

Value and Price of Real Property: Valuers Perspective

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Abstract:- The term value and price of real property has been used by most people including valuers interchangeably causing some confusion as to their actual meaning as regards real property appraisal. Valuers are always involved in the price and value of property as they are the major stake holders in the appraisal and sale of real property. This study intends to ascertain the relationship between value and price of real property. The study sort information from the records of estate firms to ascertain the prices and value of 1, 2 and 3 bedroom flats sold and valued by their firms in Ruuodomaya area of Port Harcourt metropolis. The study also sought to know from the valuers if there exist a relationship between value and price of real property. The methods used in the analysis of this study involved the use of tables, bar charts and the Spearman correlation analysis. The results reveals that valuers agreed that there is a strong relationship between value and price of real property, also results from the analysis using the Spearman correlation to ascertain if there exists a relationship between value and price of real property indicates that value and price of real property have strong positive relationship which means that price is a determinant of value. The study recommends research capability by the valuers to ascertain real property attributes required by buyers since value is mostly affected by what the buyer of real property requires which will increase the price of the property and that estate valuers should focus more on property features and characteristics for proper management of residential properties and efficient valuations.

Keywords:- Value, Price, Real Property, Valuer, Perspective, Market value.

I. INTRODUCTION

Value can have different meanings to different persons or professions. When value is mentioned in the real estate profession, it is the market value that is meant.

There are many definitions given to market value by different stake holders. The Uniform Standards of Professional Appraisal Practices (USPAP) (2010-2011) defined Market Value as “a type of value, stated as an opinion, that presumes the transfer of a property (i.e a right of ownership, or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal”. While the International Valuation Standards defined Market Value as “The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had

each acted knowledgeably, prudently and without compulsion”.

Hence property value is defined by Millington (2006) as “the money obtainable from a person or persons willing and able to purchase property when it is offered for sale by a willing seller, allowing for reasonable time for negotiation and with the full knowledge of the nature and uses which the property is capable of being put”. While Ge and Du (2007) opine that “property value is an essential aspect of property markets worldwide and determined by a variety of factors and the determination of those factors is a significant part of property valuation”.

Price could be said to be the amount a particular buyer is willing to pay for a good to a willing seller. A property that has high value due to all variables inherent in it can be bought at a price lower than its market value due to a period of down real estate market while another property in a relatively good location and condition with value not as much as the other property earlier mentioned but can be sold at a higher amount maybe due to demand. Omboi and Anderson (2011) assert in their study that real estate prices go through bubbles and slumps. They also found from the study that income, demand and supply, location all determine price of real estates. Sharpe (1999) in Omboi and Anderson (2011) asserts that real estate pricing deals with the valuation of real estate and all the standard methods of determining it. They observed that the cost of new construction to boost supply and cost of borrowing are also a determinant of price. However, observation has revealed that since prices of real property fluctuates, some investors purchase property when there is a bust because at this period property is bought at low and sell them when there is a boom. This is indicating that the value of the property is not taken into consideration rather the forces of demand and supply take precedence. It is observed that price and value can be similar at times and completely at variance some times. This study intends to find out if price and value of real property in the study area have a close relationship from the estate valuers perspective.

II. STUDY AREA

Rumuagholu is one of the community in ObioAkpokor local government area of Rivers State. ObioAkpokor local government area is one of the local government areas that make up the 23 LGAs of Rivers State. The LGA is surrounded by four other local government areas namely; Ikwerre LGA to the north, Emohua LGA to the west, Oyigbo LGA to the east and Port Harcourt city local government area to the south. Rumuagholu is mainly a residential neighbourhood comprising schools, churches, markets, shops and others.

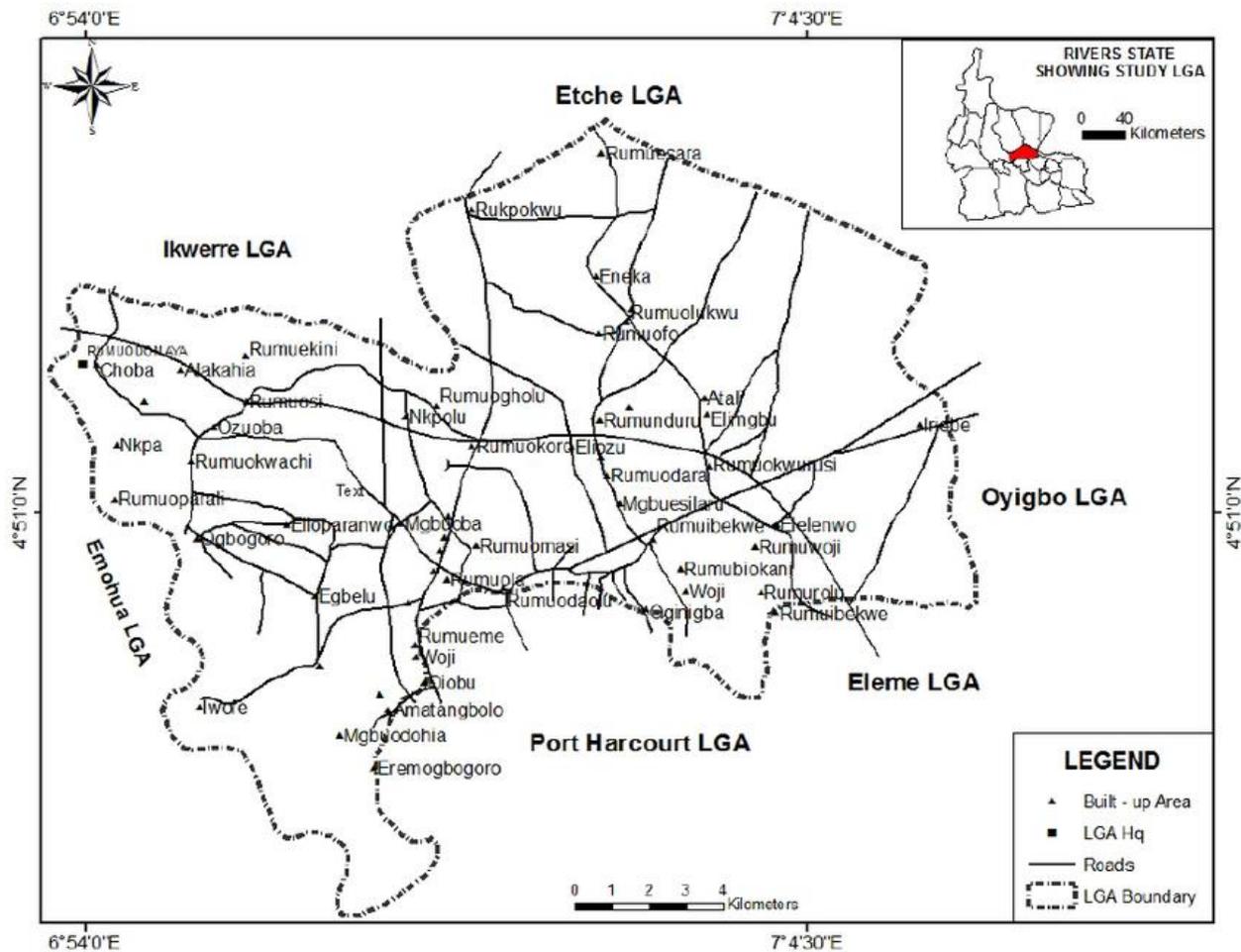


Fig. 1: Map of ObioAkpor LGA Showing the study community and other communities in the LGA (insert Map of Rivers State).

Source:

III. LITERATURE REVIEW

A. Real Property

Real property has been asserted different definitions and meanings by some scholars in the real estate practice. Kalu (2001) asserts that real property is difficult to define and as a result different professions approach its definition from their own perspectives. He went further to observe that no matter the definition given to real property, that one thing is certain that it is composed of the physical solum as well as the rights subsisting in them. Hence that it can be owned and possessed for so many reasons especially for investment purpose.

The Appraisal Institute (2010) defines both real estate and real property revealing its differences. They defined real estate as “land, buildings and other affixed improvements as a tangible entity”. It further explains that “real estate pertains to the physical land and its appurtenance example buildings”. The institute went further to explain that “real estate is immobile and tangible and states its legal definition to include the following tangible components like land, all natural parts of land such as trees and minerals and all things attached to land by man such as buildings and improvements on land”. Real estate includes all permanent building attachment such as plumbing, electrical wiring and heating systems as well as built in items like cabinets and elevators

Appraisal institute (2010). Hence real estate includes all attachments in the property, above and below the ground.

The International Valuation Standards Committee IVSC (2011) defines “real property as the ownership of real estate. It states that property is a legal concept encompassing all the interests, rights and benefits related to ownership. It further explains that property consists of rights of ownership which entitles the owner to specific interests in what is owned.”.

Real property investment is risk prone. There is subjected risk as stated by Kalu (2001) and they are tenant risk, market risk, structural risk, taxation risk and planning / legal risk. Liquidity is a feature of real property because property is difficult to dispose of because of its cost and transfer protocols Kalu (2001).

B. Concept of Value in Real Property

Value can have different meanings to different persons or professions. When value is mentioned in the real estate profession, it is the market value that is meant.

There are many definitions given to market value by different stake holders. The Uniform Standards of Professional Appraisal Practices (USPAP) (2010-2011) defined Market Value as “a type of value, stated as an

opinion, that presumes the transfer of a property (i.e a right of ownership, or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal". The Appraisal Institute (2013) defined Market Value as "The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest and assuming that neither is under undue duress".

While the International Valuation Standards defined Market Value as "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

While The Appraisal Institute's "The Dictionary of Real Estate Appraisal", Fourth Edition, (2002), defined

market value as the most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress. It is opined by Olusegun (2003) that "real estate has no value if it has no utility, if it is not scarce and if it is not effectively demanded" This was supported by an earlier study by Kalu (2001) which asserts that a property has value if it produces income, is on demand and in a good location relative to its use. He further observes that scarcity, prospects of income growth, state of the economy, cost in use, government and political factors, physical attributes and taxation are other determinants of value while Hammer, Booth, and Love (2000) state that provision of good and adequate infrastructure is central to property value. Kamali, Hojjat and Rajabi (2008) in Ajibola, Awodiran and Salu-Kosoko (2013) grouped the variables that determine property values into four namely; environmental variables, neighbourhood variables, accessibility (location) variables, property variables.

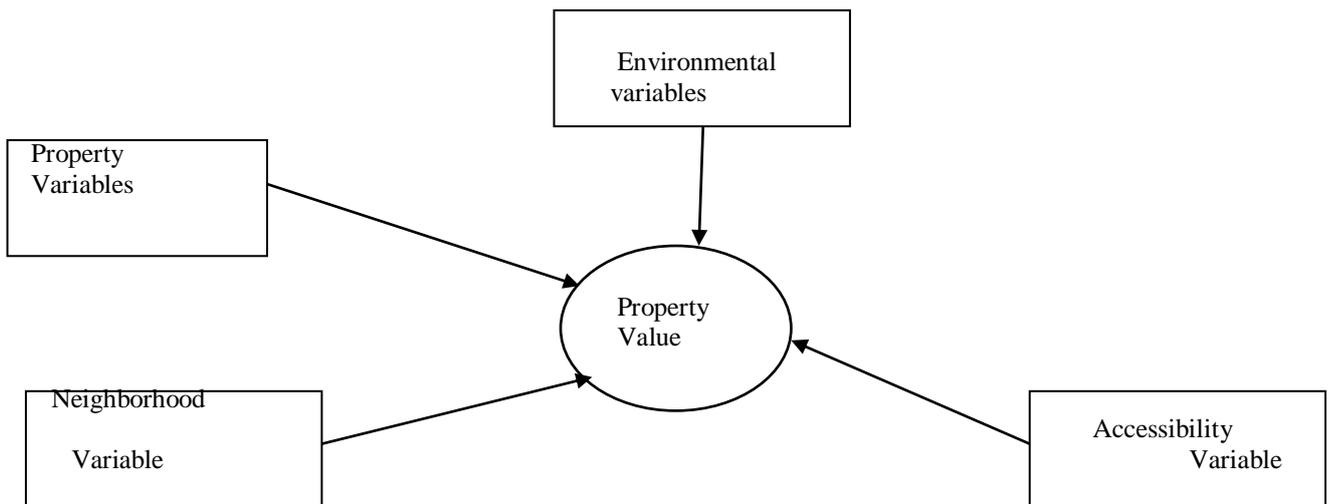


Fig. 2: Retrieved from Kamali, Hojjat and Rajabi (2008) in Ajibola, Awodiran and Salu-Kosoko (2013)

C. Concept of Property Prices

Price could be said to be the amount a particular buyer is willing to pay for a good to a willing seller. Price is a parameter to express the value of an object or property Verheye (2007). He went further to state that the price a property might sell for in the property market at a specific period in time is the market price while value is a property actual worth in relation to other similar properties. However, Ozdilek (2010) observes that a clear definition of and distinction between price and value is crucial in land and real estate economics. McParland, McGreal and Adair (2000) observed that distinguishing value and price of land or building, emphasis is usually on the differences in definition while Woestenburg (2014) states that the concepts of price and value have always been mixed up due to the strong reciprocal relation between them which has gained

little attention in the literature as noticed. He went further to state that valuers can report differing values for the same property due to assumptions not logically made and also the intention of the valuer which causes the buyer and seller to negotiate over a transaction price. This ordinarily shouldn't arise if the valuations are properly done and this makes the transaction price to be at variance with the market value of the property. It is observed that price and value can be similar at times and completely at variance some times.

Omboi and Anderson (2011) assert in their study that real estate prices go through bubbles and slumps. They also found from the study that income, demand and supply, location all determine price of real estates. Sharpe (1999) in Omboi and Anderson (2011) asserts that real estate pricing deals with the valuation of real estate and all the standard methods of determining it. They observed that the cost of

new construction to boost supply and cost of borrowing are also a determinant of price. However, observation has revealed that since prices of real property fluctuates, some investors purchase property when there is a bust because at this period property is bought at low and sell them when there is a boom. Raden, Sudarso, Deddy and Indra (2013) observed that price is influenced or affected mostly from the customer’s point of view, so housing attributes should reflect what the customer wants. This means that the price a buyer places on a property is determined more on if the property has what he wants not particularly the value of the property.

IV. METHODOLOGY

The study adopted the quantitative approach as analyses by Kuhn(1970), who posits that it is an inquiry into a social or human problem using theory that consist of variables that are measured with numbers and analysed using statistical procedures in order to confirm if the predictive generalizations of the theory hold true. The study used structured questionnaires to retrieve information from the respondents.

A total of 76 estate firms who were administer questionnaires to elucidate information on value and price of real property. A sample size of 76 estate firms was chosen for the study was chosen purposively out of the 119 estate firms registered and doing business in Rivers State with the Rivers State branch of Nigerian Institution of Estate Surveyors and Valuers, purposes of achieving the study aim.

V. INTERPRETATION AND FINDINGS

A. Years of Practice as Professional Valuers.

Years of practice	Frequencies	Percentages
0-5	10	13.1
6-10	17	22.4
11-15	24	31.6
16-20	18	23.7
20+	7	9.2
Total	76	100

Table 1 Years of experience as a valuer.
Source: Field survey (2021)

Table 1 above shows that 13.1% (10) of the responses have practiced as professional valuers for 0-5 years, 22.4% representing 17 respondents have 6-10 years experience,31.6% representing 24 valuers have 11-15 years experience as professional valuers while 23.7% representing

18 respondents have 16-20 years experience and only 9.2% representing 7 valuers have 20 and above years of experience. It reveals that the respondents are experienced enough to give credible answers to questions sought as it relates to the subject of the study.

Range	Decision Rule
0.000 – 0.290	Very Weak
0.300 – 0.390	Weak
0.400 – 0.590	Moderate
0.600 – 0.790	Strong
0.800 – 1.000	Very Strong

Table 2: Decision Rules for Strengths of Correlation
Source: Pallant (2013).

Pallant (2013) Decision Rules of Strength of Correlation will serve as a guide in arriving at findings for

the Spearman correlation analysis and the multiple regression analysis.

B. Ascertain the relationship between value and price of real property.

a) Value of Real Property Been Closely Related to the Price of Real Property.

	Frequency	Percentage	Cumulative Percentage
Strongly disagree	1	1.3	1.3
Disagree	0	0.0	1.3
Neutral	0	0.0	1.3
Agree	41	54.0	55.3
Strongly Agree	34	44.7	100.0
Total	76	100.0	

Table 3: Relationship between Value and Price
Source: field data (2022)

Table 3, 1.3% shows that, 1 response strongly disagree that there is a relationship between value and price of real property. 54% representing 41 responses agree that there exists a relationship between value and price of real property while 44.7% representing 34 of the respondents strongly agree that there exist a relationship between value and price of real property in the study area. None of the valuers said

they disagreed that a relationship exists between value and price of real property and there was no neutral response.

The responses indicate that the valuers strongly agree that there is a relationship between value and price of real property.

b) Indication of property values of 1,2 and 3 bedroom flats in the study area of Rumuagholu

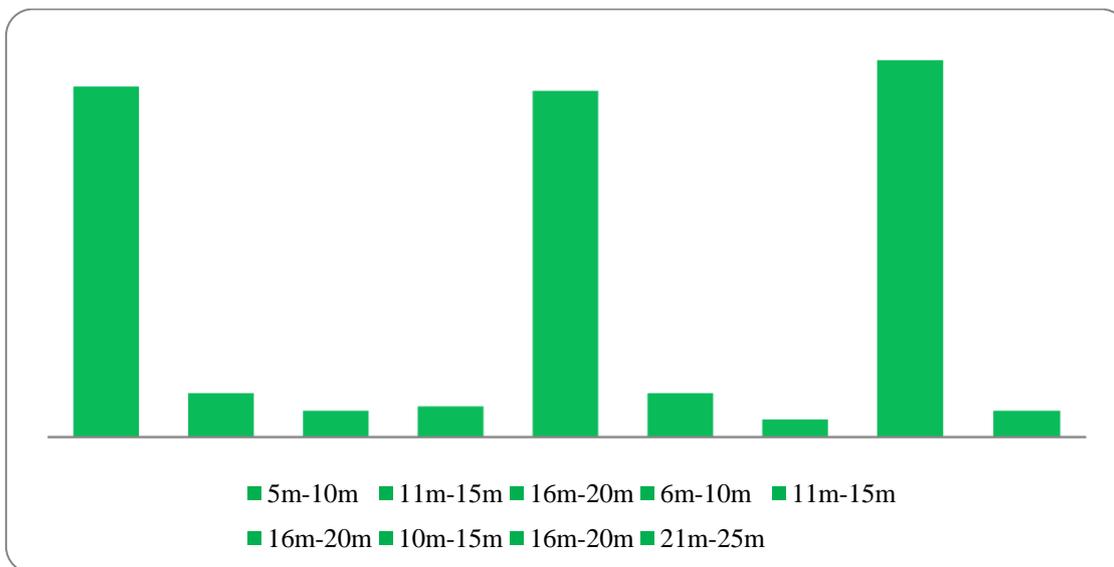


Fig. 3: Property Values for 1, 2 and 3 bedroom Flats in Rumuagholu

Figure 3 indicates that 82.9% (63 no) of the valuers stated that property values of 1 bedroom flats in Rumuagholu is between 5m-10m. While 10 of the valuers indicated that the property value for 1 bedroom in the study area falls between 11m-15m and 6 respondent firms indicated that the property values for 1 bedroom is between 16m- 20m. For 2 bedroom flats in Rumuagholu, 7 respondent estate firms indicated that the property value of 2 bedroom flat is between 6m-10m, 79 valuers responded

that 2 bedroom flat in the area is between 11m-15m and 10 valuers stated that the value is between 16m-20m. The study reveal that 4 of the respondent valuers indicated that the property value of 3 bedroom flats in Rumuagholu is between 10m- 15m while 86 of the valuers indicated that the property value for 3 bedroom flats in the study area is between 16m-20m and 6 valuers indicated that the property value for 3 bedroom flats in the area is between 21m-25m.

c) Sale Prices of 1,2 and 3bedroom Flats in Study Area of Rumuagholu

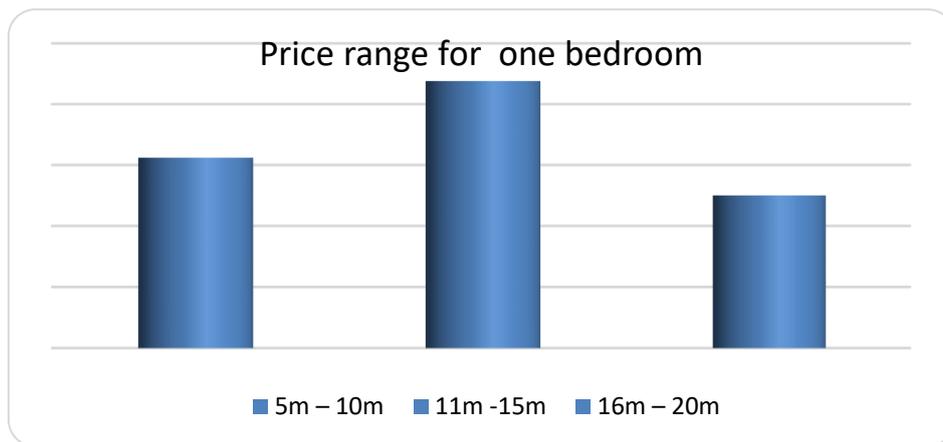


Fig. 4: Showing price range for 1 bedroom flats in Rumuagholu.

Figure 4, shows that 30.3% representing 23 respondents indicate that one bed room flat in Rumuagholu sells between 5M – 10M. The respondents indicated that for the price range of 11M -15M, 43.4% (33 respondents)

agreed that the sale price of 1 bedroom in Rumuagholu is within this range The study reveals that 26.3% (20 no) indicated that the price of 1 bedroom in Rumuagholu is within 16M – 20M.



Fig. 5: Showing price range for 2 bedroom flats in Rumuagholu.

Figure 5 shows that, 26.3%, representing 20 respondents claimed that 2 bed room flat in Rumuagholu sells between 6M – 15M The respondents indicated that for the price range of 16M -25M, 51.3% (39 respondents)

indicated the sale price of 2bedroom at Rumuagholu to be within this range. The study reveals that 22.4% (17 no) indicated that the price of 2bedroom in Rumuagholu is within 26M – 35M



Fig. 6: Showing price range for 3 bedroom flats in Rumuagholu

From figure 6 shows that, 59.2% representing 45 respondents indicate that 3 bed room flat in Rumuagholu sells between 10M – 20M. The respondents indicated that for the price range of 21M -30M, 27.6% representing 21

respondents indicated the sale price of 3bedroom at Rumuagholu to be within this range The study reveals that 13.2% (10 no) indicated that the price of 3 bedroom in Rumuagholu is within 31M – 40M

d) Analysis of Data to Determine Relationship between Value and Price of Real Property.

Variables	Rho	1bedroom	2bedroom	3bedroom
Price	Correlation coefficient	0.613	0.713	0.565
	Sig.(2tail)	0.000	0.000	0.000
	N	76	76	76
Value	Correlation coefficient	1.000	0.662	0.453
	Sig.(2tail)	0.000	0.000	0.000
	N	76	76	76

Table 4: Pairwise Analysis of price and value of 1, 2 and 3 bedroom flats in Rumuagholu
Source: field data (2022)

Table 4 shows decision rules for strengths of correlation presented earlier in this research is used as guide for this analysis. Table 4 shows the result of an analysis of spearman’s correlation coefficient for price and value of 1,2 and 3 bedroom flats in Rumuagholu. The result reveals that there is a strong positive correlation between price and value of 1bedroom flat with rho= 0.613, n=76, sig/p≤ 0.000 and rho= 1.000, n=76, sig/p≤ 0.000 respectively while for 2bedroom flat price and value revealed to have a strong positive relationship with rho=0.713, n=76, sig/p≤ 0.000 and rho=0.662, n=76, sig/p≤0.000. The result for 3bedroom flats revealed a moderately positive relationship between price and value with rho=0.516, n=76, sig/p≤0.000 and rho=0.453, n=76, sig/p≤0.000. In the overall research context, the findings reveal that value is significantly influenced by the price of 1, 2 and 3bedroom flats in the Rumuagholu.

Table 3, valuers indicated that they strongly agree that there is a strong relationship between value and price of real property and this response is corroborated with the results from the analysis using the Spearman correlation to ascertain if there exists a relationship between value and price of real property. The results from the analysis indicates that value and price of real property have strong positive relationship which means that price is a determinant of value and this is supported by Verheye (2007) who stated that price is a parameter to express the value of an object or property. This implies that a property can have high values but not command a high price due to demand, sale of comparables, income or the value perception of the intending buyer or purchaser. This is also supported by Anthonio (2006) who noted that price is mainly influenced by factors like income, the forces of demand and supply. He further stated that price most times do not have to be the value placed on the property. This is why value alone cannot influence price. An example can be if the supply for two bedroom flats increases, demand will automatically fall and the value for the property will decrease, this means that value alone without demand function cannot influence price. Kalu (2001) also asserts that price realized from a transaction may not necessarily be the market value.

VI. CONCLUSION

The study observed that the respondent valuers who are well experienced were of the opinion that value and price of real properties are related even though their meanings vary. The correlation analysis also confirms this relationship as it revealed that a strong positive relationship exist between price and value of 1, 2 and 3 bedroom flats in the study area.

VII. RECOMMENDATION

The study recommended that;

- There should be development of research capability by the valuers to ascertain real property attributes required by buyers since value is mostly affected by what the buyer of real property requires which will increase the price of the property.
- Estate valuers should focus more on property features and characteristics for proper management of residential properties and efficient valuation.

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