

An Analysis of Clients' Satisfaction with Mortgage Valuation Reports in Nigeria

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Abstract

With continuous growth and sophistication in the property market and investment scene worldwide, there is a compelling need to explore the adequacy or otherwise of valuation reports which serve as an important input to investors' investment decision making. Focusing on the Nigerian property market, this study 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 some aspects of the valuation reports to be improved upon. These includes: (1) details of tenancies which seldom appear; (2) details on specific comparable; (3) state of letting market; (4) general information on comparable; (5) valuation calculations and (6) uncertainty in valuation figures.

Keywords: Valuation report, Quality, Standard, Clients' perception, Nigeria

1. Introduction

One of the fundamental issues to mortgage investment decisions all over the world is the need to provide information on the worth or value of collateral to be used. In the property market, value cannot be determined through transparent dealings as in the capital market due to lack of information. Therefore, there is need to resort to valuers' expert opinion on valuation. Valuation provides a substantial level of professional shielding to property developers from the risks and problems of wrong investment decisions and they are expected to rely fully on valuation reports in making any financial commitment. The better the information set in a valuation

report, the better the valuation (Aluko, 2000). As a result of the foregoing, there have been continuous worldwide concerns on the ways to ensure not only valuation reliability (Brown, Matysiak and Shepherd, 1998; French and Mallinson, 2000; Ogunba and Ojo, 2007; Ayedun, 2009; Bretten and Wyatt, 2001; Boyd and Irons, 2002; Adegoke and Aluko, 2007), but also a better and quality valuation reporting to clients (Crosby, et al., 1995; Newell, 1999; Aluko, 2000; Newell, 2005; Lorenz and Lützkendorf, 2008; Oluwunmi, 2008).

As the valuation market worldwide becomes highly competitive, investors are becoming more informed and sophisticated in the way they view valuation standards, practice and most importantly valuation reporting (Bartov, Balsam and Marquardt, 2000; Ogunba and Ajayi, 2007; Sugiharto, Inanga and Sembel, 2007). The Nigerian property market is no exception. Therefore, there is a need for better valuation and reporting practices. This is particularly important because authors such as Aluko (2007) submitted that when clients were not satisfied with the quality of service received, they might tend to look elsewhere to satisfy their demands. This according to the author, might encourage other professionals to intrude into the traditional domain of valuers in the country.

As a result of the foregoing, this study considered clients' perception of the quality of property valuation reports with a view to determining their satisfaction level and thus improving on the quality of valuers' reports. The remaining part of the paper is structured into four sections. Section two reviews relevant literature on clients' expectations and perception of valuation reports; section three describes the methodology, while section four reports the findings of the survey of the twenty-five (25) head offices of universal banks located in Lagos metropolis. Section five concludes given appropriate recommendations.

2. Literature Review

Recently, professionals around the world have realised that clients' perception of the quality of valuation report is a valuation topic bordering on ensuring high valuation standards and good practices. This explains why the topic has been receiving a worldwide attention among professional bodies and researchers in the recent past. Examples include Colwell and Trefzger (1992), Dotzour and Le Compte (1993), Rudolph (1994), Shlaes (1993), Knitter (1993, 1994) and Wilson (1996) in US; Crosby, et al. (1997), Newell and Barrett (1990) and Newell (1995, 1999, 2005) in UK and in Malaysia, Razali, Juanil and Newell (2009). Of particular note is the research conducted in US by Colwell and Trefzger (1992) on the impact of regulation on appraisal quality. The authors found that those who were expecting the best appraisers to thrive in a competitive market place by exceeding the regulatory standards are likely to be disappointed since the minimum standards were needed. This is because users of appraisal services could not discern unacceptable quality from acceptable quality.

Dotzour and Le Compte (1993) assessed mortgage lenders perceptions regarding the quality of residential appraisal reports in US. The survey was intended to provide some useful information and insights on the then current attitudes and perceptions of the lending community about appraisal quality. The authors' finding indicated that residential appraisers were providing high-quality appraisal reports in a consistent manner. In Malaysia, Razali, Juanil and Newell (2009) study addressed specific issues regarding the quality of valuation reports including current procedures, satisfaction with current valuations reports e.t.c. According to the authors, the study is necessary because commercial valuation report is a key element in property investment decision making for institutional investors; particularly at the current global financial crisis. Shlaes (1993) supporting this view spelt out the contents of a good quality report and the standards by which it should be judged. The author gave a list of report characteristics which reflected what a quality appraisal should be. According to the author, report must be: current (written in real time with up-to-the-minute financial and market information rather than with old, obsolete data and methodology); complete (containing all the information needed to identify a property and make the appraiser's case); correct (accurately reporting facts and explaining issues that pertain to an assignment); cogent (logically, clearly, and convincingly taking a reader through the steps of the argument on the shortest path to the correct conclusion); consistent (without internal discrepancies that might confuse or mislead a reader); convenient (making it easy for a reader to find the important elements) and concise (wasting no words or money).

In UK, Crosby et al (1995) conducted a survey to examine clients' view on the information content of property investment valuation report. The findings highlighted inadequate information on market trend, tenant strength and valuation methodology. However, their survey showed that though valuers were generally well regarded by lenders' clients, the clients' main cause of concern was the quality of the report. The lenders' clients expected information on the state of wider investment market. Newell and Barrett (1990) and Newell (1995) studies in Australia indicated that ninety-six percent (96%) of the users of valuation reports claimed that the reports were adequate for their purpose. Eighty-five percent (85%) of the respondent felt that valuation reports contained

sufficient analytical details, while ninety-six percent (96%) considered valuers as competent in their professional activities. The highest perceived weaknesses over these periods were failure to understand the complexities and market position of a particular project and inadequate market analysis.

Although, findings from Crosby et al. (1997) suggested that UK clients were generally satisfied with valuation reports received from external valuers, a common criticism according to the survey's findings was that valuers failed to provide detailed information on the factual elements within a report than they did on the valuation methodology and the state of the market. Crosby, Laver and Foster (1998) survey of valuers and lenders in the UK showed that there was a general perception that valuers provided too little information in valuation reports regarding property location in its national and regional context; planning situation and state of property market. The lack of information on the letting market was more noticeable than for the property market as a whole; with sixty-nine percent (69%) of respondents indicating that too little information was provided. Clients wished to see additional information on the state of the wider investment market opportunities, market trends, tenants strength and valuation methodology.

Newell (1999) examined clients' perceptions of the quality of valuation report in Australia and concluded that there was the need for detailed instruction to valuers, greater emphasis on market dynamics/future performance in valuation reports. Crosby et al. (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. Newell (2005) study was aimed at examining 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.

Lorenz and Lützkendorf (2008) in Germany explained the rationale for integrating sustainability issues into property valuation theory and practice and also provided suggestions for valuers on how to account for sustainability issues within valuation reports. The findings from the study showed that the main reasons for immediately and rigorously integrating sustainability issues into property valuation are: the urgent need for more sustainable patterns of behaviour to sustain the viability of the Earth's ecosystems; a huge untapped market potential exists for sustainable property investment products and consulting services; sustainable buildings clearly outperform their conventional competitors in all relevant areas (i.e. environmentally, socially and financially); neglecting the benefits of sustainable design leads to distorted price estimates; and 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 also showed that efforts needed to be undertaken 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. The authors however suggested that valuation reports should be extended to include the following additional elements: a clear description of the availability of certain sustainability-related property characteristics and attributes; a statement of the valuer's opinion about the benefits of these characteristics and attributes; and a statement of the valuer's opinion about the impact of these benefits and/or risks on property value.

In summary, the foregoing review shows that several studies have looked into the need to enhance valuation reporting style in other countries, especially the developed world. In Nigeria and other developing market, little or nothing is known about the satisfaction level of valuation clients with valuation reports. The available relevant studies in the Nigerian context are that of Aluko (2000) and Aluko (2007). Aluko (2000) emphasised that valuation report must meet the needs of client as well as upholding the standards set, for such valuation, by the profession. Aluko (2007) examined mortgage valuation process including sources of valuation instructions, information content of mortgage valuation report, bases and methods being adopted and their implication on lending decisions and valuation profession in Lagos metropolis. Although these studies served as basis for the present one, the current paper differs in methodology adopted. This is because it examined the contents of valuation reports received by clients vis-à-vis the standard set by the Nigerian Institution of Estate Surveyors and Valuers (NIESV) and other regional and international bodies.

3. Research Methodology

In order to achieve the objectives set for the study, the researcher surveyed twenty-five (25) head offices of banks as valuation clients and the contents of valuation reports were examined from the standard set compared

with what clients received. For each of the banks, twenty five (25) copies of well-structured questionnaires were administered to officers of the banks in the credit departments that handle valuation report for mortgage purposes. This is because they are expected to have better and greater knowledge of both the content and quality of valuation report and as well state whether they are satisfied or not with the content. A total of 19 questionnaires were received from the banks and found useful. These represent a total survey responses rate of seventy-six percent (76%). The study also sampled valuation reports prepared by estate surveyors and valuers in estate surveying firms. A total number of 78 valuation reports prepared by estate surveyors and valuers were examined and analysed. The reports were for mortgage purposes and they were those prepared between January, 2008 and February, 2009. The valuation reports were collected from the estate surveying firms that were willing to release same for the purpose of this research work. This is done with a view to knowing the contents of the valuation reports and thereafter compare same with the standard contents of valuation reports approved by the NIESV to check whether the estate surveyors and valuers have fallen short of the required standard specified by the institution or not. Data for this study were analysed using descriptive statistical technique.

The subsequent analysis provides details of these and other analyses aimed at achieving the objective of the study.

4. Data Presentation and Discussion of Findings

In determining the quality of valuation reports prepared by valuers, the study examined 78 valuation reports to identify what featured and what not in the contents of valuation report. To do this, the study assigned 4, 3, 2 and 1 to “Always”, “Sometimes”, “Seldom” and “Never” respectively depending on whether an item of the report features is included or not. The findings of the data were analyzed in Table 1.

The results of the analyses in Table 1 show that most, if not all the estate surveyors did not normally include the following in their valuation reports: Their calculations and basis of valuation figures, (mean = 1.00); details of tenancies of the property being valued (1.42); specific comparables (1.42); supply and demand information on the valued property (1.42); state of the letting market for the property (1.44) and the general information on comparables. In other words, valuers considered the listed features as items that should be included in their valuation reports. Majority of the valuation reports sampled had the following information: physical features of the valued property (3.96); general location (3.96); specific locations (3.96); the method used to value the property (3.85); suitability of the property for lending purpose generally (3.27); suitability of the property for loan at the amount and on terms proposed (3.23); general suitability of the property for lending (2.88) and state of the economy as at the date of valuation (2.73)

4.1 Comparative Analysis of the Content of Valuation Report

Since the quality of valuation report derives mainly from the standard set by NIESV's Guidance Notes, the study considered it necessary to judge the quality of NIESV's guidelines by reviewing and comparing it with the content of some selected national, regional and international valuation standards; namely, the Royal Institution of Chartered Surveyors (RICS) Guidance Notes, International Valuation Standard (IVS) and The European Group of Valuers Association (TEGoVA). This is with a view of ascertaining if the content expected of Nigeria valuation report as set down by NIESV Guidance Notes is meeting the laid down format set by the International Valuation Standard (IVS). The comparison is as shown in Table 2.

Having compared the contents of valuation Guidance Notes and standards laid down by the four (4) professional bodies, two (2) important conclusions were drawn. One, the standards are the same across board except the European Group of Valuers Association (TEGoVA) that prescribed additional information on Environmental Issues and Risk Assessment. Two, the valuation reports prepared by the estate surveyors and valuers in Nigeria might be meeting the standards laid down both locally and internationally. The question now is, are the valuation clients satisfied with the valuation reports?

4.2 Clients' Level of Satisfaction with Valuation Reports

To evaluate clients' satisfaction with valuation report, the study focused on 25 Nigerian Banks who are known to constantly use mortgage valuation report (Aluko, 2007; Oluwunmi, 2008).

The satisfaction level of these valuation users (banks) with the overall content of the valuation reports prepared by the estate surveyors and valuers were examined. In doing this, questions were asked that required the respondents to state their level of satisfaction. Tables 3 gave a detailed analysis of the responses from each of the banks.

Table 3 reveals 23% of the sampled banks rated their level of satisfaction to be between 61%-70%; 38% between 51%-60%; another 23% between 41%-50% and 15% did not indicate whether they were satisfied or not. The

above analyses suggest that a higher percentage of the banks were satisfied with the information content of valuation reports. This outcome is unexpected since previous findings in Table 2 have suggested that the standard set for estate surveyors and valuers is meeting up with international standard.

To further investigate the extent to which banks were satisfied with the contents of the valuation reports prepared by estate surveyors and valuers, the banks were asked to state their extent of satisfaction with respect to each of the various sub-heading of a typical valuation report. Respondents' responses were analysed in Table 4.

From Table 4, banks were generally satisfied with the contents of valuation reports especially with: specific location of the property (5%); general location of the valued property (5%); valuation method used (5%); physical features of the property (4%); general suitability of the property for lending purposes (4%) and suitability of the specific property for a loan at the amount and on terms proposed (4%). The analysis however suggest that respondents required more information on the level of demand for property (3%), degree of uncertainty of valuation figures (2%) and setting out of valuation calculations (2%). It was noted that little or no information was provided in the valuation reports on these. Majority of the banks were indifferent with the provision of general information on comparables (1%), state of property market (1%), specific comparables (1%) and tenancy details (1%) are included in the valuation reports or not.

The findings on the clients' level of satisfaction with the different aspects of valuation report suggest that the banks were more concerned about issues that help them determine the value of the subject property and the level of security provided.

4.3 Improvement Expected in Valuation Report

Clients were asked to identify ways of improving the quality of valuation reports, with a view of increasing their level of satisfaction. Table 5 gave a detailed analysis of their responses.

From the analysis, the quality of valuation reports can be greatly enhanced when: valuation reports are monitored by the professional body (4%); there is improvement in valuation techniques (4%); there is a standardized valuation guideline (4%); valuation standards are monitored by a governmental regulatory body (4%) and the current format of valuation report is changed (3%).

5. Conclusion

This study has examined the quality of mortgage valuation reports in Nigeria from the clients' perspective. This is with a view to determining their (clients') level of satisfaction thus improving the quality of valuation reports prepared by the estate surveyors and valuers. The study revealed that clients were satisfied with the overall content of the valuation reports prepared by the estate surveyors and valuers. However, the results revealed that they would like to see more information on some other issues which seldom appear. These issues include details of tenancies, details on specific comparable, state of letting in the market, general information on comparable, valuation calculations and uncertainty in valuation figures. This shows that clients were more concerned about issues that help them determine the level of security of their loan. In the light of this, it is suggested that valuation report standards should be upgraded by the NIESV and the regulatory body (the Estate Surveyors and Valuers Registration Board of Nigeria) to include those things that valuation clients desired to see in their reports. Furthermore, there is need for regular assessment of the quality of valuation reports being prepared by valuers to ensure that they are continually doing the right thing.

This study extended what past studies have done in the area of quality of valuation report by examining clients' satisfaction level vis-à-vis the Nation's (NIESV) and International Valuation Guidance Notes as different from examining client perception of the valuers' report only. However, since the study was limited to a study of banks as clients of valuers, another study may be conducted to cover wider set of clients and stakeholders in the country. Also, the study covered Lagos Metropolis and reports for mortgage valuation only. Therefore, a study of the entire nation and valuation report for other purposes may be necessary for comparison purposes.

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Table 1. Information Contents of Valuation Reports Prepared by Estate Surveyors and Valuers

S/N	Parameters	Always (4)	Sometimes (3)	Seldom (2)	Never (1)	Mean
1	Physical Features	75(96.2)	3(3.9)	0(0.0)	0(0.0)	3.96
2	General location	75(96.2)	3(3.9)	0(0.0)	0(0.0)	3.96
3	Details of Tenancies	6(7.7)	21(26.9)	24(30.8)	27(34.6)	1.42
4	General Suitability for Lending	30(38.5)	24(30.8)	9(11.5)	15(19.2)	2.88
5	Specific Location	75(96.2)	3(3.9)	0(0.0)	0(0.0)	3.96
6	Supply and Demand for the property	0(0.0)	6(7.7)	21(26.9)	51(65.4)	1.42
7	State of the letting market for the property	12(15.4)	15(19.2)	21(26.9)	30(38.5)	1.44
8	Valuation Method	66(84.6)	12(15.4)	0(0.0)	0(0.0)	3.85
9	General information on Comparables	0(0.0)	9(11.5)	18(23.1)	51(65.4)	1.46
10	Suitability of the property for a loan at the amount and on terms proposed	45(57.7)	15(19.2)	9(11.5)	9(11.5)	3.23
11	Suitability of the property for lending purpose generally	39(50.0)	27(34.6)	6(7.7)	6(7.7)	3.27
12	Specific Comparables	0(0.0)	9(11.5)	15(19.2)	54(69.2)	1.42
13	State of the economy as at the date of valuation	30(38.5)	12(15.4)	21(26.9)	15(19.2)	2.73
14	Uncertainty of Valuation Figure	0(0.0)	0(0.0)	33(42.3)	45(57.7)	1.42
15	Valuation Calculations	0(0.0)	0(0.0)	0(0.0)	78(100.0)	1.00

Note: The Figures in brackets are percentages of responses

Table 2. Content of Valuation Report Based on Standards Set by Profession: Comparative Perspective

Content of Valuation Reports	RICS	IVS	TEGoVA	NIESV
Identification of the client	✓	✓	✓	✓
Purpose of the valuation	✓	✓	✓	✓
Subject of the valuation	✓	✓	✓	✓
Interest to be valued	✓	✓	✓	✓
Type of property and how it is used or classified, by the client	✓	✓	✓	✓
Basis, or bases, of the valuation	✓	✓	✓	✓
Date of valuation	✓	✓	✓	✓
Statement of the status of the valuer	✓	✓		✓
Currency that has been adopted	✓		✓	✓
Assumptions	✓	✓		✓
Extent of the investigations	✓			✓
Nature and source of information to be relied on	✓		✓	✓
Consent to, or restrictions on publication	✓	✓	✓	✓
Limits or exclusion of liability to parties other than the client	✓	✓	✓	✓
Valuation approach	✓	✓	✓	✓
Environmental Issues			✓	
Risk Assessment			✓	
State of the Economy				✓
Taxation and Financial Liabilities			✓	
Opinions of value in figures and words	✓	✓	✓	✓
Signature and date of the Report	✓	✓	✓	✓

RICS = Royal Institution of Chartered Surveyors

IVS = International Valuation Standard

TEGoVA = The European Group of Valuers Association

NIESV = Nigerian Institution of Estate Surveyors and Valuers

Table 3. Clients' Level of Satisfaction with the Overall Content of Valuation Reports

Banks' Satisfaction with Valuation Reports	Number of Banks	Percentage (%)
< 39%	0	0.00
40% - 50%	3	23.08
51% - 60%	5	38.46
61% - 70%	3	23.08
> 70%	0	0.00
Not Indicated	2	15.38
Total	13	100

Table 4. Assessment of Banks' Satisfaction with each of the Content of Valuation Reports

S/No	Clients Satisfaction with content of Reports	Very Satisfied	Just Satisfied	Partially Satisfied	Not Satisfied	Indifferent	Mean
1	State of the economy as at the date of valuation	1(7.7)	3(23.1)	9(69.2)	0(0.0)	0(0.0)	3.38
2	General location	7(53.9)	5(38.5)	1(7.7)	0(0.0)	0(0.0)	4.46
3	Physical features	7(53.9)	4(30.8)	1(7.7)	1(7.7)	0(0.0)	4.31
4	General Suitability for Lending	9(69.2)	1(7.7)	2(15.4)	0(0.0)	1(7.7)	4.31
5	Valuation method	7(53.9)	5(38.5)	1(7.7)	0(0.0)	0(0.0)	4.46
6	Suitability of specific property for a loan at the amount and on terms proposed	7(53.9)	3(23.1)	3(23.1)	0(0.0)	0(0.0)	4.31
7	Specific Location	8(61.5)	4(30.8)	1(7.7)	0(0.0)	0(0.0)	4.54
8	General information on Comparables	0(0.0)	0(0.0)	2(15.4)	2(15.4)	9(69.2)	1.46
9	Details of Tenancies	0(0.0)	0(0.0)	0(0.0)	0(0.0)	13(100.0)	1.00
10	State of the letting market	0(0.0)	0(0.0)	0(0.0)	5(38.5)	8(61.5)	1.38
11	Demand for property	1(7.7)	1(7.7)	2(15.4)	8(61.5)	1(7.7)	2.46
12	Specific comparables	0(0.0)	0(0.0)	1(7.7)	2(15.4)	10(76.9)	1.30
13	Valuation Calculations	0(0.0)	0(0.0)	1(7.7)	11(84.6)	1(7.7)	2.00
14	Uncertainty of Valuation figures	0(0.0)	0(0.0)	3(23.1)	9(69.2)	1(7.7)	2.15

Note: The Figures in brackets are percentages of responses

Table 5. Improvement Expected in Valuation Report

Improvement Expected in Valuation Report	Most Significant	Significant	Less Significant	Not Significant	Mean
Standardized Valuation guideline	11(84.6)	1(7.7)	1(7.7)	0(0.0)	3.77
Change of the current format of Valuation report	5(38.5)	7(53.9)	1(7.7)	0(0.0)	3.31
Monitoring of Valuation/Valuation reports by the professional body	12(92.3)	1(7.7)	0(0.0)	0(0.0)	3.92
Monitoring of Valuation standards by a governmental regulatory body	9(69.2)	4(30.8)	0(0.0)	0(0.0)	3.69
Improvements in Valuation techniques	11(84.6)	2(15.4)	0(0.0)	0(0.0)	3.85

Note: The Figures in brackets are percentages of responses