Journal of Business Economics and Management
2007, Vol VIII, No 3, 225–233
www.jbem.lt

ISSN 1611-1699

ACCURACY OF AUCTION SALE VALUATIONS IN DISTRESSED BANK LENDING DECISIONS IN NIGERIA

Bioye Tajudeen Aluko

Department of Estate Management,
Obafemi Awolowo University, Ile-Ife, Nigeria
Tel: +2348033378674, E-mail:btaluko@yahoo.com or btaluko@oauife.edu.ng

Received 5 February 2007; accepted 10 March 2007

Abstract. Of all the sub-sectors of the national economy, the banking industry and the property market have arguably been most severely affected by the current recession. Thus, the prevailing credit crunch in real estate finance and market conditions have implication for disposal and valuations of real estate for mortgage purposes. The study examined whether forced sale valuations of mortgage properties were a good proxy for their auction sale prices.

Relevant data involving 67 auction sales of foreclosed residential property transactions together with their contemporaneous forced sale valuations were pooled together in Lagos Metropolis during the period 1994 to 2003 from sample of estate surveying and valuation/auctioneering firms, the lending institutions and the Nigeria Deport Insurance Corporation. The data obtained were analyzed with the aid of frequency distributions and multiple regression models. The study revealed, amongst others, that forced sale values are not good proxies for auction sale prices as against the conclusions of previous studies on accuracy of open market valuations either in Nigeria or other countries like UK, USA and Australia. The implications of the foregoing conclusions on the lending decisions and valuation profession in the country were further examined in the paper.

Keywords: Accuracy, forced sale valuations, recession, lending decisions, valuation profession, implications.

1. Introduction

The last few years have been both traumatic and revolutionary for the Nigerian banking industry. Accustomed to steady profits and little or no problems since 1959 when the Central Bank of Nigeria (CBN) was established, the industry has, in recent times, produced the largest number of technically solvent and undercapitalized banks. Currently, the magnitude of distress in the nation's banking industry has reached an unprecedented level thereby making it an issue of concern to the government, the regulatory authorities, the bankers and the general public (Ebhodaghe, 1997; NDIC, 2003).

Banking distress occurs when a bank or some banks in the system experience illiquidity or insolvency, resulting in a situation where depositors fear the loss of their deposits and a consequent breakdown of contractual obligations. While a bank is said to be illiquid when it could no longer meet its liabilities as they mature for payment, it is said to be insolvent when the value of its realizable assets is less than the total value of its liabilities, a case of "negative net worth" (Aluko, 1999; 2000). This distress phenomenon in the Nigerian banking industry is not of recent origin. However, its manifestation became discernible with some policy shocks starting in 1988 with the CBN directive to banks that naira backing for foreign exchange application be lodged with the CBN. This was followed in 1989 by another directive requiring public sector deposits to be transferred to the CBN. These two directives exposed the precarious liquidity positions of some banks and the distress they had subterraneously harbored. What was then thought to be a temporary liquidity problem for a few banks soon caught up with a lot more banks. For instance, with the implementation of prudential standards, the number of distressed banks grew, which stood at 9 in 1990 to 16 in 1992. As of December, 1994 (as indicated in Table 1, in Appendix), there were 55 distressed banks compared with 38 in December 1993. The number rose to an unprecedented level of 60 at the end of 1995. This implies that at the end of 1995, an average of about 1 out of every 2 banks was distressed. And, in the year 2002 alone, about 35 banks were declared distressed (NDIC, 2002).

Table 1 further shows a four-year trend of the deterioration in the banking industry. It indicates both the magnitude of distress as implied by the number of distressed banks and the depth by the extent of required capitalization and proportion of non-performing credits. As of December 1995, the 60 distressed banks, including 9 potentially distressed banks, had a deposit base of N70.8billion constituting 33,5 % of the total industry deposit of N211billion and loans and advances of N175.9billion. The distressed banks were accordingly over-lent with average loans to deposit ratio of 94 %. In addition, these distressed banks accounted for the N44.5billion or 77 % of the total bad debts of N57.8billion in the system. Thus, the non-performing credits of over N44.5billion in distressed banks constituted about 67 % of their total credit. This implies that for every one naira of credit given out by these distressed banks only about 33 kobo was collectable.

The capital invested by the owners in the distressed banks had been completely eroded due largely to mismanagement, insider loans, fraud and large amount of non-performing credits. Nevertheless, if the non-performing loans and losses were backed up with good real estate collaterals as indicated in their mortgage valuations, the banks could have redeemed the loans (Aluko, 2000, op. cit.). In secured lending the underlying philosophy is to determine the value of the assets on which the loan is based and to ensure that the former is greater than the amount borrowed (Lovell and French, 1996). The open market valuation (OMV) is usually an accurate reflection of information as a way of indicating the way in which resources should be allocated. But, by the time a mortgagor is in default or when the Governor of the CBN revokes the license of a failed bank in accordance with the provisions of sections 36 (b) and 38 (3) of The Banks and Other Financial Institutions (BOFI) decree No. 25 of 1991, The Nigeria Deposit Insurance Corporation (NDIC) may thereupon be appointed as the official receiver or provisional liquidator. It may be at a time when conditions are unfavourable for a sale at open market, but, rather by auctioneering within a limited period of time. Thus, a forced sale valuation may be required before a loan is advanced to enable a lender to leave a margin of safety or security and, allow for recoupment of loan and all other incidental expenses. The valuation must be able to expose the risks inherent in the mortgage investment. A valuation is a snapshot view of value. OMV is an indication of price at a point before the loan goes on risk and, a more helpful snapshot view would be a forward looking estimate of price of a real estate collateral after a reasonable marketing period in a depressed market by auction sale. But, does this readily capture all the in-

Table 1. Level of Distress in the Nigerian Banking System (1989–1996)

Parameters	Dec 1989	Dec 1990	Dec 1991	Dec 1992	Dec 1993	Dec 1994	Dec 1995	Dec 1996
No. of banks	81	107	119	120	120	116	115	115
No. of Distressed Banks	8	9	15	16	38	55	60	47
Total Assets (N' billion)	-	-	-	-	55.1	73.1	95.6	65.1
Total Loans & Leases (N' billion)	4.3	6.4	5.4	15.7	23.6	45.6	66.5	50.6
Non-performing Loans and Leases (N' billion)	-	-	-	-	13.1	29.5	44.5	40.3
Ratio of Non-Performing Loans and Leases (N' billion) to Total Loans and Leases (Percent)	67.1	72.8	76.5	43	56	65	67.4	79.8
Amount Required for Recapitalisation (N' billion)	1.1	2.0	2.4	5.5	12.8	16.7	24.3	42.4
Total Deposits (N' billion)	-	-	-	-	27.7	48.8	70.8	29.3
Deposit Insurance Fund (N' billion)	0.4	0.7	1.2	1.9	2.8	4.2	6.0	7.8

Source: Nigeria Deposit Insurance Corporation (NDIC), Lagos (December, 2003)

herent risks in loan underwriting process? Many countries have gone through a rather extreme property cycle, with a dramatic boom and even more dramatic crush (Ekelid, Lind, Lundstrom and Persson, 1998). For example, in the paper on causes of financial intermediary failure, Caprio and Honohan (1999) argue that in industrial countries, the most characteristic cause of bank failure has been over-exposure of banks to a real estate property boom, itself fuelled by an over-expansion of bank lending. More broadly, a review of banking crises in a number of countries over the last twenty years by Byamugisha (1998) suggests that lending for and mortgaging real estate is a major reason for the insolvency of banks. Byamugisha shows that real estate played an important role in the eruption of banks crises in Hong Kong, Malaysia, Thailand, and Chile at different points of time. Evidence of such a link between banking crises and real estate booms dates back to the 19th century (Calomiris, 1997). Typically, bank supervision is weak and bankers tend to lend to lucrative activities, like real estate, even if the risk of default is high. This practice increases the probability of accumulating bad loans, which eventually leads to insolvency of banks and very expensive bailouts. Perhaps, if the quality of mortgage valuation assuming the possibility of auction sale in time of default and, in a depressed market, usually prepared by estate surveyor and valuer is improved upon, it may help in seeking policy solutions to distress in the banking industry of the country (Aluko, 2000). It is then natural to ask questions about the quality of property valuations.

However, previous researches into the valuation process increasingly leads to the conclusion that valuation is a very imprecise activity, much less precise than valuers would have the users of valuation believe (RICS, 1997; Ekelid, Lind, Lundstrom and Persson, op. cit.; Baum, Crosby, Gallimore, McAllister and Gray, 2001). These previous studies indicating the imprecise nature of property valuation have led to a number of conclusions concerning the probability of a valuation being within certain parameters of a sale price (i.e. valuation accuracy, see for example, Hager and Lord, 1985; Brown, 1985; 1992; Cole, Guilkey and Miles, 1986; Ferguson, 1988; IPD/DJ, 1988; 1990; Cullen, 1994; Blundell, 1995; Adair, Hutchison, Macgregor, McGreal and Nanthakumaran, 1996; Brown, Matysiak and Shepherd, 1998; Parker, 1998; 1999; Harvard, 2001 and Aluko, 2000; 2004) and within another valuer's valuation (i.e. valuation variation – see for example Brown, 1985; 1992; IPD/DJ, 1988; 1990; Matysiak and Wang, 1995; Ogunba, 1997; Ogunba and Ajayi, 1998; Crosby, Lavers and Murdoch, 1998; McAllister and Tarbert, 2001; and, Bretten and Wyatt, 2001). A third method to assess the quality of the valuations is to ask the buyers and users whether they are satisfied with the result they get from the valuer (Mallinson, 1994). By and large, the empirical studies on valuation variation above failed to appreciate that tests of such nature are very difficult to carry out because, without a formal appointment, it is practically impossible to get a large number of valuers to undertake the necessary research so that they may be fully informed and able to carry out an independent valuation of the sample property. Besides, the information set may not be consistent and complete among the valuers in a low information environment like Nigeria (Aluko, 2000 op. cit.). More importantly, the variation amongst valuers in value estimates of the same property may not indicate whether they are doing a very good job of forced sale value estimation by being consistent in interpreting the behaviours of buyers, sellers and investors in auction sales in the property market. And, also, the fact that the approach is susceptible to sample bias/error since valuers employed are aware of the end result of the research should be seriously considered. It is in the light of the foregoing that the results of the previous studies above which are, even, not conceptually relevant to the country and those of Ogunba, 1997; and Ogunba and Ajayi, 1998 earlier mentioned above who adopted this approach should be interpreted cautiously. In addition, Aluko (2004), although a study on open market valuation accuracy, did not address the peculiar nature of auction sales valuation accuracy using the forced sales value emanating therefrom. In this study, therefore, the accuracy of forced sale valuations as a good proxy for auction sale prices is examined. The paper is therefore structured as follows: in the next section the concept of auction sales valuation and forced sale value were discussed. Following this, sections on research methodology adopted for the study and the analysis and discussion of results were considered respectively. The final section contains some concluding remarks and recommendations.

2. Auction sale valutions

The prompt and orderly closure of a bank in liquidation constitutes a cardinal function in the receivership and liquidation process. Basically, bank closure activities involve the assumption of control of the assets and affairs of a failed bank, taking inventory of the assets and records, and compiling reports on the exercises carried out. Closed banks owned several assets, tangible and intangible, which were acquired for use during the period they were in operation. The NDIC, as the receiver, is expected to convert the assets of the failed bank into cash speedily and inexpensively by auction sales as much as possible under the prevailing circumstances. To this end, the Corporation normally adopts the forced

sale value arrived at by the valuer as the basis of reserve price in the disposal of real property assets of a failed bank (Umoh and Ebhodaghe, 1997).

Most valuations of residential property are currently produced on the basis of open market value. This is defined by RICS as:
"the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

(i) willing vendor;
(ii) that prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
(iii) that the state of the market, level of values and other circumstances were, on nay earlier assumed date of exchange of contracts, the same as on the date of valuation;
(iv) that no account is to be taken of any additional bid by a purchaser with a special interest".

The open market value is therefore an indication of the (assumed best) price at which a sale might take place. It provides an estimate of a price achievable in market conditions, which pre-date the client's exposure to risk by investment in the property. In relatively stable market conditions, this lag between historic and prospective market conditions is probably of little importance. In a rising or falling market, however, this is not necessarily so. In a rising market, lenders are constrained in their advances by a lower valuation base. In a falling market, they are exposed to greater risk (Gallimore, 1996). Thus, it is to be noted that it is likely if the power of sale has to be exercised; it will be within a limited period and, at a time when conditions are unfavourable. Estate surveyor and valuer should err on the side of safety when making the valuation for mortgage purposes. In this situation, forced sale value basis is recommended as it goes to account for a reduction in the marketing and negotiating period (Aluko, 1996b). There is some appeal in a valuation, which informs a prospective lender or owner, of the price likely to be obtainable in the market conditions, which follow rather than precede the decision to advance loan to a mortgagor or sell at an auction sale.

Forced sale value, which is akin to a distressed sale value means the open market value as defined above with the proviso that the vendor has imposed a time limit for completion, which cannot be regarded as a 'reasonable period'. Thus, the following qualifications to open market valuation are essential to arrive at the forced sale value of distressed properties of failed banks or business enterprises.

(i) the vendor has imposed an undue time constraint for securing completion of its disposal;
(ii) accounts or records of trade would not be available to or relied upon by a prospective purchaser; and;
(iii) the business is open for trade.

And, the valuer should point out to the lender or receiver that values could be lower if: (a) the business was closed, (b) the inventory was removed, (c) licenses and/or other provisions were withdrawn, and, (d) the property were to be vandalized (ISVC, 2001). But, a well-advertised auction sale may approximate an open market sale transaction.

A sale by auction, therefore, gravitate towards a forced sale, the latter may therefore be taken as the reserve price, below which the bid will not be accepted. Nonetheless, while assessing a property for auction sale, regard must be had to 'special purchaser' who may have interest in the property; but this must be ignored in forced sale by a valuer who must err on the side of safety in respect of property used as collateral in loan underwriting.

The forced sale valuation can only arrive at reasonable reserve price by experience, knowledge of that market including distress at the particular time, and more importantly, knowledge of potential purchaser who are likely to attend a given auction (Manley, 1992). For instance, a depressed property market accentuates all the negative aspects of property as investment medium, such as:

- illiquidity – as presently evident in Nigeria, there are few buyers for large investment properties;
- exchange – with a depressed market and few buyers, the time taken and cost involved in locating a buyer can be significant;
- inelasticity – long lead times for both supply and demand make property abnormally vulnerable to booms and slumps (Parker, 1993; Aluko, 1999 (b) op cit).

In arriving at the forced sale value where property assets of failed banks or enterprises are to be disposed of by auction or where a lending decision is to be taken, the most appropriate method is the investment method of valuation. Where the property market is very active, the market comparison approach could be reliable. However, in the case of forced sale valuation for auction

sale or distressed properties where worst possibilities are presumed, the reliability of the market comparison approach is doubtful. For example, if we are valuing distressed properties, then, we must compare only with distress properties which are usually non-existent.

3. Research methodology

The target populations for the study are the firms of Estate Surveyors and Valuers within the Metropolitan Lagos. The Metropolitan Lagos consists of Ikeja, Lagos Island including Victoria Island and Ikoyi, Lagos Mainland, Apapa and Ajegunle. It represents the political and economic nerve center of the country; and, most offices, banks and, about 65 % of professional firms of estate surveyors and valuers, going by the directories of the professional between 1994 and 2003, locate there. In addition, the volume of economic activities in this area far exceeds what obtains in other cities in the country (Aluko, 2000, op cit).

As earlier reiterated, to prove the accuracy of auction sale valuation using forced sale value basis as against the transaction price (final bid), the approach of Brown (1985) using multiple regression model was adopted. The methodology requires regressing the forced sale value of each foreclosed and auctioned residential property onto its transaction price (final bid). This is as given below:

$$V = a_0 + a_1 P + e, \quad (1)$$

where V and P relate to the forced sale value and transaction (auction) price (final bid) respectively. And, a_0 and a_1 are the regression coefficient while the term e represents the error in the model not explained by the regression. In interpreting the result, the F-Ratio shows whether or not the independent variables have significant effects on the mean of the dependent variables. Also, the R^2 provides a quantitative measure of how well the combination of independent variables predicts the dependent variable.

Alternatively, to confirm the results in equation (1) above, and notwithstanding that it represents the underlying economic conditions and valuation process, the study employed a reversed procedure adopted by Driver Jonas/IPD (1988; 1990) using model as expressed in equation (2) below:

$$P = a_0 + a_1 V + e. \quad (2)$$

The variables are as defined in equation (1) above. And, a forced sale value is deemed to be reliable only if there is one to one correspondence between valuations and prices (bids). Specifically, we tested whether the slope (a) in the equations above is close to 1.0 and is statistically significant.

For the study, 67 forced sale valuations together with their contemporaneous transaction prices (final bids) arising from auction sales of residential properties in the metropolis were pooled together from a sample of estate surveying and valuation firms, the lending institutions and the NDIC during the period 1994–2003. Observational technique using diary for record purpose and backed up with oral interview on a sample of 59 out of 146 active firms in a population of about 239 estate surveying and valuation firms, most not physically on ground in the study area, were adopted. Correspondingly, a sample of 42 lending institutions out of 89 in active operation in a population of 107 in Metropolitan Lagos was taken. To ensure high quality analysis, the study considered that the forced sale values and transaction bids (prices) were contemporaneous and, at most within a week interval during the auction sale. It also examined the nature, quality and extent of information gathered and processed to ensure that the samples taken were neither too small (Hager and Lord, 1985) nor too large for any meaningful statistical analysis. The data were later transformed into prices per square metre so that analysis could be undertaken in the same units. This overcomes the effect of differences in size of auctioned residential properties, which may be observed. Germane to the above, structured questionnaires, analyzed with the aid of frequency distributions and percentages, were also used to elicit information on methods of forced sale valuation and the use of auction sale.

4. Results and discussion

Regressing forced sale values (V) onto prices (P), the results are as shown in Table 2.

Table 2. Regression Result of Forced Sale Values Versus Prices (1994–2003)

Equation	Independent Variables		R	R^2	Adjusted R^2	Standard Error	F-Test
	a_0	a_1					
3	–0.1226	1.8751	0.6831	0.4671	0.4561	1.3966	0.0674

Source:Field Survey and Analysis (2003)

The regression equation obtained from Table 2 above is given by:

$$V = -0.1226 + 1.8751P. \quad (3)$$

The equation (3) shows that the slope, which is –0.1226 is statistically distinguishable from one and, the intercept, which is 1.8751, is equally statistically distinguishable from zero. It is therefore obvious from the equation that forced sale values are not good proxies for auction prices. Also, it is noted that $R = 0.6831$ while $R^2 = 0.4571$. The R expresses the relationship between the forced sale values and auction prices of properties sampled to be 68 % and it is not significant at P equals 0.0674. Besides, R^2 indicates that the transaction prices of those properties auctioned accounted for 46 % of variation in their value. The above results demonstrate a very high degree of unreliability of forced sale valuation estimates relative to auction prices.

Although, open market valuation is quite different from forced sale valuation in auction sale, there is a sharp contrast between the results above and those of an earlier study by Aluko (2000) on open market transactions as indicated by the regression equation (4 below:

$$V = 6.2932 + 0.5774P. \quad (4)$$

As shown, the relationship between the open market values and the prices of the properties sampled is 78 % and it is significant at P equals 0.0000. And, since R^2 in the same study equals 0.61, this signifies that prices of those properties accounted for 61 % of variation in their values. And, in the UK, an earlier research by Brown (1985) on open market transactions is as shown below:

$$V = 0.20 + 1.20P \ (R^2 = 0.99). \quad (5)$$

With the R^2 of 61 % and 99 % in the studies of Aluko (2000) and Brown (1985) respectively, they concluded that open market valuations, unlike forced sale valuations, are good proxies for their transaction prices. This is not unexpected given the relatively higher level of information and documentation including reasonable marketing period in open market transaction as against auction sale.

Nevertheless, when all the results, as given above, are compared with the results obtained by Ogunba (1997) and Ogunba and Ajayi (1998) who used open market data and the same regression model, the conclusion is that both open market valuations and forced sale valuations are not good proxies for their transaction prices. The regression equation obtained by Ogunba (1997) and Ogunba and Ajayi (1998) on Lagos property market is expressed as:

$$V = 27.12 + 1.2785P \ (R^2 = 0.49; R^2 = 0.242). \quad (6)$$

With R^2 of 24.2 %, although lower than R^2 of 46.7 % in this current study, the same lower level of accuracy in valuation is recorded. However, Aluko (2000) notes that Ogunba (1997) and Ogunba and Ajayi (1998) are inconclusive and their results must, therefore, be cautiously interpreted as the sampling size is too small for such overreaching results. In addition, the values and prices were never contemporaneous, the properties sampled were never inspected by the respondent valuers before expressing opinion of values and valuations were conducted for no fee, after the sales of such sampled properties had occurred.

Transaction Prices Versus Forced Sale Values

To assess the validity of the above results, the study adopted the Drivers Jonas/IPD (1988 and 1990) procedure using a regression model as given in equation (2) above, but, expressed as follows:

$$P = a_0 + a_1V + e.$$

When the prices are regressed onto the forced sale values of sample of auctioned properties the results in Table 3 below were obtained.

Table 3. Regression Result of Transaction Prices Versus Forced Sale Values (1994–2003)

Equation	Independent Variables		R	R^2	Adjusted R^2	Standard Error	F-Test
	a_0	a_1					
4	–0.1905	1.9539	0.6771	0.4584	0.4474	2.3816	0.0685

Source:Field Survey and Analysis (2003)

From Table 3 above, the following equation is obtained:

$$P = –0.1905 + 1.9539V. \quad (7)$$

As revealed above, it is apparent that the slope (-0.1905) and the intercept (1.9539) are statistically distinguishable from one and zero respectively. And, the low R^2 figure of 45 % in Table 3 above also confirmed the result in Table 2 that auction prices are not good proxies for forced sale values of sampled properties.

Although, no previous studies, specifically on auction sales as against open market transactions, have either confirmed or refuted the results in Tables 2 and 3, it only goes to show the inactiveness of the auction sales market in the study area during the period under review. The small sample of 67 properties during a 10-year period and the information given, during the survey period, by officials of the NDIC that most of the real properties of failed banks remained unsold as a result

of unnecessary high values imposed on them by estate surveyors and valuers, lend credence to the findings in Table 2 and 3. For instance, in Table 4 below, majority of the respondent estate surveying and valuation firms, representing 69.5 % of the total sample adopts cost or contractor's approach. This approach equates cost with value and gives a highest possible return in investment, which is non-existent in a depressed market or auction/ forced sale transactions. This therefore indicates inaccurate forced sale valuation.

Also, about 13.6 % of the respondent firms relied on market comparison approach in an inactive market where evidence of comparables are difficult to come by. Thus, this introduces error into the valuation process. And, only 16.9 % of the respondent firms are using the investment method, which indicate the investment potentials of these properties thereby assist in giving their true values.

Perhaps, it may be relevant to note that the infrequency with which auction sales are adopted to defray outstanding loans as observed in Table 5 below is also a confirmation of the inactiveness of the auction sale market. Consequently, it shows a strong reason for the unreliability of forced sale valuations in predicting the final prices (bids) of exchange of foreclosed collateral properties.

As revealed above in Table 5, a larger percentage of the same of lending institutions studied, 64.3 % (Infrequent) and 11.9 % (least frequent) representing 76.2 % of the total sample, hardly auction collateral even when borrowers are not able to honour their financial obligations. The reason adduced for this situation is that most lending institutions consider auction sale of collateral properties as the last option because of the untold effects it would have on their image as well as the business fortunes. They prefer, as a matter of business convention, to assist the borrowers out of their misfortunes so as to be able to recoup the outstanding loans rather than drive them out of market and make the loans permanently unrecoverable. And, it is also not surprising, as indicated in Table 5 above, that 23.8 % of the lending institutions sampled, either frequently (4.8 %) or fairly infrequently (19.0 %) engage in auction sale of collapsed collateral. This might be inevitable if all efforts to assist the borrower failed.

A strong conclusion that runs thorough in the above analysis is that forced sale values, unlike open market values, are not good proxies for prices obtained in auction sales in the study area. This may be as a result of inactiveness in the auction sales market resulting in absence of comparable data and, also blind adoption of a wrong method of valuation arising form error of judgement and skills of the valuers.

Table 4. Methods of Forced Sale Valuation

Methods	Relative Frequency	Absolute Frequency	Cumulative Frequency
Market Comparison	8	13.6	13.6
Investment	10	16.9	30.5
Cost or Contractor's	41	69.5	100.0
Total	59	100.0	–

Source:Field Survey and Analysis (2003)

Table 5. Frequency of Auction Sales by respondent lending institutions

Options	Relative Frequency	Absolute Frequency	Cumulative Frequency
Most Frequent	–	–	–
Frequent	2	4.8	4.8
Fairly Frequent	8	19.0	23.8
Least infrequent	5	11.9	35.7
Infrequent	27	64.3	100.0
TOTAL	42	100.0	–

Source: Field Survey and Analysis (2003)

5. Conclusions

The paper examined the accuracy of auction sales valuations by regressing contemporaneous forced sale values against their transaction prices during the period 1994 to 2003 in Lagos Metropolis, Nigeria. The study concluded, inter alia, that forced sale values are not good proxies for prices in the study area. This may adversely affect the credibility and relevance of the role of valuers as well as have a damaging effect on the confidence and the operation of both the property market and property indices. Although, by Act No 24 of 1975 the estate surveyors and valuers are solely empowered to undertake valuation of proprietary interest in land, the credibility problem may open up avenues for either users of valuation to seek patronage elsewhere or for other professionals to encroach on valuers' domestic domain. The unwillingness of the Bureau of Public Enterprises (BPE) in the country to employ Nigerian valuers and, the current claim by the Nigerian Society of Engineers and The Nigerian Institute of Quantity Surveyors as experts in plant and machinery and insurance valuations are examples to note in this regard. Thus, it is not enough to have legislative backing, but it must be backed up by high standard of professionalism in the services being rendered to the public.

And, data is the driving force for a reliable valuation advice. Perhaps, the Valuation Profession in the country could help to promote the creation of centralized database comparable to Drivers Jonas Investment Property Data Bank (IPD) and WM Company Limited in the United Kingdom. In addition, in order to reduce inaccuracy in value estimates, the use of valuation standards, as guidance and internal regulatory mechanism for members of the profession, must be encouraged. This will eliminate or reduce to the bearest minimum the incidence of wrong application of bases and methods of valuation and, widely varying valuation exercise which is very rampant currently in the country.

The Guidance notes on Property Valuation published in 1985 by The Nigerian Institution of Estate Surveyors and Valuers is outdated and must be revised. For, as the society is demanding high standards for the services it receives and for which it pays, it is important that the profession ensures that high standards are maintained by all members to ensure codification of good practice. Again, education of members of the Valuation Profession through conferences, seminars and workshops including other means of Continuing Professional Development (CPD) programme will also go a long way in improving the expertise of valuers in the country.

References

ADAIR, A.; HUTCHISON, N.; MACGREGOR, B.; MCGREAL, S. and NANTHAKUMARAN, N. (1996) An analysis of valuation variation in the UK. Commercial Property market. *Property Valuation and Investment,* 14(5): 34–47.

ALUKO, B. T. (1999a) Valuation for auction sale reserves and receivership (Liquidation), a paper presented at an *In-house seminar organized by Messrs Akintilo and Colleagues*, Lagos, July, 17, 13.

ALUKO, B. T. (2000) *A study of the appropriateness of mortgage valuation for institutional lending in Nigeria*. An unpublished PhD Thesis, Obafemi Awolowo University, Ile-Ife, Nigeria.

ALUKO, B. T. (2004) Privatization of public enterprises: valuation issues and problems. *Journal of Business Economics and Management*, Vol 5, No 4: 193–203.

BAUM, A.; CROSBY, N.; GALLIMORE, P.; MCALLISTER, P. and GRAY, A. (2001) *The influence of valuers and valuations on the workings of the commercial property investment market*, Research funded by the Education Trusts of the Investment Property Forum, Jones Lang LaSalle and the Royal Institution of Chartered Surveyors, UK.

BLUNDELL, G. (1995) Investment in property: a victim of the quants? *The Actuary*, October, 12–13.

BRETTEN, J. and WYATT, P. (2001) Variation in commercial property valuation for lending purposes: an empirical study. *Journal of Property Investment and Finance*, 19(3): 267–282.

BROWN, G. R. (1985) Property investment and performance measurement: a reply. *Journal of Property Valuation and Investment*, 4(1): 33–44.

BROWN, G. R. (1992) Valuation accuracy: developing the economic issues. *Journal of Property Research*, 9: 199–207.

BROWN, G. R.; MATYSIAK, G. A. and SHEPHERED, M. (1998) Valuation uncertainty and the mallinson report. *Journal of Property Research*, 15: 1–13.

BYAMUGISHA, F. (1998) *The importance of property valuation to the modernization of Uganda's economy.* Paper Submitted at the Public Seminar, Organized Jointly by the Economic Policy Research Centre, Department of Agricultural Economics, Makerere University and the National Agricultural Research Organization, Kampala, Uganda.

CALOMIRIS, C. (1997) *The postmodern bank safety net*, The American Enterprise Institute, Washington, D. C.

CAPRIO and HONOHAN (1999) as quoted in GALAL, A. and RAZZAZ, O. (2001) *Reforming land and real estate markets*, World Bank Policy Research Working Paper 2616, Washington, D. C., June.

COLE, R.; GUILKEY, D. and MILES, M. (1986) Toward an assessment of the reliability of commercial appraisals. *The Appraisal Journal,* July, 53–58.

CROSBY, N.; LAVERS, A. and MURDOCH, J. (1998) Property valuation variation and the margin of error in the UK. *Journal of Property Research*, 15(4): 305–330.

CULLEN, I. (1994) *The accuracy of valuations revisited*. The Cutting Edge 1994, The Royal Institution of Chartered Surveyors Conference, "The Cutting Edge", 2nd April, 12 p.

DRIVERS JONAS/IPD (1988) *The variance in valuations*. Drivers Jonas/Investment Property Databank, London.

DRIVERS JONAS/IPD (1990) *The variance in valuations*. Drivers Jonas/Investment Property Databank, London.

EBHODAGHE, J. U. (1997) *Safe and sound banking practices in Nigeria*. Page Publishers Services Limited, Lagos.

EKELID, M.; LIND, H.; LUNDSTROM, S. and PERSSON, E. (1998) Treatment of uncertainty in appraisals of commercial properties – some evidence from Sweden. *Journal of Property Valuation and Investment*, 16(4): 386–396.

FERGUSON, J. T. (1988) After – sale evaluations: appraisals or justifications. *The Journal of Real Estate Research*, 3:1 (Spring), 19–26.

Federal Republic of Nigeria (1991) *The Banks and Other Financial Institutions (BOFI) Decree*, No. 25, Government Printers, Lagos.

GALLIMORE, P. (1996) Editorial comment. *Journal of Property Valuation and Investment*, 14 (5): p. 4–6.

HAGER, D. P and LORD, D. J. (1985) *The property market, property valuations and property performance measurement*, Institute of Actuaries, London.

HARVARD, T. (2001) *Valuation reliability and valuer behaviour*, *RICS research papers*, 4(1), RICS, London.

IVSC (International Valuation Standards Committee) (2001) *International Valuation Standards – Principles, Standards and Applications and Performance Guidance*, International Bureau, RICS, London.

LOVELL, R. and FRENCH, N. (1996) Estimated realization price: what do banks want and what can realistically be provided? *Journal of Property Finance*, 6(4): 7–16.

MANLEY, J. (1993) The valuation of commercial property for sale by auctions. *Journal of Property Valuation and Investment*, 14: 11–16.

MATYSIAK, G. A. and WANG, P. (1995) Commercial property market prices and valuations: analyzing the correspondence. *Journal of Property Research*, 12: 181–202.

MCALLISTER, P. (1995) Valuation accuracy: a contribution to debate. *Journal of Property Research*, 12 (3): 181–202.

NDIC (Nigeria Deposit Insurance Corporation) (1998–2003), *Annual Financial Reports*, NDIC, Lagos.

OGUNBA, O. A. (1997) *A study of valuation and pricing practices in the residential property market in Lagos metropolis*, An unpublished M.Sc. Thesis, Obafemi Awolowo University, Ile-Ife, Nigeria.

OGUNBA, O. A and AJAYI, C. A. (1998) An assessment of the accuracy of valuations in the residential property market of Lagos. *The Estate Surveyor and Valuer*, 2(2), July, 19–23.

PARKER, D. R. R. (1993) Aspect of a depressed property market – some issues facing valuers. *The Valuer and Land Economist*, February, 370–38.

PARKER, D. R. R. (1998) Valuation accuracy – an Australian perspective. *4th Pacific Rim Real Estate Society Conference*, Perth, 19–21, January, 19 p.

PARKER, D. R. R. (1999) A note on valuation accuracy: an Australia case study. *Journal of Property Investment and Finance*, 17(4): 401-411.

RICS (Royal Institution of Chartered Surveyors) (1997) *Commercial Property Valuation: An Information Paper*, RICS, London.

UMOH, J. and EBHODAGHE, J. U. (1997) *Bank Deposit Insurance in Nigeria*, Page Publishers Services Limited, Lagos.