An examination of client influence on residential property valuation in Benin metropolis, Nigeria

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Abstract

The study looked at how consumer behaviour affected the value of residential real estate in Nigeria's Edo State capital of Benin. Self-completed questionnaires were employed in the study to gather pertinent information. Professionals working for surveying and valuation companies in the city of Benin filled out 59 successfully completed questionnaires. To support the hypothesis, the data were analysed using the chi-square test method and presented as frequency and percentage tables. The study discovered that although there have been cases in Benin of customers trying to sway assessment reports, these occurrences are negligible since appraisers don't let such clients' influence have an impact on their ratings. To avoid effects such as overvaluation, undervaluation, misvaluation, professional misconduct, and legal and litigation cases on the valuation reports, appraisers are urged to continue resisting client influence in order to produce valuation reports that serve as strong market evidence for additional reference.

Introduction

One of the main responsibilities of an appraiser globally is real estate valuation. Real estate is typically needed for sale and purchase as security for loans from financial institutions and others. Real estate appraisers and surveyors in Nigeria offer real estate appraisal as a professional service.

British practice is largely responsible for the development of property valuation in Nigeria. There are mainly two reasons for this. Nigeria was originally a British colony. Second, the training is based on the UK property valuer training model, which emphasizes. A number of real estate surveyors and land surveyors are currently in operation. are dual members of both RICS and NIESV (Amidu and Aluku, 2007a). However, in Nigeria one must register

with the Land Surveyors and Valuers Registry to obtain a stamp and seal under Act No. 24 of 1975, now Laws of the Federal Republic of Nigeria CAP E13, 2007. Government of Nigeria (ESVARBON), a . Department of the Federal Government of Nigeria. Calculating the market value of real estate is a task belonging to the profession of a real estate appraiser. The amount that could be received by a buyer or buyers who are ready and willing to acquire the property if a willing seller puts it up for sale is called the market value (Amidu and Aluku, 2007b). This valuation is often the primary task of an appraiser or real estate appraiser. Buying/selling, mortgage appraisals and rental reviews have all been found to be more influenced by customers (Hemuka 2010). The market's actual selling price serves as the accuracy criteria, and data to far indicates that assessments frequently underpredict market values. Its apparent imprecision may be explained by serial correlation, estimating error, and lag effects. A body of data also shows how vulnerable reviewers are to the effects of customer behavior, which can significantly affect how accurately reviewers rate items (Achu, 2013). Regardless of the appraiser's opinion on the value of the property, most appraisers in the Benin City housing market seem to be under pressure from their clients (owners) to give their houses a subjective valuation of their choice (Baun et al. 2000).). Many works that show proof of consumer influence in valuation and affect the independent valuation procedure used by industry professionals are part of the current study on customer influence on residential property value in Nigeria. In 2008, a study of measuring and evaluation businesses in Nigeria was carried out. About 80% of respondents said that directors try to influence the evaluation process and 60% of respondents knew evaluators who follow directors. However, this study examines how this effect affects the market value of metropolitan housing against this background (Hager 1985).

Goals and Purpose of the Research

The purpose of this study is to look at how consumer behaviour affects the value of residential property in Benin City. Its goals consist of:

to ascertain if clients have any influence on valuers' assessments of the value of residential properties; to examine the ways in which clients may have an impact; and to examine the

results of such influence.

Research Issues

To provide proper examination into the study, the following research questions were posed:

1. Does the valuer in Benin City have any influence on clients when determining residential property values?

2. What forms of client influence are there?

3. What impact does this influence have on real estate valuation theories and methods?

Study Area

The research area in Benin is located less than 140 metres above sea level and spans 112.5 square metres. It is located around 60 degrees north of the equator and 5 degrees east of the Greenwich meridian. Before the entrance of the white men, Benin covered the whole length and breadth of the town, including the region around the Oba's palace and what is now known as the Ring road. The city's perimeter was then clearly delineated by the encircling moat. Benin maintained its administrative role even after the Benin Empire was overthrown in 1987, which attracted people from other areas and increased its population. However, due to pressure on the land, residents are being pushed out of the city centre and into Uselu in the west, Ikpoba hill in the east, and Ogba and Ekenwan in the south.

To get a value assessment on transaction aspects such rental value, sale value, mortgage value, etc., customers who engage in such transactions, however, approach valuers. Moreover, it has been noted that they make an effort to sway the valuers' evaluations of these values based on their individual assessments of the desired value opinion.

Literature Review

Concept of Valuation Clients and Influences Related to Client Characteristics

Valuers working for real estate consultant firms—which often offer the whole spectrum of real estate services, including valuation, property management, agency and marketing, and investment counseling—typically do valuations.

A valuation is an assessment of the most likely outcome from a range of potential outcomes based on the assumptions established during the valuation process. A valuation is not a statement of fact. The most likely price that would be paid in a transaction on the valuation date is an estimate used in market valuations (Brunswik 1956). Yet, in the majority of markets, real values are susceptible to change because of flaws in the market, variations in an asset's properties, or variations in the goals, information, or motivations of the players . Negotiations between valuers and customers are therefore made possible by the subjectivity and disagreement in valuation, which in turn affects the ultimate reported value. Due to the fact that valuation is both an art and a science, there are additional concerns with impartiality and fairness that may provide clients the chance to influence valuers, from opinion shopping to allowing clients to access draught reports prior to formalization (chen and Yu 2008). There are several opportunities for clients to have a say in valuation through a process of conversation and maybe moderated review before the official submission of the report. This procedure often included a meeting where a draught valuation would be presented, reviewed, and exposed to pressure from clients to modify such valuations. Similar claims of influence were made by Estate Surveyors and Valuers in Nigeria, primarily from private individuals. The method of professional fee payment and the quantity of fees actually paid, however, might have an additional impact. Variance is likely to happen when the fees are cut so drastically that there isn't enough room for the valuer to dedicate enough time to market research (Geltner 1994). Additionally, the client's incorrect instructions may have been intended to sway the valuer's judgement and were likely to result in variance. Yet, shown that client influence exists in the Nigerian valuation sector and is quickly compromising the impartiality of Estate Surveyors and Valuers in the nation's property appraisal. This has repercussions for estate surveyors and valuers' reputation and professional credibility. Nevertheless, further research is needed to determine how these implications, which are influenced by client demand, would affect valuers' estimations of the property's valuation judgements (Crossby et. al 2008).

Evidence of customer pressure and influence on evaluators

It has been demonstrated that humans do not offer the direct information required to see items in the environment using the lens model of Eternal Theory. Extending the concept to a market approach, shown that bias is introduced when estimating market value using transaction prices. There are mitigating clauses in the rules of the majority of professional valuation organisations as a result of the possibility for client-based bias, which is generally acknowledged. It has been demonstrated that using information other than property-specific and real estate market data might result in market value bias. The influence of earlier valuations in well-known and obscure locales, the use of heuristics by appraisers, their prior experience and expertise, and their choice of similar properties are a few examples of the additional information. It has also been noted that while appraisers are required to offer an unbiased and well-informed opinion of value, they are frequently pressured by financial incentives to go against their professional ethics in order to appease their client in order to avoid fee conflicts and secure follow-on contracts. This could be done on purpose or accidentally. It's been noticed that "opinion buying" is a common activity in the appraisal sector, where some appraisers have been pressured by customers to recruit other appraisers who were willing to deliver the desired value. This demonstrates the client's power over mortgage valuations, the motivation of borrowers to optimise the loan-to-value ratio, and the danger of reappraisal or loss of assignments by lenders to appraisers. It has been shown that 98% of American appraisers, particularly in the booming market, have the experience to produce a higher evaluation in compliance with the lender's standards. By employing opinion shopping to identify an appraiser willing to deliver the required value or by threatening to withhold payment if the assessment is low, the lender can exert control over the appraisers.

As a result, clients are now willing to pay less to compete for assessment contracts. There are rumours going around that assessment companies are letting their clients establish their own valuations, particularly those who give them a lot of tasks each year. The credibility of appraisers has been damaged by claims that they undercut fees and "fix" valuations. Many letters have been published in newspapers in certain foreign nations suggesting that appraisers are under the developers' influence when assessing residential properties for sale, despite the fact that there is little hard evidence to back up these allegations. Most recently, a letter to the Business Times in November (2001) was titled "Junk Valuation of Real Estate." In the aforementioned instances, a person expressed displeasure with the manner they believed appraisers were inflating prices to appease their clients.

Research Methodology

In Benin Metropolis, the capital of Edo State, a study of real estate valuation and valuation businesses was done in order to better understand the type of customer influence and its impact on the assessment of residential properties. Population size The research region includes Nigeria's Edo State and Benin. Members of the Nigerian Institute of Estate Surveyors and Valuers (NIESV) who work as Fellows, Associates, Probationary/Graduate employees in legally recognised property survey and valuation businesses in the Benin metropolitan region make up the study's target group. The major agencies in charge of property valuation in Nigeria are the Corporate Affairs Commission (CAC), which serves as the foundation for the demographic data, and the Surveyors and Valuers Registration Board of Nigeria (ESVARBON). A list of fifty-five (55) registered companies and the number of registered members for each level of membership, including twenty-one (21) fellows, sixty-seven (67) employees, and one hundred and seven (107) parolees/graduates, has been made public by the Edo State Branch of the Nigerian Institute of Estate Surveyors and Valuers (NIESV). This is equivalent to a population of 135 people (195). Sample size It turned out that only a small part of the population is active, the sample includes seventy one registered real estate surveying and valuation companies. All able-bodied members of the sample were given one of the seventy-one (71) questionnaires, of which fifty-nine (59) were satisfactorily completed and returned by the respondents. This is considered a good performance because it corresponds to 83% of the target group. The entire population could be studied because it was small. Data analysis method Depending on the research design used in the study, the data collected by the data collection tool will be analyzed using both descriptive and inferential statistics. The two main uses of descriptive statistics are to describe demographic characteristics and to analyze Likert-type responses using frequencies, means, and weighted averages with tabular data. However, inferential statistics are used to identify the types of effects experienced by customers and the subsequent effects on appraisal statements of residential properties using chi-square analysis with the Statistical Package for the Social Sciences application software, which reinforces the hypotheses presented. (SPSS V22.0, 2016).

Data Presentation, Discussion and Analysis

The following is a presentation, discussion, and analysis of the information gathered via surveys that were distributed and retrieved:

Analysis, Debate, and Testing of Hypotheses

Using the Chi-square technique of data analysis and a significance level (p) of 0.05, the following research hypotheses are tested:

Table 1: Testing Client Influence on Various Value Opinions

Crosstab							
			Purchase and sale				Total
			Strongly agree	Agree	Disagree	Strongly disagree	
Private individuals	Strongly influence	Count	24	10	5	1	42
		EC	23	13	4	2	42.0
	Moderately influence	Count	6	7	1	1	14
		EC	6	3	1	2	14
	Mildly influence	Count	1	2	1	0	4
		EC	1	0	0	1	2
	No influence	Count	1	0	1	0	2
		EC	0	1	0	1	2
Total		Count	32	19	6	2	59
		EC	30	21	6	12	59.0

Source: Field survey.

Chi-Square Tests for Table 1:

	Value	df	Asymp. Sig. (2-sided) (p)
Pearson Chi-Square	11.104[a]	9	.232
Likelihood Ratio	11.272	9	.215
Linear-by-Linear Association	2.450	1	.125
No. of Valid Cases	59		

According to table 1, a significant majority of respondents—26 out of a total of 59—agree that private persons significantly affect value views for buy and selling purposes. Yet, the Pearson Chi-square test yields an unremarkable result of $(x2) = 11.204$ ($p = 0.262 > 0.05$).

Table 2: Private individuals * Letting

Crosstab							
			Letting				Total
			Strongly agree	Agree	Disagree	Strongly disagree	
Private individuals	Strongly influence	Count	18	18	4	2	43
		EC	18	18	5	2	42
	Moderately influence	Count	4	7	2	1	14
		EC	6	6	2	1	14
	Mildly influence	Count	1	1	0	0	2
		EC	0	1	1	0	2
	No influence	Count	1	0	0	0	1
		EC	1	0	0	0	1
Total		Count	23	25	8	1	59
		EC	23	25	8	1	59

Source: Field survey.

Chi-Square Tests for Table 2

	Value	df	Asymp. Sig. (2-

			sided) (p)
Pearson Chi-Square	3.314^a	9	.918
Likelihood Ratio	3.924	9	.934
Linear-by-Linear Association	.443	1	.443
No. of Valid Cases	59		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .03.

According to table 2, 19 out of a total of 59 respondents strongly believe that private persons have a significant impact on value views for letting purposes. The Pearson Chi-square test, however, shows a value of $(x2) = 3.364$ (p = 0.948> 0.05), which is extremely inconsequential.

Table 3: Private individuals * Granting of loans

Crosstab						
			Granting of loans			Total
			Strongly agree	Agree	Disagree	
Private individuals	Strongly influence	Count	21	16	4	41
		EC	20	14	6	42
	Moderately influence	Count	6	5	2	14
		EC	6	5	2	14
	Mildly influence	Count	1	1	2	4
		EC	2	0	0	2
	No influence	Count	0	0	1	1
		EC	1	0	0	1
Total		Count	29	21	9	59
		EC	29	21	9	59

Source: Researcher's Field survey, 2017.

Chi-Square Tests for Table 3

	Value	df	Asymp. Sig. (2-sided) (p)
Pearson Chi-Square	16.555[a]	7	.007
LR	11.654	7	.039
Association	4.205	3	.022
No. of Valid Cases	59		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .15.

According to table 3, a significant portion of respondents—23 out of a total of 59—agree

that private persons significantly affect valuation assessments for the purpose of loan giving. The Pearson Chi-square test yields the highly significant value of $(x2) = 17.878$ (p = 0.007 0.05).

Summary of Findings

1. The majority of Benin City's real estate appraisers and valuers, according to the survey, frequently participate in the appraisal of residential properties for a variety of purposes, including buying and selling, renting, financing, and insurance/valuation.

The survey also discovered that different customer groups, including as people, banks, investment firms, insurance companies, developers, and housing and development authorities, had an impact on around two-thirds of appraisers operating in the Benin city.

2. The research study also found that clients in Benin city use a variety of tactics to influence appraisers' value results, with reward/coercion, experience and expert power, information power, and procedural power being the least successful.

3. It was also discovered that, in the case of appraisers in the city of Benin, client influence results in high turnover in assessment reports and, if followed, overvaluation and undervaluation or undervaluation in the majority of cases. Moreover, such influence results in professional negligence, litigation, and less trustworthy market data for later valuation references.

4. The Benin metropolis test, which sought to validate the claim that "clients have no influence on appraisers' opinions," revealed that private individuals have a significant influence on appraisals, but that this influence is only significant in the case of appraisals for mortgages (lending), and banks have a moderate influence on appraisals with significance.

Developers and renters have a moderate impact on value assessments that are significant for mortgages (lending), whereas housing and development authorities have a significant impact on assessments of value with a high degree of relevance.

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