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ASSESSMENT OF THE RELIABILITY OF VALUERS' OPINION IN RELATION TO THE SALE PRICE OBTAINED AT FORECLOSURE IN LAGOS, NIGERIA

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Abstract: **The issue of accuracy and reliability of valuation opinions required proper examination as they form key factors in investment decision making. The purpose of this paper is to assess the reliability of valuers' opinion in relation to sale price obtained at foreclosure in Lagos, Nigeria. Data on one hundred and fifty four foreclosed properties' transactions were obtained from the database of 14 commercial banks head's offices and 8 primary mortgage institutions using structured questionnaire respectively. The collected data were analysed were using student t-test statistics. The result revealed among others that there is no significant difference between the value of collateral at inception and actual price at foreclosure with a p-value of 0.224 and a t-value of 1.222. However, the correlation value of 0.9 shows that the value of collateral at the beginning and actual price at foreclosure are strongly positively correlated and significant at 0.000. This indicates that the value of collateral at the beginning is significantly correlated with the value of price at foreclosure which shows the effectiveness of estate surveyors and valuers in interpreting the market adequately. The paper recommended that the Estate surveyors and valuers should maintain a high level of consistency and transparency in the valuation procedures to ensure a minimal marginal error. The findings of this paper provides decision-making policy implication for investors in real estate, prepare valuers, policy makers and general stakeholders.**

Keywords: **Assessment, accuracy, reliability, foreclosure, valuation.**

I. INTRODUCTION

Operations of value obtained during valuation exercises are very crucial to the operations and business dealings of the clients (Adegoke, Olaleye and Oloyede, 2013; Irene and Manya, 2022). While valuation has remained foundation for decision making, however, clients are of the opinion that valuations produced by valuers are not true reflection of the market (Irene et al., 2022). According to Adegoke et al (2013), it is as a result of the experiences they were having with large disparity between the final opinion of values of those properties on mortgage default that were foreclosed and the final sales price. Various banks have suffered losses by granting loans in excess of actual value, and many company owners have been led to believe that they were making profits in assets while actually they were running at loss (Shakhzod, 2023). In addition, many were being led into businesses that were perceived to be profitable while in fact they were not viable. The problem of overvaluation and undervaluation has led to cases of bankruptcy, investment failures and grant of loans in excess of collateral value (Adegoke et al, 2013; Cheloti & Mooya, 2021).

Similarly, Ayedun et al (2011) opine that the variance between valuation estimates produced by valuers in Nigeria and the predicted market prices have been a subject of serious debate among the professionals, the academia and other valuation

stakeholders **(**Adewusi, 2021). The competence of Nigerian valuers and the reliability of valuation opinion from them has been the focus of such debate and discussion (Ayedun et al, 2011). Many research works have proven that property valuations are seen to be uncertain (Skitmore et al 2007; Shengzhong, Hongping, Xiongyuan and Changqiu, 2023)

Further, Ajibola (2006) observed that the property market, by nature, is characterized by heterogeneous commodities and coupled with the fact that there is no centralized market for real property; this makes it difficult to accurately determine the market price of real property. In other words, the property market is characterized by high level of imperfection and this has given rise for variation (Adewusi, 2015). According to Ogunba (2007) valuation does not imply the figure of value by different valuers. However, one does not subscribe to a large and extended variation as it is often reported among Nigerian valuers (Adewusi, 2020).

In Nigeria, the ramification of inaccurate valuation have been expanded to encompass the individual valuer and consequently, the entire country's economy (James, 2015; Cheloti et al, 2021). On the basis that two or more valuers valuing the same property at the same time for the same purpose with the same data might not arrive at the same value, many commentators have wondered if estate valuers are interpreters or creators of values (James, 2015). As the concern for valuation variance and inaccuracy continue to generate more debate, the consumers of valuation services may become weary and begin to question the reliability of the valuer's opinion of value. This study therefore aims to assess the performance of estate surveyors and valuers' opinion in relation to sale price obtained at foreclosure in Lagos metropolis, Nigeria in order to determine their consistency in predicting the future value of property for potential sale. Subsequent sections in this paper are devoted to review of empirical studies, methodology, data presentation and discussion of findings, policy implications and conclusion.

II. LITERATURE REVIEW

Ajibola (2010) carried out an examination of the causes of valuation inaccuracy in Lagos metropolis. The study elicited data from 150 valuers on the causes of valuation inaccuracy. It made use of descriptive statistics for its analysis. It was found that the inaccuracy from the valuations came from a dearth of market evidence (data), the use of outdated valuation approaches, inadequate academic training, inexperience in valuation practice, and clients' influence.

In Lagos Nigeria, Ayedun, Ogunba and Oloyede (2011), carried out empirical verification of the accuracy of valuation estimates emanating from valuers. The paper employed quasi-experimental survey methods. Forty five (45) estate surveying and valuation firms were sampled in Lagos Metropolis, the study area. The study used both descriptive and inferential statistics. The study revealed a wide variance of valuation estimates from the sale prices of the twelve properties sampled which indicated that the valuation estimates are not accurate and reliable. The study concluded that the Nigerian Institution of Estate Surveyors and Valuers and Estate Surveyors and Valuation Registration Board of Nigeria (the two bodies responsible for the regulation of the valuation profession in the country) should take up the responsibility of ensuring that variance in valuation is minimised by way of providing databank in order to provide more meaningful valuation advice.

Adegoke, Olaleye and Oloyede (2013) examined the perception of clients on reliability of mortgage valuation in Nigeria. A sample size of 50 lending institutions was randomly chosen representing 57.5% of the target population in Lagos State. The study employed descriptive statistics as a method of analysis. The findings of the study reveals that clients are of the opinion that valuations produced by valuers were not reliable. The study therefore concludes that the estate surveyors and valuers in the country owe their clients a duty of care by presenting accurate and reliable valuation reports since other stakeholders of the real property investors depend on these reports for their investment decisions.

Oduyemi, Okoroh and Fajana (2016) examined property valuation inaccuracy in commercial office buildings. The study aimed at establishing the key causative factors to valuation inaccuracy. The study employed a questionnaire-based approach to collect data for the study. The data were analysed using mean ranking, regression and factor analysis. The key findings of the statistical analysis indicated that professionals ranked the existing valuation methodology as the most established cause, while only four of the causes make a statistically unique contribution to the valuation methodology, namely: skill, experience and judgement of the valuer, types of property, the integrity of the individual surveyor, and the lack of a standard valuation manual.

Furthermore, Nwosu (2019) investigates the implication of valuation inaccuracy on investment performance of commercial properties in Akure, Nigeria. Questionnaires were administered to 25 registered and practicing Estate Surveyors and Valuers (ESVs) in Akure and 19 duly filled questionnaires were returned for analysis. Descriptive analysis was used to assess the

level of inaccuracy and the factors influencing the valuation inaccuracy, while regression analysis was used to examine the effect of this inaccuracy on investment performance. It was discovered that the most common level of valuation inaccuracy in Akure is ±11-15% which is above the acceptable range of ±5%. It was also discovered that the various assumptions made by the valuers and the market indices used in carrying out valuation have the highest influence on the inaccuracy discovered in their valuations. From the simple linear regression analysis carried out, it was found that valuation inaccuracy has negative implication, at β=-.800, t=3.873, p>.05 on the investment performance. This shows that the higher the level of inaccuracy of valuation, the lower the performance of the investment.

Also, in Ethiopia, Habtamu (2023) investigate the causes of valuation inaccuracy for mortgage purpose in commercial banks in Ethiopia. The study employed a convergent parallel mixed design. Data were collected from valuers through questionnaires and interviews using purposive, snowball, and convenience sampling techniques. The data was analysed using ordinal regression model. The study revealed that inappropriate valuation methods, the inadequacy of the market data, and property market imperfection were the most significant predictors. However, there are moderately significant causes which include the characteristics of the property market, valuation regulatory framework, and absence of the valuation standard. Client pressure, ethics, and competence of valuers were insignificant predictors. As most of the existing literature focused on valuation inaccuracy and causes in commercial properties, the current paper draws attention to the performance of valuers' opinion of value in relation to sale price obtained at the foreclosure in residential property.

III. METHODOLOGY

This study adopted survey research method. The target population encompass Commercial bank head offices and Primary Mortgage Institutions in Lagos Metropolis. This is because the head offices alone possessed and have the authorization to make the confidential information required available. Data was obtained from the target population through the use of interview questions, structured questionnaires, and field surveys and census method were employed in the study. A total of 37 questionnaires were administered on the respondents out of which 22 were retrieved and found suitable for the analysis. Transaction on a total number of 154 default properties gotten from the retrieved questionnaires were therefore examined in the analysis. The data obtained from the respondents was analysed using T-test statistics.

A. T-test statistics:

The T-test statistics is a type of inferential statistics which is used in determining whether there is a significant difference between the means of two groups. Howell (2002) asserts that when the difference between two populations is being investigated, a t-test is used. With a t-test, the researcher wants to state with some degree of confidence that the observed difference between the means of the sample groups is too great to be a chance event and that some difference also exists in the population from which the sample was drawn. Types of t-test include; Pair difference t-test which is concerned with the difference between the average scores of a single sample of individuals who are assessed at two different times and t-test independent samples which is also concerned with the difference between the averages of two populations, basically the procedure compares the averages of two samples that were selected independently of each other and later determine whether those sample averages differ enough to make one believe that the population from which they were selected also have different averages (Rhiel and Chaffin, 1996). The current study is concerned with two population groups from where samples were selected independently of each other, hence the adoption of an independent t-test. The two population groups involved in our study are valuers' opinion value at inception and actual value at foreclosure. Test of equality in unpaired t-test is based on Levene's test, when Levene's test has $p > 0.05$, the t-test to be used is based on the assumption that the variances of the two groups are equal. However, when Levene's test has $p \leq 0.05$, t- test to be adopted is also based on the assumption that the variances of the two groups are unequal.

B Correlation Coefficient:

Correlation in the broadest sense is a measure of an association between variables. In correlated data, the change in the magnitude of 1 variable is associated with a change in the magnitude of another variable, either in the same (positive correlation) or in the opposite (negative correlation) direction (Patrick and Christa, 2018). The term correlation is often used in the context of a linear relationship between 2 continuous variables and expressed as Pearson product-moment correlation. The Pearson correlation coefficient is typically used for jointly normally distributed data (data that follow a bivariate normal distribution). For non-normally distributed continuous data, for ordinal data, or for data with relevant outliers, a Spearman rank correlation can be used as a measure of a monotonic association. Both correlation coefficients are scaled such that they

range from –1 to +1, where 0 indicates that there is no linear or monotonic association, and the relationship gets stronger and ultimately approaches a straight line (Pearson correlation) or a constantly increasing or decreasing curve (Spearman correlation) as the coefficient approaches an absolute value of 1(Patrick and Christa, 2018).

IV. RESULTS AND DISCUSSION

This section covers presentation of results and discussion of findings emanating from the data analysis. Data were analysed using student t-test statistics. Table 1 shows the arithmetic calculation of retrieved data, table 2 shows demographic characteristics of respondents in the study area, table 3 shows the paired samples correlations of the performance of estate surveyors and valuers' opinion in relation to sale price obtained at the foreclosure and table 4 shows the paired samples test of the difference of the value at inception and actual sale.

Table 1: Questionnaire Distribution and Retrieval

	Questionnaire	
	Distribution	Retrieval
Commercial Banks Respondents	19 (51.4%)	14 (37.9%)
Mortgage Institution Respondents	18 (48.6%)	8 (21.6%)
Total	37 (100. 00%)	22 (59.5%)

Table 1 shows that out of the thirty seven questionnaires administered to the Commercial Banks and the Primary Mortgage Institutions in Lagos metropolis 59.5% was retrieved. According to Babbie (2007) any return rate that is over 50% can be reported, over 60% response rate is good, and that over 70% is excellent. This implies that the percentage of questionnaires retrieved from the surveyed respondents is statistically adequate to represent the whole population from which inference can be made for this study; hence, the finding of the study can be relied on.

Table 2: Demographic Characteristics of Respondents in the Study Area

Characteristics of respondents		**Frequency**	**Percentage (%)**
Education Qualification			
HND		3	13.6
B.Sc		19	86.4
	Total	**22**	**100.0**
Year of Professional Qualification and Experience			
1-5 years		5	22.7
6-10 years		15	68.2
11-15 years		1	4.5
16-20 years		1	4.5
	Total	**22**	**100.0**
Position			
Head of Unit		2	9.1
Senior Staff		2	9.1
Staff		18	81.8
	Total	**22**	**100.0**

The characteristics of the respondents from the lending institutions where the survey research questionnaire was administered are shown in table 2. Education is one of the most important characteristics that might affect the person's attitude and the way of looking and understanding any particular social phenomena. In a way, the response of an individual is likely to be determined by his educational status and therefore, it becomes imperative to know the educational background of the respondents. Hence, the variable 'Educational level' was investigated in the study. According to table 4, the academic qualification of the respondents in clarity are examined in the survey exercise. According to the analysis result from which only two classes appended as shown by the table above, the academic qualification of the claimants ranges from NCE, OND, HND, M.Sc and PHD respectively. The highest percentage in the list is the categories of B.sc at 86.4% while 13.6% of the respondents were HND. This shows that they are adequate enough to understand the subject matter of this study.

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The number of years of experience in a particular field of work is a status symbol of confidence in the society. People that have acquired experience for a longer period of time in a particular area are likely to boost confidence of understanding and handling of any situation or problem in that field. The year of professional qualification and experience of the respondents in the banking system is of utmost importance as this would guarantee their accuracy to append the questionnaire adequately. Table 4 shows that about 22.7% of the respondents have professional qualification and post qualification experience of 1-5 years, 68.2% have professional qualification and post qualification experience between 6-10 years, 4.5% have professional qualification and experience between both 11-15 years and 16-20 years respectively. The result shows that higher percentage of the respondents are between 6-10 years and the implication of this is that the respondents in the lending institutions are well experienced and therefore understand the subject matter of this study.

The position of the respondents in the lending institution was also examined ranging from the Managing director, Assistance director, Assistance manager, Head of unit, Senior staff to Staff. 9.1% were Head of unit, 9.1% were Senior staff while 81.8 were Staff. The result shows that the higher percentage of the respondents is Staff and this was because they are easy to access than any of the other categories in the lending institution.

A. T-Test Analysis of Value of Collateral at the Point of Initial valuation and Actual Price at Foreclosure

In analyzing the relationship between the value of collateral at inception and the actual price of collateral at foreclosure, several empirical insights emerge.

When delving deeper into the mean differences between these values via a paired t-test, the findings present a nuanced picture. According to table 3, the average difference of approximately 5.22 million suggests that collaterals, on average, were valued higher at inception than at foreclosure. Yet, the 95% confidence interval for this difference ranges from a decrease of around 3.22 million to an increase of approximately 13.66 million. This broad interval underscores the variability and potential uncertainty in the observed mean difference. Moreover, with a t-statistic value of 1.222 and a p-value of 0.224, the test reveals that the mean difference is not statistically significant at conventional thresholds, such as 5%.

However, the descriptive statistics in table 5 (appendix) reveal that the average value of collateral at inception was approximately 112.14 million, slightly higher than its actual price at foreclosure, which averaged around 106.92 million. Despite this observed difference in means, the paired samples correlation yields a remarkably strong positive linear relationship between these two metrics, as evidenced by a correlation coefficient of 0.932 as shown in table 4. This high coefficient suggests that as the value of collateral at inception increases, the actual price at foreclosure tends to increase correspondingly. Furthermore, this relationship is statistically significant with a p-value of 0.000, which indicates that the value of collateral at the beginning is significantly correlated with the value of price at foreclosure which further indicates the effectiveness of estate surveyors and valuers in interpreting the market adequately. Thus, it shows that estate surveyors and valuers are correctly interpreting the market and that in a way affect the economy. This result is in agreement with the finding of Sado, Onyejiaka and Emoh (2017) who revealed the effort of the valuers in disallowing clients' attempt to influence valuation opinions in Benin, and thereby prevented inaccuracy in the valuation opinion to a minimal level.

Empirically, these results imply a multifaceted scenario for real estate management. While properties' inception values and foreclosure prices exhibit a pronounced positive correlation, indicating they generally move in tandem, the actual average difference between these two metrics is not consistently significant across properties. This could potentially signal that other external factors such as timing of the auction, location, age of the house or market conditions might influence the foreclosure price beyond the initial collateral value.

Table 3: Paired Samples Test showing the difference of the value at inception and actual sale.

		Paired Differences					T	Df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	value of collateral at inception	5220779.221	53010862.958	4271737.071	-3218423.166	13659981.607	1.222	153	.224
	actual price at foreclosure								

Sig level at 0.05

Table 4: Paired Samples Correlations showing the performance of estate surveyors and valuers' opinion in relation to sale price obtained at the foreclosure.

		N	Correlation	Sig.
Pair 1	value of collateral at inception & actual price at foreclosure	154	.932	.000

Sig level at 0.05

The findings of this study improve more on the findings of Babawale (2008) and Ayedun (2009) which opined that there exist inaccuracy and inconsistency in valuation due to the lack of consistency and transparency on the part of the Estate surveyors and Valuers when reporting their work. The current study shows improvement in the effectiveness of estate surveyors and valuers in interpreting the market adequately.

V. CONCLUSION

The study assessed the opinion of value estate surveyors and valuers in relation to sale price obtained at the foreclosure in Lagos, Nigeria. Transaction on a total number of 154 defaulted residential properties gotten from the retrieved 22 questionnaires out of the 37 participating commercial banks heads offices and financial institutions in Lagos metropolis were therefore examined in the analysis. T-test analysis was used in analyzing the data. Given the result of the T-test analysis there was no significant difference between the value of collateral at inception as predicted by the Estate surveyors and valuers and the actual price at foreclosure. However, the correlation value of 0.9 shows that the value of collateral at the beginning and actual price at foreclosure is strongly positively correlated and significant at 0.000. This indicates that the value of collateral at the beginning is significantly correlated with the value of price at foreclosure which still shows the effectiveness of estate surveyors and valuers in interpreting the market adequately. The study recommends that the Estate surveyors and valuers should try more in maintaining a high level of consistency and transparency in the valuation procedures to ensure a minimal marginal error.

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APPENDIX - A

Table 5: Paired samples statistics showing average value of collateral at inception and Actual price of collateral at foreclosure.

		Mean	N	Std. Deviation	Std Error Mean
Pair 1	Value of collateral at inception	112139610.39	154	141254918.322	11382645.697
	Actual price of collateral at foreclosure	106918831.17	154	117866151.388	9497925.147