very few requested more government regulation; (iii) valuers need to provide additional information in valuation reports concerning conditions and trends in property and the state of the wider investment market; (iv) the comparable transactions data on which the valuation is based should be included in the report; (v) greater emphasis is needed on market dynamics/future performance; (vi) there should not be too much generalisation and unrealistic future projection in valuation reports; (vii) client wants to have better understanding of market position of the particular property/projects; (viii) there is need for a greater emphasis on the current supply and demand situation in the market and (ix) the report should contain information on the state of the economy.

Research Methodology
To achieve the objectives of the study, the researcher administered questionnaires to twenty-two (22) officers of the banks in their credit departments that handle valuation report for mortgage purposes since they are in a better position to ascertain their needs with respect to the content of valuation report. This was also followed up with interview with some of the officers in the credit department of each of the banks who are willing to be part of the interview. With respect to the questionnaires distribution, a total of thirteen (13) questionnaires were received and found useful. These represent a total survey responses rate of seventy-seven percent (77%). For the interview section, only eleven (11) officers one each from the banks were willing to be interviewed. These represent fifty percent (50%). Data were analyzed using descriptive statistical technique.

Results
General Information
In an attempt to determine the reliability of the data collected on the study and draw inferences, the researcher sought information on the frequency of valuation exercises commissioned by the banks and method or type of commissioning the jobs. Full details of the survey respondents are shown in Tables 1 and 2 below.

Frequency of Mortgage Valuation
The analysis in Table 1 showed the number and frequency of mortgage valuation jobs commissioned by the banks. The response shows that majority (85%) of the banks commissioned valuations for mortgage purposes on monthly basis.

Table 1: Frequency of Mortgage Valuation Jobs Commissioned by Banks

Frequency of Valuation	Frequency Count	Percentage %
Monthly	11	85
Quarterly	2	15
Yearly	0	0
TOTAL	**13**	**100**

Source: Field Survey 2011

Method of Commissioning Valuation Report
On whether the banks were doing their valuation in-house or they normally commission outside valuers, the response shows that 100% of them employed outside valuers to conduct their valuations.

Table 2: Method of Commissioning Valuation Report

Method	Frequency Count	Percentage (%)
In- House	0	0
Outsourced	13	100
TOTAL	**13**	**100**

Source: Field Survey 2011

With these results, it can be inferred that virtually all the banks sampled were conversant with issues of mortgage valuation and its reporting, hence, the result can therefore be relied upon to provide reliable data on the study.

Clients' Needs in Valuation Reports
In presenting the results of the questionnaire survey, the study examined clients' needs with respect to valuation reports. Tables 3 and 4 gave a detailed analysis of the responses from the banks. Respondents' responses were assigned 4, 3, 2 and 1 to "Most Significant", "Significant", "Less Significant" and "Not Significant" respectively and mean was calculated.

Table 3: Clients' Needs in Valuation Reports

Parameters	Most Significant (4)	Significant (3)	Less Significant (2)	Not Significant (1)	Mean
State of the economy as at the date of valuation	9(69.2)	3(23.1)	0(0.0)	1(7.7)	3.54
General location	7(53.9)	6(46.2)	0(0.0)	0(0.0)	3.54
Physical features	7(53.9)	6(46.2)	0(0.0)	0(0.0)	3.54
General Suitability for Lending	8(61.5)	4(30.8)	1(7.7)	0(0.0)	3.54
Valuation method	9(69.2)	3(23.1)	1(7.7)	0(0.0)	3.62
Suitability of specific property for a loan at the amount and on terms proposed	11(84.6)	2(15.4)	0(0.0)	0(0.0)	3.85
State of the letting market for the property	0(0.0)	0(0.0)	5(38.5)	8(61.5)	1.38
Specific Location	10(76.9)	3(23.1)	0(0.0)	0(0.0)	3.77
General information on Comparables	0(0.0)	2(15.4)	5(38.5)	6(46.2)	1.69
Details of Tenancies	0(0.0)	1(7.7)	5(38.5)	7(53.9)	1.54
Demand for property	11(84.6)	2(15.4)	0(0.0)	0(0.0)	3.85
Specific comparables	1(7.7)	2(15.4)	4(30.8)	6(46.2)	1.85
Valuation Calculations	11(84.6)	2(15.4)	0(0.0)	0(0.0)	3.85
Uncertainty of Valuation figures	9(69.2)	4(30.8)	0(0.0)	0(0.0)	3.69
More emphases should be made on the analytical aspects of the valuation	9(69.2)	4(30.8)	0(0.0)	0(0.0)	3.69
There should be a portion stating the complexity of the market and also the position of the property in the market	10(76.9)	3(23.1)	0(0.0)	0(0.0)	3.77

Source: Field Survey 2011
Note: The Figures in brackets are percentages of responses

According to the banks, state of the economy as at the date of valuation, general location, physical features, general suitability of the property for lending, valuation method used to value the property, suitability of a specific property for a loan at the amount and on terms proposed, specific location, uncertainty of valuation figures, valuation calculation, emphases on the analytical aspects of the valuation and availability of a portion stating the complexity of the market and also the position of the property in the market are information that are

considered necessary and which they would prefer to see in their valuation reports except items like specific comparables (1.85), general information on comparables (1.69), details of Tenancies (1.54) which they believe are less significant even when they are included in their valuation report while they are of the opinion that adding the state of the letting market for the property is not significant to them at all.

The banks, according to the analysis above would prefer mostly to see a portion of the report stating the market demand for the property, the valuers' calculation and the suitability of specific property for a loan at the amount and on terms proposed. This is because they have the highest resulting mean of 3.85 when compared to others. In particular, the banks are interested in seeing valuers' calculations because they believe that such can assist them in appreciating how the valuation figures are arrived at.

Lack of detailed formal instructions, in some cases might be the reason why some of the clients' needs are not met in addition to the provision of minimal information in support of valuation figures on the part of estate surveyors and valuers as seen in the analysis above.

To further determine the needs and expectation of clients with respect to the contents of valuation reports, the respondents were asked to rank the items in valuation reports which they would prefer to see in order of importance using relative importance index (RII) scores. The outcome of this analysis is shown in the analysis in Table 4 below:

Table 4: Ranking of Clients Needs and Expectations of the Contents of Valuation Reports in order of priority

Parameters	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	RII	RANK
State of the economy as at the date of valuation	0	2	1	3	1	3	1	1	0	0	1	0	0	0	0	0	0.74	5th
General location	0	4	2	0	2	1	0	0	0	0	1	2	0	0	1	0	0.68	6th
Physical features	3	1	2	2	1	1	1	1	0	0	0	0	0	1	0	0	0.78	4th
General Suitability for Lending	2	2	3	1	3	0	1	0	1	0	0	0	0	0	0	0	0.82	3rd
Valuation method	0	0	0	0	0	0	1	0	0	0	3	2	4	3	0	0	0.3	14th

Suitability of specific property for a loan at the amount and on terms proposed	2	4	0	2	1	3	0	1	0	0	0	0	0	0	0	0	0.83	2nd
State of the letting market for the property	0	0	0	0	0	2	0	0	0	0	0	4	3	3	0	1	0.31	13th
Specific Location	1	0	1	2	0	0	3	0	0	2	2	0	1	0	1	0	0.57	7th
General information on Comparables	0	0	0	0	0	0	0	0	0	1	1	1	1	1	5	3	0.18	15th
Details of Tenancies	0	0	0	0	0	0	0	0	0	0	1	0	0	0	4	8	0.11	16th
Demand for property	4	0	2	2	3	1	1	0	0	0	0	0	0	0	0	0	0.84	1st
Specific comparables	0	0	0	0	1	0	0	1	0	2	0	2	2	4	1	0	0.32	12th
Valuation Calculations	1	0	0	0	0	0	1	1	3	4	0	0	0	1	1	1	0.45	11th
Uncertainty of Valuation figures	0	0	1	0	1	1	1	2	5	2	0	0	0	0	0	0	0.57	7th
More emphases should be made on the analytical aspects of the valuation	0	0	1	0	0	0	2	4	4	1	0	1	0	0	0	0	0.55	9th
There should be a portion stating the complexity of the market and also the position of the property in the market	0	0	0	1	0	1	1	2	0	1	4	2	1	0	0	0	0.47	10th

Source: Field Survey 2011

The ranking of the contents of valuation reports by the banks shows that they are particularly interested in seeing, in the valuation reports, the demand for the property being valued before they could consider (such reports as having high quality) giving out loan for such a property.

This is seen in our analysis above with RII of 0.84 (1st). This was closely followed by suitability of specific property for a loan at the amount and on terms proposed (0.83, 2nd) and general suitability for lending (0.82, 3rd). In a similar vein, the banks ranked valuation method 14th with RII 0.30, general information on comparables 15th with RII 0.18 and details of tenancies 16th with RII 0.11 as not being too significant to them and if they are included or not it would not matter to them. This further confirmed the analysis in Table 3 which centred on what they would prefer to see in their reports. In the analysis (Table 3) the banks are of the opinion that general information on comparables and details of tenancies (1.69 and 1.54) are of less significance in their valuation report.

Judging from the foregoing findings, one can conclude that the banks are interested in the security of their loan hence they would prefer the valuation report to include statements that would give them confidence that their money to the borrower is secured.

Interview Section with Bank Officers
When the banks were asked if they had ever made any attempt to ask for additional information in their valuation reports after submission, eight (8), i.e. 62% of the banks confirmed that they have been faced with such situation but that it was not in all the cases that they were provided with all the information requested for while three (3) representing 23% said their requests were bluntly turned down by valuers with an explanation that the information required by them were not included because they are not relevant in the valuation report (the inclusion of calculation of how the valuers arrived at their valuation figures) and that the request is not specified by the institution as part of what should be included in a valuation report. The remaining two (2, 15%) confirmed that the valuers' reports have always been meeting their needs hence they do not have any reason to request for any additional information in their report.

Conclusions
From the findings, it is considered that the following need to be addressed for the estate surveyors and valuers to continue to be relevant in the Nigerian property market and also continually be able to meet and satisfy their clients' needs.

There is need for the Nigerian Institution of Estate Surveyors and Valuers to update their valuation reporting standard by including in their reports how some of the figures given by the estate surveyors are arrived at e.g. the valuation figure (this is expected to help the banks in case of forfeiture) and demand for the property. Also, there should be detailed instructions and improved communication between clients and valuers concerning each other's needs so that these needs can be met. As clients are demanding more information, valuers and their professional institutions should consider how it might be provided and communicated. It is also suggested that there is need for regular interaction and closer collaboration between the clients and the estate surveyors so as to meet clients' needs and improve practice. Finally, estate surveyors and valuers must not only provide the service expected of them, but they must be able to establish what the client requires/needs and also make efforts to satisfy such needs and expectation.

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