A CRITICAL EXAMINATION OF THE APPROPRIATE APPLICATION OF CONTEMPORARY VALUATION TECHNIQUES IN THE DETERMINATION OF MARKET VALUES OF RESIDENTIAL PROPERTY INVESTMENTS IN UYO, NIGERIA

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ABSTRACT

The interplay of forces of supply and demand in the residential property market in Uyo has resulted in phenomenal increase in rental value and attendant short rent review frequencies. Consequently, the conventional valuation techniques have become inappropriate as they cannot handle the problems of rental growth and rent reviews in the market valuation of property investments in the city. In the past thirty years or so contemporary valuation models have been developed and used in limited cases by informed practitioners. The aim of the study is to isolate the variables that are responsible for the phenomenal growth in rental values of residential property investments in Uyo and to determine whether the variables isolated can be sustained for the duration anticipated by the valuation models used for computing the values of property investments. Data for the study were collected through field survey using multi-stage sampling technique. These stages include selection of residential estates within each residential zone, selection of property types within each estate and selection of occupiers within each property type for data collection. The study area was delineated into four residential zones for data collection. Zone A consists of bungalows, flats and maisonettes in Itiam/Ewet and Mbiabong low-density housing estates. Zone B comprises bungalows in medium-density Ebiye Haven. Zone C consists of bungalows and flats in Federal Housing Estate, Abak Road and Zone D consists of tenements in the high-density streets adjoining Ikot Ekpene, Oron and Nwaniba Roads. A total of 400 residential properties were selected randomly from the four respective zones on the ratio of 16:12:8:4 commensurate with the sizes of the zones. To obtain data, specific to property type, structured questionnaires were administered to the 400 property occupiers. To obtain data specific to valuation techniques, structured questionnaires were administered to 21 registered property valuers active in the residential property market in Uyo, selected through purposive sampling. 348 questionnaires properly completed by property occupiers and 18 questionnaires properly completed by valuers were used for analyses. Appropriate statistical tools including geometric mean, standard deviation, coefficient of variation, rental index analysis, probability, correlation analysis and Analysis of Variance were used to analyse responses by property occupiers while chi-square test was used to analyse responses by property valuers. For the study period 1996 to 2006, rental values of residential property investments in Uyo showed average rental growth of 17.52% for bungalows, 20.62% for flats and 10.79% for maisonettes in low-density housing estates; 24.55% for bungalows in medium density area and 25.89% for tenements. Analysis of Variance (ANOVA) of the annual rental growth rates showed that differences in annual rental growth rates within and between the various types of residential property investments in the city were not statistically significant as the calculated F-ratio (0.633) was less than the critical F-value (1.88) at degrees of freedom of 11 and 108 and at 0.05 level of significance. Most rent reviews in the city were between 2-3 years, with the expected rent review pattern being 2.9366 years (say 3 years). This expectation was based on the anticipation of growth in future rental values over present rental values by property investors in the city. The correlation coefficient of 0.31 between inflation and annual rental growth was a positive correlation between inflation and rental growth in the city. This was indicative of the need for valuation techniques adopted for the market valuation of property investments in the city to reflect these realities. This was confirmed by the adoption of appropriate techniques by 11.1% of the practitioners surveyed. The study concludes that contemporary valuation techniques that reflect these realities of the property market in the valuation process are appropriate in the market valuation of residential property investments in Uyo, Akwa Ibom State of Nigeria.