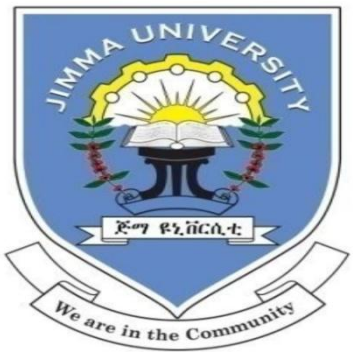

Jimma University

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Construction Engineering and Management Stream

Assessment of real property valuation methods in Ethiopian financial institutions (Banks): The Case of Jimma Zone

A Thesis submitted to Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Degree of Master of Science in Construction Engineering and Management

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July 7, 2020

Jimma, Ethiopia

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ABSTRACT

Nowadays valuation of a real property is one of the crucial aspects of property in business which is becoming the critical practice in financial institutes to promote sustainable economic development. As many potential factors affect the precision of valuation results and investment appraisal, the valuation method as much as possible should identified, assessed, mitigated and the most suitable approach for the development should be chosen. To reduce the fluctuation of the result of real property among the financial institutions, which entails both over and under estimation issues occurred. However, owners and customers faced to dissatisfaction, inconsistency in property valuation and unbalancing with the current market condition. To come up with, the aim of the study was to assess the real property valuation methods in Ethiopian financial institutions (banks) in the case of Jimma zone.

To address the problems, questionnaires were designed and distributed property valuators who directly participating in valuating property in both private and governmental banks. To supplement the questionnaire, a desk study was conducted on property valuation method documents. Consequently; analysis of data was processed using simple statistical approach, examining, tabulating and by using the relative importance index method (RII) determining the property valuators perceptions of the relative importance of the identified performance factors and ranking the different performance factor.

The outputs of the overall analysis showed that almost all banks found in the areas use cost approach type of valuation methods depending on the basis prepared by their organization particularly or Ethiopian Bankers Association manuals. Private Banks would not use depreciation value of the real property due to the interference of management and there would be competition between each other to lend their money and treat their customers. Market condition, construction materials types and the availability of basic utility are the main factors affecting real property valuation.

The study recommends to the financial institution (banks) to improve real property valuation methods by following valuation principles and procedures to reduce the over/under estimation might be occurred. The guideline of the all banks should be prepared nationally by independent organization to avoid the variation occurred especially between private banks, to follow similar procedures and methods of real property valuation.

Key words: Appraisal, Financial Institutions, Real Property, Valuation and Valuer

Table of Contents

LIST OF TABLES

LIST OF FIGURES

ACRONYMS

CBE	Commercial Bank of Ethiopia
DBE	Development Bank of Ethiopia
DCF	Discounted Cash Flow
DRC	Depreciated Replacement Cost
EBA	Ethiopian Bankers Association
EBCS	Ethiopian Building code standards
EPA	Ethiopian Privatization Agency
GRC	Gross Replacement Cost
IAAO	International Association of Assessing Officers
IVSC	International Valuation Standards Committee
IVS	International Valuation Standards
RCN	Replacement Cost New
RCNLD	Replacement Cost New Less Deprecation
USPAP	Uniform Standards of Professional Appraisal and Practice
RII	Relative Importance Index
SPSS V20	Statically Package for Social Science Version 20
NPL	Non-Performance Loan

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Real property is an interest in real estate which is normally recorded in a formal document, such as a title deed or lease. Therefore, real property is a legal concept distinct from real estate which represents a physical asset. Real property encompasses all the rights, interests, and benefits related to the owner ship of real estate. In contrast, real estate encompasses the land itself, all things naturally occurring on the land, and all things attached below and above the ground to the land by the people, such as buildings and site improvements and permanently attached to the building such as plumbing, heating and cooling systems; electrical wiring; and built-in items like elevators, or lifts are also part of real property. A valuation is estimation or subjective assessment of the value of an interest in a property to the holder of the interest.

There are three main types of interest first the superior interest in any defined area of land, in this case the owner of this interest has an absolute right of possession and control of the land and any buildings upon it in perpetuity, subject only to any subordinate interests and any statutory or other legally enforceable constraints. The second is a subordinate interest that normally gives the holder rights of exclusive possession and control of a defined area of land or buildings for a defined period, e.g., under the terms of a lease contract, and/or. The third is a right to use land or buildings but without a right of exclusive possession or control, e.g. a right to pass over land or to use it only for a specified activity (RICS, 2011).

It is observed that there is inconsistency and ambiguity while determining the value of properties of projects of the both governmental and private financial institutions (banks) there is claims and complains raised from different customers and employees of the banks, so that as much as possible this study will be clearing different complains as well as confusion regarding property valuations methods and to avoid or reduce such inconsistency. This is necessary to create common ground/understanding among performers based on the types and methods of valuations and its purposes.

A valuation can be inaccurately calculated whereas price is determined in the market by supply and demand. A valuation is a prediction of price before it is achieved. Market price is the recorded consideration paid for an interest in a property. The valuation of a particular interest in land is normally made by reference to its tenure, its use and its income producing capacity.

Valuation is concerned with the value of an interest held in property. There can be several interests in one property at the same time and each of these is capable of being valued. The interest being valued should always be stated clearly in a valuation report. Most of the time the purpose and implementation of the valuation are for the mortgage, sale, purchase, rent, company report, probate, calculation of rates obligations or other public levies and Calculation of tax liabilities, e.g. inheritance. The reason for the valuation will determine the method to be applied to carry it out.

A valuation does not necessarily lead to a transaction (sale or purchase) that can support or contradict the valuation, thus the value of the property is not exact and is often adjusted according to the purpose for which it is used for legal interests held in a property, freehold, leasehold, charge against the property in the form of a mortgage, easement and covenants. Present-day economies in both developed and developing countries depend upon efficient allocation and optimal utilization of resources and especially financial resources.

Financial services influence all sections of the society with the financial institutions playing a vital role in ensuring financial services are distributed to all sectors of the economy including the property investment and development (Ogedengbe and Adesopo, 2003). According to research by the African Development Bank (2011), Africa's middle class grew from 26.3 percent in 1980 to 34.3 percent of the population in 2010 with this phenomenon being accompanied by rapid urbanization and increased consumption for certain types of goods and services such as housing. In Ethiopia, financial institutions have facilitated the growth of the economy and the outlook remains positive.

Almost all of the private and governmental financial institutions (Banks) are with the aim of providing short, medium- and long-term credit too small to large scale projects, owners/firms, merchants and different parts. Some financial institutions providing short, medium and long term for the priority area that are believed to generate foreign currency to the country, labor intensive in nature and pay the most tax to the government. For example, Development Bank of Ethiopia lending tradition is project based, where the promoter is not obliged to avail collaterals outside the project, in most of the cases. Most of the loan that DBE extends goes for the purchase of Production Plant, Machinery and Equipment; and, to cover the construction of Civil Structures. Plant, Machinery, Equipment; and Civil Structures are the major project items that the Bank holds as collateral. DBE undertakes valuation of Building Assets for foreclosure action, expansion of existing projects and re-evaluation of its financed building assets.

1.2 STATEMENT OF THE PROBLEM

Most of the projects that the bank's finances are specialized in nature, they are to produce specific product and cannot easily be exchanged in the market in case they fail, hence, it entails both over estimation and under estimation issue which needs careful and proper estimation (DBE,2018).

In the context of residential, commercial and industrial buildings valued for current market valuations, this study is aim at identifying weakness prevalent in existing valuation practices in financial institutions. In the financial institution (both governmental and private banks), there is variation of estimation values of the real property between the banks and the inconsistent of valuation technique (methods) to valuate real properties (EBA, 2015).

As market value of a property is the value at which it can be sold in the open market at a particular time and the cost of constructions materials are increasing day to day, to balance the market value with real property valuation and at the end to suggest ways of improving it and due to the enhancement of construction sector it is a must to enhance the valuation process so as to address the problem in customer dissatisfaction and inconsistency in property valuation (CBE, 2016).

Generally, due to the rapid growth of the country's development, the manifold investments are expanding, so the banks should have to enhance the effective and efficient real property valuation processes.

RESEARCH QUESTION

1. Is there difference between the private and governmental financial institutions (banks) regarding of the property valuation practices?
2. What are the factors affecting real property valuation during estimation?
3. Does the financial institutions (banks) effective or not as they customizing the real property valuation methods from Ethiopian bankers association?
4. Does the existing practice of property valuation methods affect the Ethiopian financial institutions (banks)?

1.3 OBJECTIVES

1.3.1 General Objective

The general objective of the study was assessment of real property valuation method in Ethiopian financial institutions (banks) in the case of Jimma zone.

1.3.2 Specific Objectives

The specific objectives of the study were

- To analyze the current practices of real property valuation methods
- To compare existing practices of real property valuation methods between the private and governmental financial institutions;
- To investigate the factors which affect real property valuation during estimation;
- To assess the effectiveness of financial institutions, customize the real property valuation methods from Ethiopian Bankers Association

1.4 SIGNIFICANCE OF THE STUDY

This study was to compare the real property valuation methods in Ethiopia and to that of Ethiopian banker association standards would be provided helpful information to other private and governmental Banks. The governmental and private financial institutions will benefit from the study as a source of information and foundation for the real and asset property valuation that can help to improve and control the valuation methods regarding to both over and under estimation issue. Owners, investors, dwellars, business men, firms and employers of the banks will benefit from the study as a source of information for real and asset property valuation. Other researchers will use the findings as a reference for further research on real property valuation method study.

1.5 SCOPE AND LIMITATION OF THE STUDY

1.5.1 **Scope of the Study**

The scope of this study was limited to the practice of real property valuation and the techniques or methods adopted by various Ethiopian financial institutions (banks) in Jimma zone. It also attempts to study the purpose or application real property valuation methods and the types of properties on which valuation is most likely practiced. In addition, the effective level and the causes for variation in using

various methods of valuation, the consequential impacts of variations on the parties and overall proposed remedial recommendations considered in the study.

1.5.2 Research Limitation

The major limitation of the study was the lack of willingness of professionals to complete and return the questionnaire which took too long than expected. A series of briefings on the questionnaire was conducted to motivate respondents in completing the questionnaire as its findings are for academic purpose. Inadequacy of the practicing firms on real property valuation, lack of specialized professionals in the particular area to get further interview and lack of worked real property valuation results and reports.

CHAPTER TWO

LITERATURE REVIEW

2.1 REAL PROPERTY AND ITS VALUATION

Property valuation is the process of estimating property value for a certain purpose, at a certain time based on the property's characteristics taking into account all factors that can affect property value. "Property" means an aggregate of things or rights to things whose possession protected by law.

Property has a very wider meaning in its real sense. Property means buildings, vehicles, machineries, and equipment. Property is divided into two broad categories: Real property (rights in Land), and personal property (other than rights in Land).

"Real property" is an interest in real estate, which is normally recorded, in a formal document, such as a title deed or lease. Therefore, real property is a legal concept distinct from real estate, which represents a physical asset. Real property encompasses all the rights, interests, and benefits related to the owner ship of real estate.

"Real estate" encompasses the land itself, all things naturally occurring on the land, and all things attached below and above the ground to the land by the people, such as buildings and site improvements and permanently attached to the building such as plumbing, heating and cooling systems; electrical wiring; and built-in items like elevators, or lifts are also part of real property.

"Personal property" is defined by exception: property that is not real is personal. Personal property by its nature is not permanently attached. Major characteristic of personal property is its movability without damage either to itself or to the real estate to which it is attached (such as: vehicles, machineries and equipment) (IAAO 1990).

"Valuation" can be defined as: "The art, or science, of estimating the value for a specific purpose of a particular interest in a property at a particular moment in time, taking into accountable the features of the property and also considering all the underlying economic factors of the market including the range of alternative investments". Asset valuation is defined as, "The art of estimating the fair monetary measure of the desirability of ownership of specific properties for specific purpose" (Marston, 1970)

Valuation is based on the valuer's knowledge of market conditions. Valuation of real property is conducted for different purposes namely; expansion works of existing projects, revaluation of its building assets and foreclosing properties of defaulted projects. "Valuer's" means an engineer or technologist or any skilled person employed by the Bank for the purpose of valuation.

2.2 MARKET BASIS OF VALUATION

Market value the most probable selling price of a property in terms of cash or comparable to cash if: (1) it were sold in a competitive and open market; (2) reasonable time were allowed for exposure in the open market; (3) both buyer and seller were well informed or reasonably knowledgeable and acting prudently and in their own best interests; and (4) both buyer and seller were typically motivated, willing, and under no undue pressure or compulsion to buy or sell." Implied in the definition is the notion that the transaction must be "arm's-length."(IAAO, Property Appraisal and Assessment Administration, 1990).

Market-based valuations are developed from data specific to the appropriate markets and through methods and procedures that try to reflect the deductive process of participants in those markets. They are performed by the application of the sales comparison, income capitalization, and cost approaches to value.

2.2.1 Income Capitalization Approach

The income capitalization approach is based on the net income or investment returns that a buyer expects from the property. The price that the buyer will pay will be determined by the probable return the property will yield from the investment and should be based on net operating income which means all expense of maintaining the building, such as upkeep and management must be subtracted from potential gross income to realize net operating income. However, of the three generally accepted valuation approaches to market value; this manual adopts the cost approach for valuation of properties for the reason that it is the cost approach method which is more suitable to estimate specialized properties such as industrial complexes of specialized nature, farm developments (DBE Real property valuation manual, 2018).

Specialized properties: are those properties rarely if ever sold on the open market, except by the way of sale of the business of which they are part of, due to their uniqueness which may arise from the specialized nature and design of the buildings, their configuration, size or location.

In general, specialized properties are those having specialized physical or geographical factor, offer very little utility for any purpose other than that for which they were originally designed. These classes of properties are so specialized by nature that no comparable market data could be employed to apply the income approach; hence, the final market value will fully rely on the results of the cost approach (DBE Real property valuation manual, 2018).

Some of the characteristics of specialized properties are: -they are useful to a limited number of uses or users; they are rarely, if ever, sold on the open market, except as part of the business entity, they have generally specialized structures; and they earn revenue that has not been derived from an open market and for which market-based evidence does not exist.

2.2.2 Sales Comparison Approach

The sales comparison method is one of the more accurate methods of estimating market value. This method involves comparing the property being appraised to similar properties that have recently sold and reflects the actions of buyers and sellers in the real estate market. A buyer or seller usually examines other available properties before negotiating a final purchase price. To use the sales comparison method to estimate market value, the assessor must have information about an adequate number of properties that have recently sold. The properties must be reasonably similar in physical characteristics and location. The county director of tax equalization can help the assessor obtain information about sales transactions from Statements of real estate full consideration completed for the sales ratio study. The assessor is cautioned to comply with the secrecy provisions which require that the names of the grantee (buyer) and grantor (seller) be kept confidential (Cory Fong, 2011).

Sales price of comparable$\pm$Adjustments = Indicated Value of subject property……Equation 2.1

2.2.3 Cost Approach

The cost approach is based on determination of the minimum cost of replacing or replicating the service potential embodied in the Property with modern equivalent, in the most efficient way practicable, given the service requirements, the age and condition of the existing property and replacement in the normal course of the business. The approach mainly involves determination of replacement cost of developments and corresponding depreciation. Replacement cost is the cost of replacing an existing property with a substantially identical new modern equivalent property. When calculating depreciated replacement cost, it

is important that physical deterioration be taken into account and that optimization for obsolescence and relevant surplus capacity occur (EBA Real property valuation manual, 2015).

This approach is to be used when a value estimate via either the income capitalization approach or the sales comparison approach is not possible because of data problem. In cost approach, quantifying Deprecation to reach at Depreciated Replacement Cost or Depreciated Reproduction Cost is the most paramount and important step (DBE Real property valuation manual, 2018).

Replacement or Reproduction Cost of Improvements - Depreciation on Improvements + Site Value = Property Value……Equation 2.2

*(*DBE Real property valuation manual, 2018).

However, of the three generally accepted valuation approaches to market value; this manual adopts the cost approach for valuation of properties for the reason that, it is the cost approach method which is more suitable to estimate specialized properties such as industrial complexes of specialized nature, farm developments.

Specialized properties: - Are those properties rarely if ever sold on the open market, except by way of sale of the business of which they are part of, due to their uniqueness, which may arise from the specialized nature and design of the buildings, their configuration, size or location.

Characteristics of specialized properties: -are useful to a limited number of uses or users, are rarely, if ever, sold on the open market, except as part of the business entity, have generally specialized structures; and earn revenue that has not been derived from an open market and for which market-based evidence does not exist.

In general, specialized properties are those properties having specialized physical or geographical factor, offer very little utility for any purpose other than that for which they were originally designed. These classes of properties are so specialized by nature that no comparable market data could be employed to apply the income approach; hence, the final market value will fully rely on the results of the cost approach.

In applying cost approach, buildings are first categorized according to their purposes, height, materials of construction and size. Then each category is further classified into grades based on the quality of materials

used for the construction. For the analysis of cost of construction complete and approved structural, architectural, electrical, sanitary and other designs of representative buildings are collected and bill of quantity is prepared using currently updated unit price manual, finally the unit cost per m2 and/or per m3 is determined by dividing the estimated cost of the construction of the building into the building's plinth area or volume.

The first step in the cost approach, as in any valuation exercise, will require collection of relevant documents and carrying out property survey. This basic step will mainly involve the following activities (DBE-Real Property Valuation Manual, 2018).

Step 1 Document Collection

The valuer shall at first collect the following relevant documents: -title certificate/s, construction permit/s for improvements, approved complete plan/s for G+1 and above buildings and for large size halls, but optional for others except architectural plans, specification and Bill of Quantities prepared by qualified professional/ for improvements under construction/ and other relevant documents deemed necessary for the specific task

Step 2 Carry out survey of the properties to acquire relevant data:

Land and title/ownership information: -confirm that the ownership information, plot orientation and dimensions indicated on the title deed correspond with the physical property, and take owners address, carryout measurement of actual plot, to determine dimensions and plot area, take note of any encroachments or reductions of Vis-a' Vis the title deed, take note of location of the property with respect to prominent land marks, determine holding type remaining holding period and identify any easements or restrictions(DBE Real property valuation manual, 2018)

Information on Improvements on the site: -measurement of buildings with (plus or minus 50 cm tolerance both ways), compound works, fences and ancillary facilities and comparison with permitted constructions, construction details and improvement category, age/remaining lives for buildings, land and improvements, quantities, area, volume, size or capacity, condition and deprecation information, costing information (original cost and major refurbishment details land costing, where available),component information (where applicable) and notes on special structures.

Neighborhood information: -general use of property, location, type and width of access roads, distance from main road, information on local development plans in near future, encumbrances on the site and availability of basic utilities (DBE Real property valuation manual, 2018)

There are five steps to complete the cost Approach to Valuation; estimate the replacement cost new (RCN) of all improvements to the land, estimate the accrued deprecation for each improvement, calculate replacement cost new less deprecation (RCNLD) by deducting all accrued depreciation from replacement cost new for each improvement. (Subtract step 2 from step 1), request land lease value from the concerned lease office and add all replacement cost new less accrued depreciation to the land lease value. This step somehow will derive us to a value which is indicative market value. Each of these steps is explained in the following sections ((EBA Real property valuation manual, 2015)

Step 3 Estimate the replacement cost new (RCN) of all improvements to the land

Replacement /construction costs of improvements are based on market rates or evidence, which would typically be estimated from analysis of ranges of representative improvement categories.

The step mainly requires: categorization of improvements, building grading, determination of superficial/plinth area or volume of the subject property, determination of appropriate replacement cost rate and determination of costs of site developments, consultancy fees and others

Mechanism of analysis and data corresponding to the above steps are detailed as follows: -

Step3.1 Improvement Categorization

At first, improvements on the site will be categorized in to two major groups (Buildings and Site works) enabling effective grouping of replacement cost calculation:

Buildings are then grouped in a way that would allow the most comprehensive and effective representation of building types. As in any such exercise, the valuer's expertise in the proper identification of building components and judgment in the application of ranges of replacement cost rates is vital for the realistic representation of costs of specific properties (DBE Real property valuation manual, 2018)

2.2.4 Income Approach

The income approach to value is based on the assumption that potential buyers will pay no more for the subject property; hence they set the subject's value, than it would cost them to purchase an equally desirable substitute investment that offers the same return and risk as the subject property. It considers the subject property as an investment and, to that end bases its value is on the rent it will produce for the owner (EBA manual 2015).

One basic principle in estimating the value of property is the anticipation of future benefits. The income approach, also called income capitalization, converts future benefits of property ownership into an indication of present worth (market value).

Present worth, which is the result of capitalizing net income, is the amount a prudent investor would be willing to pay now for the right to receive the future income stream.

The prospective commercial property buyer is primarily interested in the potential net return the property will provide. The price the buyer is justified in paying for the property is a measure of his prospects for a net return from his investment. Thus, the income property valuer must explore the rental market and compare the income-producing capabilities of one property to another.

Hence, in commercial property valuation, the appraiser must rely heavily on the income approach to value to determine the net economic rent the property is capable of yielding and the amount of investment that is required to affect the net return at a rate investor would expect. The commercial appraiser must complete a comprehensive study of the income-producing capabilities of comparable properties and an analysis of present-day investment practices.

The net, normalized income of the property is determined based on the assumption that the property is fully let at market rentals and market escalations allowing for normalized vacancies, if applicable, and incurs market-related operating costs. The net normalized income is then capitalized into perpetuity using a market-related capitalization rate to give the market value indicative.

This section provides an overview of the steps used to develop and apply the income approach to value. It will lay down procedures inherent to the application of the approach and systematically formulate data required for the parameters indicated in the approach.

In order to simplify the understanding of the basic steps of income appraising, they have been briefly outlined here before taking more in depth look at each step. (EBA manual 2015)

STEP 1: Estimate Gross Annual Income

A. Determine type of rental unit (i.e. per m^3, per m^2, etc.)
B. Calculate other income (i.e. parking fees, etc.)
C. Identify vacancy and collection loss

STEP 2: Identify Operating Expenses

A. Fixed Expenses (Taxes and Insurance)
B. Variable Expenses
C. Repairs and Replacements

STEP 3: Determine Net Operating Income

STEP 4: Determine Income Projection Period

A. Remaining Economic Life
B. Investment Holding Period

STEP 5: Identify Method of Capitalization to use

2.3 WHY IS A VALUATION NEEDED?

What does 'property' mean when referring to property valuation? In English law, goods and belongings owned by a person or legal body are termed personal property whereas land and buildings are real property. Sometimes, to make this distinction clear, land and buildings are termed real estate, a phrase long used in the US and increasingly adopted in the UK. Thus, this is concerned with the valuation of real property, real estate or land and buildings.

There are many possible reasons for valuing property, such as: to buy or sell, to let or take a lease or agree a rent review, to assess tax or business rates payable, for insurance, to obtain a compensation payment, to borrow money using the property as 'security', to show its value as a fixed asset on a company balance sheet, to develop or redevelop. Some of these values need assessment on a frequent or recurring basis, others only very occasionally. All create opportunities for a property valuer to employ his or her professional skills and expertise to provide the required figure and advice to a client (Michael Blackledge, 2009).

2.4 COLLATERAL BUILDINGS

Collateral buildings are building that an individual offer to a lender whenever he wants to acquire a loan. It is used as a way to obtain a loan which, at the same time, acts as a protection for the lender should the borrower default in his payments. In such an event, the collateral buildings become the property of the lender to compensate for the unreturned borrowed money.

The main reason why banks value the collateral building before granting finance is so that they can be assured that if the buyer defaults on their repayments, they have sufficient value in the property to recover the loan if they are forced to repossess and sell the property. The bank's job is to do a property valuation to check whether the present market value of the collateral building covers the amount that you want to borrow.

2.5 THE ROLE OF THE VALUER

According to IVS 2017, the role of a 'valuer' is an individual, group of individuals or a firm who possesses the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased and competent matter. Values fulfill a pivotal and responsible role operating at the interface between clients, financial providers and holders of property assets. As such, a competent valuer must possess a mix of competencies: hard skills such as gathering data through investigation, inspection and research, tempered with analytical insight, the exercise of professional judgment and people skills. Understanding the client's needs and expectations, and explaining the use and limitations of a valuation in a way the client understands and accepts, is an important part of the role (RICS,2017).

2.6 DEPRECIATION

According to Kalu (2001), depreciation is the allocation of a tangible asset's cost over its useful life. In appraising, it is defined as a loss in value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date (Dictionary of real Estate Appraisal, 4th ed.) Put together, it could be intended to mean some form of gradual or rapid depletion in the value of an improvement which might be caused by physical, natural and economic forces. It is believed that depreciation beings where construction stops, and therefore, it is a key factor to analyze in any valuation by cost method if one were to arrive at an appropriate or reliable value opinion. The term is often used interchangeably with the word obsolescence.

Causes/ Types

The physical causes or types of depreciation are as follows: physical Deterioration/Depreciation, functional Deterioration/Depreciation and economic Deterioration / Depreciation.

Depreciation rate can be calculated by a number of methods but the following methods are simple to use and give fair results.

$$D = {}^{A}/_{UL} \quad \text{Equation 2 .3}$$

Where, D = Depreciation; A = Effective age and UL = Total useful or economic life

2.7 PRINCIPLE OF VALUATION

When resorting to valuation of any property, a valuer must be expert in the trade. The valuers must have sound knowledge in planning and construction of property. They should also be quite aware of administrative laws like town planning laws, rent restriction act, local tax etc. Valuer being up to date with market rates, rate of interest together with experience and capability in economic analysis, if money will take him to exactness in arriving at the fair price of a property. (Marston, 1970)

Following principles should be observed at the time of evaluating a fair and reasonable value of real property:

i. Cost depends upon supply and demand of the property.
ii. Cost depends upon its design, specifications of the materials used and its location.
iii. Cost varies with the purpose for which valuation is to be done.
iv. Cost is affected by the age of the property and its physical conditions.
v. In valuation, a vender must be willing to sell as also the purchaser willing to purchase.
vi. There should be no compulsion on either of them so as to decide honest value of the property. Similarly, there should be no urgency or compulsion on the purchaser of seller. No reduction or increase in cost should be done on these accounts.
vii. Present and future use of any property should be given due weight age in valuation.
viii. Cost analysis must be based on statistical data as may sometime require evidence in a court of law.

2.8 INTERNATIONAL PRACTICE OF PROPERTY VALUATION METHOD

Accomplishing assessment of several property units within a given period (say two years) is a huge task for revenue authorities. The large number of different real property units causes the tax administration to be more complicated. This demands the need for the use of mass appraiser techniques that allow appraisers to get the job done on time and with the available funds. Mass appraisal is the process of valuing large number of properties at the same time using common data, standardized procedures and statistical testing. Mass appraisal requires complete and accurate data, effective valuation models, and proper management of resources. This method focuses on a variety of properties and calculates the averages (market values) on properties with similar characteristics (IAAO, 1990).

In this section, I will take a look at the different valuation methods applied by the Dutch, South Africa, USA, china and the United Kingdom that uses the appraisal-based indices.

The Netherlands and their Valuation Methodology: - There are five known valuation methods that can be identified that valuer use if due consideration of the market value is carried out. Each method is used as a basis for different purpose; they are comparative method, income method (DCF), cost method, profit method and residual method. The comparative method, which includes the rental capitalization technique and the discounted cash flow methods, are the most frequently used approach, while the other methods are applied less often. (ROZ/ IPD, 2002)

Both the comparative method and the discounted cash flow method are allowed for determining capital values of properties included in the index. Guidelines are provided as to which of the two methods the most appropriate in various circumstances is. For example, where there is a lack of market evidence or where major renovations to a property are scheduled, the DCF method is the appropriate choice.

South Africa and their Valuation Methodology

The Discounted Cash Flow (DCF) method of valuation is the preferred method of valuation and it is recommended that it be adopted as the underlying method by all participants. In carrying out the valuation, cognizance is given to any capital expenditure in the investment period, which is of an extraordinary and non-recurring nature (including provision for major life cycle expenditure). The present value of these amounts is deducted from the determined market value, or these amounts are included in the normalized cash flow which is discounted. Also, participants are required to apply market related discount rates for

the purpose of determining open market value. Finally, participants are required to have the valuations assessed by an independent registered valuer.

The United Kingdom and their Valuation Methodology: - There are five methods of valuation used in the U.K; they are income or investment method, comparison method, residual or development method, profit method (for properties normally bought and sold) and contractor's cost method (for properties not normally bought or sold). In the U.K the income capitalization approach is the preferred Market approach for income properties, given good market evidence for rents and sales prices. Income divided by yield (cap rate) produces an estimation of market value.

$$NOI = MV/CR \quad \text{……Equation 2.4}$$

Where, MV = Market value; NOI = Net operating Income and CR = Capitalization Rate; (*Rosane-Garcia et al, 2004).*

In this formula above, the yield or the all risks yield rate is the capitalization rate derived from the analysis of sales of comparable. The valuer uses market experience to adjust all risk yield for difference between market evidence and the subject property (*Rosane-Garcia et al, 2004*).

In the U.K, valuers are reluctant to use the DCF method of valuation because they are not thought to reflect market behavior and also valuers are more reluctant to use DCF analysis linked to future forecasts of rental income, as evidence from the last 10 years showed how volatile the rental market can be over the critical first 10 years of the holding period. For this reason, the DCF "is not used as a method of valuation but primarily as a tool of analysis". (Rosane-Garcia et al, (2004).

In United State (US)

The main bases of value referred to in the USPAP standards are as follows: market value, investment value, liquidation/forced sale value and fair value.

However, USPAP does not provide a market value definition but instead directs the appraiser to determine the applicable definition. Market value remains the most common basis used in appraisal reports. Some clients, such as banks, also ask for liquidation or forced sale value or insurable value Appraisal Methodology utilized in US Reports

USPAP provides the mechanism to perform quality control and regulation of appraisers but it does not prescribe the actual methods that should be used in the appraisal. Instead it places the emphasis on ensuring the most appropriate methods are chosen and that the decision to choose that method is fully explained in the appraisal report. USPAP previously advocated the use of all three main valuation methods namely sales comparison, income and cost. However, this has since evolved to recognize that the appraiser should exercise professional judgment in deciding which methods are considered, based on their relevance to the property type being appraised.

For example, a major office building will be driven by the income approach and the sales comparison approach will often be included to provide a second check on value, but it would rarely include a cost approach unless specifically asked for. Hence, the decision to exclude one or more method should be explained in the appraisal report. Appraisers, therefore usually comment on all three approaches and then justify the approach adopted or reconcile the value conclusions based on the values determined.

In Chinese

Appraisers from a construction background mostly undertook appraisals and therefore they had limited knowledge of market practice and relied on the cost approach. To change this, the Ministry established the real estate code which requires the 'technical side of valuation' to form part of the appraisal process.

The real estate appraisal approaches specified in the CIREA standard include market comparison approach, cost approach, income approach, hypothetical development method (residual) and benchmark land price calculation (land datum price method).

The real estate appraisal code requires that appraisers should use at least two or more approaches to appraising the value of real estate. Where figures vary widely amongst the different methods, the appraiser should base the value on his/her expertise and knowledge of the market, providing a rationale and reasoning for the value differences (RICS, 2014).

2.9 Overview Of Ethiopian Banks Practices Of Property Valuation

Property valuation practice in Ethiopian banks, most of the banks developed their manuals which are to be up dated every year and some of the banks used nationally developed Ethiopian baker association Manual.

Valuation methodologies employed by almost all Banks is similar, except the figurative elements and some minor differences inherent in each. Many of the procedures employ the cost approach one way or the other, though not strictly in the manner prescribed by the Generally Accepted Valuation Procedures.

To come up with the methods used by banks it is stated that rent return and cost method of valuation are used. In actual practice banks prepare valuation in order to ascertain the firm that it may not advance money more than the value of the property. Also, to keep a sufficient margin between the value of the property and the loan so as to cover the loss of value due to depreciation and interest charges on the loan. Hence, banks tend to minimize the level of risk that they are taking. So, they want to value a property by a method that doesn't increase the valuation result. Rent return and cost method of valuation is likely to result lower figure than a profit method. Therefore, rent return and cost methods are to the advantage of the banks, so that they rely using these methods (EBA manual, 2015).

In accordance with EBA's Real Property Valuation Standard and The International Valuation Standards 2007, Valuations for loan security shall be based on market value. Due to the constraint on availability of reliable transactional market data in the City, infancy of property market in the Country and difficulty of consistency in EBA's appraisal applications, only the Cost Approach and Income Approach will be employed in the valuation of major class of properties. An income approach is based on the income which the property is generating at the time of valuation, while a cost approach is based on the total cost of the construction of a property (EBA manual, 2015).

CHAPTER THREE

RESEARCH METHODS

3.1 STUDY AREA

3.1.1 Location

Jimma zone is one of the 12 zones of Oromia regional state in southwest Ethiopia with its capital, Jimma town (Fig. 1). It is located 357 km southwest of Addis Ababa. The zone extends between 7°13' and 8°56' north latitudes and 35°49' and 38°38' east longitudes. Jimma zone generally lies between 1000 and 3500 m above sea level. The annual rainfall lies between 1300 mm and 2100 mm (Oromia Bureau of Finance and Economic Development, 2009). In case of real property valuation methods location value is considered to be the land value due to its area and position. (Land value is directly proportional to its area and position).

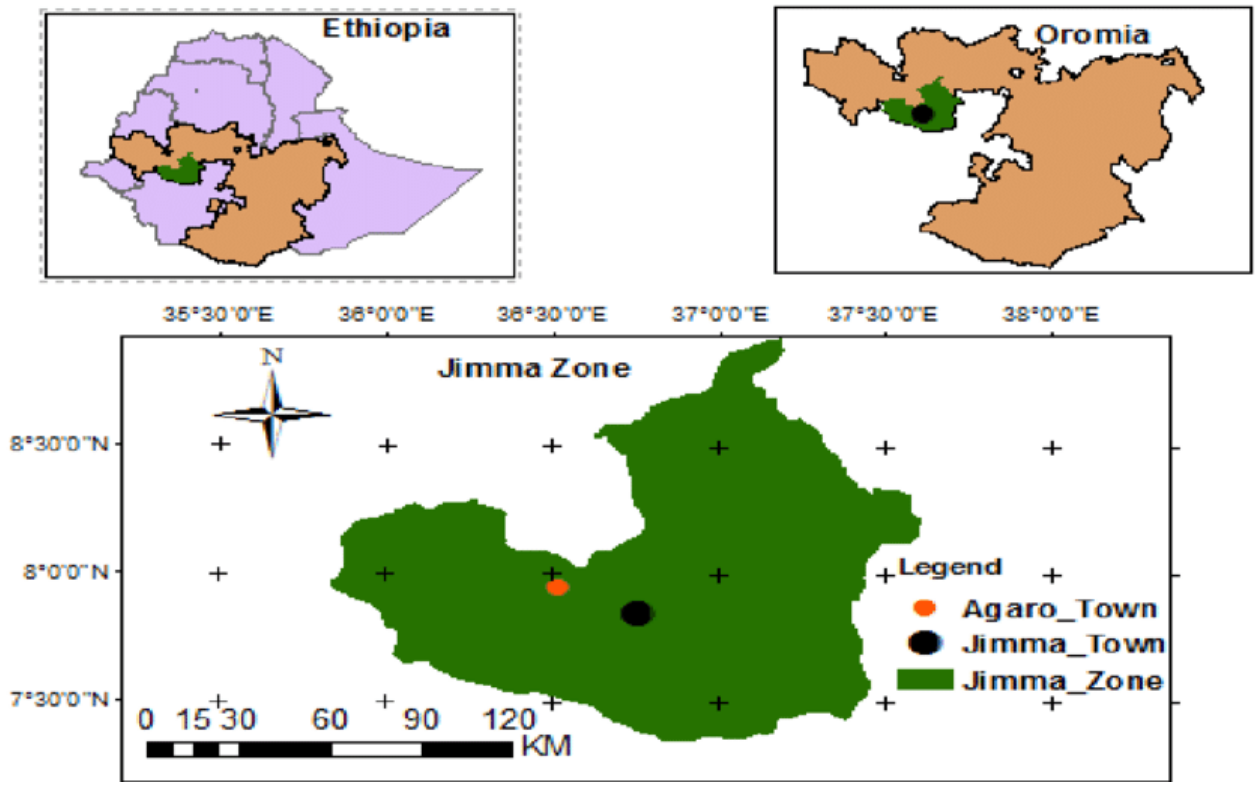

Figure 3.1.1 Map of Jimma Zone

3.2 RESEARCH TYPE AND APPROACH

The research started as two staged study. Problem identification has been done through a preliminary unstructured literature review and informal discussion with colleagues and professionals in the sector. As an output of this initial phase, in property valuation method well recorded and organized documentations, suitable conditions of estimation and well-established methods of estimation is important in Ethiopian financial institutions and identified as a proposed problem to be studied; where the research questions were developed in view of investigating this problem.

Contextual and conceptual literature reviews have been done once the problem is identified to have in depth understanding on the research topic. The review includes books, manuals of the banks, journal articles, internet sources and archival document such as issues related to real property valuation methods. Once the specific question was determined, a suitable research design and methodology was considered. Afterwards, the variables and research questions were operational into a clear measurable hypothesis.

This study is therefore a mixed research which adopted both qualitative and quantitative research. It should be noted that a mixed approach of quantitative and qualitative is possible (Kumar, 1999). Bazeley (2004) states mixed methods research has regained not just acceptability, but popularity, with a significant number of studies arguing its virtues in terms of greater understanding and/or validation of results. Working with mixed methods raises a range of issues above and beyond those encountered within a particular methodology. A qualitative research is a "subjective" assessment of a problem and takes the form of an opinion, view, perception or attitude towards objects (that are referred to as an attribute, variable, factor or question). Quantitative research, on the other hand, is an objective measurement of the problem that investigates facts and tries to establish relationships using statistical tools.

This survey-based research design has been selected as it is useful in demonstrating the prevalence of the problem throughout the population. Once the distribution of the problem has been determined and major variables identified, it may be possible to get hints on how to prevent the challenges and problems. It also helps to identify differences among groups and to recommend possible remedies to be taken by respective stakeholders.

To this effect, a questionnaire was designed following an in-depth contextual and conceptual literature review, and distributed to purposely selected banks real property valuators in Ethiopian financial

institutions. To supplement the questionnaire, a desk study was conducted involving property valuation techniques. Checking, sorting and coding of gathered data has been done for the selected method of analysis. Consequently; analysis of the data obtained from questionnaires and Desk study have processed which involves simple statistical approach, examining, tabulating and categorizing based on the chosen measurement scale. After the collected data is analyzed, the findings and results are discussed. Finally, the researcher has given his conclusion and recommendation, based on the analysis and discussion.

3.3 POPULATION AND SAMPLING

The study population of this study all financial institutions (private and governmental banks) found in Jimma zone. Particularly, the study has been conducted on ten purposely selected financial institutions (eight from private banks and two from governmental banks).

TABLE 3.3-1 SELECTED BANKS PROFILES (NBE 2017)

S/N	Name of banks	Year of establishment (G.C)	Age (years)
1	Awash Bank	1994	26
2	Dashen Bank	2003	17
3	Bank of Abyssinia	1996	24
4	Commercial Bank of Ethiopia (State Bank)	1963	57
5	Cooperative Bank of Oromia	2005	15
6	Nib International Bank	1999	21
7	Wegagen Bank	1997	23
8	Development Bank of Ethiopia	1901	121
9	United Bank	1998	22
10	Oromia International Bank	2008	12

3.4 RESEARCH DESIGN

A research needs a design or a structure before data collection or analysis can commence. As study design/frame is the process that guides researches on how to collect, analyze and interpret the data.

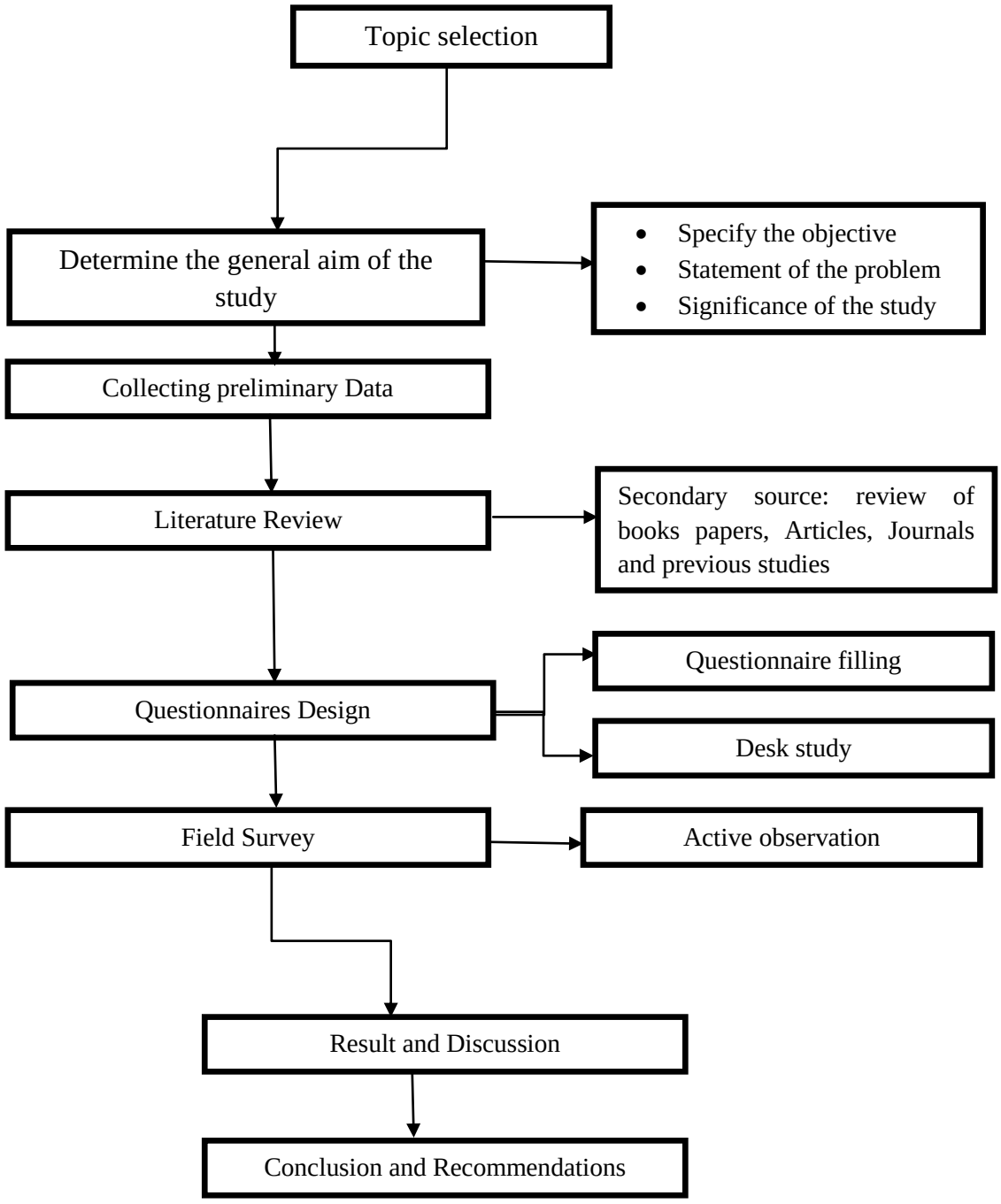

FIGURE 3.4.1 RESEARCH DESIGN

3.5 DATA COLLECTION INSTRUMENT (TOOLS)

The data collection approach adopted for conducting this research includes both primary and secondary sources. Questionnaire and desk study provide the primary data for this thesis while the secondary data sources include renowned civil engineering journals those especially in project and construction management, internet sources, as well as reviewing related archival documents on real property valuations manuals. These different methods of data collection have been used in order that the data or information obtained from one can be supplemented by the others whereby the collected data will give multiple evidences.

3.5.1 Study Variables

Dependent variable: - Real property valuation

Independent variable: -

- Effective age of property,
- Location of property
- Condition of property
- Evaluation techniques/methods

3.5.2 Questionnaire

Questionnaire provides firsthand information for the subject matter of a research as it is focused on issues which further serves as a survey to understand the main concerns and attitudes of respondents towards the problems (Kasiem, 2008). In this thesis, questionnaire was administered to some purposely selected property valuators of the financial institution (banks). The questionnaire which consists of both open and close ended question was distributed among these professionals. These open and closed ended questions which were intended for the assessment of the estimation methods and practices were directed to respondents; this is aimed to evaluate whether the estimation process itself contribute to the problem.

3.5.3 Desk Study

In addition to books, journals and internet sources, archival document and documents have been reviewed to understand the background of property valuation. These secondary sources provide a general understanding of the subject area by presenting a wide range of ideas in the field which help to supplement other specific information obtained from the primary data sources.

In addition; desk studies on property valuation methods were used in this research to support or supplement responses and arguments found by questionnaire through in-depth analysis of some cases of a project. Of course, as the nature of the cases focuses on one aspect of a problem or practice, the conclusion drawn may not be generalized, but rather related to one particular event (Naoum cited in Kasiem (2008)). For this reason, desk studies under this research are used to supplement the findings obtained through questionnaire in a way to bridge the objects.

3.6 DATA PROCESSING AND ANALYSIS

Both descriptive and inferential statistics were employed in the analysis of data collected from various sources. In the analysis, the 'mean score' method was adopted for the structured part of the questionnaire, to establish the relative importance of factors based on frequencies of occurrence. The five point Likert scales (0, 1, 2, 3, and 4) are used to calculate the mean score for each factor and which was then used to determine the relative ranking among various factors.

3.6.1 Relative Importance Index (Rii)

The RII is computed as (Frimpong, Oluwoye and Crawford, 2003) and Karthik and Shahul 2018). The relative importance index method (RII) is a statistical method of the determining the property valuators perceptions of the relative importance of the identified performance factors and ranking the different performance factor. As this survey the will be designed to identify the relative importance of influencing the performance factor of building construction projects. The relative importance index (RII) was calculated using the following formula (*Fagbenle et al., 2004*):

$$\frac{\sum W}{AN} = \frac{5n_5+4n_4+3n_3+2n_2+1n_1}{5N} \quad \text{..... ……..Equation (3.1)}$$

Where, W is the weight given to each factor by the respondent, ranging from 1 to 5, (n1 = number of respondents for Not Significant... n5 = number of respondents for Extremely Significant) A is the highest weight (i.e. 5 in the study) and N is the total number of respondents.

Analyzing the data from the gathering information and ranging by using RII value between $0<RII \leq 1$, the highest value of RII, the most significant performance factors.

RII will be used for a ranking of the different performance factors. Those ranking making it possible to cross check the relative importance of the factors as the respondents' perceiving in order to give an overall viewpoint of the most significant performance factors of private and governmental banks in Jimma Zone. The analyzed the data will be prioritized and presenting the results by using different method; like graphs, charts and tables. In order to answer research objectives, study the analysis results, discussion of the results is comparing by using the RII values.

In generally analyzing information gathered through questionnaire from observations. Then make a subjective assessment on the current real property valuation method practices with respect to the recommended scientific approaches of literatures and also to make a quantitative evaluation of the impacts of real property valuation method practices.

3.7 WRITING THE RESEARCH

This research has three major component stages. These are: Research proposal, Conducting and processing of the research and Final writing of the research.

The research was started by collecting, compiling and writing conceptual matters from literatures. And the research instrument development was done parallel to the conceptual review and writing. Writing the conceptual part and the data analysis and discussion part of the research had taken the longest period of the research time. The detailed discussion and analysis of the responses from the surveyed research population is presented in this part of the research. Writing of each stage has been done in parallel with the on-going process. The final part, conclusion and recommendation with rewriting of the research were done at last.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

4.1.1 Overview

The purpose of this study is the assessment of general existing practices of real property valuation methods, identifying and understand factors affecting property valuation methods, check the effectiveness of the financial institutions on customizing Ethiopian banker's association guideline and the valuation method practices both in the governmental and private financial institutions. This chapter analyses the collected data along with the desk study assessment made on real property valuation documents and presents the results of the analysis on the main issues by discussing with literature review.

The most claims in financial institutions (banks) are the over and under estimation issue due to different methods used and subjective procedures of the guideline of the banks in the real property valuation practices. In this case identifying weakness prevalent in existing valuation methods practices for the real properties valuations related with the current market valuations. To evaluate the real property needs experienced professionals to solve the claims occurred and judge the subjectivity professionally, well recorded and organized documentations, and suitable and well-established methods of real property valuation.

Based on the aforementioned real fact, the research problem has been assessed by collecting data with the help of questionnaires and archival records regarding property valuation methods.

The results from the desk study and questionnaire survey has been presented, interpreted and analyzed in detail in this part. In light of the results obtained from the analysis; the general real property valuation method practices in the Ethiopian financial institutions (banks), specifically; the case of Jimma zone.

The general existing practices of valuation Methods, the factors affecting property valuation methods, check the effectiveness of financial institutions on customizing EBA valuation methods guideline and the valuation method practices both in private and governmental financial institutions (banks) issue has been assessed.

4.1.2 Response Rate

Table 4.1-1 Questionnaire survey response rates

Respondents Category	Questionnaires		Percentage	Valid Responses
	Distributed	Returned		
Gov't banks	40	29	72.5%	29
Private banks	60	46	77%	46
Total	100	75	75%	75

Professionals directly involved in real property valuation activities were considered for questionnaire survey. 55% of professionals are from organizations of more than 5 years' experience in the sector and 45 % of them are from organizations of less than 5 years of experience. Tables below summarize quality of respondents.

Table 4.1-2 Experience of Valuators Both in Private and Governmental Banks

Duration	Government banks	Private banks	Sum	%ge
<5 Years	10	24	34	55.7
5-10 years	8	20	28	37.3
10-15 years	11		11	14.7
>15years		2	2	3.3
Total	29	46		

Table 4.1-3 Experience of Private and Governmental Banks in Real Property Valuations

Duration	Government banks	Private banks	Sum	Average
<5 Years		3	3	4.0
5-10 years		9	9	12.0
10-15 years	6	8	14	18.7
>15years	23	26	49	65.3
Total	29	46		

Table 4.1-4 Educational Status of Respondents

Respondents	Educational Status				
	B.Sc.	M.Sc.	Total	%age of B.Sc.	%age of M.Sc.
Gov't banks	17	12	29	27.8	16.0
Private banks	29	17	46	37.15	22.7
Total	46	27	75	61.3	36.0

Finally; when we look at the respondent's position in the organization, about 8% are participating in the middle management position, 92% are workers as property valuator.

Table 4.1-5 Respondents Position in Their Company

Respondent Position	Gov't banks	Private banks	Gov't banks %ge	Private banks %ge	Percentage
Trainee valuator	2	7	2.3%	9.3%	12
Junior valuator	8	10	10.7%	13.3%	24
Senior valuator	14	28	18.7%	37.3%	56.0
Division manager	5	1	6.7%	1.3%	8
Total	29	46			

4.2 The General Current Practices Of Valuation Methods

In this section the study addressed the existing practice of real property valuation method techniques in the financial institutions (banks). Consequently; the respondent's reflections in fig. 4.2-1 showed the practice of real property estimation in the financial institutions (banks) could be described as reasonable, in view of this 46.15% of the respondents gave that it could be leveled as strongly agree, 36.54% slightly agree, 11.54% neutral and only 5.77% gave slightly disagree occurrence at all. So; it can be said that rate of the practice of real property estimation in the financial institutions (banks) could be described as reasonable.

As discussed in literature review the banks valuate the real properties for different reasonable purposes; for mortgages, the security of loan, an internal regulatory and cautionary tool for lenders that reflects what reasonable amount can be recovered, sale report, accounting purpose, minimum price or auction reserve, insurance and taxation purposes.

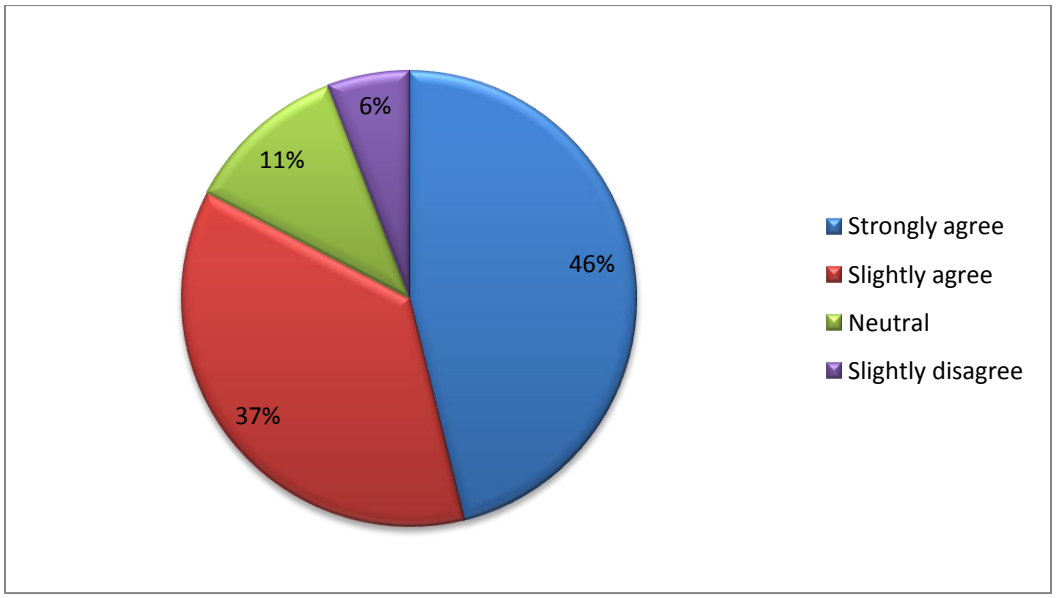

Figure 4.2.1 Percentage of the practice of real property estimation in the financial institutions (banks) could be described as reasonable view reflections

In most financial institutions(banks) found in Jimma Zone, the types of real property valuated are developed land, commercial buildings, residential buildings(villas), hotel buildings and agricultural buildings. Besides wet coffee washed and dry coffee sites are valuated especially in governmental financial institutions (Banks). Among the types of real properties, residential buildings are the most frequently valuated for the purpose of collateral (security of loans and mortgage). In other case, the demand of collateral real property has been increasing in the past five years both in private and government banks.

As per the respondents replied, the type of property valuation technique mostly used is cost approach method and it takes the high role in Ethiopian financial institutions (Banks). The bank industry is used cost approach method because it is also used for specialized buildings for which there may be no market evidence of transaction of similar properties. Specialized buildings means either by reference to their design, type of construction, size or location and function or nature of the building designed for.

As desk study point of view, in the Ethiopian context the cost approach is one of the most recognized valuation approach through which a value indication is derived for a property by estimating the current cost to construct a reproduction of, or replacement for the existing building/asset plus any profit or incentive, and then deducts for the loss in value caused by physical deterioration, functional obsolescence, and economic obsolescence, and adding the estimated land lease value. Cost approach asserts that no

prudent buyer or investor will pay more for a property than that amount for which the site could be acquired and which improvements that have equal desirability and utility can be constructed without undue delay.

Two methods of cost approach would be used either replacement cost new or reproduction cost new. Replacement cost is the current cost of a similar new property having the nearest equivalent utility as the property being valued. The replacement property would be the most economical new property that could replace the service provided by the subject. Reproduction Cost New is the current cost of reproducing a new replica of the property being appraised using the same, or closely similar, materials.

Internationally the all three methods are acceptable; especially market approach is the most accurate and reliable method if and only if the necessary market value is easily assessed. Since market approach uses prices and other relevant information generated by market transactions involving identical or similar assets or liabilities. In our country the market is inactive condition due to few recent transactions, price quotations are not developed using current information, price quotations vary substantially, indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated, the market has gone toxic and little information is publicly available.

Another good opportunity to use cost approach is, it has four different optional methods to valuate real properties such as detailed method (quantity survey method), Unit-in-place method, Comparative (area/volume) method and Trending method.

The respondent's responses leveled as shown in fig. 4.2-2 the suitability of available standard methods of the real property valuation practices in the banks, 32.7% of the respondents give that it can be leveled as very good, 48% good, 17.3% fair and only 2% give poor occurrence at all.

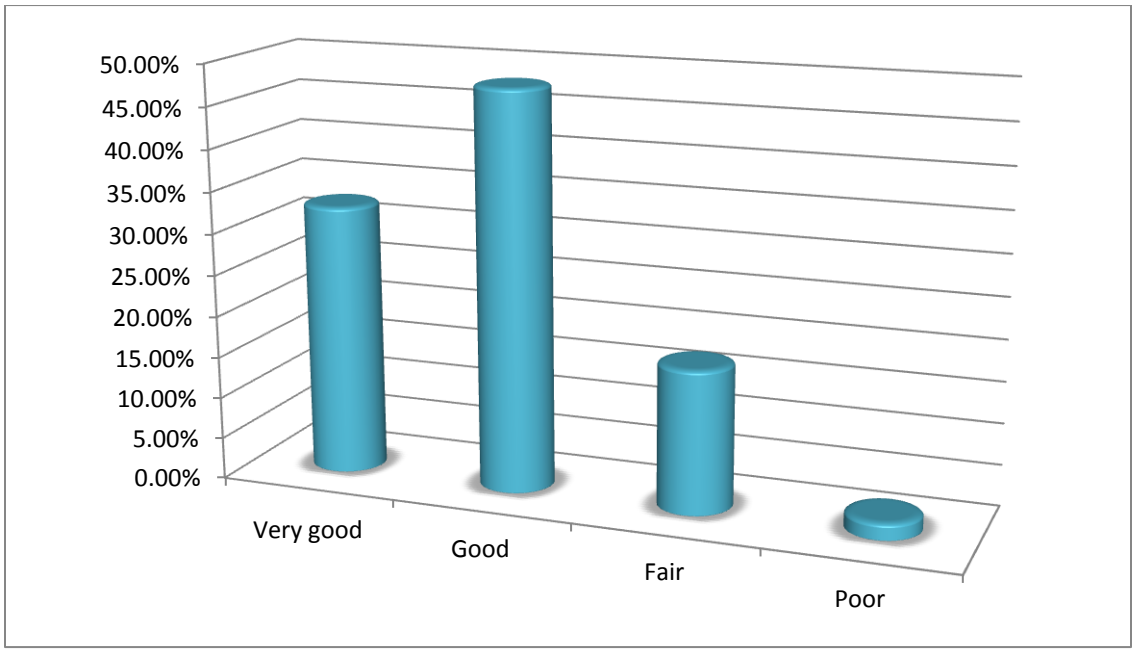

Figure 4.2.2 the suitability of available standard methods of the real property valuation practices in the banks.

As valuation of building is depends on the type of building, structure, durability, size, shape, width of road way, quality of material used in the construction and present-day price of material. Also depend on the locality if it is in market area having high value than the residential area and depending on the specialties in the building like sewer, water supply, and electricity etc. The value of the building is determined on working out its cost of construction at present day rate and allowing a suitable depreciation. The age of the building is generally obtained from record if available or by enquires or from visual inspection. We can easily use the available standard methods of the real property valuation in the case of cost approach.

The main purpose of real property valuation in the financial institutions (banks) are for buying (collateral), selling (foreclosure), project expansion, mortgage, security loan in order to get loan from the banks, insurance, financial statement, compensation, tax, litigation, merger and acquisition and advance payment as collateral guarantee purposes. The purpose for which the valuation is being prepared shall be clearly stated, e.g. the valuation is required for loan security, to support a share transfer or to support an issue of shares.

The respondent rate as shown in fig. 4.2-3, the rate of occurrence of property valuation claim by the customer due to under or over valuation observed, in view of this; 25% of the respondents give that it can be leveled as Frequent, 63.46% least frequent, most frequent and no occurrence 5.77%. For the

respondents gave most frequent and frequent are for the reasons of shortage of standardization and uniformity on property valuation process, problem of un- updated guideline and wrong methods of cost estimation.

But; when we see the desk study due to different reasons, customers want to have high value estimation for the bank collateral, expansion, compensation, and sale purposes but for governmental case and purchase purposes they need lower value estimation of their property. So, to satisfy the customers demand the banks should be used fair value which is the price that would be received to sell property or paid to transfer a liability (exit price) in an orderly transaction (not a forced sale) between market participants (market-based view) at the measurement date (current price) and it is a market-based measurement (it is not an entity-specific measurement).

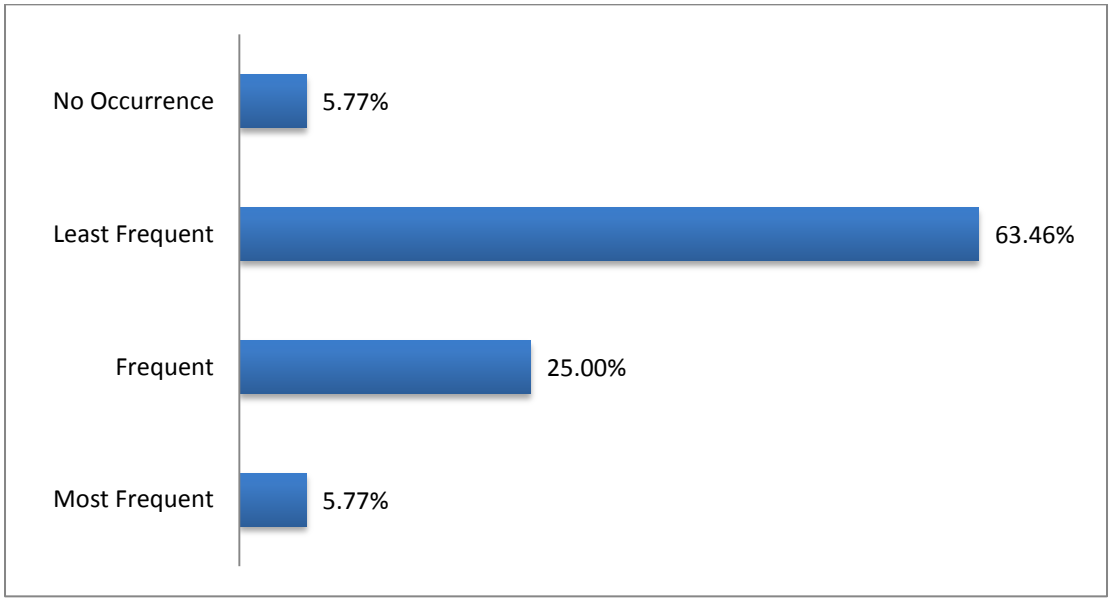

Figure 4.2.3 the rate of occurrence of property valuation claim by the customer due to under or over estimation observed.

From the valuators of banks point of view; in financial institutions (banks), the respondents are required to give their response towards the agreement to the statement that "the discrepancy during in using two or more methods faced". And it is found to be high level of disagreement 82.7% towards the statement, whereas the rest 17.3% is in agreement.

For the respondents gave agreement for the reasons of different result of valuation, the fluctuation of market(volatile) rate of the properties, due to the problem of institutions prepare contradict manuals within the same year and there is no standard rate and standard rent value of the real properties.

But; when we see the desk study due to discrepancy occurred because some financial organizations do not use depreciation values of the real property, but some organizations used. This is resulted in challenges of using two or more cost methods of the valuation practices in the financial institutions (banks).

4.3 FACTORS AFFECTING PROPERTY VALUATION

To show the extent level among the seventeen components of factors affecting real property valuation, the survey indicates that market condition, Quantity, area and volume and materials types ranked from 1st to 3rd respectively. The in detail listed below table: 4.3-1 in ranking order. Availability of basic utilities which includes road facility, water facility, electricity facility, transportation, communication, sewerage and temporal residence types are the most factors which affect the valuation methods next to market condition.

when we see the desk study, geographical location or distance from the capital city affect due the current materials costs, outside of Addis Ababa have been calculated by assuming that the materials site is in Addis Ababa, therefore for buildings outside Addis Ababa, the factors which take into account additional transportation cost, variation in equipment rental and labor costs are considerable.

Besides, a valuer will look at the property type, its age and condition as well as its geographical location. Market conditions also come into play, including whether there is a high demand for that particular type of property in the area which it is located. Zoning restrictions and property size may also affect the value of the property to the banks.

The cost of buildings in different regions is calculated using their respective unit price manual that is, using unit rate of construction works prepared for their regions. Price of most of the construction works of regions out of Addis Ababa are higher than Addis Ababa unite rate, since most of industrial construction materials are transported from Addis Ababa.

Replacement cost of buildings in different regions is calculated using their respective unit price manual that is, using unit rate of construction works prepared for their regions. Price of most of the construction

works of regions out of A.A. are higher than A.A. unite rate, since most of industrial construction materials are transported from Addis Ababa.

Therefore, the ratio of the replacement cost of building constructed say, in Jimma, valued using Jimma surrounding unit rate, to the replacement cost of the same building constructed in A.A. is calculated to be 1.05, and hence, the same procedure is followed in calculating for the other regions.

Another factor which affects the real property valuation is the intervention of top management and the institutes' policies and procedures on different real property purposes. For instance, to selling (foreclosure) of the given property, if the lender had issued the loan, and the borrower couldn't pay it back, the lender would be forced to sell in order to recover the debt. Under these circumstances, where a quick and inexpensive sale is necessary, it is unlikely the lender would be able to achieve an actual price in order to refuse payment the cost become in difference. Banks or lenders do not assess the actual value of your property at all during foreclosure if it already recovers a bad debt.

Table 4.3-1 Ranking of The Factors Affecting Real Property Valuation Methods

No	**List of factors**	**Property Valuator**		
		Mean	**RII**	**Rank**
1	Geographical location	9.4	0.75	7
2	Property type, style and age	9.6	0.80	5
3	Distance from main road	9.6	0.811	4
4	General use of property	9.6	0.638	9
5	Supply and demand	9.8	0.473	16
6	Condition & depreciation information	9.8	0.638	9
7	Layout	9.8	0.503	15
8	Specification	9.8	0.557	13
9	Design	10	0.580	11
10	Materials type	10	0.823	3
11	Method of measurement	10.2	0.507	14
12	Geology	10.2	0.411	17
13	Topography	10.2	0.569	12

No	List of factors	Property Valuator		
		Mean	RII	Rank
14	Accessibility	10.2	0.734	8
15	Quantity, area and volume	10.2	0.834	2
16	Availability of basic utility	10.2	0.753	6
17	Market condition	10.8	0.846	1

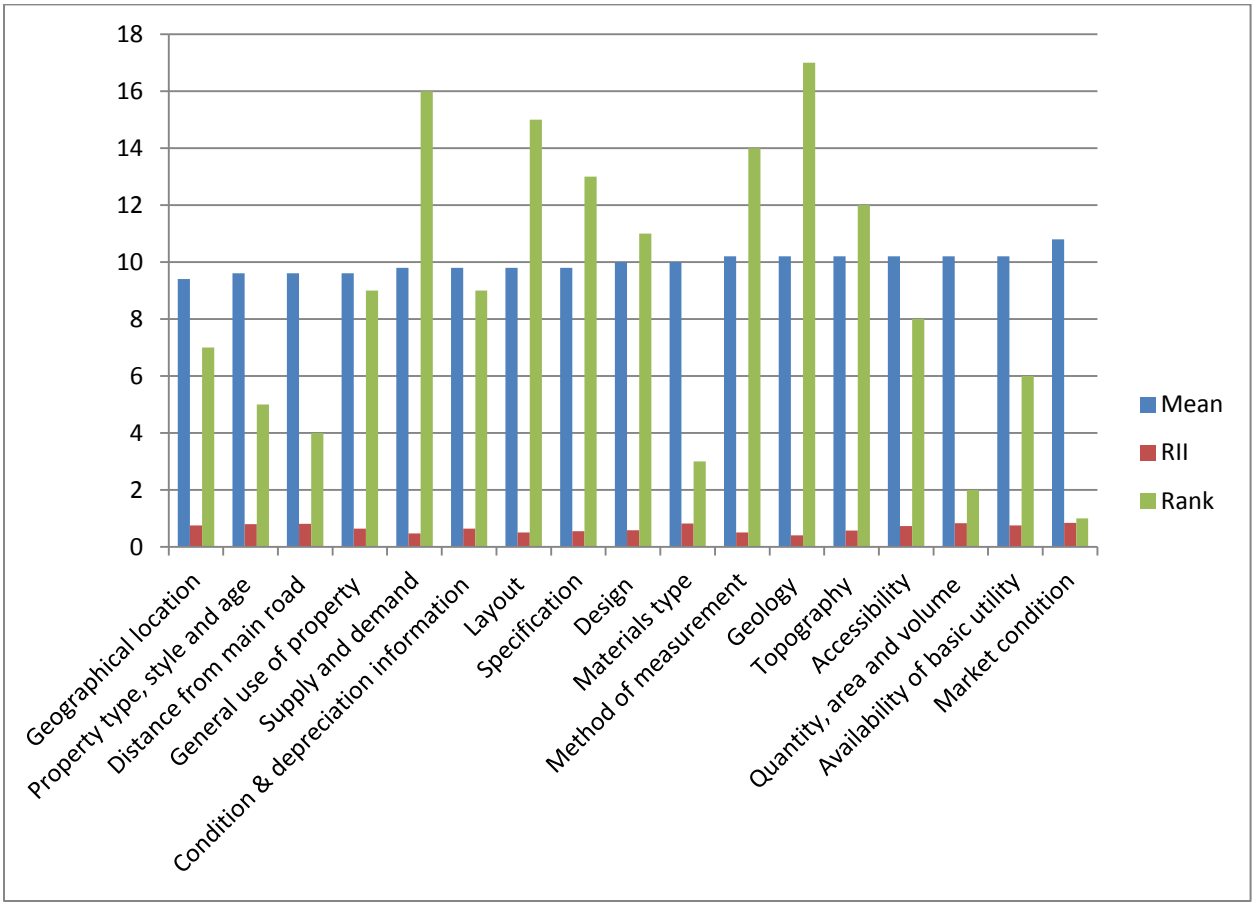

Figure 4.3.1 Mean and Rank of Factors Affecting Real Property Valuation Methods

The problems to valuate real property types are leveled in degree of difficulty during estimation of the cost, accordingly as shown in table 4.3-2, Collect real data and documentation, Suitable estimation methods and Clear and suitable guideline are found to be the most difficult claim types that need attention during valuation. Having the above list of difficulty, a list of three main problems are given to level as contributing factors to the difficulties, and found out to be in the level listed below in ranking order;

Table 4.3-2 Ranking of Problems to the Difficulty on Real Property Valuation

No	List of problems	Property Valuator		
		Mean	RII	Rank
1	Suitable estimation methods	10.2	0.496	2
2	Collect real data and documentation	10.4	0.523	1
3	Clear and suitable guideline	10.0	0.484	3

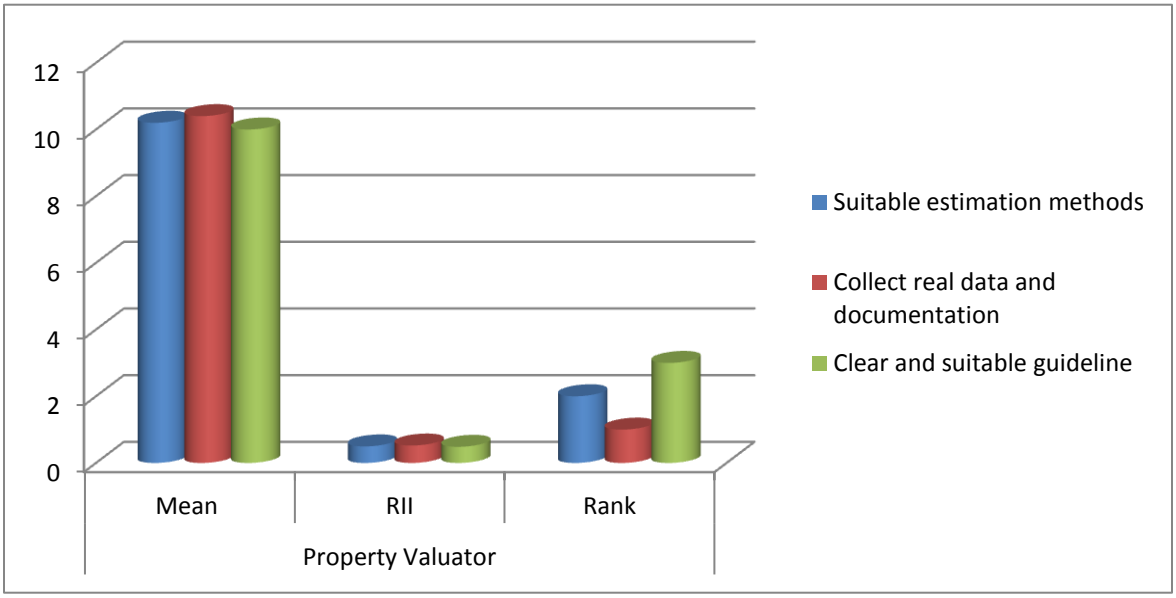

Figure 4.3.2 Mean, Rii and rank of problems to the difficulty on real property valuation

The respondent's reflections as shown in fig. 4.3-1 data collection and documentation is basic factors to execute the property estimation and level of agreement regarding data collection and documentation meet the actual property available in view of this 40.4% of the respondents gave that it could be leveled as strongly agree, 44.2% agree and only 15.4% gave disagree occurrence at all.

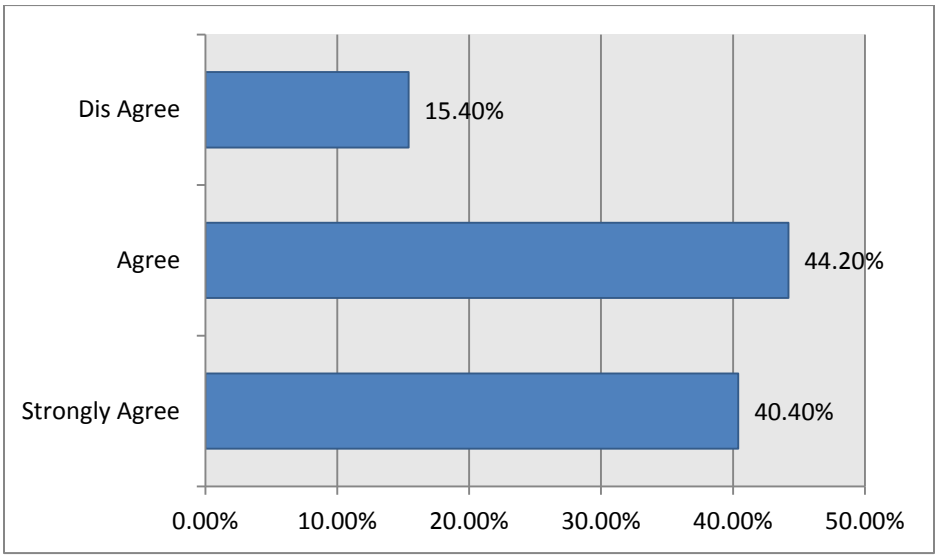

Figure 4.3.3 level of agreement regarding data collection and documentation

For the respondents gave disagree are for the reasons of shortage of historical data of property and lack of awareness of a customer (owner).

Besides when we see the desk study in case of the above listed, there are two reasons; property owners often require an indication of the amount for which the property could be sold. A professional property valuer would be able to provide a formal and accurate figure. But customers do not want to tell the real data of the property and do not familiarized to organize data bank especially year of land holding lease, the completed year of building, because of this data collection and documentation, professional valuer's often struggle to perform accurate valuations due to a lack of relevant information.

In general, the valuer should take all factors into consideration that might affect the value of the property, and should therefore consider the potential of a property in the same way as a prospective developer would in order to determine the potential of the property as opposed to the lack of information that might render the method inaccurate.

Another option is the valuer should take assumption because assumptions are matters that are reasonable to accept as fact in the context of the valuation assignment without specific investigation or verification. They are matters that, once stated, are to be accepted in understanding the valuation. A special assumption is an assumption that either assumes facts that differ from the actual facts existing at the

valuation date or that would not be made by a typical market participant in a transaction on the valuation date.

As per the respondents, the banks are not sure about the improvement of real property valuation now a day but some of them said that there was improvement and cause of the improvements are growth of economic activity in the country, growth of private business makers or developers insufficient work towards learning and growth of valuer and change on the governmental policy.

As the survey showed, among the factors affecting real property valuation methods, depreciation plays great role for determining book value of an asset, in response of the question 51.9% confirm that they do have agreed and 28.8% gave neutral, whereas, the rest 19.3% noted that they disagreed to the statement. In private banks they do not use depreciation values because there is competition between each other to lend money and treat customer, the other problem is lack of data on effective age of buildings and use depreciation values if and only if the properties would be deteriorating (tear and wear).

But, when we see the desk study as we explained in literature review depreciation refers to the adjustment made to the cost of reproducing or replacing the asset to reflect Physical deterioration, functional and economic obsolescence in order to estimate the value of the asset in hypothetical exchange in the market when there is no direct sales evidence available.

In financial reporting, depreciation refers to the change made against income to reflect the systemic allocation of the depreciable amount of an asset over its useful life to the entity. In financial reporting, it is specific to the particular entity and its utilization of the asset, and it is not necessarily affected by the market.

Ethiopian Building code of standard (EBCS) states that design life of reinforced concrete building is 50 years which is nominal value. In determining the expected service life (ESL) of a building component or assembly, ISO 15686-1 prescribes an approach based on knowledge about materials and building technology. This approach starts with reference, service life estimate and applies a series of factors that relate to the specific use conditions of the component or assembly. In governmental financial institutes (banks) it is a must to apply the value of depreciation value without any intervention, but in private banks they wouldn't apply depreciation value because of competition between each other and the top management intervention. Assumption of depreciation rate based on opinion and physical appearance and

it was discovered that majority challenges are lack of data on effective of property as basis for calculating depreciation.

As per the respondents, 51.9% those agreed to the effect of depreciation select straight-line depreciation method. The role of straight-line depreciation method in financial institution (banks) is straight line depreciation is the default method used to recognize the carrying amount of a fixed asset evenly over its useful life. It is employed when there is no particular pattern to the manner in which an asset is to be utilized over time. Use of the straight-line method is highly recommended, since it is the easiest depreciation method to calculate, and so results in few calculation errors. This method allocates the depreciable amount as a function of time, which produces a constant expense charge. The major assumption associated with this method is that the asset's economic usefulness (decline in service potential) is the same each year.

4.4 Assessment On Effectiveness Of Financial Institutions Customizing Eba Valuation Guideline

According to the respondents almost all financial institutions (banks) have their own guideline (valuation manual) particularly prepared by the organization itself customizing from nationally prepared manual (Ethiopian Bankers Association manual).

Based on the respondents the level agreement on real property valuation guideline shall comply with the policy and procedure of the banks and their directives of municipality or sub city (kebelle) pertinent to property valuation are 48% strongly agreed and 38.40% slightly agreed.

Besides, when we see the desk study the municipality or sub city (kebelle) of a given town should be keep the protection of property rights, law enforcement and judicial protection in Ethiopia's private and governmental sectors development. The financial institutions must be provided the guarantees and secure property rights checked the legal control of the properties before doing anything.

Most banks have a property valuation guideline to valuate properties in line with its procedures and to have own common ground rule. They use as bench mark Ethiopian Bankers Association (EBA's) guideline take partially and add their own methods, but some banks use EBA's guideline as it is. Hence, the operation smooth and reduces biasness and helps the banks for easy amendment and promotes

flexibility. On the other hand, some of the banks use nationally prepared Manual like Ethiopian Bankers Association (EBA's) manual and hence it is not fair to value up to date valuation of property.

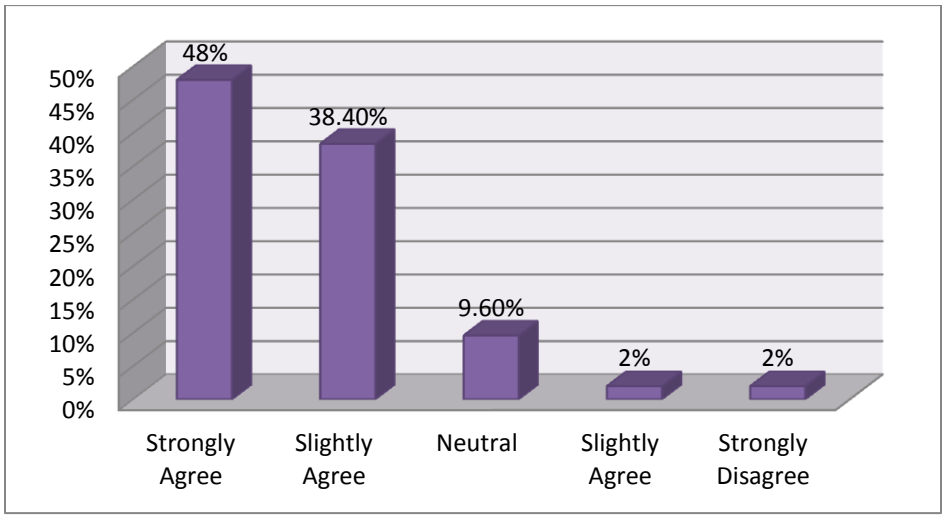

Figure 4.4.1 Level of Agreement on Real Property Valuation Guideline (The Policy And Procedure Of The Banks)

The respondents are required to give their response towards the agreement to the statement that "either there is the independent research center to update the valuation manual (guideline) in the institutions or not". And it was found to be high level of disagreement 67.3% towards the statement, whereas the rest 32.7% was in agreement. Most private banks have no independent research center or independent consultant to update the valuation manual (guideline), but the governmental financial institutions have their own independent research center.

According to desk study, the main advantages of independent consultants (research centers) of the banks are assessing the current market condition and updating the manual accordingly, improve the valuation procedures, developing the valuation manuals, providing necessary documents, determine the continuity of the valuation guide lines, checking arithmetic errors, getting and Collecting the relevant data and facilitating the process to update the manual and providing a fair value of valuated real property.

As the respondents 67.3% responded that their institution updates the valuation manual by 3(three) years differences and the rests 32.7% update the valuation manual by every year. On the other hand, when we see the desk study most financial institutions are failed to update their guideline on time and they use the outdated guideline with respected to the market condition. This also vulnerable the financial institution too

difficult to compute with other financial institution (banks), nonperformance loan (NPL) and failed to achieve the estimation collateral value of the property.

In general, the recommendation of respondents to improve the overall components of the real property valuation guideline to create a more objective valuation manual and minimize subjectivity along and keep consistency and to create more acceptable and up-dated valuation standard all financial institutions (Banks).Use common standard location value and material components factor methods and jointly work with the stakeholders and customers.

The guideline should be prepared nationally the national bank of Ethiopia must be intervened and give direction to control and establish same research center for all financial institution. The financial institutions should be considering the current market condition over all towns. The prepared guideline should be updated regularly to consider the market value of a property to achieve the demand of customer and uniform across all financial institutions. The financial institutions (banks) have no independent research center or consultant firm. Provide and facilitate continuous training for professionals or valuators to develop and enhance the skills to detail work of the real property. And assess the relevant data from each and every towns in details, and collect and develop data base of materials cost, labor cost, equipment etc per month.

4.5 Valuation Method Practices Both In Private And Governmental Financial Institutions (Banks)

When we compared both private and government financial institutions (banks), according to this study 47% of the valuators have experience to see a real property valuated by two or more financial institutions (banks) under the same condition. Among these valuators 82.6% of them confirmed the occurrence of variation on the end results.

As respondent stated the main causes of the variations are: -Market condition factor (MCF) would be considered in private banks to satisfy their customers demand, significant variation of location value was occurred even in the same towns. In private financial institutions (banks) there is a means of competition to handle customers because different customers made compare the values of real properties of each private bank before decision to taking money. Manuals of real property valuation, the objective the real

property and experience of the valuator are also the causes of variation happened in both private and governmental banks.

The result of variation during property estimation faced possible impact for both side of financial institutions (Banks) and Clients. Even if the client has needed higher estimation of property's value in order to get increase lending money. However, during over estimation it implies that increase risk, increase non-performing loans for the financial institutions (Banks) side, but the client's equity contribution in the case of project investment would be decreased, and to get high amount of loan amount it depends on the value of the property.

The impact of over estimation on financial institutions (Banks) are: -increasing risk, facing unnecessary cost overrun, increasing nonperformance loan (NPL), influenced by market condition as the clients compares the value of banks with the current market values and if not the financial institutions (Banks) will be lost their clients.

The impact of under estimation on financial institutions (Banks) are:-customer dissatisfaction and disappointed, most of the time clients need high estimation property due to cover their own contribution of the finance project and to get high amount of money, clients prefers banks those make his/her estimate the property high, if the property estimation value gets low, the client moves/changes / the other banks and affect the reputation of the clients.

According to the respondents, the claim raised by another organization, property owner, or an individual concerning the fairness regarding the real property valuation result that it is found to be low level of disagreement 38.5% towards the statement, whereas the rest 61.5% is in agreement.

As stated by the respondents the main impact of the claim on the financial institutions are:-losing the customer, the value of the estimated property is different from bank to bank, in case of foreclosure there will be claim raised by the client not sold by the banks estimation, the go to court and accuse the financial institutions, the third party will be estimated the property, it leads to encumbrance to the bank in exercising the right to foreclose and transfer of the ownership for the third party, encourage for better improvement, to improve and update the manual considering present sales and location value, market condition and under estimation claims resulting in the withdrawal of the customers.

Table 4.5-1 Comparison of valuation method practices both in governmental and private banks

No	General Description	Private Banks	Government Banks	Desk study
1	Depreciation Rate	Not applied	Applicable	Private banks apply if and only if there would be tear and wear
2	Valuation approaches	Cost approach	Cost approach	
3	Real property valuation guideline	Partially /completely use from EBA	Have their own guideline	Some private banks have their own guideline
4	Independent research center/consulting team	Most of them have no consulting firm	All of them have research center	
5	Over/ under estimation of real property	It depends on the interest of both customer and top management	Depends on the procedure of the manual only	Private banks adjust the estimation depends on the customer interest
6	Market condition factor (MCF)	Considerable	Not as such considered	For both private & government banks it depends on the updating of the manual

All financial institutions (banks) have recommended the following points to minimize variation in real property valuation.

They have to follow current market condition, update the real property valuation manual on time and strictly follow the procedure of the guide line during real property valuation. The guideline of all banks should be prepared nationally by one independent organization to minimize the variation occurred especially between private banks. Financial institutions (banks) should be reduce the subjectivity of the guideline which vulnerable to the personal judgment and preparing uniform and detailed guideline which contains all types of real property.

The Banks should be regulated by the governmental bodies like national bank of Ethiopia or Ethiopian financial institution to consult and control the way they valuate real property.

Assessing and collecting the real data from all towns and woreda is the most recommended to minimize the over/under valuation may occur in the banks. Providing the detail break down of sub groups (location) for better estimation and prepare special training on real property valuation for firms.

The types of the property not included in the guideline (manuals) also different from bank to bank are: -

- Under construction buildings
- Fuel stations
- Wet coffee pulpier building and dry coffee sites
- Steel and aluminum structure buildings
- Location advantage value within same town (CBE use)
- Water borehole etc

CHAPTER FIVE
CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

5.1.1 The General Existing Practices of Valuation Methods

The assessment on the general existing practices of valuation methods, different problem faced the financial institutions (banks) to valuate real properties are ambiguity of estimation encountered between demand of customer (market value) and companies' standard (manuals). The revealed result confirmed that cost approach of valuation is the most effective and efficient to the estimation of real property in the Jimma zone, based on the reality existing in the country, the market evidences are not available to use the other methods.

5.1.2 Factors Affecting Property Valuation Methods

The most factors affecting real property valuation are market condition, Quantity, area and volume and materials types. In other case the valuer's would look at the property type, its age and condition as well as its geographical location. Another factor is the intervention of top management and the institutes' policies and procedures on different real property purposes. Private Banks do not consider depreciation values because of competition between each other to lend money and treat customer, and the difficulty to address the exact age of the property and use depreciation values if and only if the properties would be deteriorated (wear and tear).

5.1.3 Effectiveness Of Financial Institutions On Customizing EBA Valuation Methods Guideline

Most banks have a property valuation guideline to valuate real property in line with its procedures. Most of the bank take the Ethiopian Bankers Associations' manual partially and add their own methods, but some banks use EBA's guideline as it is. Most private banks have no independent research center or independent consultant firm to update the valuation manual (guideline), but the governmental financial institutions have their own independent research center to improve the overall components of the real property valuation guideline, to create a more objective valuation manual, minimize subjectivity and keep the consistency of guideline in the institute and up-date valuation guideline.

5.1.4 Valuation Method Practices Both in Private and Governmental Financial Institutions (Banks)

The valuation method practices both in private and government banks similar to use cost approach technique of real property valuation, but most private banks have no consulting firms and do not consider the depreciation rate of the buildings unless it is deteriorating. There are kinds of real property not included in the guideline (manuals) in private banks, these are under construction buildings, fuel station, agricultural farms (land development), washed and dry coffee sites, steel and aluminum structures buildings, location advantage value and water borehole.

5.2 RECOMMENDATION

This paper is believed to guide the financial institutions (banks) which are involved in the property valuation doing by collaboration concerns valuation process. Based on the results of the study, the following recommendations are forwarded to improve the practice real property valuation in Ethiopian financial institutions (banks) in Jimma zone.

Use standard procedures and guidelines, knowing for what type of real property valuation methods to be used and the purpose of the valuation, and genuine data on valuation, decreases complain which occurs by using two or more methods.

All financial institution should be organized independent consultant or research center to improve the valuation methods and facilitating the process to update the manual.

It is possible to minimize variation in property valuation and possible recommendation to improve the method practice by using the following lists:

- Follow current market condition and update the real property valuation manual on time
- Strictly follow the procedure of the guide line during real property valuation
- The guideline the of all banks should be prepared nationally by independent organization to minimize the variation occurred especially between private banks
- Reduce the subjectivity of the guideline which vulnerable to the personal judgment
- Preparing uniform and detailed guideline which contains all types of real property

- Should be regulating by the governmental bodies like national bank of Ethiopia or Ethiopian financial institution to consults and controls the necessary procedure and methods doing in the financial institutes.
- Assess and collect real data from all towns and woreda in detail to increase accuracy of property valuation
- Provide detail break down of sub groups (location) for better estimation
- Provide detail data base and update frequently
- Prepare special training on real property valuation valuers
- Establish common website and software for all banks
- Develop the software which valuate the property accurately

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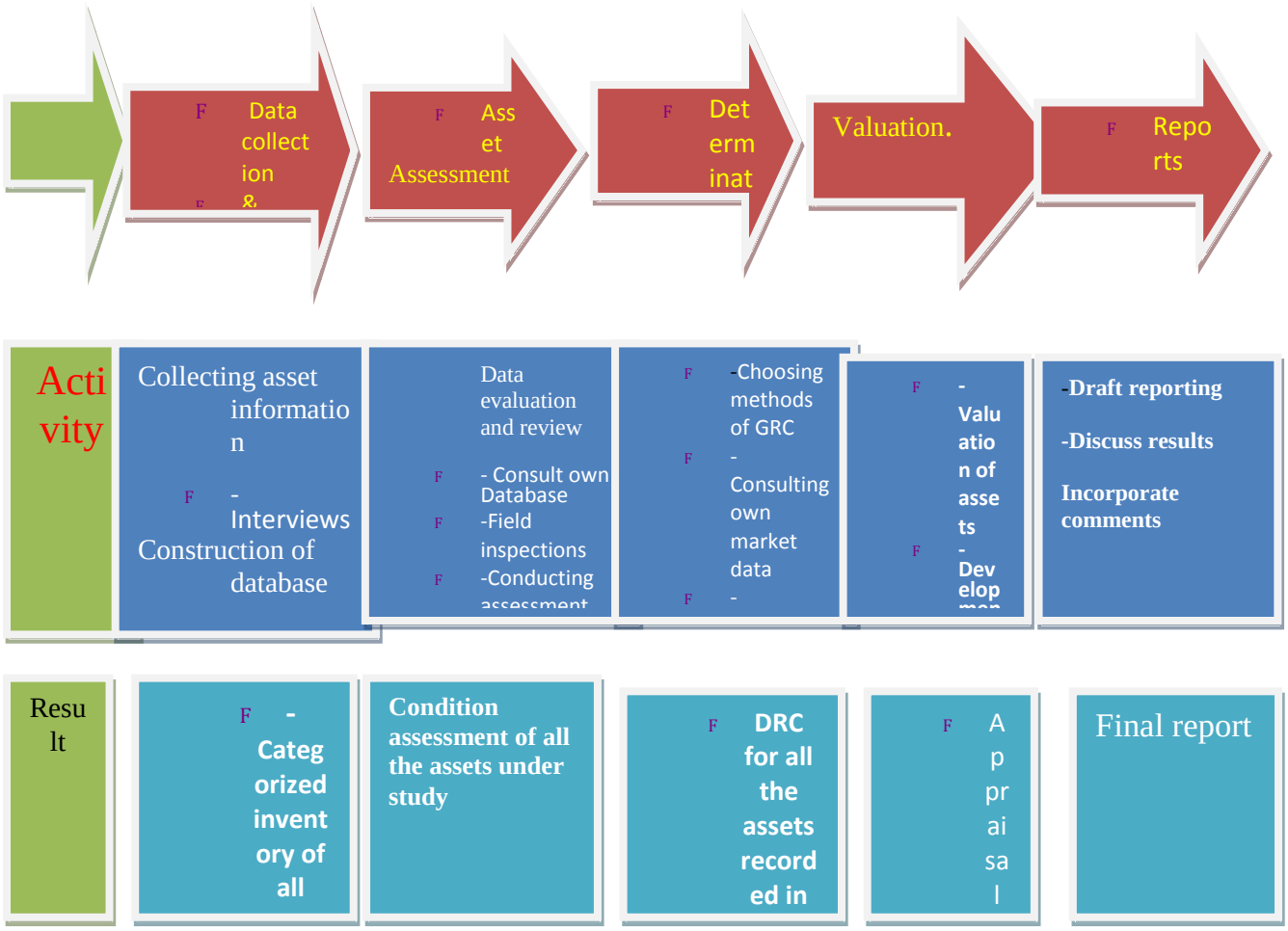
ANNEX 1

In order for values to produce valuation reports, there are some steps that need to be followed which are illustrated in below.



ANNEX 2

QUESTIONNAIRE

Jimma Institute of Technology

School of Civil and Environmental Engineering

Construction Engineering and Management Stream

This questionnaire is design to assess the Real Property valuation method Practice in Ethiopian financial institutions (Banks) - the case of Jimma zone for the partial fulfillment of the requirements for the award of Master's Degree in Construction Engineering and Management. The information which is expected from the respondents has a great role for the success of this study and your responses will be treated with utmost confidentiality and will not be used for any purpose other than the objective of the study. Moreover, the results of the study will be reported in manner that could not identify you or your organization.

Regards

Bekele Ejeta Fufa

Post Graduate Student, Construction engineering and Management stream
Jimma University, Jimma institute of Technology, School of Civil and Environmental Engineering.

*Tel: 0912143628 E-mail:-**bekelej2018@gmail.com***
Jimma

Instruction for completing the questioner

i. Don't write your name please.
ii. After reading the questionnaires, put a "√" mark in the appropriate box that corresponds to your choice.
iii. For the questions having no alternative response, you are requested to give short and precise response, in the line provided.

Part 1: General Information about Respondents

1.1 Organization /Company Name (optional) _____

1.2 Type or origin of your organization (Please indicate with "√" when appropriate)

☐ Private Bank ☐ Governmental Bank ☐ Governmental micro financial institution ☐ other financial institution

1.3 How long has your organization been involved in property valuation?

☐ < 5 years ☐ 5-10 years ☐ 10-15 years ☐ >15years

1.4 How many years have you worked on property valuation?

☐ < 5 years ☐ 5-10 years ☐ 10-15 years ☐ >15years

1.5 Educational status?

☐ B.Sc. ☐ M.Sc. ☐ Others; please specify_____

1.6 Your position in the organization/ title _____

1.7 Contact addresses (Optional): _____

Name (optional): _____ E-mail: _____ Tel: _____

Part II: General on existing practice of valuation methods

1.1 In general, the practice of real property estimation in your organization could be described as reasonable. How do you level your reflection to the statement?

☐ Strongly agree ☐ slightly agree ☐ Neutral

☐ Slightly disagree ☐ strongly disagree

If your answer is Neutral, slightly disagree, or strongly disagree, what challenges may have contributed in your opinion? (Please check all that apply in your point of view)

- ☐ No defined estimation methods
- ☐ Lack of competent and experienced professionals in the field
- ☐ Absence of clear and suitable guidelines of property evaluation
- ☐ Failure to update the guide line timely
- ☐ Others; please specify

_____

_____

What measures shall be taken to improve the current state of local property estimation practices?

_____

1.2 What type of real property did you valuate in the past five years?

No	Types of property	Number of properties valuated (in Number)				
		2015	2016	2017	2018	2019
1	Land					
2	Commercial buildings					
3	Industrial buildings					
4	Hotel buildings					
5	Agricultural buildings					

Others, please specify

_____

1.3 What types of property valuation techniques do you use?

- ☐ Cost approach method
- ☐ Sales comparison
- ☐ Income capitalization approach method

☐ Others please, specify

_____

1.4 How do you level the suitability of available standard methods of the real property valuation practices in your organization?

☐ Very Good ☐ Good ☐ Fair ☐ Poor

If it is poor, what points do you recommend to improve available standard methods of the real property valuation practices in your organization to cost estimation easy? _____

_____

1.5 What is the purpose of property valuation in your financial institutions (banks)?

☐ Buying (Collateral)

☐ Selling (Foreclosure)

☐ Mortgage and Security of loans

☐ Rental Purpose

☐ Project expansion

Others please, specify

_____

_____

1.6 How do you level the occurrence of property valuation claim by the customer due to under or over estimation observed?

☐ Most Frequent ☐ Frequent ☐ Least Frequent ☐ No Occurrence

If your response is Very frequent or frequent, what do you think is the reason?

☐ Wrong method of cost estimation

☐ Shortage of standardization and uniformity on property valuation process

☐ Problem of un- updated guideline (property valuation manual)

☐ Inequitable determination by the engineer or valuer

Others please, specify

_____

And what is your recommendation to minimize the problem_____

1.7 Have you ever been faced with discrepancy during in using two or more methods?

☐ Yes ☐ No

If your answer is yes for #2.6, what are the reasons for the real property discrepancy (complain)?

Please specify (if any)

_____

_____

1.8 What is the main problem of real property valuation methods you ever faced in your company?

_____

_____

Part III: Factors affecting property valuation methods

3.1 The factors which affect real property valuation estimation mostly

☐ Geographical location

☐ property type, style and age

☐ property's condition

☐ supply and demand

☐ market condition

Others, please specify: _____

3.2 How do you level their extent of affect to valuate real properties?

No	List of factors	Very low	low	Medium	High	Very high
1	Geographical location					
2	property type, style and age					
3	Distance from main road					
4	General use of property					
5	supply and demand					
6	Condition & depreciation information					

7	Layout					
8	specification					
9	Design					
10	Materials type					
11	Method of measurement					
12	Geology					
13	Topography					
14	Accessibility					
15	Quantity, area and volume					
16	Availability of basic utility					
17	Market condition					
18	If any…					

3.3 The following lists are the three main problems or constraints encountered property estimation? How do you level the degree of difficulty?

No.	List of Problems	Very Diff.	Difficult	Neutral	Easy	Very Easy
1	Suitable estimation methods					
2	Collect real data and documentation					
3	Clear and suitable guideline					
4	If any…					

3.4 Data collection and documentation is basic factors to execute the property estimation. How do you level your agreement regarding data collection and documentation meet the actual property available?

☐ Strongly Agree ☐ Agree ☐ Disagree ☐ Strongly Disagree

If you are in disagree and strongly disagree, where do you think the problem arises?

☐ Lack of Technical and managerial skill

☐ Lack of awareness of customers

☐ Lack of competent and experienced professionals

☐ Lack of historical data of a property

☐ Others please, specify

_____

_____

3.5 Have you noticed improvements in the practice of property valuation in Ethiopia now days?

☐ Yes ☐ No ☐ not sure

3.6 If your answer is yes for #3.5, what do you think the factors affect the valuation improvement in your institution?

☐ The country economic growth activity

☐ Availability of Expert in the country

☐ Change in Government policy

☐ Growth of private business makers or developers

☐ Learning and growth of the professional/ asset valuator others, please specify:

_____

_____

_____

3.7 Among the factors affecting property valuation methods depreciation plays great role for determining book value of an asset. How do you level your reflection to the statement?

☐ Strongly agree ☐ slightly agree ☐ Neutral ☐ slightly disagree

☐ Strongly disagree

3.8 If your answer is slightly agree or strongly agree for #3.7 what types of depreciation methods do you use?

☐ Straight-line method

☐ Double declining balance method

☐ Units of production method

☐ Sum of years digits method

Part IV: Effectiveness of financial institutions on customizing EBA valuation methods guideline

4.1 Does your bank have guideline (valuation manual) to valuate real properties?

☐ Yes ☐ No

(If No), how do your organization proceed to valuate real property valuation?

_____

_____

4.2 If your answer is yes for #4.1 what kind of real property valuation Guideline does your bank use?

☐ International Standard

☐ Nationally Prepared Manual

i. Ethiopia Bankers Association (EBA) Manual

ii. Consultant

☐ Particularly prepared by the organization itself customizing from Ethiopia Bankers Association (EBA) Manual

4.3 Is real property valuation guideline shall comply with the policy and procedure of your bank and the directives of municipality or sub city (kebelle) pertinent to property valuation? How do you level your reflection to the statement?

☐ ☐ Strongly agree ☐ slightly agree ☐ Neutral

☐ ☐ Slightly disagree ☐ strongly disagree

4.4 Effectiveness of your organization's manual customizing the methods from EBA

	Strongly Agree	Agree	Dis Agree	strongly Dis Agree
Effectiveness of your organization's manual customizing the methods from EBA				
a. Completely the same				
b. Completely different				
c. Taken partially				

Specify if any ———————————————————————————————

4.5 Do you have an independent research center to update the valuation manual (guideline) in your Bank?

☐ Yes ☐ No

4.6 If your answer is yes for #4.4 for what time difference update the valuation manual (guideline)?

☐ 3 months ☐ 6 months ☐ 1 years ☐ 3 years

Specify if any———————————————————————————

4.7 Does the research center or consultant of the organization improve the evaluation process either under-estimate or overestimate?

☐ Yes ☐ No ☐ Not Sure

4.8 In what aspect and extent does the research center or consultant of the organization inspect the valuation improve it?

☐ Fairness

☐ Facilitation

☐ Others, please specify: _____

_____

_____

4.9 What do you recommend to improve the overall components of the real property valuation guideline to create a more objective valuation manual and minimize subjectivity along and keep consistency and to create more acceptable and up-dated valuation standard?

_____

_____

Part V: Valuation method practices both in private and governmental financial institutions

5.1 Have you ever got the chance to see a property valuated by two or more different banks (both private and governmental) in different times?

☐ Yes ☐ No

5.2 If your answer is yes for #5.1, was there any significant variation in the valuation method practices and results?

☐ Yes ☐ No

5.3 What are the reason variations for real property assessment in your Bank?

☐ The Method to employ for Real Property valuation

☐ The purpose (objective) of the valuation

☐ Experience of valuator

☐ Guideline of Real Property Valuation Others, please specify:

_____

_____

5.4 What do you think its impact on valuation from the Bank and Client side?

_____

_____

5.5 Have your bank ever been claimed by another organization, property owner, or an individual concerning the fairness of real property valuation result?

☐ Yes ☐ No

5.6 If your answer is yes for #5.5, what is the impact of this claim on your Bank?

Please, specify: -

_____

_____

5.7 What do you recommend to minimize variation in property valuation?

_____

_____

5.8 If there are the types properties not incorporated in your organization guideline (valuation manual), please specify: _____

_____

5.9 Any other comments you wish to provide

_____

_____

_____

Please kindly check no points are escaped!

Thank you very much for your time!