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## Valuation Inaccuracy: Implication on Commercial Property Investment Performance in Akure, Nigeria

Nwosu, A. E.<sup>1</sup>

<sup>1</sup> Department of Estate Management, Federal University of Technology, Akure, Nigeria.

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### Abstract

Issues of valuation error have become one of the most significant challenges of the valuation profession lately. The derivation of property returns from commercial income and prices actually paid has cast a lot of doubt on the reliability of valuation opinion in the commercial property investment decision process. This study 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  $\pm 11-15\%$  which is above the acceptable range of  $\pm 5\%$ . 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 valuation. From the simple linear regression analysis carried out, it was found that valuation inaccuracy has negative implication, at  $\beta = -.800$ ,  $t = 3.873$ ,  $p > .05$  on the investment performance. This shows that the higher the level of inaccuracy of valuation, the lower the performance of the investment. The result, however, indicates that the effect of valuation inaccuracy on commercial property investment performance is statistically insignificant. This study recommends that valuers in Akure should be very careful in making assumptions and be more vigilant regarding their use of market indices for valuations. It also recommends that valuers should be aware that investors rely on the accuracy of their valuations for making timely investment predictions and should therefore ensure conscientious efforts are put in place for accuracy of their valuations.

**Keywords:** Commercial Property; Investment; Inaccuracy; Performance and Valuations

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<sup>1</sup> [nwosuaku@yahoo.com](mailto:nwosuaku@yahoo.com)

## 1. Introduction

Valuation refers to the estimated amount (price) for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion (International Valuation Standards, 2017). Valuation accuracy is a measure of the difference between a value determination and group of value determinations in relation to a subsequently realised sale price (Boyd & Irons, 2002).

Valuation accuracy gained popularity in the mid 1970's, where investors became cognizant of the financial loss associated with inaccurate valuations. The challenges from inaccuracy of valuation became a matter of litigation where clients sued valuers for their financial loss. Valuation inaccuracy as posited by Millington (1985) is not expected to be outside the acceptable reasonable range to the point of grave loss to any party associated with the valuation from overvaluation or under valuation. Thus, absolute accuracy should neither be expected nor necessarily be sought for a full achievement in any valuation (Ayedun et al., 2014).

Ayedun et al. (2011) are of the opinion that there can be no reason why two or more valuers, valuing the same interest in a property for the same purpose and at the same time should not arrive at the same or insignificantly different results if they make use of the same data and follow the same valuation approach. But very often this is not the case and in some of these unfortunate cases the profession is thrown into considerable embarrassment.

Issues of demand for valuation accuracy have brewed several researches, both in the developed and developing world. These studies have been conducted in the United Kingdom, the United States, Australian and Nigeria (Drivers Jones/Investment Property Development, 1988; Matysiak & Wang, 1995; Ogunba & Ajayi, 1998; Mokrane, 2002; Boyd & Irons, 2002; Ayedun et al., 2014). This highlights that valuation inaccuracy is an area of global academic discussion, especially with focused consideration on specific implications of the accuracy/inaccuracy of valuations. Most studies on valuation accuracy have centered on the margin of valuation inaccuracy permissible in comparison with the actual sales price (Boyd & Irons, 2002; Ayedun et al., 2014; Hironen et al., 2014), factors influencing valuation inaccuracy (Ajibola, 2010; Ayedun et al., 2014; Effiong, 2015) and client's influence on valuation (Adegoke, Olaleye & Oloyede, 2013; Akerele & Thomas, 2014). This has left a research gap regarding the examination of the factors that influence valuation inaccuracy and the effect of valuation inaccuracy on real property investment performance.

Investors require valuations in aiding their investment decisions, mainly for the purpose of securing mortgages (Adegoke et al., 2013). Cases of inaccuracy in valuations constitute major constraints to the expectation of the investors and have been the subject of embarrassment to the integrity of the profession with consequent disregard of their valuations. (Adegoke et al., 2013). Having already received much research attention, studies on the

accuracy of valuation cannot be overemphasised. This is with the expectation that the more research that is aimed at the subject matter, the more the errors surrounding the problem will be unearthed. It is also of importance to examine accuracy of valuation without the exclusion of the factors that surround valuation inaccuracy such as: inadequate market indices, yield, valuation assumptions, and inappropriate techniques. These factors have peculiarities depending on the subject of consideration for the expectation of accuracy in valuation.

The majority of research on valuation accuracy in Nigeria has been conducted in Lagos, therefore there is need to extend the discussion to other parts of the country. It is also necessary to state that the existing body of literature on this subject pays little attention to the clients who utilise the valuation report, particularly the investors that rely on the valuation results for their investment analysis and decision-making. This current research therefore examines the impact that valuation inaccuracy has on the performance of investment. It also considers the factors that could influence the accuracy of valuation in aiding investment analysis and decision-making.

## **2. Literature Review**

Studies on valuation accuracy would not have a proper footing if reference is not made to the study of Hager and Lord (1985). In the study, two properties were selected, and ten valuers carried out valuations. One of the properties was an office building, the other was a shop. The valuations were carried out using descriptive statistics of variation and a standard deviation. The results revealed that there was a deviation from sales price in the values arrived at by the different valuers. These variations range majorly from  $\pm 5\%$  to  $\pm 10\%$ . Some of the valuations were even found to be up to  $\pm 20\%$  variation from the actual value of the two assets. The inaccuracy in the values arrived at by different valuers shows that they could not be absolutely relied upon when carrying out investment performance analysis. Such inaccuracy of more than  $\pm 10\%$  could give a tenable warrant to initiate legal action against the valuer.

Bretten and Wyatt (2002) investigated the possible cause of variance as well as the acceptable margin of error in investment valuations for commercial lending. They distributed 220 questionnaires to lenders, finance brokers, valuer's, and investors. The study revealed that the main cause of variance was individual valuer's behavioural influences and that  $\pm 10\%$  was the most acceptable margin of error for valuations.

In order to give consideration for adjustment to the changes that could happen to the market conditions, Mokrane (2002) used property data from five countries in Europe. The study considered Germany for the period of 1997 to 2000; UK for the period of 1990 to 2000; France for the period of 1999 to 2000; Sweden from the period of 1997 to 2000 and The Netherlands from the period of 1999 to 2000. In the study consideration was given to the differences in the market condition, and capital expenses between the date of valuation and transaction. The study found a statistically significant difference between the valuations and the transaction prices of the properties, showing a high

level of inaccuracy of the valuations in all the countries. This finding is contrary to the findings of Bretten and Wyatt (2002) that reveal the main cause of inaccuracy as individual valuer's behavioural influences and that  $\pm 10\%$  was the most acceptable margin of error. However, the difference of the findings may be connected to the sample size that was used for the studies. Mokrane (2002) used property data from five different countries while Bretten and Wyatt (2002) used data from only one country. The five countries that were used by Mokrane (2002) may differ in property performance and this may affect the outcome of their result. Bretten and Wyatt (2002) captured the major causes of valuation inaccuracy but the implication of the valuation inaccuracy on the performance of the investment was not considered.

Hironen et al. (2014) worked on the need for a safety margin in property valuations for compulsory compensation in Finland. The study engaged different valuers in the country in the valuation of a particular property for compensation on compulsory acquisition. After each valuer has given their own opinion of value, standard statistical methods were applied to analyse the results. It was found from the study that the standard deviation in the market value estimate was 32%. It was also revealed that up to 50% of the valuations were within -16% and +33% of the median valuation. The results from this study suggest that most of the valuations by the valuers were far apart from the assumed sales price, which is the median valuation. This is not in tandem with the earlier findings of Bretten and Wyatt (2002) that reveals that  $\pm 10\%$  was the most acceptable margin of error to be accepted. It conforms to the earlier finding of Ogunba and Iroham (2011) with a permissible margin of error of agreed by valuers to be  $\pm 11.1\%$  and commercial banks agreed to a margin of  $\pm 13.16\%$ . However, this study only looked at the margin of error but was unable to look at the implication of this margin of error on the performance of investments.

In Nigeria, Ogunba and Ajayi's (1998) study was one of the first major studies that considered the issue of the accuracy of valuation in Africa. The study analysed the capital value arrived at by 30 valuation firms in Lagos, Nigeria. Two properties were given as a sample for these firms to carry out their valuations and their values were then compared with the eventual sales price of the properties. The study made use of statistical analyses such as range, interquartile random, mean deviation, regression and correlation analysis. It was found from the study that the valuers were not accurate in their prediction of the sales price of the properties. This was because the sales prices of the properties were found to be more than  $\pm 20\%$  of the valuations. Aluko (1998) identified the various causes of valuation inaccuracy by Estate Surveyors and Valuers (ESVs) to include; choice of valuation technique; valuation assumptions; experience of the valuer; inadequate data; and reverse yield, among others. However, the findings were not based on empirical data. It is generally acknowledged in literature that poor techniques have a major impact on the accuracy of a valuation (Ogunba, 1997). However, there is an increasing recognition that other factors like valuation assumptions, location of the valuer and market indices also play a role in the accuracy of the valuation outcome. Aluko (2000) considered the accuracy of mortgage values by valuers. The study made use of 59 firms' valuations before the execution

of the mortgage. They employed regression and ANOVA analyses. It found high a proximity between the valuations of the properties to their forced sales prices, and more than the acceptable range of  $\pm 5\%$ . The results of Aluko (2000) that valuations are a good proxy for the eventual value of the property at a range of  $\pm 5\%$  is in contrast to the findings of Ogunba and Ajayi (1998) that valuations are not accurate in predicting the actual sales value of properties.

Ogunba (2003) extended the area of study of Ogunba and Ajayi (1998) to the six South Western states of Nigeria. The study used 171 valuers to carry out valuations of properties and then examined the accuracy of their valuations in comparison with the sales price of the properties. The study also made use of statistical tests such as: range, inter quartile range, regression analysis and ANOVA. The findings from the study corroborated the work of Ogunba and Ajayi (1998) that the valuations were not a good proxy for sales price and there was high level of inaccuracy of the valuations.

Ogunba and Iroham (2011) examined the permissible acceptable margin of inaccuracy of valuation in Nigeria under stable market conditions. The study elicited data from 195 valuers and 25 commercial banks in Lagos. The findings from the study showed that the valuers agreed to  $\pm 11.1\%$  and that the commercial banks agreed to a margin of  $\pm 13.16\%$ . These ranges are however too high, and they could have negative implications on investment decisions. However, from the existing literature, it is almost impossible to expect pin point accuracy in valuations, as the majority of the studies identified deviation of the sales price of the properties from their valuation.

On the causes of valuation inaccuracy, Harvard (2001) opined that the causes include: errors in survey, insufficient depth of investigation, errors in procedure, differences arising out of different methodologies, and client pressure or influence. The possibility of having accurate valuations was found to be partially dependent on local variable factors such as: the extent of information, the variability of local cycles, and the heterogeneity of the stock. Also, Baum et al. (2001) found that the influence of valuers (the use of heuristics) and clients' influence as the main causes of valuation inaccuracy.

In Nigeria, 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.

Ayedun, Oloyede and Durodola (2012) later carried out an empirical study on the causes of valuation inaccuracy in Nigeria. The study gathered data from interviews conducted on sampled professionals and academic members of the Nigerian Institution of Estate Surveyors and Valuers (NIESV). The data were analysed with the use of simple statistical tools. The findings from the study showed that causes of valuation also range from a dearth of market

data and a lack of adequate training and experience of the part on the valuers. Thus, the findings from Ayedun et al. (2012) have similarity with the findings of Ajibola (2010) on the causes of valuation inaccuracy.

A study by Adegoke et al. (2013) focused on the perception of valuation clients on mortgage valuation reliability. The study made use of 50 randomly sampled lending institutions in Lagos, Nigeria which represented 57.5% of the target population. The study used descriptive statistics to analyse the perception of the lending institutions (valuation clients). It was found from the study that clients are of the opinion that valuations produced by valuers were not reliable because of the large disparity between the opinion of value of those properties on default mortgage that were foreclosed and the final sales price. However, the study of Adegoke et al. (2013) did not consider the implication of this disparity on the investment of the client, which is the focus of this study.

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.

Similarly, Friday (2015: p.216) stated “*that the market has not now, nor has it ever had a monopoly of pecuniary valuation.*” Nevertheless, it is expected that the inaccuracy of the valuation should be kept to a minimum, that is where literature on this subject matter have acceptable a margin of error, mostly within  $\pm 5\%$  (Ogunba & Ajayi, 1998). Literature has been reviewed on valuation inaccuracy, valuation variance and acceptable error margins. However, the factors responsible for valuation inaccuracy and their implications on investment performance have not been satisfactorily treated in previous research as reviewed above. The consequence of this gap is underplaying potential issues that may cause significant distortions to the expected outcome of property investment performance and the risk of litigation of valuers. This current research therefore considers the accuracy of valuation in Akure, Nigeria by identifying the factors that bring about inaccuracy in valuation as well as the implication of valuation inaccuracy on investment performance.

### ***2.1 Study Area***

The area selected for this study is Akure, the capital city of Ondo state. Akure is an evolving city in Nigeria that has in recent years, through development and rural-urban migration, been experiencing rapid commercial and residential property investments. The increased political influence of the city

as the state capital since 1976 has greatly prompted its rapid growth and increased socio-economic activities resulting in its spatial expansion from an area of about 16km<sup>2</sup> in 1980 to about 30km<sup>2</sup> in 2000. There are 25 practicing Estate Surveying and Valuation firms in Akure who participate in the service of property valuation. This study makes use of the data procured from the ESV firms for the examination of the accuracy of their valuation, which is based on the value of the property and the subsequent market (sales) transaction information as volunteered by the sampled ESVs.

### **3. Methodology**

The study population comprises of registered and practising ESVs in Akure. ESVs are chosen because in Nigeria they are the professionals empowered by Decree No 24 of 1975 now CAP E13, Laws of the Federation of Nigeria (2007) to carry out the valuation of properties and other assets. According to the directory of the NIESV (2018), the total number of registered and practising ESVs in Akure is 25. The sample frame for the study is the 25 registered and practising ESVs in Akure and it constitutes the sample size for the study since it is within a manageable frame. Census method was adopted for this study. Primary data was used for the study and it was collected using structured questionnaires administered on the study population.

Valuers were asked to input the value opinion they originally gave prior to the investment decision process by investors as well as the eventual sales price of the properties. This data was used to analyse the margin of error that exists within the property market in Akure. Valuers were also asked to identify the level of performance of the various property investments in view of their value opinion and the eventual sales price (Table 2) with an open-ended question to indicate reason for the level of performance indicated. Finally, ESVs were asked to rate the factors responsible for the level of inaccuracy in valuations in order of their dominance. There were 19 duly completed questionnaires which were returned for analysis. This data from ESVs is very useful for this research because of their critical role before the investment decision process. ESVs opinions are sought during the execution of the investment project serving as property investment consultants on the development team as well as the property investment manager at completion of the property investment project. So, the data source is considered credible and germane to this study.

#### ***3.1 Method of Data Analysis***

The main objectives of this study are to identify the level of valuation inaccuracy in the study area; to examine its causes or factors responsible for valuation inaccuracy and the implication of the identified level of inaccuracy on property investment performance.

To measure the level of inaccuracy, the deviation of valuations from actual sales price was determined from the valuation reports as prepared by ESVs. Descriptive statistics of percentages was used to derive the percentage difference between the value opinion and the eventual sales price. The

percentage difference was used because the current universally acceptable way to determine whether valuation opinion falls within an acceptable range is by the use of percentages which is currently put at ±5%. The time lag between the period of valuation and sales of the properties was held within a three-month period in order to reduce the effect of market change on the variation of the values of the properties.

The factors that influence the accuracy/inaccuracy of the valuation were assessed using the Weighted Mean Score. This is considered suitable because of the ease of using the score to rank the factors in order of their dominance. The Weighted Mean Score is given as:

$$WMR = \frac{(5n_5 + 4n_4 + 3n_3 + 2n_2 + 1n_1)}{N} \dots\dots\dots (1)$$

Where: n5= number of very significant; n4= number of significant;  
 n3= number of undecided; n2= number of insignificant;  
 n1= number of very insignificant;  
 N= Total number of respondents.

Simple linear regression analysis was used to examine the effect of the accuracy/inaccuracy of valuation on the performance of investment. This was used because it helps identify the effects of valuation inaccuracy on property investment performance, and hence reasonable deduction could be made regarding the implication. This was done by assessing the implication of the valuations carried out by the valuer on the outcome of the investment that the valuation was used for by the institutional based investors. The simple linear regression analysis is given as:

$$Y = a+bx+e \dots\dots\dots (2)$$

Where: X is the independent variable (level of inaccuracy)  
 b is a simple linear regression for the independent variable (the slope of the regression line relative to x-axis).  
 “a” is the intercept.  
 “e” is an error term.

**4. Data Analysis and Discussion**

This section presents the results of the study based on analysis of the data collected.

**Table 1: Distribution of Error Margin in the Valuation of Commercial Properties in Akure**

Distribution of Error Margin	Frequency(%)	Cumulative Frequency
0-5%	5 (26%)	26%
6-10%	3 (16%)	42%
11-15%	9 (47%)	89%
16-20%	2 (11%)	100%

Source: Field Survey, 2018

Table 1 depicts the proportion of valuations across the error distribution table. This was derived by comparing the values arrived at when the valuation was done with the eventual sales price of the properties in the market. The percentage difference was calculated to determine the class distribution the valuations belongs. The table shows that only 26% of valuer's opinion falls within the acceptable range of  $\pm 5\%$ . Sixteen percent (16%) of the valuations are within the range of  $\pm 6-10\%$ , while 42% of all the valuations fall within the range of  $\pm 10\%$ . However, 47% of the valuations were found to be within  $\pm 11\%$  to  $\pm 15\%$  while 11% were within  $\pm 16-20\%$ . The results imply that the highest proportion of deviation of the valuations falls within the  $\pm 11-15\%$ , with a percentage score of 47. Furthermore, cumulatively, 42% of the valuations have a percentage deviation of 10% and below. However, there is cumulative proportion of 58 percentage points for valuations above  $\pm 10\%$ . This shows that the sales price of the properties varying at higher percentages are currently prevalent in the commercial property market. This is in tandem with the commercial banks margin of error of  $\pm 13.16\%$  (Ogunba & Iroham 2011). The agreed margin of error could have a serious implications for property investors who rely on the valuation made by the valuer for making investments.

**Table 2: Property Investment Performance Rating According to Margin of Error Class**

Margin of Error/ Error/	Very High (5)	High (4)	Indifferent(3)	Low(2)	Very Low(1)	Weighted Mean	Mean Rank
0-5% (4)	3	2	-	-	-	1.5	1
6-10% (3)	1	2	-	-	-	0.9	3
11-15% (2)	-	1	1	5	2	1.3	2
16-20% (1)	-	-	-	1	1	0.2	4

Source: Field Survey, 2018

In Table 2, valuers identified the level of performance of the various property investments in view of their value opinion and the eventual sales price. It is noteworthy that Table 2 agrees with Table 1, as the properties that performed high or very high were the ones where the value opinion did not deviate more than 5%. The table shows the number of valuations that falls into the margin of error class, and at the same time the level of their performance rating by respondent valuers. The table depicts that property investments with an investment valuation that varied from the price within  $\pm 0-5\%$  has the highest performance rating with a mean score of 1.5. However, properties with valuation opinions deviating from eventual sales price between  $\pm 11-15\%$  was rated in next best performing set of investments in the experiment with a mean score of 1.3 over and above the lower margin of error class of between  $\pm 6-10\%$  which came third with a mean score of 0.9. This suggests that apart from valuation inaccuracy, other factors- especially relating to the management of the commercial property investment portfolio- may play prominent roles in commercial property investment performance.

Therefore, in order to throw more light on the effect of valuation inaccuracy on property investment performance, regression analysis was subsequently carried out using the data from Table 2 above (the margin of error and the mean rank). Each class of margin of error was rated according to their level of desirability. A 0-5% margin of error was considered the most desirable with a rating of 4 while 6-10%, 11-15% and 16-20% were rated 3, 2 and 1 respectively. This was measured against property investment performance outcome in Table 2. The result is depicted in Table 4 and 5.

**Table 3: Factors that Influenced the Inaccuracy of Residential Property Valuation by the Valuers**

Causes of Valuation Inaccuracy	Strongly Agreed	Agreed	Undecided	Disagree	Strongly Disagree	Mean	Ranking
Valuation Assumptions	13	2	4	0	0	4.47	1 <sup>st</sup>
Inadequate Market Indices	8	7	2	2	0	4.11	2 <sup>nd</sup>
Use of Inappropriate Techniques	7	8	3	0	1	4.05	3 <sup>rd</sup>
Valuer's Experience/inexperience in Valuation Practice	7	6	5	0	1	3.95	4 <sup>th</sup>
Problem of Irrelevant/Inadequate Data	4	11	3	1	0	3.95	5 <sup>th</sup>
Reverse Yield Gap	0	10	8	0	1	3.42	6 <sup>th</sup>
Valuation Irrationality	1	8	7	2	1	3.32	7 <sup>th</sup>
Location of Firm	1	4	5	4	5	2.58	8 <sup>th</sup>

Source: Field Survey, 2018

Table 3 shows the weighted mean score ranking of the various factors that brought about the inaccuracy found in the valuations of the valuers as in Table 1. ESVs were asked to rate the factors in order of their dominance in contributing to valuation inaccuracy. The main purpose of this table is to illustrate the level of influence the above listed factors have on valuation inaccuracy in Akure. From Table 3 it was discovered that the highest influencing factor on the inaccuracy of the valuations are the assumptions made by the valuers. Valuation is both art and science, and a valuer is expected to make different assumptions, utilising instinct, experience and subjective adjustments. This inadvertently causes some valuers to overvalue some properties and under value others. It was found from the analysis that this factor has a mean score of 4.47 and it cut across all the valuations used for this study. Other factors that were found out to be of high influence on the inaccuracy of valuation are ‘*inadequate market indices*’ with a mean score of 4.11. This shows that most of the valuations were carried out by the valuers without considering the market condition indices like the macro economic factors that could influence the market value. Ranked third is ‘*the use of inappropriate techniques*’. Ranked fourth is ‘*valuer's experience/inexperience in valuation practice*’, fifth is ‘*problems of relevant/inadequate data*’. Towards the bottom, there is ‘*reverse yield gap*’

which is ranked sixth, '*valuation irrationality*' ranked seventh, while '*the location of the firm*' ranked last.

The last ranked factor, '*location of the firm*', shows that the location of the firm has less to do with the inaccuracy of the valuation, justifying the fact that the valuer can carry out his valuation in any part of the country if the necessary information is supplied. The result implies that valuation assumptions and market indices are major factors that influence valuation accuracy of commercial property investment in Akure. The findings from Ajibola (2010) and Ayedun et al. (2012) confirm this finding. Further, the least relevant factor is the location of firm which implies that where the firm is sited does not affect the valuation accuracy of property investment.

**Table 4: Model Specification of the Implication of the Valuation Inaccuracy on Residential Property Investment Performance**

Model	R	R-Square	Adjusted R Square	Std Error of the Estimate
	0.800 <sup>a</sup>	0.640	0.460	0.94868

a. Predictors: (constant), Property Investment Performance

Table 4 shows that the R-square value is fit enough for the valuation inaccuracy to predict the investment performance at 64%. Therefore the result of the regression is reliable for prediction based on the percentage of the closeness of the prediction to the data at 64%. However, the result of the regression shows that the equation is statistically insignificant at  $p > .05$ .

**Table 5: Effect of Valuation Inaccuracy on the Residential Property Investment Performance**

Model	Unstandardised Coefficient	Standardised Coefficients	T	Sig.	Model
	B	Std. Error	B		
(constant)	4.500	0.162		3.873	(constant)
Property Investment Performance	-0.800	0.424	-0.800	-1.886	Property Investment Performance

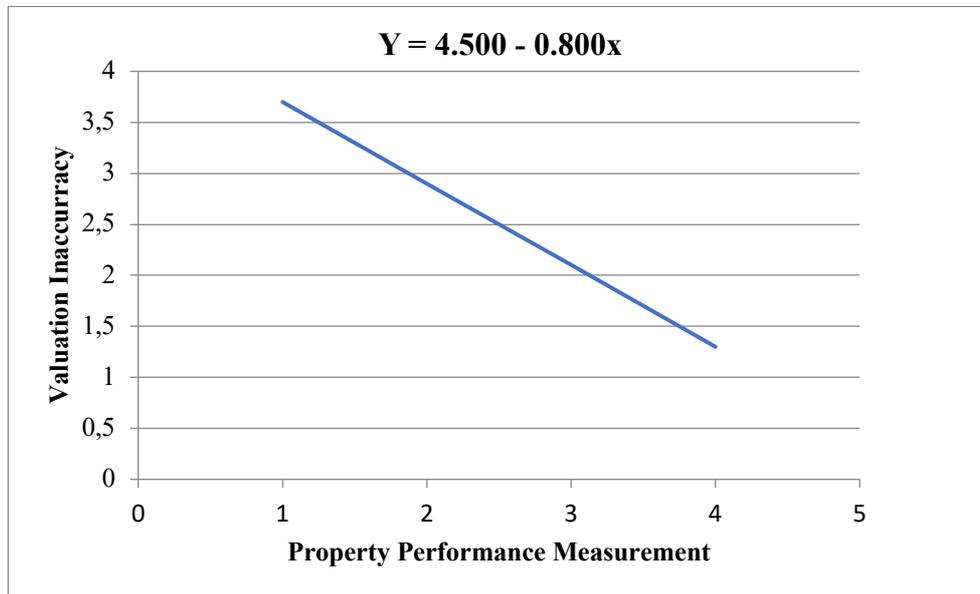
a. Dependent Variable: Level of Inaccuracy

Table 5 shows that there is an inverse relationship between the performance of investment and the inaccuracy of the valuation, at  $\beta = -.800$ ,  $t = 3.873$ ,  $p > .05$ . This shows that the higher the level of inaccuracy of valuation, the lower the performance of the investment. This agrees, in part, with the argument of Sykes (1983) that whilst any error in the assessment of capital value may become insignificant in the measurement of longer-term performance, the inaccuracy of a valuation may play a significant part in the performance (or apparent performance) of a property asset in the short-term. Most investors, who seek valuations in guiding their investment decisions, make use of these valuations, and in a situation of inaccuracy of the valuations it has a negative impact on the performance of their investments at  $-.800$ .

The model depicted by the analysis is written thus:

$$Y = 4.500 - 0.800x$$

The above equation suggests a negatively sloped line shown below:



The value of application of this model in industry is that commercial property investors can use it to predict the proportion of effects that valuation inaccuracy can have on their investment outcomes, and hence may enhance the quality of their decision-making.

## 5. Conclusion and Recommendations

The importance of accuracy in valuations for investment decision-making cannot be overemphasised, even though it has been a subject of academic discussion on whether there could be an absolute accuracy of the valuation or not. That is why there is a need to have a margin of error for inaccuracy of valuations. This study discovered that in Akure the most common margin of error of valuation from the eventual sales price is  $\pm 11-15\%$ , which is more than the acceptable margin of  $\pm 5\%$ . The high inaccuracy could have serious implications for property investors who rely on the valuations for making investment decisions. The study also implies that apart from valuation inaccuracy, other factors especially relating to the management of commercial property investment portfolios also play prominent roles in commercial property investment performance.

Among the many factors that influence the inaccuracy of valuation in the study area, it was found that the assumptions made by the valuers in their valuations have the highest contribution. Therefore, valuers in Akure should be warned of unrealistic assumptions in making subjective adjustments and decisions for valuation. There should be a proper study and understanding of the market conditions by considering adequately the market indices that influence the property market before the values of the properties are ascribed.

From the simple linear regression analysis carried out, it was found that valuation inaccuracy has a negative implication (at  $\beta = -.800$ ,  $t = 3.873$ ,  $p > .05$ ) on investment performance. This shows that the higher the level of inaccuracy of the valuation, the lower the performance of the investment. The result, however, indicates that the effect of valuation inaccuracy on commercial property investment performance is statistically insignificant. This suggests only a limited role for valuation inaccuracy in the transmission of valuation error across property investment management processes and a potentially more important role of other factors that persist through the property investment management process. This study then concluded that bearing in mind the high level of valuation inaccuracy in Akure, valuers should be very careful in making assumptions and in their use of market indices for their valuations because of the risks that may arise. It also recommends that valuers should be aware that investors rely on the accuracy of their valuations for making timely investment predictions and should therefore ensure conscientious efforts are put in place for accuracy of their valuations.

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**Appendix 1**

<b>VALUATION(N)</b>	<b>EVENTUAL SALES PRICE (N)</b>	<b>MARGIN OF ERROR %</b>
18,200,000	17,500,000	3.9
22,800,000	23,700,000	-4
46,700,000	45,200,000	3.2
8,190,000	7,800,000	4.8
64,100,000	62,300,000	2.8
55,000,000	59,400,000	-8
11,120,000	10,400,000	6.5
27,100,000	28,750,000	-6.1
39,120,000	34,700,000	11.3
83,106,000	72,900,000	12.3
5,800,000	6,600,000	-13.8
19,400,000	16,900,000	12.9
54,700,000	48,300,000	11.7
58,500,000	50,600,000	13.5
76,400,000	67,200,000	12
13,200,000	11,600,000	12.1
11,500,000	13,200,000	-14.8
24,500,000	20,000,000	18.4
18,700,000	21,920,000	-17.2