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**COURSE TITLE: ESTATE MANAGEMENT**

## **ENT 328: ESTATE MANAGEMENT**

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## ENT 328: ESTATE MANAGEMENT

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## Module 1: Agency Law

### Unit 1: The Concept and Legal Principles

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### Unit 1 Agency Law: The Concept and Legal Principles

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### 1.0 INTRODUCTION

The law of agency is an area of commercial law dealing with a contractual or quasi-contractual, or non-contractual set of relationships when a person, called the agent, is

authorized to act on behalf of another (called the principal) to create a legal relationship with a third party. Succinctly, it may be referred to as the relationship between a principal and an agent whereby the principal, expressly or impliedly, authorizes the agent to work under his control and on his behalf. The agent is, thus, required to negotiate on behalf of the principal or bring him and third parties into contractual relationship. This branch of law separates and regulates the relationships between:

- Agents and principals;
- Agents and the third parties with whom they deal on their principals' behalf; and
- Principals and the third parties when the agents purport to deal on their behalf.

The common law principle in operation is usually represented in the Latin phrase, *qui facit per alium, facit per se*, i.e. *the one who acts through another, acts in his or her own interests* and it is a parallel concept to vicarious liability and strict liability in which one person is held liable in criminal law or tort for the acts or omissions of another.

Agency relationships are common in many professional areas such as:

- Employment.
- Real estate transactions (e.g. real estate brokerage, mortgage brokerage). In real estate brokerage, the buyers or sellers are the principals and the broker or his salesperson who represents each principal is his agent.
- Financial advice ( e.g. insurance agency, stock brokerage, accountancy)
- Contract negotiation and promotion ( e.g. business management) such as: publishing, fashion model, music, movies, theatre, show business, and sport).

## 2.0 OBJECTIVES

The objectives of this unit are:

- i. Examine how agency can be created.
- ii. Understand the concept of agency law and
- iii. Learn the three broad classes of agent

### 3.0 MAIN CONTENT

#### 3.1. The Concept of agency law

Agency can be created by contract (express or implied, oral or written), by ratification (assent is given either to an act done by someone who had no previous authority to act or to an act that exceeded the authority granted to an agent), by estoppel (a person allows another to act for him/her to such an extent that a third party reasonably believes that an agency relationship exists), or necessity (a person acts for another in an emergency situation without express authority to do so).

The reciprocal rights and liabilities between a principal and an agent reflect commercial and legal realities. A business owner often relies on an employee or another person to conduct a business. In the case of a corporation, since a corporation is a fictitious legal person, it can only act through human agents. The principal is bound by the contract entered into by the agent, so long as the agent performs within the scope of the agency. A contract is a promise, or set of promises, for breach of which the law gives a remedy, or the performance of which the law in some way recognizes as a duty. It is a mutually binding agreement. In order to form a contract there must be mutual assent such as a valid offer and acceptance between parties. The parties must have the legal capacity to enter a contract, and adequate consideration must exist. Furthermore, the subject matter of the contract must be legal. The

general rule is that minors and insane persons cannot enter contracts. There are also occasions when intoxicated persons do not have the legal capacity to enter contracts.

A third party may rely in good faith on the representation by a person who identifies himself as an agent for another. It is not always cost effective to check whether someone who is represented as having the authority to act for another actually has such authority. If it is subsequently found that the alleged agent was acting without necessary authority, the agent will generally be held liable.

#### SELF ASSESSMENT EXERCISE 1

Explain how agency is created and its concept.

#### 3.2 The Legal Principles

There are three broad classes of agent

- i. Universal agents hold broad authority to act on behalf of the principal, e.g. they may hold a power of attorney (also known as a mandate in civil law jurisdictions) or have a professional relationship, say, as lawyer and client.
- ii. General agents hold a more limited authority to conduct a series of transactions over a continuous period of time; and
- iii. Special agents are authorized to conduct either only a single transaction or a specified series of transactions over a limited period of time.

#### SELF ASSESSMENT EXCECISE 2



Mention the three broad classes of agent.

#### 4.0 CONCLUSION

Now that you have read through this unit, you ought to be knowledgeable about the creation, concept and legal principles of agency law. In addition, a contract was defined for better understanding of agency law.

#### 5.0 SUMMARY

The foundation of agency law has been laid by the aspects (creation, theory and broad classes) considered above which will afford better understanding of other aspects of agency law.

#### 6.0 TUTOR MARKED ASSIGNMENT

Identify the type of agency created by estate agent and their principal.

#### 7.0 REFERENCES/FURTHER READINGS

1. Emerson, Robert W. and Hardwicke, John W. (1997). Business Law.
2. Gifis, Steven. Law Dictionary 4th ed. 1996.
3. Nigel, Stephen (1981). The practice of estate agency. London: The Estate Gazette.

## UNIT 2 AGENCY LAW: AUTHORITY, LIABILITY AND DUTIES

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2.0 Objectives

3.0 Main Content

3.1 Agent Authority

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7.0 References/Further Readings

### 1.0 INTRODUCTION

An agent who acts within the scope of authority conferred by his or her principal binds the principal in the obligations he or she creates against third parties. There are essentially three kinds of authority recognized in the law: actual authority (whether expressed or implied), apparent authority, and ratified authority. Persons that act as agents should be aware of the potential to create third liability for which they may be responsible. This concept is important in that if a principal becomes liable to a third party because of the improper acts of its agent, the principal may bring action against the agent.

The principal can be liable to the agent and third party, while the agent can be liable to the principal. Unless modified by contract, agents generally owe duties to their principals. The discussion will cover the issues highlighted above.

## 2.0 OBJECTIVES

The objectives of the unit are to:

- i. Highlight the agent authority to act for the principal.
- ii. State the duties of agent
- iii. Identify the liability of the parties to the agency

## 3.0 MAIN CONTENT

### 3.1 **Agent Authority**

Agent authority stem out of actual authority which can be expressed or implied. Expressed authority is explicitly authorized by principal consensus. Implied authority refers to authority that naturally arises from expressed authority. For example, if an agent receives expressed authority to write a letter on behalf of the principal, the agent access to the previous correspondences would be based on implied authority. Although, there was not express authority to access previous correspondences, however, access to them are needed in order to take the action for which express authority was given.

#### **Actual authority**

Actual authority can be of two kinds. Either the principal may have expressly conferred authority on the agent, or authority may be implied. Authority arises by consensual agreement, and whether it exists is a question of fact. An agent, as a general rule, is only entitled to indemnity from the principal if he or she has acted within the scope of her

actual authority, and may be in breach of contract, and liable to a third party for breach of the implied warranty of authority. In tort, a claimant may not recover from the principal unless the agent is acting within the scope of employment.

### **Express actual authority**

Express actual authority means an agent has been expressly told he or she may act on behalf of a principal (See *Ireland v Livingstone* (1872) LR 5 HL 395).

### **Implied actual authority**

Implied actual authority, also called "usual authority", is authority an agent has by virtue of being reasonably necessary to carry out his express authority. As such, it can be inferred by virtue of a position held by an agent. For example, partners have authority to bind the other partners in the firm, their liability being joint and several, and in a corporation, all executives and senior employees with decision-making authority by virtue of their position have authority to bind the corporation. (See *Hely-Hutchinson v Brayhead Ltd* [1968] 1 QB 549)

### **Apparent authority and Estoppel**

Apparent authority is defined as follows: The D.C. Court of Appeals in USA has held that 'apparent authority arises when a principal places an agent in a position which causes a third person to reasonably believe that the principal consented to the exercise of authority the agent purports to hold ... '[t]his falls short of an overt, affirmative representation by a principal.' ... 'Apparent authority exists only to the extent that it is reasonable for the

third person dealing with the agent to believe that the agent is authorized' and to 'believe the agent to be authorized.' ... To determine the existence of apparent authority,

'consideration should be given ... to the actual authority of the agent, the usual or normal conduct of the agent in the performance of his or her duties, previous dealings between the agent and the party asserting apparent authority, any declarations or representations allegedly made by the agent, and lastly the customary practice of other agents similar situated.' ... A third party, however, cannot avail itself [of apparent authority] ... if it actually knew that the agent purporting to represent the principal lacked actual authority.

Apparent authority (also called "ostensible authority") exists where the principal's words or conduct would lead a reasonable person in the third party's position to believe that the agent was authorized to act, even if the principal and the purported agent had never discussed such a relationship. For example, where one person appoints a person to a position which carries with it agency-like powers, those who know of the appointment are entitled to assume that there is apparent authority to do the things ordinarily entrusted to one occupying such a position. If a principal creates the impression that an agent is authorized but there is no actual authority, third parties are protected so long as they have acted reasonably. This is sometimes termed "agency by estoppel" or the "doctrine of holding out", where the principal will be estopped from denying the grant of authority if third parties have changed their positions to their detriment in reliance on the representations made.

In *Rama Corporation Ltd v Proved Tin and General Investments Ltd* [1952] 2 QB 147, Slade J, said "Ostensible or apparent authority... is merely a form of estoppel, and indeed,

it has been termed agency by estoppel and you cannot call in aid an estoppel unless you have three ingredients:

(i) a representation,

(ii) reliance on the representation, and

(iii) an alteration of your position resulting from such reliance." See

- Freeman & Lockyer v Buckhurst Park Properties (Mangal) Ltd [1964] 2 QB 480
- The Raffaella or Egyptian International Foreign Trade Co v Soplex Wholesale Supplies Ltd and PS Refson & Co Ltd [1985] 2 Lloyd's Rep 36

In the case of *Watteau v Fenwick*, Lord Coleridge CJ on the Queen's Bench concurred with an opinion by Wills J that a third party could hold personally liable a principal who he did know about when he sold cigars to an agent that was acting outside of its authority. Wills J held that "the principal is liable for all the acts of the agent which are within the authority usually confided to an agent of that character, notwithstanding limitations, as between the principal and the agent, put upon that authority." This decision is heavily criticised and doubted, though not entirely overruled in the UK. It is sometimes referred to as "usual authority" (though not in the sense used by Lord Denning MR in *Hely-Hutchinson*, where it is synonymous with "implied actual authority"). It has been explained as a form of apparent authority, or "inherent agency power. That is, authority by virtue of a position held to deter: fraud and other harms that may befall individuals

dealing with agents, this is a concept of “Inherent Agency Power”, which is power derived solely by virtue of the agency relation.

For example, partners have apparent authority to bind the other partners in the firm, their liability being joint and several, and in a corporation, all executives and senior employees with decision-making authority by virtue of their declared position have apparent authority to bind the corporation.

Even if the agent does act without authority, the principal may ratify the transaction and accept liability on the transactions as negotiated. This may be express or implied from the principal's behavior, e.g. if the agent has purported to act in a number of situations and the principal has knowingly acquiesced, the failure to notify all concerned of the agent's lack of authority is an implied ratification to those transactions and an implied grant of authority for future transactions of a similar nature.

#### SELF ASSESSMENT EXERCISE 1

Discuss the modes of the authority of an agent.

### 3.2 **Agent Duties**

Agents generally owe the following duties to their principals:

- Duty to obey instructions provided by the principal;
- Duty to act with skill;
- Duty of loyalty;

- Duty to protect confidential information;
- Duty to notify and give information; and
- Duty to account for monies spent

An agent owes the principal a number of duties. These include; a duty to undertake the task or tasks specified by the terms of the agency (that is, the agent must not do things that he has not been authorised by the principal to do); to discharge his duties with care and due diligence; and to avoid conflict of interest between the interests of the principal and his own (that is, the agent cannot engage in conduct where he stands to gain a benefit for himself to the detriment of the principal). An agent must not accept any new obligations that are inconsistent with the duties owed to the principal. An agent can represent the interests of more than one principal, conflicting or potentially conflicting, only after full disclosure and consent of the principal. In other words, the duty of loyalty requires the agent to act in the best interest of the principal. If the agent's acts on behalf of the principal affect the agent's interests, the agent must disclose those conflicts of interest to the principal. Furthermore, the agent cannot take advantage of opportunities directed to the principal, without first disclosing those opportunities to the principal, and awaiting the principal's rejection of those opportunities.

An agent also must not engage in self-dealing, or otherwise unduly enrich himself from the agency. An agent must not usurp an opportunity from the principal by taking it for himself or passing it on to a third party. In return, the principal must make a full disclosure of all information relevant to the transactions that the agent is authorized to



negotiate and pay the agent either a prearranged commission, or a reasonable fee established after the transaction has been completed.

As a fiduciary respecting matter within the scope of the agency, the agent owes a duty of good faith and candor in affairs connected with the undertaking, including the duty to disclose to the principal all matters coming to the agent's notice or knowledge concerning the subject of the agency which it is material for the principal to know for his protection or guidance. Duty to give information arises when agent has notice of facts which, in view of his relations with the principal, he should know may affect the desires of his principal as to his own conduct or the conduct of the principal.

#### SELF ASSESSMENT EXERCISE 2

What are the duties of the principal and the agent in an agency relationship?

### **3.3 Parties to the Agency Liability**

An agent's breach of his fiduciary duties can result in liability to the principal. An agent acting on behalf of his principal can be held liable to the principal for breaching his duties as an agent. A third party may be able to hold the principal liable for the unauthorized acts of his agent, if that agent had apparent authority to act for the principal. The principal will be held responsible for the unauthorized acts, although the principal then has its own cause of action against the agent.

### **Liability of agent to third party**

If the agent has actual or apparent authority, the agent will not be liable for acts performed within the scope of such authority, so long as the relationship of the agency and the identity of the principal have been disclosed. When the agency is undisclosed or partially disclosed, however, both the agent and the principal are liable. Where the principal is not bound because the agent has no actual or apparent authority, the purported agent is liable to the third party for breach of the implied warranty of authority.

### **Liability of agent to principal**

If the agent has acted without actual authority, but the principal is nevertheless bound because the agent had apparent authority, the agent is liable to indemnify the principal for any resulting loss or damage.

### **Liability of principal to agent**

If the agent has acted within the scope of the actual authority given, the principal must indemnify the agent for payments made during the course of the relationship whether the expenditure was expressly authorized or merely necessary in promoting the principal's business.

### **SELF ASSESSMENT EXERCISE 3**

Enunciate the causes of liabilities in agency.

## **4.0 CONCLUSION**

An agent acting for the vendor or vendee or the lessee or lessor may encounter agency liabilities. This unit had provided a basic framework for understanding the causes of liabilities, agent authority, and duties.

## 5.0 SUMMARY

In this unit we have looked at the derivation of the authority of the agent, how it is derived; the duties of the agent and causes of the liabilities of the parties to the transaction.

## 6.0 TUTOR MARKED ASSIGNMENT

Discuss in detail the necessary precautions in agency relationship between the principal and his agent.

## 7.0 REFERENCE/FURTHER READINGS

1. McDuffy, A.S. (2001). A discussion of legal issues affecting big chapters prepared for the officer leadership training materials. National Legal Review Committee.
2. Sealy, L.S. & Hooley, R.J.A. (2009). Commercial Law: Text, cases and materials.

## UNIT 3 AGENCY LAW: TERMINATION

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1.0 Introduction

2.0 Objections

3.0 Main Content

3.1 Ways of Ending an Agency

3.2 Implications of Unlawful Revocation

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7.0 References/Further Readings

### 1.0 INTRODUCTION

An agent's authority can be terminated at any time. If the trust between the agent and principal has broken down, it is not reasonable to allow the principal to remain at risk in any transaction that the agent might conclude during a period of notice. However, the termination must be as expressed in the agreement.

### 2.0 OBJECTIVES

The objective of this unit is to:

- i. Appreciate the ways of terminating agency agreement and

- ii. Liabilities of terminating the agency agreement unlawfully.

### 3.0 Main Content

#### 3.1 Ways of Ending an Agency

An agency may come to an end in a variety of ways:

- i. Withdrawal by the agent: however, the principal cannot revoke an agency coupled with interest to the prejudice of such interest. An agency is coupled with interest when the agent himself has an interest in the subject-matter of the agency, e.g., where the goods are consigned by an upcountry constituent to a commission agent for sale, with power to recoup himself from the sale proceeds, the advances made by him to the principal against the security of the goods; in such a case, the principal cannot revoke the agent's authority till the goods are actually sold, nor is the agency terminated by death or insanity.
- ii. By the agent renouncing the business of agency;
- iii. By the business of agency being completed;
- iv. By the principal being adjudicated insolvent.
- v. Death or insanity

The revocation or renunciation of an agency may be made expressly or impliedly by conduct. The termination does not take effect as regards the agent, till it becomes known to him and as regards third party, till the termination is known to them.

#### SELF ASSESSMENT EXERCISE 1

Explain the ways that an agency can come to an end.

### 3.2 Implications of Unlawful Revocation

The revocation of the agency should be as specified in the agreement and follow due process without which the culprit will be liable.

The principal also cannot revoke the agent's authority after it has been partly exercised, so as to bind the principal, though he can always do so, before such authority has been so exercised.

Furthermore, if the agency is for a fixed period, the principal cannot terminate the agency before the time expired, except for sufficient cause. If he does, he is liable to compensate the agent for the loss caused to him thereby. The same rules apply where the agent, renounces an agency for a fixed period. Notice in this connection that want of skill, continuous disobedience of lawful orders, and rude or insulting behaviour has been held to be sufficient cause for dismissal of an agent. In addition, reasonable notice has to be given by one party to the other; otherwise, damage resulting from want of such notice, will have to be paid.

When an agent's authority is terminated, it operates as a termination of sub-agent also. This has become a more difficult area as countries are not consistent on the nature of a partnership. Some opt for the partnership as no more than an aggregate of the natural persons who have joined the firm. Others treat the partnership as a business entity and, like a corporation, vest the partnership with a separate legal personality. Hence, for example, in English law, a partner is the agent of the other partners whereas, in Scots law there is a separate personality, a partner is the agent of the partnership. This form of agency is inherent in the status of a partner and does not arise out of a contract of agency with a principal.

The Nigerian laws are derived from the English laws. The English Partnership Act 1890 provides that a partner who acts within the scope of his actual authority (express or implied) will bind the partnership when he does anything in the ordinary course of carrying on partnership business. Even if that implied authority has been revoked or limited, the partner will have apparent authority unless the third party knows that the authority has been compromised. Hence, if the partnership wishes to limit any partner's authority, it must give express notice of the limitation to the world. However, there would be little substantive difference if English law was amended: partners will bind the partnership rather than their fellow partners individually. For these purposes, the knowledge of the partner acting will be imputed to the other partners or the firm as a separate personality. The other partners or the firm are the principal and third parties are entitled to assume that the principal has been informed of all relevant information.

This causes problems when one partner acts fraudulently or negligently and causes loss to clients of the firm. In most countries, a distinction is drawn between knowledge of the firm's general business activities and the confidential affairs as they affect one client. Thus, there is no imputation if the partner is acting against the interests of the firm as a fraud. There is more likely to be liability in tort if the partnership benefited by receiving fee or income for the work negligently performed, even if only as an aspect of the standard provisions of vicarious liability. Whether the injured party wishes to sue the partnership or the individual partner is usually a matter for the plaintiff since, in most jurisdictions, their liability is joint and several.

## SELF ASSESSMENT EXERCISE 2

Mention some of the implications of unlawful termination of and agency.

#### 4.0 CONCLUSION

From the above you should have been conversant with how agency can be terminated and the liability of not following the lawful channel of revocation.

#### 5.0 SUMMARY

This unit gave you an understanding of how agency can be terminated and the importance of following the prescribed procedure to avoid being liable.

#### 6.0 TUTOR MARKED ASSIGNMENT

1. Enumerate ways of termination an agency.
2. Explain the implications of unlawful termination of an agency.

#### 7.0 REFERENCES/FURTHER READINGS

1. McDuffy, A.S. (2001). A discussion of legal issues affecting big chapters prepared for the officer leadership training materials. National Legal Review Committee.
2. Sealy, L.S. & Hooley, R.J.A. (2009). Commercial Law: Text, cases and materials.



## UNIT 4 AGENCY LAW: ESTATE AGENCY

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4.0 Conclusion

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6.0 Tutor Marked Assignment

7.0 References/Further Readings

### 1.0 INTRODUCTION

Estate agency is not simply a commercial activity, as one side claims; neither is it a non-commercial profession. It is a combination of the two and the elements of both salesmanship and professionalism should be combined systematically to the greatest advantage of the consumer (Greve John, University of Leeds, UK).

Estate agents serve industry and commerce, but it is the public in the wider sense on whom they depend. If they fail to keep the interests of that public in the forefront of their thinking, they will fail. It is unfortunate, that those who have looked closely into the operation of estate agents, looked only to the residential market and even then only to the buying, selling and letting of houses. By so doing, they inadvertently, separated away what many firms and

individuals see as one part of a general practice. It follows that they have ignored those fields such as valuation, appraisal, land economics, property development and management, surveying and town planning where the professional training and knowledge of the general practitioner can be seen to be vital.

Marketing methods change, public demand and improved mechanical and electronic aids may dictate changes in approach and methods. As new means of communication become available, staffing levels accepted for years may become uneconomic, including consumer protection legislation. All these are factors that could dictate change. Hence, dramatic changes in the agent's approach to marketing and many allied matters will have to be made if profession of the land is not to lose control of one of its principal functions – that of marketing.

Estate agency should be conducted by men and women with a background of professional knowledge who acknowledge and follow ethical standards prescribed by the leading professional bodies of the land (The Nigerian Institution of Estate Surveyors and Valuers NIESV) and the regulatory board the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON). Any other outcome would not be in the public interest.

## 2.0 OBJECTIVES

The objectives of this unit are:

- i. Explain the meaning of estate agency.
- ii. Identify the types of estate agent.

### 3.0 MAIN CONTENT

#### 3.1 What is Estate Agency

An estate agent is one who acts for, and usually advises the principal in respect of transactions involving real estate. Estate agency practice covers a very wide field – houses and flats with vacant possession, factories, shops, offices, licensed premises, businesses as going concern, hotels, farms and land. It covers the disposal by way of sale of both freehold and leasehold interests. It covers lettings of residential, commercial, industrial and agricultural property. In no field can an agent provide a competent service without a basic knowledge of the principles of valuation, or without a knowledge of the law as it applies to that field.

No one would deny the fact that little professional knowledge is required to market the standard dwelling house not affected by blight, with no unexploited development potential and basically sound, and some practicing agents do little more than this. One would not deny the ability of the average house owner to dispose of his own house. Many do so, but the reasons why the majority choose to use the services of an agent are matters involving: knowledge of building construction, planning blight and remedies open to client affected, basic compensation rules, town planning rules, rent control edict, estate duty, capital gains tax, development levy and others on which he should be well informed.

Valuation or appraisal practice is carried out in Nigeria under the name and style of estate surveying and valuation. The practice is controlled by two bodies. One is the Nigerian Institution of Estate Surveyors and Valuers (NIESV) which is a professional association.

The other is the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) a government regulatory body. NIESV referred to as “The Institution” was founded in 1969 and recognized by law in 1975 via Decree No. 24 of 1975. Prior to 1969, valuation practice in Nigeria was operated under the Royal Institution of Chartered Surveyors (RICS) of Great Britain and the Commonwealth to which most of the senior members of the profession still belong. There is also a Nigerian chapter of the RICS. The RICS is an umbrella institution for all surveying professions – land surveying, valuation surveying, quantity surveying, mine surveying. The NIESV is exclusive to estate surveying and valuation. Nevertheless, “The Institution” is structured on the lines of the RICS. The profession of estate surveying and valuation is defined by the Decree 24 as:

Those engaged in the art, science and practice of:

- ii. Determining the value of all descriptions of property and of the various interests therein;
- iii. Managing and developing estates and other business concerned with the management of landed property;
- iv. Securing the optimal use of land and its associated resources to meet social and economic needs;
- v. Determining the structure and condition of buildings and their services and advising on their maintenance, alteration and improvement;

- vi. Determining the economic use of these resources by means of financial appraisal for the building industry;
- vii. Selling (whether by auction or otherwise) buying or letting as an agent, real or personal property or any interest therein.

The law establishing the profession of estate surveying and valuation in Nigeria included the estate agency as part of the functions of estate surveyors and valuers in Nigeria. Notwithstanding, presently in Nigeria it is all comers affair and there is an association of estate agents. Entering is easy, and requires neither qualification nor previous experience. There is Estate Agent Act of 1979. No one professional body dominates it, although there can be no doubt that some of practicing estate agents are members of the Nigerian Institution of Estate Surveyors and Valuers.

One needs to comment on the cut-price estate agent. Many believing that estate agency was a way to make easy money and believing that existing charges were too high in which perhaps they were encouraged by the media and such bodies sought to set up business charging in a variety of ways, but at a level significantly below the charges by the established agents in the area. Some charged lower rates of commission, others set fee for a specific service. The property supermarket idea was one of the latter. However, literature has shown that such firms in UK had either gone under, or had increased charges to the normal level.

**SELF ASSESSMENT EXERCISE 1**

1. What is estate agency?
2. Why is estate agency all comers' affairs?

### 3.2 Types of Agent

For the purpose of estate management, agency can be classified from three perspectives.

#### **Sole Agent**

This is where a single firm is briefed and authorized to let, purchase or sell a property. The letter of instruction must clearly state that the firm is the sole agent. Being a sole agent does not mean that reliable information and/or report cannot be sought from other professionals.

#### **Joint Agent**

A situation may arise whereby the sale, letting or purchase of a given property or group of properties is given to a number of firms to work under one umbrella, even through a coordinator may be appointed among the participating firms, no firm is superior to the other. They all have the same rights and powers. Enumeration needs to be shared equally.

#### **Multiple Agent**

This is another category of agency. This explains a situation whereby a landlord (principal) extends his brief to as many agents as he wishes with the notion that whosoever gets a purchaser or tenant as the case may be collects the commission. The agents are approached individually or separately. The principal in many cases may not reveal the other agents. They are only likely to know one another by the display of their boards on the property in question.

## SELF ASSESSMENT EXERCISE 2

Mention types of agent.

### 4.0 CONCLUSION

Now that you have gone through this unit, you ought to be knowledgeable about the meaning of estate agency and the types of agent relationship that can be created. In addition, you should have been conversant with the quacks involvement in estate agency.

### 5.0 SUMMARY

The meaning of estate agency was discussed and the problem involved in the practice by non-professionals was also considered. The types of agent were also covered in this unit.

### 6.0 TUTOR MARKED ASSIGNMENT

Suggest ways of ensuring that only professional estate surveyors and valuers practice estate agency in Nigeria.

### 7.0 REFERENCES/FURTHER READINGS

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## Module 2: Principles and Techniques of Urban Renewal

### Unit 1: Reasons for Urban Renewal

### Unit 2: Strategies for Urban Renewal

### Unit 3: Urban Renewal Process

### Unit 4: Alternative Approaches to Slum Eradication

#### Unit 1: Reasons for Urban Renewal

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#### 1.0 INTRODUCTION

Urban renewal is a process of re-ordering the physical structures of dilapidated parts of urban settlement. It is also a conscious attempt to alter urban environment by a deliberate and large scale adjustment of an existing city area in order to meet up with the current and future needs of



urban life. It can also be regarded as a means of replacing the various degrees of obsolescent, decayed congested buildings which are the characteristics of slum areas with relative convenience and greater efficiency, all with the general framework of an overall plan for the city development. The need for urban renewal is to adjust and provide needed social facilities and physical structures such as residential, public buildings and other social amenities to make life conducive for the inhabitants.

## 2.0 OBJECTIVES

The objectives of this unit are:

- i. Highlight the reasons for urban renewal.
- ii. Justify the need for making life conducive for inhabitants.

## 3.0 MAIN CONTENT

### 3.1 Reasons for urban renewal

The reasons for urban renewal include the following:

- a. The nature of traditional cities: There are cases of Nigerian traditional cities such as Lagos, Ibadan, Benin, Kano, Enugu, Abeokuta, Ile-Ife, and Osogbo which are very notorious. Their pattern gave way to rapid development of slums, which can be summarized into physical and socio-economical characteristics. Core areas of the cities in the country are characterized by lack of planning, overcrowding, sub-standard and obsolescent building

structures, accessibility problems, notorious rural landscape and unhealthy environment. The areas are also dominated by mixture of semi-dilapidated compound buildings and obsolescent one-storey buildings. Slums do not occur by chance or accidentally, but through socio-economic antecedence. That is the reason why their residential areas, which are usually located in the city centre, demonstrate the image of an unkempt village, shanty town, unhealthy and squalid environment. Also, characterizing the city core areas are poor sanitation, environmental neglect and lack of adherence to basic hygienic codes.

Socio-economic activities of the people in the city may result into two types of slum according to Charles Abraham. These are slums of hope and slums of despair. Slums of hope are places in the cities occupied by people who have socio-cultural and socio-economic attachments to the place. The occupants are indigenes with strong family, historical and emotional ties: for example, burial places, shrines, and local markets that they easily identified with, and believe that protecting them is an allegiance they owe. Therefore, any attempt to relocate them will be rebuffed, as it will be interpreted as an attempt to send them to exile. Their hope solely remains in slums. Nothing can attract them to move out of their dirty environment. On the other hand, slums of despair are the type of city core areas occupied by people who usually are criminals of

varying types and are involved in all forms of vices and evils. The slums of despair are hide out where all sorts of crimes thrive and are also breeding grounds for criminals. They are unsafe and children born in them are already jinxed. In particular, it is the kingdom of hopeless people who strive in abject poverty.

- b. Demographic factors: Population growths of city core areas are very dynamic and not predictable. The demographic increase is caused by two factors. First is natural increase and second is from high rate of rural-urban migration. The rate at which the population is growing far exceeds the rate at which physical infrastructure, social services and facilities, employment opportunities and housing are provided. Also, very large proportion of the population is under-aged, which has resulted in high dependent ratio. The presence of large number of dependent today in urban centres contributes immensely to the vicious circle of poverty, which keeps per capita income too low for any meaningful investments such as self-help housing provision. Similarly, extended family, which dominates some Nigerian cities, creates great burden on the working groups, thereby reducing attention on housing provision and maintenance.
- c. Economic factors: The present economic problem in the country is a universal phenomenon, which dominates African sub-regions.

Every man deserves good housing; abject poverty has become a major obstacle in achieving this desire. This resulted in poor housing development and poor environmental condition which is the consequence of demographic dynamism discussed earlier.

- d. Inadequate urban planning: Despite the high rate of urbanization and population growth of many Nigerian cities, housing and planning are not receiving adequate attention. Public participation is very low and rudimentary, resulting from inadequate awareness on urban planning, and low level of education among the inhabitants. Based on the problem of political instability, no meaningful planning scheme could be carried out by the government. The legal instrument of planning in the country are not amended frequently to accommodate environmental and development changes. The planning authorities are not adequately equipped to carry out their functions. Due to the nature of slums environment, it is characterized by such problems affecting physical-aesthetic, economic, infrastructure, social, housing and administrative.

#### SELF ASSESSMENT EXERCISE 1

Mention the reasons for urban renewal.

### 3.2 The need for making life conducive for inhabitants.

The steady deterioration in the quality of urban environment occasioned by increasing urbanization was identified to be having adverse effect on the urban poor. Through social surveys, it was discovered that the location of lower income that is urban poor is the slum, where 40-50 percent are living below the poverty line. Kundu (1993) observed that approximately 34% of the urban poor in India are not covered by piped water supply and are obliged to obtain water from sources that are mostly private and at a cost higher than that of the piped supply. Nigeria has more than this percentage. For instance, Lagos has up to 55% of its urbanized area without piped water supply.

The city core areas have poor sanitation, environmental neglect and lack of adherence to basic hygienic codes. The state of the slums affects the health, socio-economic development of the area and the future of the children raised in the area. The productivity of the working class living in the slums is also affected. In addition, the slum development affects the real estate assets of the country directly and indirectly. The adjoining areas property values may be affected.

The projects of slum improvements were designed to provide environmental improvements, community development and community health initiatives that are lacking as linked interventions in the slum areas. The projects should be modeled in the same basic package of assistance covering:

- a. Infrastructure improvement: roads, drains, water, sanitation, street lighting and community halls

- b. Health improvement: promotional and preventive via maternal child health clinics, health awareness and health volunteers
- c. Educational development: preschool, non-formal education, legal literacy and adult literacy;
- d. Community development: institutional building, gender awareness raising, vocational training, and economic support.

## SELF ASSESSMENT EXERCISE 2

Justify the need for the government to ensure conducive living environment for the inhabitants in every community.

### 4.0 CONCLUSION

It can be concluded that this unit exposed you to the need for improving the slums by providing the necessary infrastructure and other basic facilities for better quality of lives.

### 5.0 SUMMARY

The reasons for urban renewal were discussed in this unit and the justification for it was also addressed. The reasons provide the bases for government intervention in order to meet the needs and the well-being of all in the society.

### 6.0 TUTOR MARKED ASSIGNMENT

Discuss in detail the need for urban renewal.

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## UNIT 2: STRATEGIES FOR URBAN RENEWAL

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Strategies for urban renewal
  - 3.2 The need for making life conducive for inhabitants.
- 4.0 Conclusion
- 5.0 Summary
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## 1.0 INTRODUCTION

In the previous unit we examine the reasons for urban renewal and the need for it. In this unit we shall be considering strategies of urban renewal. There are different strategies appropriate for urban renewal. The adoption depends on socio-economic characteristics of the affected slums.

## 2.0 OBJECTIVES

The objective of this unit is:

- i. Examine the different strategies of urban renewal.

## 3.0 MAIN CONTENT

### 3.1 Strategies of Urban Renewal

The strategies of urban renewal can be considered along the following points.

- a. Comprehensive Urban Redevelopment Strategy: this has to do with total demolition of slum area. In carrying out this programme, local authority or the government agency such as Urban Renewal Board is expected to develop an assessment of overall needs and reserves for housing in the affected area. Consequently, the area may have decayed seriously beyond rehabilitation.
- b. Rehabilitation: it is the upgrading of the sub-standard structures to certain prescribed standards, through minimum structural attention to the structures involved. This concept is similar to



the concept of refurbishing. Some aspects of rehabilitation are window and door repairs, replacement of broken louvers, kitchen and toilets repairs. In addition, it includes drainage and roads repairs, streetlights and other public facilities provision and upgrading.

- c. Spot clearance: Based on housing survey of the affected slum area, it may be possible that the area will not need complete demolition. A clearance of a few selected structures in the identified area can be done. Spot clearance could be embarked upon, to allow access into a neighbourhood area. In essence, it is a continuous process of monitoring, rebuilding and renovation of blighted area to sustain and reinforce the vitality of affected neighbourhood in ways responsible for social and physical needs. Only those beyond renovation would be demolished and new ones would be built in small pocket area over an extended period.
- d. Conservation: this system of urban renewal is a process in which both rehabilitation and spot clearance are combined in an attempt to upgrade a neighbourhood area. It is usually applied to the area of structures of architectural or historical importance, such as recreation and tourist centres.

- e. Code enforcement: it is a complementary urban renewal action to other strategies above. The community concerned may be implored to adhere strictly to certain urban maintenance standards and to condition that can guarantee a healthy living condition with the overall goal of urban sustainable development. Town planning agency will be expected to apply planning codes through adequate development control activities as a measure for sustainable urban development. Town planning agency will be expected to apply planning codes, through adequate development control activities, as a measure for sustainable urban renewal.

#### SELF ASSESSMENT EXERCISE 1

Highlight the strategies of urban renewal.

#### 4.0 CONCLUSION

You should be familiar with the five strategies of urban renewal considered above and as mentioned earlier the adopted strategies should be based on the socio-economic characteristics of the affected slums.

#### 5.0 SUMMARY

Five strategies were examined in this unit which could be applied as appropriate for urban renewal so that the slum areas can be made livable for the society.

## 6.0 TUTOR MARKED ASSIGNMENT

Explain the strategy(ies) that can be adopted in urban renewal for a chosen slum in your town/city.

## 7.0 REFERENCES/FURTHER READINGS

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## UNIT 3: URBAN RNEWAL PROCESS

### CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 The urban renewal process

3.2 The execution process of redevelopment scheme

3.3 The problems associated with relocation in urban renewal scheme

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References/Further Readings

## 1.0 INTRODUCTION

Town planning authorities are important tools for the execution of urban renewal scheme. Their important role is to regulate and control the orderly use of land within their jurisdiction. Nigeria Town and Country Planning laws empower town planning authorities to make planning scheme to control development. Planning scheme for development is an action of controlling the development and the use of land so as to secure proper sanitary control, amenity provision, reservation of buildings or objects of architectural, historical and natural interest- generally to protect existing amenities in urban- areas covered by Town and Country Planning Laws. Thus urban renewal is a redevelopment scheme for controlling physical growth.

## 2.0 OBJECTIVES

The objectives of this unit are:

- i. Examine the urban renewal process
- ii. Consider the execution process of redevelopment scheme
- iii. Identify the problems associated with relocation in urban renewal scheme

## 3.0 MAIN CONTENT

### 3.1 The urban renewal process

Urban redevelopment scheme include residential redevelopment scheme, industrial redevelopment scheme and commercial redevelopment scheme. A scheme may be prepared for any one of them when there is need to improve or solve a specific urban

problem of urban decay. It should be noted that before a scheme could be framed, the authority might enter, examine and survey the area for approval or rejection purpose.

After the scheme is framed and countersigned by the appropriate officer of the authority, it will be published in government gazette and placed on a notice board where everybody could read, see it, and make suggestion and objection. The authority will then inform the inhabitants whose properties were affected by the scheme for their reaction within one month after the publication. Under the Town Planning Laws of 1946 the people whose properties were affected can lodge objection within six weeks of its publication to the authority.

Section 16 sub-sections 2 and 3 of Urban and Regional Planning Decree 88 of 1992 respectively empower the town planning authority or commissions to exhibit the plan for any development for a period of two months for physical development plan and 28 days for improvement, rehabilitation, renewal or upgrading. After the disposal of all complaints and objections, the authority thereafter will submit the scheme to the governor. The scheme submitted by the authority will contain the schedule showing: the number of the persons that will be displaced, the names of persons who had objections to the scheme, the manner in which the objections were treated, the reasons for modifications (if any) to the scheme, and suggestion as to the alternative accommodation for those who were to be displaced by the scheme.

A master plan is usually prepared in form of drawing and write-up for the execution of the scheme. The scheme submitted to the governor may be approved or rejected within six months of submission. If it is approved, it shall then become operative immediately.

## SELF ASSESSMENT EXERCISE 1

Enunciate the urban renewal process

### 3.2 Execution of redevelopment scheme

It is the duty of the authority to execute planning scheme on the affected area. The authority may enter into contract with the owner of land or building in the planning area to serve notice, prohibiting use of any building or land, which is not in conformity with the provision of the scheme. The land in the planning area may be acquired compulsorily or by agreement regardless of the period when such land will be required for the planning.

For example the land for redevelopment of Lagos Central was acquired by Lagos Executive Development Board (LEDB) under the following agreements with the old owners:

- b. All the properties in the area were to be acquired by LEDB, re-planned with roads, open spaces and new plots layout, after which the new plots were to be resold for redevelopment.
- c. All pieces of land acquired after re-planning were to be reconvened to the original owners at 120% of the LEDB acquisition cost and where this was not possible, an equivalent area was to be offered owners as near as possible to the land they originally held.
- d. Where an original holding could not reconvened to the former owner, he was to be given priority claim to any land within the cleared area, which was not taken up by the original owner; and if

this was not available, he was to receive priority consideration to any other freeholds land LEDB might have developed

- e. Surulere re-housing scheme was built for displaced people by LEDB.

Abiodun (1985) noted that because of problems associated with the reallocation of redeveloped land in central Lagos to the original owners, many displaced families were unable to re-possess their land as stipulated by the scheme. Surulere temporary housing scheme became permanent. Among the problems which frustrated the scheme as originally envisaged was high cost of implementation resulting from inflation and the reduction in the size of the area available for residential zone, after access roads and commercial zone had been delineated. Another problem is that a substantial number of plots in the area covered by the scheme went to wrong hands particularly non-indigenes. While some of the displaced families were not properly resettled as Surulere resettlement scheme could not accommodate all of them.

## SELF ASSESSMENT EXERCISE 2

With the aid of example explain execution of redevelopment scheme.

### 3.3 Problems associated with relocation in urban renewal scheme

Majority of urban renewal strategies involve displacement of inhabitants. The most complicated problem that normally confronts the inhabitants and the authority concerned is the process of resettlement of displaced people. Some of the fundamental problems resulted from slums clearance may be categorized under the following headings:

- a. Social-economic problem: slum clearance activities especially when comprehensive urban renewal is carried out usually have a serious effect on the means of livelihood and economic activities of the area and the entire community. The concerned people usually face the problem of uncertainty, occupational charges, unemployment problem, local inflation and reduction in income level. The promised compensation may not be paid at the right time, thereby leaving the people to solving their economic problem. The problem might result in alienation of the community from their own land. In Nigeria, many communities have been displaced without adequate compensation. For instance, since 1990 when Maroko slums clearance commenced, until 2005 some displaced residents were yet to get out of the socio-economic shock resulting from the government inability to pay them compensation or to relocate them.
- b. Socio-cultural problem: slum clearance usually resulted in loss of many things, which include loss of social groups and cultural heritage. Community and families are fragmented because of displacement and face with innovative and social integration challenges. The inhabitants' cultural heritage that could be used for tourism may be destroyed eventually leading to socio-cultural problem. The families, which had been communally held together in their former settlement for many generations may become scattered.
- c. Socio-political problems: the displaced people are very new in their new environment. Their inherited traditional community has been demolished;



their traditional political status has become history, and they need to readjust into a new political environment with a new political order. There is possibility of poor integration into the new environment.

### SELF ASSESSMENT EXERCISE 3

Mention some of the problems of slum clearance

### 4.0 CONCLUSION

The study on urban renewal in this unit has provided you with the knowledge of how slum issues in the urban centres can be solved. In addition, this discussion gives you ways of solving the challenges of slum eradication in Nigeria.

### 5.0 SUMMARY

Now that you have read through this unit, you ought to have had a good idea about the urban renewal, the strategies, the execution, and challenges. It is important that you visit slums which will provide bases of appreciating the suggested approach.

### 6.0 TUTOR MARKED ASSIGNMENT

Compare and contrast the application of the urban renewal process that you will adopt to the selected two slum areas in your town/city.

### 7.0 REFERENCE/FURTHER READING

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## UNIT 4: ALTERNATIVE APPROACHES OF ERADICATING SLUMS

### CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Alternative approaches of eradicating slums

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References/Further Readings

### 1.0 INTRODUCTION

There are different approaches to eradicate slums. These include slum clearance, and urban renewal. However, there are search for new approaches because of the failure of these two approaches. The new approaches include community self-help participation, urban reform approach, self-help housing and urban poverty reduction approach.

### 2.0 OBJECTIVES

The objectives of this unit are:

- i. Examine other approaches of slums eradication.
- ii. The review of the achievements of the approaches in fulfilling the expected results.

### 3.0 MAIN CONTENT

#### 3.1 Alternative approaches of eradicating slums

There are other approaches apart from slum clearance and urban renewal that are available in eradicating slums. These approaches have been adopted in some countries and we shall be examining these approaches and their performance in eradicating slums.

##### **1. Urban Reform Approach**

Institutional difficulties to some scholars in the field of urban planning are one of the impedimental factors towards eliminating slums and other urban planning problems. Lichfield in his contribution identified that even in the new towns of England, which were planned comprehensively, there were always imbalances. The rigidities and flexibilities of the institutional structure, instead of the facilities such as houses, schools etc, happening together, there was always imbalances resulting from institutional difficulties when urban renewal are to be executed.

Hardoy (1975) came up with the concept of urban reform. This concept according to him extends beyond simple changes in the urban and suburban land tenure system and its consequences on urban land uses. It also includes new system of urban government and public investment and new way of popular participation. It also involves a change in the power structure that controls decisions affecting the dynamics of urban growth and internal structure of cities.

Urban reform is a long-term policy with the main objective of removing the speculative tendencies that define the line of physical growth in cities and of an urban ecology based on class discrimination, structural urban reform is impossible without changes in the power structure, and the inequalities of urban land distribution should be eradicated totally. Urban reform approach to urban planning requires a gradual process, and it involves setting up of institutions, human and financial resources, and technology to plan and build cities, but prior to this process appropriate legislation should be enacted. Such legislation provisions include realistic ordinances specifying health safety and sanitary standards for housing etc there should be constitutional provision for standards of infrastructure and facilities required for good living.

## **2.0 Community self-help improvement approach**

This approach may be regarded as upgrading with this, instead of relying on the government to single handedly take up slum clearance, public and the slums dwellers may be allowed to take up the project. Alger in 1964 in his write up tagged “instead of urban renewal” makes various suggestions on how to handle slum clearance. A community can undertake many projects including slum clearance, by raising funds through taxes. For instance, in the United States the public money spent on housing through urban renewal in 1940s and 1950s did not benefit the poor citizens. Therefore, it was suggested that fund should be raised independently to finance such projects, especially urban renewal.

The following steps are very important for community improvement without having to wait for government aid:

- a. Establishing realistic ordinances specifying, safety and sanitary standards for housing.
- b. Rehabilitating substandard housing, at the expense of property owners, through firm enforcement of ordinances;
- c. Demolishing those slum structures which are unfit for rehabilitation, at the expense of property owners, again through firm enforcement of city ordinance;
- d. Establishing systematic public improvements in schools, streets, parks, sewers and in such municipal services such as refuse collection, traffic and other facilities;
- e. Establishing more reliable, attractive and convenient neighbourhood environment by re-planning, re-zoning, cleared and long standing vacant sites;
- f. Acquiring and removing structures and uses of land which might delay, obstruct or hinder carrying out the programme.
- g. Attracting investment in new construction as well as in rehabilitation and modernization by the application of specific government (national) income tax incentives;
- h. Eliciting the cooperation of local financial institutions in the conservative programme
- i. Improving credit facilities for cities through insurance premium.

If the above stated steps are followed without politicizing, there is tendency to achieve the target goal. The approach would therefore make the local problems within each area solved in its own way, without government direct participation. Community self-help improvement may be regarded as upgrading.

### 3.0 **Self-help housing approach**

Inability of the capitalist third world to build sufficient houses to remove spontaneous housing, and other sub-standard and illegal settlements, there has been a shift from old slum clearance system to a kind of self-help policy, regarded as site-and –services and upgrading programmes. This policy rest on the fact that land should be provided with adequate services and facilities such as roads, water, sewage disposal, electricity and other essential facilities where the actual building of accommodation should be left for the people themselves. The existing slum areas are expected to be demolished and upgraded with layout design.

The government was to encourage mortgage investments through credits and loan facilities, and construction advice that will not go beyond the family budget. Many literatures point to the success of self-help approach to slum upgrading and housing stock improvement. Since 1974, there have been 80 proposed or completed sites and services scheme in 27 developing countries and the schemes have been parts of the national development plans for 13 countries such include India, Pakistan, Iran, Chile and Turkey. However, Koenigsberger (1986) regards sites and services as division of roles and cost between the public and individual residents which is regarded as a major breakthrough. The programme has been launched all over the world since 1960 through the World bank

loan as one of the major of adding to housing stock and bridge the wide gap between the rich and the urban poor. Nigeria since early 1980s has been investing on sites and services scheme, mostly in the suburbs of major towns.

The programme of sites and services and upgrading has recorded some failure. However, most of these are attributed to poor administration, due in part to enthusiasm on the part of the government. Righter (1975) identified two criticisms towards the programme, one is that is a cover up for non action by government on critical issues such as urban reform. Two, is the belief that if it becomes widespread it will re-create the difficulties which it aims to conquer. Since the government has not been so serious about the programme, it has not been very happy one. Due to the political crisis that bedeviled the country since mid-1980s, Nigeria has not been able to record a meaningful success from the programme until 2005 when the federal government decided to revisit the policy, especially at the federal capital Abuja. In 2003, Ogun state re-introduced the policy in conjunction with other housing programmes. Private sectors were encouraged to participate and the state government was to make land available.

#### **4.0 Urban poverty reduction approach**

The strategy towards improving slum area and residents life was introduced in Indian urban are in 1986 according to Barrett and Beardmore (2000). The policy was because poverty reduction through public actions using participation process is capable in empowering the poor and protecting them from economic shocks and personal violence (security).

The major aim of urban poverty reduction as executed in India cities was to eradicate poverty through social facilities and services and infrastructure provision. The provision of these was regarded as anti-poverty. Health and education were considered critical measures of non-monetary dimensions of welfare as well as important inputs into an individual's earning potential.

It was identified that there was inequality in the distribution of health and education. Ill health and low level of education were identified to be concentrated among the lower income groups in the urban area. Under the Indian poverty reduction approach, slum improvement project was designed and implemented. The execution of the projects was in collaboration with international agencies. The projects were not poverty reduction per se but were variously slated for different cities.

- a. Improve the quality of life of the slum residents (designed for Hyderabad slum improvement project in 1989-1998)
- b. Increase the standards of health, education, and community life in the slums, via an improved physical infrastructure and an enhanced level of service (designed for Visalshapathan slum improvement project in 1988-1996).
- c. Sustainable improvements in the standards of health, education, shelter, environment and community life and increased income-earning potential of people living in the slums (designed for Vijayawada slum improvement project in 1989-1998).

In order to execute the projects, there was institutional development. Slum improvement project neighbourhood communities were formed as a mechanism for promoting the



slums residents participation in projects planning and execution, and a potential mechanism for later maintenance and sustainability of assets. For instance, Hyderabad Municipal Corporation was established to execute project under slum improvement project. The slum improvements projects introduced in Indian urban settlements such as those mentioned above as well as Indore and Calcutta were assessed between 1996 and 1997. It was found out that there has been a significant impact of the projects on the quality of life of slum residents, both poor and non poor. It also brought about significant socio-attitudinal change, improving the image of slum areas within the city and integrating them into social and political economy. There was assessment of the project success by categorizing poverty into three main dimensions (survival, security, and quality of life).

Infrastructure provision brought indirect social and economic development, particularly to women. It increased home-based economic activities, increased mobility and improved security. There was significant impact on health and reduced incidence of illness, which related to unhygienic living environment. Roads in particular, stimulated investment and increased social interaction. Despite the success of slum improvement projects in transforming slum areas, there are some constraints identified from the execution. The first one is institutional constraint. If the institutional culture of government is dominated by administration and engineering, there is tendency for community development to become marginalized. Similarly, government may not be the most appropriate agency to tackle the political and social change elements of community organization. Another is political constraint, where party politics can have a major influence on project implement at different levels. The third one is community constraint.

In a situation where neighbourhood committee is inactive, there is tendency for nothing much to be achieved, due to lack of interest or capacity. Similarly, a faction of the committee may dominate and capture the resources of the community, especially the rich. The government in the implementation of slum implementation projects should take cognizance of these constraints.

#### 5.0 **Rent control approach**

The essence of this policy was to minimize capitalistic nature of accommodation distribution to reduce rent cost. Rent control is one of the approaches to improving conditions of the poor, since it is believed that poverty is the root of sub-standard houses and illegal settlement development in the third world cities. However, experience has shown that the policy has not been successful. Cornelius (1975) observed that the 1942 Mexico city rent control only hastened the deterioration of the central city tenements, whose owners had little incentive to invest in their upkeep.

In case of Nigeria, Okpala (1985) argued that for discrete and selective use of the rent control instrument to increase housing supply would lower rents naturally and help to avoid penalizing those the rent law intends to help. However, the consequence would be lower investment in housing development and maintenance. Vagale (1985) concluded that rent control policy adversely affect or slow down private investment into housing meant for the low-income families and retards the rate of construction of dwellings. Therefore, in adopting rent control as a measure to address urban poor housing problem, government should take economic situation at hand as a prevailing factor. Otherwise incentives to housing industry should be considered as alternative to economic factor.

Rent control can only be implemented as a temporary measure while increase in supply of housing is provided in order to achieve the expected result.

## 6.0 **New town development approach**

New town development in the world is not a recent phenomenon. It can be traced back to early urban civilization especially of Ancient Greek and Roman Empires. During this period, towns were built for different purposes; some were built for military purpose, while some were built for commercial or administrative purposes. Since the 18<sup>th</sup> century, during the industrial revolution, the purpose took new shape of controlling urbanization as well as to ameliorate health problems emanated from rapid incidence of industrialization.

New town has been described in various ways. It may be described as an attempt to decentralize population and industry, with the aim of building new health environment, with optimum size, which would provide most of the social amenities of urban life. In addition, it is a complete small city with dwellings, jobs and a full complement of community facilities, with a fixed area and population, held firmly by an encircling green belt.

The United States advisory commission, on inter-governmental relations described a new town as an independent, relatively self-contained, pre-planned community of a size large enough to support a range of housing types and to provide economic opportunities within its borders for its residents. The present idea of new town was derived from the garden

city concept of Ebenezer Howard. The following are therefore the features of a new town, when all its descriptions are considered:

- a. It must be a town that is specifically designed
- b. It must be self-sustained in term of social facilities
- c. It must be self-sustained in terms of employment opportunities
- d. It must be designed to accommodate a specific and projected figure of population
- e. It must be large enough to support and balance range of public facilities, social and cultural opportunities
- f. It must be surrounded by a green belt of open space.

#### SELF ASSESSMENT EXERCISE

Mention the alternative approaches to slum eradication.

#### 4.0 CONCLUSION

We have been able to examine other approaches to slum eradication apart from total slum clearance and urban renewal. This has given a comprehensive view of all approaches which will enable better understanding and application in eradicating slums.

#### 5.0 SUMMARY

Six approaches of slum eradication were considered apart from total clearance and urban renewal. This overview of the entire solution to slum eradication will equip you for

challenges of estate profession in given appropriate advice to planners in ensuring preservation and improvement of property assets of the nation.

## 6.0 TUTOR MARKED ASSIGNMENT

Discuss other approaches for eradication of slum and their effectiveness in achieving same.

## 7.0 REFERENCES/FURTHER READINGS

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## **Module 3: PROPERTY MARKET**

Unit 1: Sources of information on property

Unit 2: Property Market Organization

Unit 3: Major Players in Property Market

Unit 4: Commodity in the Property Market

### **CONTENTS**

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Sources of information on property

4.0 Conclusion

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### **1.0 INTRODUCTION**

In law, property is defined as the highest right a man can have to anything, being that right which one has to lands or tenants, goods or chattels which does not depend on another's courtesy. Also, it has three connotations: right of ownership, the object of ownership, and valuable things. Appraisal perceives property as importing unto itself all these ingredients, both in law and common usage, namely, tangible, intangible, and rights; ownership;

monetary value; and legal assertion. In valuation, property can be defined as corporeal and incorporeal, tangible and intangible things, capable of pecuniary and legal assertion, over which ownership gives control. The important items of market intelligence are the conditions of demand and supply, the price levels and their trends, the availability of credit, the interest rates payable on loans and the rates of return expected by the market on equity investment.

Meanwhile, it is helpful if details of estate ownership can be obtained so that possible sources of future supply to the property market can be taken into account. This kind of information is needed more by estate surveyors who have the responsibility of the forward planning considering their market operations and by the valuer who is mainly interested in short-term fluctuations. Market figures are usually historic and have little relevance to current trading which tends to look forward to the near future, but they are valuable in so far as they disclose wider trends and patterns which can be interpreted in terms of estate policies.

The unique characteristics of the real estate market must be accommodated. These characteristics include:

- Durability - Real estate is durable. A building can last for decades or even centuries, and the land underneath it is practically indestructible. Because of this, real estate markets are modeled as a stock/flow market. About 98% of supply consists of the stock of existing houses, while about 2% consists of the flow of new development. The stock of real estate supply in any period is determined by the existing stock in the previous period, the rate of deterioration of the existing stock, the rate of renovation of the existing stock, and the flow of new development in the current period. The effect of real estate market adjustments tend to be mitigated by the relatively large stock of existing buildings.

- Heterogeneous - Every piece of real estate is unique, in terms of its location, in terms of the building, and in terms of its financing. This makes pricing difficult, increases search costs, creates information asymmetry and greatly restricts substitutability. To get around this problem, economists (beginning with Muth (1960)) define supply in terms of service units, that is, any physical unit can be deconstructed into the services that it provides.

Olsen (1969) describes these units of housing services as an unobservable theoretical construct. Housing stock depreciates making it qualitatively different from a new building. The market equilibrating process operates across multiple quality levels. Further, the real estate market is typically divided into residential, commercial, and industrial segments. It can also be further divided into subcategories like recreational, income generating, area, historical/protected, etc.

- High Transaction costs - Buying and/or moving into a home costs much more than most types of transactions. These costs include search costs, real estate fees, moving costs, legal fees, land transfer taxes, and deed registration fees. Transaction costs for the seller typically range between 1.5 - 6% of the purchase price. In some countries in Continental Europe, transaction costs for both buyer and seller can range between 15 - 20%. In Nigeria is much higher.
- Long time delays - The market adjustment process is subject to time delays due to the length of time it takes to finance, design, and construct new supply, and also due to the relatively slow rate of change of demand. Because of these lags there is a great potential for disequilibrium in the short run. Adjustment mechanisms tend to be slow, relative to more fluid markets.



- Both an investment good and a consumption good: Real estate can be purchased with the expectation of attaining a return (an investment good), or with the intention of using it (a consumption good), or both. These functions can be separated (with market participants concentrating on one or the other function) or can be combined (in the case of the person that lives in a house that he owns). This dual nature of the good means that it is not uncommon for people to over-invest in real estate, that is, to invest more money in an asset than it is worth on the open market.
- Immobility: Real estate is locationally immobile (save for mobile homes, but the land underneath them is still immobile). Consumers come to the good rather than the good going to the consumer. Because of this, there can be no physical market-place. This spatial fixity means that market adjustment must occur by people moving to dwelling units, rather than the movement of the goods. For example, if tastes change and more people demand suburban houses, people must find housing in the suburbs, because it is impossible to bring their existing house and lot to the suburb (even a mobile home owner, who could move the house, must still find a new lot). Spatial fixity combined with the close proximity of housing units in urban areas suggest the potential for externalities inherent in a given location.

## 2.0 OBJECTIVES

The objectives of this unit are:

- i. Explain the property market terminology
- ii. Examine sources of information on property

### 3.0 MAIN CONTENT

#### 3.1 Property market

Real property market otherwise known as real estate market is defined as any medium where bundle or cluster of rights is being exchanged. It could also be a system of transaction between landowners, land users and estate agents. The property market is the sum total of all the smaller and larger markets operating in different types of interests in land and buildings. This implies separate markets exist for every type of property that involves different groups of buyers and sellers. It must be noted that the object of sale or purchase in the property market is the interest in land or landed properties such as freehold, leasehold, easement, profit and license. In other words, property market is a medium through which ownership rights and/privileges are transferred from one person to another.

The real estate market appears disorganized in comparison with market for stocks and bonds. Much of this situation arises from the unique nature of real property as a commodity. The property market characteristics responsible for its uniqueness and the disorganized nature are as follows:

1. Localized competition: one physical characteristic of real property as a commodity is its fixity or immobility. This means it cannot be moved from one area to another in response to changes in supply and demand conditions. Heterogeneity is yet another physical characteristic of property which entails that a potential buyer must inspect each property of interest to fully understand its

merits. Fixity and heterogeneity act to limit competition between properties. Values therefore depends more on local demand.

2. Stratified demand: people generally acquire or use property for specific purpose, for example, the market for detached buildings may be very high, the market for flats may be very low.
3. Decentralized location: due to lack of standardization and unique geographical locations of real estate, potential buyers need to visit each property of interest which often involves traveling over a long distances. Agreements are drawn up and signed in places of convenience as well as actual payments.
4. Confidential transactions: property market participants usually meet in private and their agreed prices are not freely disseminated. Only people closely associated with the market have relatively direct easy access to price and value information because of the confidential nature of the transactions.
5. Relatively uninformed participants: most private buyers and sellers engage in sales transaction only once every several years with little or no knowledge of real estate. There is no central source from which information could be purchased. As such the agreed price may reflect differences in negotiating ability of the buyers and sellers as well as the relative merits of the property involved.
6. Inelasticity of supply in the short run: Another important characteristic of real property is that supply is relatively fixed over a period of a few years. This is in view of the fact that it takes several weeks, months or even year to erect new

structures, convert existing properties or even construct new improvements. Apart from the fact that elements (weather), physical, legal and financial obstacles retard expansion of supply in response to sharply increased demand.

It can be summed up that it has the following characteristics: heterogeneity; inelasticity of supply; indivisibility; high cost of transfer; special risks (act of God, obsolescence, no rent review for some long leases); decentralized market; imperfect knowledge; government intervention (rent control, taxation, development control, credit control); perpetuity; ability to create interest in property; local in character; use of specialists; use of credit; and paucity of market participants.

Every property is unique in terms of location, size, accommodation, design and construction. There are often elements of sentimental attachments of the property owners to their properties. Property ownership might be seen as being synonymous with social status. Litigation, which is a common feature of properties, could put properties under such circumstances as out of market at least temporary. The genuineness of the seller's title takes both time and effort to be determined by way of searches. It is easier to tax real estate than personal property. The character of the neighbourhood and economic outlook affect value of any specific property. Value of real properties is often affected by changes in local zoning laws.

The property market performs five inter-related functions which are:

- i. Allocates existing land resources by price mechanism in the absence of external pressure.

- ii. Redistributes the existing land resources in accordance with changes in supply and demand.
- iii. Determines the price (value) of land resources by the interplay of supply and demand
- iv. Determines the level and nature of capital improvement to be carried out on land
- v. Determines the appropriate use to which the land resources should be put.

### SELF ASSESSMENT EXERCISE 1

Discuss in detail the characteristics of the property market.

#### 3.2 Sources of information on property

The main avenue of information open to the estate surveyor is the office record. The office records will contain details available in respect of sales, purchases and lettings concluded in the past that may provide a guide. This evidence is particularly valuable, as it should provide a record of actual experience in the property market, the interest shown by buyers or sellers, the time taken to conclude the transaction as well as the details of the terms agreed. In addition, many estates maintain list of applicants wishing to rent the property.

Other sources of information include:

- a. Professional estate firm files and database: this is best source of information and the valuer offers this whenever he is approached.

- b. Press report: the advertisements of properties for sale with their listing prices news items of transactions, results of auctions and many other shippets can often be quite sufficient for the estate management purpose of following the broad trends affairs. Particularly useful are the specialist papers include notes on property news. For most estate surveyors, concerned with premises within a limited area, local newspapers among others informed on local affairs and such matters as statutory notices, local authority proposals, important town planning applications, and the state of the property market.
- c. Information from public sources: information in respect of future proposal to develop an area is often provided by the local planning authorities, either by reference to the periodic development plan or to decisions given in respect of planning application

#### SELF ASSESSMENT EXERCISE 2

Mention the sources of information on property.

#### 4.0 CONCLUSION

It is important to be conversant with the characteristics of the market you will be relating with and to know how you can collect information. This will enable you to study the trends of the market and to know the factors affecting the market.

#### 5.0 SUMMARY

This unit has examined the property market and its unique characteristics and how information can be collected on property transaction.

#### 6.0 TUTOR MARKED ASSIGNMENT

1. Enunciate the characteristics of the property market and its effect on information gathering on property.
2. What makes the property market different from other commodity markets?

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#### UNIT 2: THE PROPERTY MARKET ORGANIZATION

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- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 The property market organisation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

## 1.0 INTRODUCTION

The real property market deals for the most part with the buying and selling of land resources that have already been developed and brought into use. However, vacant land and properties that have reached the end of their useful life (latent potential inherent) are also brought into market.

There is no formal organization bringing buyers and sellers together, therefore, there is a need for a valuer engaged professionally for the marketing of properties to provide this service as well as give advice on the problems that may arise on dealing with properties.

## 2.0 OBJECTIVES

The objective of this unit is to consider the mode of organization of the property market.

## 3.0 MAIN CONTENT

### 3.1 The property market organization

This kind of services individual valuer provides to the buyer and sellers vary since there is no formal organization. The valuer must determine the market value or price which is the amount of money which can be obtained for the interest at a particular time from persons able and willing to purchase it. The valuer belongs to professional association and members of the association can relate with one another on agreed term on the selling and buying of properties. The services rendered by valuer include the following:

- a. Advisory role by virtue of his knowledge and experience of the market: though the main agency function is to bring the buyers and sellers together. The valuer also assists the real estate investor who needs to know what kind of property is in demand, what is in supply



and the prices being paid in considering either acquisition or disposal, investment and other market transactions.

- b. Contact in the property market: The valuer's knowledge usually extends beyond an application of general demand as it also includes an acquaintance with the individuals requirement of many buyers and sellers concerned with property which have no general market. In this situation, the agent puts buyers and sellers of property in touch with one another.
- c. Skill in advertising and negotiation: The valuer advises on how and where to advertise and undertake all the other necessary arrangements. He is also equipped to negotiate the best terms obtainable whether acting for the buyer and seller of a property.
- d. Estate agents/valuers cooperation: This include joint-listing and canvassing among each other, thereby meeting the requirements of all the buyers and sellers with which they are concerned. Therefore, the market is widened and greater opportunity for business is created.
- e. Auctions and tenders: These arrangements call for considerable skill and experience which many valuer can supply. In the case of auctions, the property will be advertised at a certain place and time. Bids for the purchase of the property are invited and the offer by the bidder of the highest price may be accepted. However, before auction, a price may be fixed below which the property will not be sold. This fixed price is known as "Reserved price" and the unfixed price is known as "unreserved price". If the property is to be sold by tender the vendor's valuer invites written offer to be submitted by a certain date, the

vendor through his agent will now negotiate with the prospective purchaser that submitted the highest price (i.e. made the highest offer).

- f. Other advice: in addition to the above services rendered by the estate surveyor to the buyers and sellers, he can also give other advice which is often necessary in the disposal or acquisition of a property. This is usually in the nature of advice on building cost, planning requirement or legal matter before the other appropriate professional advisers are consulted. He is of assistance to the estate owner in deciding what further expert advice might be needed. When there is a proposal to sell an estate, there are a number of questions to be considered in order to obtain the best possible terms, which usually but not always, means the highest price obtainable. The main issue to be decided is the way the estate is to be allotted out, the timing of the sale, method of sale, the asking price and other terms of sale.

#### SELF ASSESSMENT EXERCISE 1

Highlight the role of estate surveyor and valuer in real estate market organization.

#### 4.0 CONCLUSION

You should be able to differentiate property market organization from other types of markets

#### 5.0 SUMMARY

The unit had covered the organization of the property market and the role of the valuers in the market organization.

#### 6.1 TUTOR MARKED ASSIGNMENT

Discuss the property market organization and challenges.

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## UNIT 3 MAJOR PLAYERS IN THE PROPERTY MARKET

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- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Major players in the property market
- 3.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

### 1.0 INTRODUCTION

This unit covers the people who operate in the property market that ensures that the market operates and meet the needs of the people. The absence of any, will in no way affect the operation of the market. The estate surveyor and valuer must understand the roles of the

major players and their effect on the market. Ability to understudy their reactions to the situation in the property market will assist the estate surveyor in taking appropriate decisions in the management of the estate portfolios.

## 2.0 OBJECTIVES

The objective of the unit is to examine the major players in the property market.

## 3.0 MAIN CONTENT

### 3.1. Major players in property market

The major players in the property market are:

- a. The developer: the developer is the prime mover in the property market. He provides and supplies the property into the market by developing and or acquiring them. He provides and/or supplies the funds for the construction/purchase or development of real estate. The developer is principally an investor and a speculator and he goes into the property business with the main objective of making profit.
- b. The investor: this can be individual, group or corporate body giving up a capital sum in return for an income or benefit to be received periodically. At times, this return could be in a non-monetary form. Especially where the property is occupied and used by the investor.
- c. The financiers: this could also be an individual or financial institution that finances the project development.

- d. The estate surveyor and valuer: The estate surveyor and valuer is a trained professional and land economist who is schooled in the art and science of the property market. He functions as an estate surveyor and is well equipped to analyze and interprets the market behavior at any point in time. He is the professional prime mover in any estate development, the first and the last. He comes in at the inception stage to provide market information for developing a scheme. Very often, he carries out the pre-investment studies (feasibility and viability studies) acts as project manager for the development and also manages the development on completion. He is professionally trained to estimate and advice on property value.
- e. Estate agents: He is the linkman who brings together the buyer and the seller in any property transaction. He is also an estate broker who may either represent the interest of the vendor or vendee or both for a fee or a commission. In Nigeria, the business of estate agency is undertaken by both trained professionals (the estate surveyors and valuers) and the untrained hands often referred to as “quacks”.
- f. The lawyer: He handles all legal documentation and other legal matters pertaining to real estate transactions. He draws up and prepares lease agreements, deed of assignment and sub-leases and management agreements. Furthermore, he conducts searches at the lands registry to ascertain the genuineness or otherwise of interest being offered for sale. In the event of any litigation emanating from the property transactions, he represents the parties as an advocate.

#### SELF ASSESSMENT EXERCISE 1

Mention the players in the property market.

#### 4.0 CONCLUSION

This unit has exposed you to the major players in the property market and their roles in the running of the market.

#### 5.0 SUMMARY

The major players in the property market are the developers, investors, financiers, the estate surveyors and valuers (who could double also as the agent) and the lawyers. The developer may be public or private, multinational or an individual. Also, the developer, investor and financier may be the same person or an organization.

#### 6.0 TUTOR MARKED ASSIGNMENT

Enunciate the roles of major players in the property market

#### 7.0 REFERENCES/FURTHER READING

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## UNIT 4: CLASSIFICATION OF PROPERTY MARKET

### CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Classification of property market

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References/Further Readings

### 1.0 INTRODUCTION

Various property market sectors exist in Nigeria; the major sectors are residential and commercial sectors. The locations of office are usually at the central business districts. The case of Broad Street and Marina in Lagos and most other high streets in most Nigerian towns are well known. The residential sector is the fastest growing sector in Nigeria. The demand for middle and low income housing always outstrip supply. This is as a result of the lack of provision of enabling environment by the government. As a result, it assures the investor the highest security of income flow and capital. Classification of real property market operation, are carried out based on the type of property transaction in real estate, and the kind of real estate markets recognized, as specialized field of operation.

## 2.0 OBJECTIVES

The unit objective is to highlight the classification in the property market.

## 3.0 MAIN CONTENT

### 3.1 Classification of the property market

Classification of property could be in line with the use:

1. Surface land:

- a. agricultural land,
- b. forest land,
- c. transportation and communication,
- d. recreational,
- e. building sites
  - i. industrial, commercial, residential, government and institutional.
  - ii. Rural non-farm

2. Water resources

3. Surface mineral rights

4. Super-surface air rights

Another classification is according to purpose:



- i. Investment properties
- ii Marketable non-investment properties and
- iii. Service properties (non-investment and non-marketable)

Each group of properties, which can in some measure be substituted for one another, represents a separate market. The lines of demarcation are numerous, size, style and value each represent barriers but the principal divisions are formed by location, whether the estate is available for renting or sale, investment or occupation and according to use. The property market is subdivided into various sectors based on the following factors:

- a. Location: Not all properties in the property market are localized, therefore, the valuer tends to concentrate on a particular area and become an expert in its pattern of values and general characteristics. The uniqueness of location is only relevant to the extent that there may be other property offering comparable advantage of position. From the estate surveyors point of view it is usually preferable to hold an estate that forms part of a wide market as its value is more readily determined and, if necessary, its disposal is more easily arranged.
- b. Rent or Sale: the markets for property for rent or sale are usually separate, although they may overlap and they do in fact merge where leases are granted at a premium. As a rule however, the markets for the sale and leasing of property are quite distinct. According to prevailing conditions, there is a tendency for properties of each type and class either to be available for purchase or renting but without the choice of both on comparable terms. The estate surveyor concerned with the disposal or acquisition of an estate may often have to

consider whether it is in his interest to let or to sell. His decision will be influenced by the comparative attraction of the renting and sales market, and the terms upon which credit may be obtained.

- c. Investment or Occupation: The investment and occupation of property often overlap. The position is usually determined by whether the property being disposed of is occupied or vacant. Nevertheless, an occupied property may be purchased with the aim of obtaining possession and going into occupation. A vacant property may be bought in order to lease it to a tenant. The prices paid for properties sold for occupation may merely reflect the personal needs of an individual purchaser. Hence, the valuation of property is commonly approached by investment method that is, each estate is regarded as being available for investment as far as its value is concerned.
- d. Type of use: This is the most important basis of division in the property market. Its significance is enhanced by land use control which governs changes in use and so makes it essential in most cases that the actual permitted use of each estate is determined before it is offered in the market. There many types of divisions or use within property market but the major categories are residential, industrial, agricultural, recreational and commercial (shop, offices) properties.

#### SELF ASSESSMENT EXERCISE 1

What factors influence the classification of property market?

#### 4.0 CONCLUSION

This unit having considered classification of property, affords you a better understanding of your field of study.

## 5.0 SUMMARY

This unit pointed out the relevance of property market information sources, and the classification of the market.

## 6.0 TUTOR MARKED ASSIGNMENT

Differentiate between the classification of property market according to use and purpose.

## 7.0 REFERENCES/FURTHER READINGS

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## Module 4: VALUATION

Unit 1: The Estate Surveyor and Valuer

Unit 2: Basis and Purpose of Valuation

Unit 3: Methods of Valuation

Unit 4: Valuation Report

### UNIT 1: THE ESTATE SURVEYOR AND VALUER

#### Contents

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 The Estate Surveyor and Valuer

4.0 Conclusion

5.0 Summary

5.0 Tutor Marked Assignment

6.0 References/Further Readings

#### 1.0 INTRODUCTION

An estate surveyor and valuer is a member of the surveying and valuation profession who is primarily charged with the responsibilities of directing and supervising interests in landed properties; with the purpose of yielding optimum return which may not only be pecuniary but

also social, political, prestigious in nature. He also determines the worth of an interest in land and building for various purposes among others. In USA they are called Appraisers and in UK they are known as Chartered Surveyors.

The estate surveyor and valuer is often called upon by clients of diverse background both in private and public sectors to carry out the valuation of real estate assets of different kinds and for many purposes as may be required by his clients. The estate surveyor and valuer other professional activities include property management, marketing of real estate products such as land and/or buildings whereby he often act as an agent for his clients in the purchase, lease or sale.

## 2.0 OBJECTIVES

The objective of this unit is to:

- i. Examine the functions of an estate surveyor and valuer

## 3.0 MAIN CONTENT

### 3.1 The functions of an estate surveyor and valuer

The estate surveyors and valuers are generally involved with professional activities that bother on real estate acquisition, disposal, management and valuation of land and buildings, and other assets.

Typical activities of an estate surveyor and valuer are as follows:

- a. Valuing properties by applying expert knowledge and awareness of the local property market.

- b. Taking accurate measurements of sites and premises.
- c. Assessing the impact of a major development in terms of economic viability and environmental impact.
- d. Purchasing land and sourcing funding
- e. Visiting sites at all stages of development from green field to foundation and completed building
- f. Writing detailed reports on property for purposes such as rent reviews, investment potentials, valuation for mortgages and other purposes, marketability and building surveys.
- g. Negotiating with confidence, orally and/or in writing on issues such as rents.
- h. Selling and buying properties and sites on behalf of clients.
- i. Advising clients on the purchase and sale of individual investments and managing large property portfolios (especially as a property investment surveyor)
- j. Applying appropriate law for landlord and tenant negotiations and enforcing health and safety regulations
- k. Managing all kinds of property on behalf of the landlord to meet the landlord's contractual obligations, ensuring compliance with the conditions of the tenancy, collecting rents and handle building maintenance and repairs (specializing as a management surveyor)

- l. Working closely with other professional such as town planners, architects, highways and structural engineers in considering new developments.
- m. Assessing properties for business rates, capital gains taxation in case of acquisition and disposals.

#### SELF ASSESSMENT EXERCISE 1

Mention the functions of an estate surveyor and valuer.

#### 4.0 CONCLUSION

This unit has exposed you to the expected role of an estate surveyor and valuer. It must also be emphasized that the need of the society may require the expansion of these functions within the enabling law establishing the profession.

#### 5.0 SUMMARY

The functions of the estate surveyors and valuers were considered in this sector and it is expected that members of the profession should diligently provide the necessary duties that the society has entrusted into their care.

#### 6.0 TUTOR MARKED ASSIGNMENT

Compare and contrast the functions listed above and those in the Decree 24 of 1975.

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## UNIT 2: BASIS AND PURPOSE OF VALUATION

### CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
  - 3.1 Basis of Valuation
  - 3.2 Purpose of Valuation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignment
- 7.0 References/Further Readings

### 1.0 INTRODUCTION

The purposes of valuation do have bearing on the basis of valuation. Market value is the general basis or medium of valuation and the unit, standard or common denominator for measuring other value concepts. However, there are specific cases where the purpose of valuation will dictate other basis of valuation. For example, in valuation for insurance this requires the equivalent reinstatement of the property as the basis of valuation. Appraisal in investment decision requires, in addition to market value of the project, cost estimate (gross development value) of all inputs –cost of construction, land, professional



fees, and cost of finance. In compulsory acquisition or revocation of rights of occupancy, the basis of valuation depends on the enabling statute. In the UK it is commonly open market value. In Nigeria, the enabling law, Land Use Decree of 1978 provides as basis of assessment, equivalent reinstatement (depreciated capital value) of unexhausted improvements. Taxation law may specify a basis of assessment, different from market value. In property rating, net annual value is specified as the basis of valuation. Statutory valuations specify and define the basis of valuation authorized by the statutes which may be different from market value and should be adopted.

The basis of valuation identifies the value concept that suits the purpose, while the method of valuation provides the mechanism of expressing this value concept in monetary terms.

## 2.0 OBJECTIVES

The unit objectives are to:

- i. Examine the basis of valuation
- ii. Consider the purposes of valuation

## 3.0 MAIN CONTENT

### 3.1 Basis of Valuation

Basis of valuation defines the value concept which satisfies the purpose and solves the problem posed. Basis of valuation is defined by the valuer. The purpose and basis of valuation are not always the same, and need not be. If for example, a client requires the valuation of his

property as collateral for a loan, the valuation is required for mortgage which is the purpose. What value concept satisfies that purpose? As collateral, the mortgagee must naturally, except the property to secure the loan and loan repayment. In case of foreclosure of the mortgage, the mortgagee has the right to sell the property and would expect the sum realized to cover the loan or any such amount outstanding at the time of sale. Market value, which represents what the property will realize on sale under open market conditions in the case of foreclosure, therefore, provides the value concept that satisfies the requirement of mortgage transactions.

If the client wants to insure the same building, the purpose of valuation is for insurance and different sets of criteria will apply. Insurance cover secures the reinstatement of assets assured, in case of damage or loss. The basis of valuation in such circumstances would be the equivalent reinstatement of the property. If the same property is compulsorily acquired by government, valuation will be for the purpose of determining the compensation payable. The basis of valuation will be as provided by the enabling statute.

#### SELF ASSESSMENT EXERCISE 1

Mention the basis of valuation of the following: petroleum products filling station, hotel, agricultural houses and farmland.

### 3.2 Purpose of Valuation

The purpose of valuation plays an important role in the choice of valuation method to be adopted in valuing a property. The main reason for this is that it will afford the valuer to arrive at a reasonable market value for the property being valued. The client normally determines the purpose of valuation because he is the one that wants his property valued and

he is therefore in a better position in deciding what the report will be used for. After the valuer has known the purpose for which the valuation is required, he may now decide on appropriate method suitable for the valuation exercise.

The following are some of the various purposes of valuation:

- i. Sales/purchase: Appraisals are used throughout the fields of business and finance, where it has important applications in the sale and purchase of property; in mergers and exchanges; in mortgage and stock financing and in sale-leaseback transactions. A valuer is always called upon to determine the amount a property would go for in the property market when one needs to buy a property, one needs a valuer to be able to determine if the asking price is too high or too low. This purpose of valuation influenced the choice of the comparison method and/or the investment method. The contractor's method will become applicable where the property in question is the type not normally available in the property market or sited in an isolated neighbourhood.
- ii. Taxation: A valuer may be called upon to determine the amount of tax to be paid on the property valued. The levy includes tenement rate, capital gains tax, and property rate. The various methods are the rental method (which could be direct or indirect), profit/account method and the contractor's method.
- iii. Probate purpose: in the event of the death of someone whose property is to be inherited by his heirs, the legal position is that a tax known as estate duty or capital transfer tax has to be paid before the court of law can issue a letter of administration

- with which such heir apparent could now assume ownership and control of such property.
- iv. Insurance: the insurance world is all about risk management. Such risks may be either in business, investment or even in the personal life of the insured. The basis of valuation for insurance purpose can be broken into two namely: reinstatement and indemnity. An individual who wants to insure his property requires the help of a valuer to determine the insurance value.
  - v. Rental valuation: the valuer is always called upon to determine the amount of rent to be paid on a newly completed property because the owner is not sure of the amount and he does not want to be cheated.
  - vi. Redevelopment/Investment Decision: some property may need to be renovated or redeveloped altogether. The reason a valuation will be carried out may be because a property is not being used for its highest and best use. The property must have latent value, which can be released through renovation or redevelopment activity.
  - vii. Accounting: a valuer may also be called upon to assess the worth of a company's assets especially real estate assets and plant and machinery. It could be for balance sheets, liquidation and/or partnership.
  - viii. Mortgage: valuation may be required for the purpose of mortgaging of property. The lender was to be sure of the adequacy of the collateral in case of default.

- ix. Litigation: This consists of condemnation or compulsory acquisition, injurious affection, valuation in fraud cases, valuation in the division of property under terms of a will, divorce proceedings or between rival claimants.

## SELF ASSESSMENT EXERCISE 2

Enumerate the purposes of valuation.

## 4.0 CONCLUSION

We have attempted to look at the basis and the purpose of valuation, their interrelationship in the determination of value of the property.

## 5.0 SUMMARY

Different basis of valuation have been examined and various purposes of valuation in this unit for better understanding in the adoption of appropriate method of valuation.

## 6.0 TUTOR MARKED ASSIGNMENT

With the aid of examples demonstrate your understanding of the basis and purpose of valuation of properties.

## 7.0 REFERENCES/FURTHER READINGS

1. Olusegun, Kuye (2003) Principles and practice of property valuation. Lagos: Olusegun Kuye & Associates.
2. Olusegun, K. (2008). Principles into valuation. Lagos. Olusegun Kuye & Associates.
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## UNIT 3: METHODS OF VALUATION

### CONTENTS

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3.0 Main Content

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3.1.1. Comparative method

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3.1.3 Contractors method

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3.1.5Residual method

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References/Further Readings

### 1.0 INTRODUCTION

Thus valuation is the art and science of estimating the value of property at a particular point in time and for a particular purpose. Valuation is scientific in terms of purpose but an art in terms of its execution. Like an art, valuation keeps taking on new forms with the

advancement in years and with the implication that the valuer must realized the need to break from his confinement and follow a path most suitable for the achievement of a realistic value opinion.

The valuation of real estate is much like mystery, and as such, requires vital clues which are obtainable from appropriate data/information gathering methodology, unlike other markets; data are not easily available for processing into value estimates in a property market, therefore, it takes the valuer some reasonable mental effort to be able to wade through the maze of information provided by his client cum the field data personally obtained and his professional acumen to be able to appropriately and un-partially analyse those information/field data before arriving at his valuation opinion. Since the essential inputs of the valuers computations are affected by his own ability to research and analyse, there is the need for him to be very extensive in data collection in order to acquire a very strong and articulate background against which he will make his presentations.

Although, the aim of the valuer is to provide an estimate value, it should not be assumed that the valuer's estimate of value and the market price or market value will be the same. Different valuers could well place different values on a particular interest at a particular time because they are making estimates and there is normally room for this difference in the individual valuer's estimate but usually within certain reasonable limits. These limits depend on a lot of factors and it must be noted that in valuation, any uncertainty increases the risk element and this consequently reduces value estimates due to the peculiar nature of properties. For this reason, the valuers were trained to make objective value judgments based on well analysed data collected on the field.

Thus, to make this judgment reliably, valuer need not only theoretical knowledge, intelligence, experience but also access to all necessary, reliable and representative information as well as the adoption of appropriate valuation methods. The real challenge of valuer is to minimize the zone of uncertainty around the open market value through representative data and adoption of reliable valuation methods.

## 2.0 OBJECTIVES

The objectives of this unit are:

- i. Examine the methods of valuation
- ii. Appropriateness of each method for valuation.

## 3.0 MAIN CONTENTS

### 3.1 Methods of valuation

Method of valuation can be defined as various calculations, computations or assessments which as experienced valuer adopts in arriving at his valuation opinion. Hence, methods of valuation vary and it is only a highly skilled valuer that can rightly adopt the appropriate method to satisfy the basis of value which he may have already identified.

Generally, there are five methods that can be adopted when carrying out a valuation exercise and these approaches are:

- a. Comparative method
- b. Investment method



- c. Contractors method
- d. Profit/account method
- e. Residual method

The three basic traditional methods are: comparative, investment and contractors. Profit and residual are derivatives of the three basic methods.

3.1.1 Comparative method: this method is predicted on sales data. This tends to reflect what willing, knowledgeable and un-coerced sellers and buyers would agree upon as the price. This approach estimates market value by comparing sales prices of recent transactions involving similar properties. The comparable sales method postulate that the monetary value of an asset can be determined by comparison of that asset with other assets of similar nature which have been recently sold or exchanged in the same market or offered for sale in a similar market. ALSO, the essential conditions for estimating the value of real estate are knowledge of market forces, technical knowledge of the asset being appraised and knowledge of the purpose of the appraisal.

There are some factors called value indicators that determine variation in prices. For example the number of toilet and bathrooms, provision of dining room, study, parking space etc. Before the valuer can apply this method the following conditions are crucial.

- a. The comparable must be in the same neighbourhood.
- b. The comparable property transaction must similar e.g compare three bedrooms flat with three bedroom flat

- c. The transaction must be recent and sufficient enough for reliable judgment.

In applying market data approach:

- a. Seek out similar properties for which pertinent sales, rental data are available.
- b. Ascertain the nature and the conditions of sale to be sure it is at arms length. That is no motivating force, relationship etc
- c. Analyse the comparable properties important attributes with corresponding attributes of the property being appraised.
- d. Consider the dissimilarities in the characteristics disclosed in step b. in terms of their probable effects on sale's price.
- e. Formulates an opinion in the light of the above analyses.

3.1.2 Investment method: this is based on the income from the property and derives the value from the capitalization of such income. Capitalization has been defined as the process through which an anticipated income stream is converted into capital value. Since investment approach involves the capitalization of the net income after the deduction of the outgoings (e.g rates, repairs, management fees, insurance, rent to superior landlord or ground rent). It is applicable to property that generates income. It is obvious that only property which produces income or capable of producing income will permit the use of this approach. The investment method rest on the theory that the capital value of an interest in landed property, freehold or leasehold is directly related to the income or annual value of the property. It follows that given the rental income or rental value of a property, the capital value can be estimated.

Annual value can readily be established from actual rental income or from comparison of rents of similar properties or occasionally by some other methods. However, there are challenges of valuing varying income with appropriate rate of capitalization and the effect of tax. The rate chosen should be reflective of the quantity, quality and the duration of the income stream and sufficient to attract capital to the particular class or type of real estate involved.

Capital value = (Gross Income Less Outgoings) Net Income  $\times$  Years Purchase in perpetuity (freehold Interest) @ say 8%

3.1.3. Contractor's method: This is predicated on the concept that the total value of improved

property is equivalent to the market value of the land plus the cost of improvements. This approach is very useful especially in the valuation of compensation, development appraisal and insurance purposes. Also, in valuing public buildings, owner-occupied buildings, industrial buildings where comparables are not available. The cost is determined by multiplying the construction rate (₦ per square metres or cubic metres) by the gross floor area. A deduction of the depreciation is made (if any) before adding the land value derived from comparison method. The challenge of this is the determination of the appropriate rate of depreciation and the effect of inflation on construction rate.

An Illustration:

Description	
Floor Area (say)	500 m <sup>2</sup>
Construction rate	N25, 000/m <sup>2</sup>

Construction Cost	N12, 500,000
Less Depreciation (say) 10%	N1.250,000
Depreciated Construction cost	N11, 250, 000
Add Land Value	N 600,000
Capital Value	N11, 850. 000

3.1.4 The profit/account method: This method of approach makes an estimate of the gross

earnings or receipts, less the working expenses incidental to the earning less an account to represent interest on capital and less an amount of remuneration to the tenant for risk and enterprise with the balance which is left representing a reasonable rent to be capitalized in achieving the capital value of the said property. It is used for properties that has an element of monopoly such as recreational centers', hotels, motel, and where comparables cannot be used.

3.1.5 Residual method: A valuation is sometimes required of an undeveloped land ripe for

redevelopment or a building, which has become less suitable for the occupier's business for a variety of reasons (which may include functional or physical obsolescence) and which therefore requires redevelopment or refurbishment. Residual method is normally used in situation where a change in the use of land or building is contemplated in order to release its latent value.

Residual land value = Expected Development Value - Expected Development Cost

(Including Developer's Profit)

## SELF ASSESSMENT EXERCISE1

Discuss the methods of valuation.

### 4.0 CONCLUSION

You are been exposed to the traditional methods of valuation. We also have the modern methods of valuation which will be covered in advanced valuation.

### 5.0 SUMMARY

The methods of valuation have been discussed and the appropriateness of each in valuation.

### 6.0 TUTOR MARKED ASSIGNMENT

1. Discuss the methods of valuation including the condition for application.
2. Discuss the methods appropriate for the valuation of the following: residential property located in an urban area with recent transactions of similar property, a purpose built school, an industrial building. You can make necessary and reasonable assumptions.

### 7.0 REFERENCES/FURTHER READINGS

1. Olusegun, Kuye (2003) Principles and practice of property valuation. Lagos: Olusegun Kuye & Associates.
2. Olusegun, K. (2008). Principles into valuation. Lagos. Olusegun Kuye & Associates.
3. Richmond, R. (1975). Introduction to valuation. London: Macmillan Press Ltd.

## UNIT 4: VALUATION REPORT

### CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Valuation Report

3.2 Valuation Format

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References/Further Readings

### 1.0 INTRODUCTION

When a valuer is required to carry out valuation by a client, he will eventually have to sum up all his findings in a “Valuation Report”. This will entail going to inspect the property and taking note of the location and any important landmarks or adjoin proprieties. The valuer will need to take external and internal measurements although the procedure depends on the method being employed for instance, if he is using the comparison method, he will measure the entire premises. The valuer will also investigate the rent passing on, or value of, similar properties in that area. After physical inspection of the subject property and collection of information, the valuer chooses one amongst the various methods of valuation which suits

the property most and mathematically resolves it. The final step is to have a report written on the above information gathered.

## 2.0 OBJECTIVES

The objectives of this unit are:

- i. Examine the relevant data for valuation report
- ii. Determine the format of valuation report

## 3.0 MAIN CONTENT

### 3.1 Valuation report

Valuation report writing requires professional skill and this is because a lot of issues will need to be addressed in the report. These issues include:

- Letter of transmittal
- Photograph of subject property
- Location sketch
- Purpose of the valuation
- Definition of market value
- Legal description of subject property
- Statement of highest and best use

- Assessment of tax data
- Neighborhood data
- Site data
- Property data
- Floor plan
- Basis of valuation
- Valuation methods
- Valuation opinion
- Statement of limiting conditioned
- Certificate of valuation

#### SELF ASSESSMENT EXERCISE 1

What are the relevant data that the valuers has to collect in preparing the valuation report.

#### 3.2 Format of valuation report

Valuation report consists of the essential outlines under which the report should be prepared. It is important that the outlines follow a logical order, even though there may be variations depending on the purposes for which the report is required, or style adopted by an estate firm. The essential ingredients required in the different parts of the valuation are as follows:



- i. Brief/instruction: Reference to the source of instruction which might have come verbally or in writing. In some cases you may need to restate the instruction to reflect the extent of job expected of the valuer by the client.
- ii. Date of inspection: This is the actual date on which the inspection was carried out for example, 4<sup>th</sup> January 2012, where the inspection took some days to accomplish, a range of dates should be given e.g. the shopping complex was inspected between 20<sup>th</sup> and 23<sup>rd</sup> December, 2011.
- iii. Purpose and scope: The purpose of the valuation should be stated in clear terms whether it is for Insurance or Mortgage. The scope will show the definition of the type of value being determined. It will also reflect the limit covered by the instruction, there may be an electricity generating plant in the premises which is not intended to be included in the valuation. It becomes very important to state it clearly that the generating plant does not form part of the land and building being valued.
- iv. Location: Comprehensive address of property and brief description of how it can be located within its neighborhood. Some permanent landmarks can be referred to and location sketch plan can be included in the final valuation report.
- v. Neighborhood character: Explain the type of land use that dominates the area i.e. commercial, residential, Government Reservation Area, etc. Any

notable feature that can depict the clear picture of the surrounding should be mentioned.

- vi. Site description: Plot, size, shape and physical nature of the plot. Beacon numbers, fencing and gate, precise description of the structure developed on site.
- vii. Construction: Sequence description of material, style, and quality of construction from foundation to the roof or vice-versa must be made.
- viii. Accommodation: The details and accuracy in presenting room sizes depend on the type of property. The schedule of accommodation provided must however be correctly presented.
- ix. Services: Water supply, telephone, and electricity, whether they are tapped from mains. Other facilities provided- water tanks, generating set, well or borehole etc.
- x. State of repairs: Reflect the standard of maintenance- poor or well maintained. Any roof leakage as maybe indicated from the ceiling. Any wall cracks, sign of dampness or partly fallen fence.
- xi. Planning: Does the development on site conform to what the area is zoned for.
- xii. Tenancy: State the type of tenants, state whether the property is fully let or partly and also if voids is experienced. It is not compulsory to mention

tenant name but where it could improve the image or value of the property one can do so. Range of rent passing can be quoted. Also, express the possibility of improvement or maintenance of current level in the foreseeable future.

xiii. Tenure: Type of interest subsisting in the subject property and the registration particulars of the document and also the unexpired term should be stated.

xiv. Assumptions: Assumption are commonly stated in the following areas:

- The likely effect of planning schemes.
- Source of information.
- Market situation.

xv. Valuation opinion: State the value of the property and where there is need for a breakdown, state it clearly. The value should however be stated as at the date of inspection or valuation.

xvi. Caveat or Limiting Conditions: This deal with liability to third party as well as the extent to which the report could be used, statement about mode of publication, amendment to the report etc.

- xvii. Appendices: This relates to additional information and other documents like location map, building plan etc. which need to be attached to the report.

In writing a report, other things considered to be of paramount importance are: the chronological order, good language, clarity, simplicity, correctness and completeness. In addition, are accuracy, appropriateness, consistency, dignity, directness, accidental deception avoidance, impersonal, objectivity, and restraint on emotion.

#### SELF ASSESSMENT EXERCISE

Mention the relevant headings in a valuation report.

#### 4.0 CONCLUSION

The knowledge acquired in this unit has equipped you in writing a simple report. The more you practice on writing report the better you become.

#### 5.0 SUMMARY

In this unit you have been given guidelines on how to gather information before you write your report. The headings give you a guide on the data required. It is better to get more information than less which will require going back to site at an additional cost and time.

You need to go along with writing material and measuring tapes for measurements.

#### 6.0 TUTOR MARKED ASSIGNMENT

Carry out valuation of a simple bungalow in your neighbourhood using the guidelines above.

#### 7.0 REFERENCES/FURTHER READINGS

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