An Appraisal of Feasibility and Viability Studies Practice among Estate Surveyors and Valuers in Uyo

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Abstract

This study examined the practice of feasibility and viability studies in Uyo through a survey of a cross-section of thirty-six estate surveying and valuation firms in the area using structure questionnaire. The data gathered were analysed using frequency distribution and relative importance index. The study found that twenty-six development project failed out of the thirty-nine development projects examined. The findings also showed that development appraisal practice was not common in Uyo, since twenty-nine of the firms did not engage in the exercise frequently. It among other issues recommended mass enlightenment of the public on the benefit of development appraisal to increase the level of practice.

Keywords: Appraisal, Development, Estate Surveyors, Development Failure.

1.0 Introduction

Viability appraisal is concern with the worth whileness of an investment and is very important to an investment decision because it determines the extent to which a designed project can survive. Amongst different competitive investment opportunities, it is required in order to choose the best investment option that would satisfy the developer's / investor's goal and objectives. It is critical in the overall development equation and is often required either as a pre-condition for statutory approval or securing development finance (Atherton, French and Gabrielli, 2008 and Ezeokoli, Adebisi and Olu-kolajo, 2014).

It is often influenced by the dynamic and complex socio- economic environment in which property development operates. The micro and macro-economic indicators usually affect the viability result and this is more critical in the present day economic downturn. Therefore, the viability technique should be able to incorporate all the economic indicators in the model and the

reliability of the appraisal will depend largely in the ability of the appraiser to accurately interpret the various economic indicators. The viability techniques have evolved from the traditional techniques which are mostly deterministic (fixed) in nature to a more dynamic risk based techniques that allows for incorporation of the various variations and economic downturns (Archibong, 2015).Also the practice of feasibility and viability studies have evolved over the years and globally, the drive for standards and harmonization which are commonly acceptable and applicable in professional practices has been the watchword for transparency, consistency, rationality, comparability and uniform performance measures (Bello, Ogunba and Ogedengbe, 2014). In current economic trend where the services of estate surveyors and valuers in feasibility and viability should be highly sought it is observed that the reversed is the case as Ezeokoli *et al*(2014) opined that feasibility studies has been reduced to mere conditions for meeting either statutory approvals or securing development finance.

Furthermore, the case of abandon project and failed development project only buttressed the fact that these development projects were either not guided by professionally prepared development appraisal or were it was prepared, it was influence to satisfy the required condition of viability. Therefore this paper seek to assuage the doubt, if estate surveyors and valuers are often engage to prepare economic feasibility and viability studies and appraise the development appraisal practice in Uyo. This paper is structured into six sections. Section one is introductory, section two treats the review of related literature, while section three handles the research methodology employed to arrive at the conclusion. Section four and five contain the findings and conclusion respectively. Finally, section six proffers some suggestion towards an improved development appraisal practice in Nigeria.

2.0 Review of Related Literature

Papers relevant to the practice of feasibility and viability studies are reviewed in this section.

Farragher and Kleiman (2001) in a US study of real estate investment decision making practices attempted to ascertain the extent to which institutional real estate investors used sophisticated decision making practices. Data for the study were obtained from responses to a questionnaire mailed randomly to the chief real estate investment officers at 125 institutions in US that had equity investment in real estate. The data was analysed using frequency counts. The study found that almost all the respondents required a hazardous waste report, but less than half required a formal feasibility analysis or an independent

appraisal. The study also showed that very little use was made of Monte Carlo simulation or beta analysis in project or investment appraisal. It concluded that institutional real estate investors used fairly sophisticated investment decision making processes, but that they still had a way to go to catch up with the most sophisticated decision making tools. The findings of this study are pertinent as it revealed that feasibility report is not often required even in the US. However, the study was based on the perception of the investors (the clients' of appraisers) and is relevant since it revealed the client's perspective to risk analysis.

In South African study, Hall (2001) examined the nature and extent of risk analysis and evaluation of capital investment projects. The study selected and sampled 300 companies out of the 353companies in the Industrial Sector on the JSE through questionnaire. The results indicated that risk analysis and evaluation in practice was, to a large extent, neglected by South African Companies. Nearly a quarter of companies estimated their cash flows using subjective estimates by management alone, while 36.9% of respondents explicitly stated that they used no formal risk analysis technique in the evaluation of capital investment projects. The findings also revealed that smaller companies do not analyse or evaluate return related risk associated with capital investment projects.It further stated that failure to quantify risk by the available techniques was not a result of ignorance, but of the difficulty in quantifying return related risks by the companies as the survey showed that majority of South African companies had highly qualified personnel. However, the study was based on the perceptions of the respondents.

Ojo (2006) studied development appraisal and risk adjustment practice in commercial property in Lagos metropolis of Nigeria. Data were collected using both stratified and random sampling techniques. The author sampled 25% of 238 estate surveying firms in Lagos. Frequency distribution and likert rating scales were employed in the analysis. The study revealed that the various methods used by practitioners in incorporating risk adjustment and variability into commercial property development appraisal were the upward adjustment of construction cost (60%), risk adjusted discount rate (30%), certainty equivalent method (5%), and MonteCarlo simulation (5%). Sliced income model (0%) was never used by the practitioners. The research also showed that the major reasons adduced for the continual usage of the traditional methods despite their inadequacy include lack of awareness of a better alternative (38%); the quantum of fee paid by the client did not encourage rigorous analysis (23%); non-availability of relevant data (21%); and lack of knowledge of relevant computer software (13%). However, the author was unable to differentiate between viability techniques and risk adjustment techniques in

development appraisal. Moreover, the sample size of 25% of the total population of 238 is inadequate to represent the population of the study.

In a study for a need for standards in feasibility and viability study prepared by estate surveyors and valuers in Nigeria, Bello *et al* (2014) surveyed 203 head of practice of estate surveying firms through questionnaire. Descriptive statistics, relative importance index and severity index were used to analyse the gathered data. The result showed that there is a significant difference and no correlation in feasibility reports prepared from one firms to another and that standardization will ensure acceptability, reliability and build confidence in clients patronizing estate surveyors in feasibility assignment. The paper recommended the combination of estate surveyors in academics, estate surveyors in practice professional body and regulatory body as standard setters for feasibility report. The study is quite relevant to practice of feasibility studies, however, the finding, cannot be generalized as only one city (Lagos) was studied.

Ezeokoli *et al* (2014) examines the role played by valuers in choosing the right viability appraisal technique for an investment appraisal. Twenty one estate surveying firms were surveyed through structure questionnaires and the resulting data were analyzed using frequency tables and weighted mean. The findings reveal that valuers mostly make use of payback period, NPV and IRR, which are deterministic in nature. It also shows that valuers based their appraisals mostly on economic and financial criteria only without fully analysing the various factors such as the prevailing inflation rate in the economy and the level of risk tolerance of their client. The findings of the study should be applied with caution since it was conducted only in Akure.

StefansdoHir (2015) in an Iceland study of feasibility studies in construction projects through random sample, surveyed eight selected private construction projects where current feasibility study practices were benchmarked against theoretical best practices. It examined the last decade's and current feasibility study practice in Iceland by comparing the results of the two studies in public construction projects and private construction projects respectively. The results show that there is a difference between feasibility study practices in private projects and public projects where the private projects perform significantly better. The study did not state the sample frame and the sample size of eight projects is not enough for the findings to be generalized.

3.0 Research Methodology

This study which sought to appraise feasibility and viability studies practice sourced its information from estate surveyors and valuers in Uyo. The sample frame of the estate surveyors and valuers was secured from the most recent record of the AkwaIbom State branch of the Nigerian Institution of Estate Surveyors and Valuers. The record in indicated that 36 practicing estate surveying and valuation firms were based in Uyo metropolis. Therefore the total enumeration survey of the thirty-six (36) estate surveying and valuation firms practicing in Uyo metropolis was conducted since sample frame was small. Structure questionnaire was used to gather the required data. A total of thirty-one (31) firms out of the 36 firms sampled responded positively, thereby giving an effective response rate of 86.11% which was sufficient for the statistical analysis. The responded estate firms provided data on development appraisal practice in Uyo and development projects that experience development failure. The gathered data were analysed using frequency distribution and relative importance index.

4.0 Data Presentation

This section presents and discusses data and results gathered through the questionnaire.

The study had sought to examine the practice of feasibility and viability studies and identify failed development projects that were preceded by pre-development appraisal predictions in Uyo. In attempt to achieve the above objective a number of questions were posed to the respondents. First, respondents were asked whether they had conducted development appraisals in the past ten years. Responses to this question are detailed in Table 1.

Table 1: Execution of Development Appraisal in Past 10 Years in Uyo

Option	**Frequency**	**Relative Frequency (%)**
Yes	31	86.11
No	5	13.89
Total	**36**	**100.00**

Source: Authors' field survey (2014).

The responses of estate surveying and valuation firms on execution or carrying out of development appraisal within Uyo were sought and table 1 indicates their position. The table shows that thirty-one estate surveying and valuation firms representing 86.11% of the total firms in Uyo metropolis had received

development appraisal brief in which they had completed the assignment. Only five firms representing 13.89% had never received any development appraisal brief. The above result indicates that majority (86.11%) of estate surveying and valuation firms in Uyo have had development appraisal experience which gives credence to adopting the area as a case study.Next the respondents were asked how frequent they conduct such appraisal and Table 2 shows the result.

Table 2: Frequency of Development Appraisal by Firms in Uyo

Option	**Frequency**	**Relative Frequency (%)**
Quite Frequent	0	0.00
Frequent	2	6.45
Not Frequent	29	93.55
Total	**31**	**100.00**

Source: Authors' field survey (2014).

The data on table 2 reveals that no estate firm had development appraisal briefs quite frequent, only two representing 6.45% had it frequently, while twenty-nine representing 93.55% were not quite frequent. The above result shows that development appraisal is not a verycommon brief received by the estate firms in Uyo.

The issue of failed development projects was next identified and examined and is detailed in Table 3.

Table 3: Identification of Failed Development Projects in Uyo

Firm	Failed Project	Description of Project	Type of Development Failure
1	2	Commercial development on 3 floors along Abak Road and Post-primary School structures at Ewet Housing	The commercial development experienced extended void period of more 3 years, while the cost of construction for school building was higher than predicted
2	1	Commercial development along Udo-Udoma Avenue	The construction cost was higher than predicted
3	1	Commercial development along Nwaniba Road	The building on completion experienced extended void period
4	1	Residential (Block of Flats) development at Akpakpan Street	Development period was 2 years longer than what was predicted
5	1	Commercial development on 3 floors along IBB Way	It experienced extended void period of 2 years after completion
6	1	Block of Offices along EdetAkpan Avenue	Cost of construction was higher than predicted
7	2	Commercial development on 3 floors along IkotEkpene Road and residential development at Ewet Housing	The commercial property experienced extended void period of 4 years after completion, beside its cost of construction was higher than predicted. While the Ewet property had construction higher than predicted
8	1	Hotel development at Ewet Housing	The project was abandoned
9	1	Development of commercial property along AtikuAbubakar Way	Duration of construction was 3 years more than predicted duration
10	1	Commercial development along UkanaOffot Street	Construction cost higher than predicted and the rent on completion was lower than estimated.
11	1	Commercial development on 3 floors along Udo-Umana Street	Duration of construction was 2 years longer than predicted and the predicted rent was not achieved

12	1	Residential development off Oron Road	Predicted rental value was not achieved and some section of the building experienced void period
13	1	Development of commercial property on 3 floors along Oron Road	Development period was 2years longer than predicted
14	1	Commercial property on 2 floors along Abak Road	Construction cost higher than predicted
15	1	Hotel development along AtikuAbubakar Way	Development period longer than predicted and construction cost higher than estimated
16	1	Development of commercial property along IkotEkpene Road	It experienced extended void period of 3 years after completion
17	1	Commercial development along EdetAkpan Avenue	It experienced extended void period of 3 years after completion
18	1	Hotel development along NsikakEduok Avenue	Development period and cost of construction was higher than predicted
19	1	Commercial development on 3 floors along IkotEkpene Road	The upper floors experienced extended void period of more than 3years
20	1	Development of commercial property along Abak Road	Construction cost higher than predicted and it experienced extended void period
21	1	Development of commercial property along Wellington Bassey Way	Development period was extended by almost 2years and on completion experienced void period
22	1	Commercial development on 2 floors along Abak Road	Construction cost higher than predicted
23	1	Hotel development along EdetAkpan Avenue	Development period and construction cost higher than predicted
24	1	Commercial property development along Oron Road	It experienced extended void period

Source: Authors' field survey (2014).

Table 3 above shows the result of the identification. The table revealed that twenty-six development project failed out of the thirty-nine development projects examined. Majority of the project were commercial properties of two

floors and above. Other type of development included residential property, hotel and post-primary institution. Types of development failures associated with the examined projects included extended void period, construction cost higher predicted, abandonment, development period longer than predicted and rental value lower than predicted value. This data shows most of development project in Uyo had experienced development failure. The high rate of failed development projects after pre-development appraisal suggests that in the study area, market variables are subject to considerable variation and volatility from appraisal predictions.

Following the high rate of failed development projects in Uyo, a variety of potential causes of such failure were put to the respondents on a 5-point likert scale with 1 representing low importance and 5 representing very high importance. The resulting frequencies were analysed using relative importance indices and are documented in Table 4 below.

Table 4: Risk Factors that Impact on Project Failure in Uyo

S/No	Factors	1	2	3	4	5	N	Sum	RII	Rank
1.	Construction cost higher than expected	1	2	2	6	20	31	135	4.35	1st
2.	Uncontrolled inflation	2	2	2	16	9	31	121	3.97	2nd
3.	High overhead cost	2	2	4	14	9	31	119	3.84	3rd
4.	A non-conducive political climate for investment	4	2	2	13	10	31	116	3.74	4th
5.	Difficulty in reaching the target market	4	2	2	14	9	31	115	3.71	5th
6.	Increase in loan interest rate	3	4	4	10	10	31	113	3.64	6th
7	Sell/rental price competition for property in the neighbourhood	5	5	5	5	11	31	105	3.39	7th
8.	Development	2	7	2	18	2	31	104	3.35	8th

	period longer than expected									
9.	Imprecise technology in construction phase	4	2	8	15	2	31	102	3.29	9th
10	Payback period longer than expected	2	10	4	11	4	31	98	3.16	10th
11.	Decrease in market demand for the type of property in surrounding location	17	4	2	2	6	31	69	2.23	11th
12	Over supply in property	19	2	4	2	4	31	63	2.03	12th

Note: N = Frequency count; RII = Relative Importance Index
Source: Authors' field survey (2014).

The data in the above table 4 are computed based on relative importance index. The table show that all the risk factors are significant except 'decrease in market demand' and 'over supply' which have relative importance indices of 2.23 and 2.03 respectively which are less than 3.00 (the mean point). However, a more thorough examination of the table shows that some factors are more important than others. The most impacted factor identified in the above table is 'construction cost higher than expected' with index of 4.35, followed by 'uncontrolled inflation' with 3.97. In the third place is 'high overhead cost' with index of 3.84, 'a non-conducive political climate for investment' is ranked fourth with index of 3.74, closely followed by 'difficulty in reaching the target market' with index of 3.71. 'Increase in loan interest rate' is ranked 6th with an index of 3.64, while 'price competition', 'development period longer than expected', 'imprecise technology in construction phase' and 'payback period longer than expected' are placed 7th, 8th, 9th and 10th respectively.

5.0 Conclusion

The study concluded that development appraisal was not a common area of practice in real estate profession among practitioners in Uyo metropolis, though a few of them received the brief frequently. It also concluded that most of development projects in Uyo did not achieve the purpose of the appraisal, as most were abandoned, some did not achieve the developers' profit margin, still others experienced extended void period after completion. It further submitted

that construction cost being higher than expected, sell/rental price competition for property, uncontrolled inflation, high overhead cost, increase in loan interest rate, and development period longer than expected were the major and most significant risk factors that impacts on project failures in the area.

6.0 Recommendation

i. The study found that several development projects were preceded by development appraisal turn out to be failures in one form or the other. This should be regarded as an embarrassment for any group of professional expert such as estate surveyor and valuer. Thus, The Nigerian Institution of Estate Surveyors and Valuers should consider the issue of failed development project preceded by development appraisal a priority topic for investigation and corrective actions. This could be achieved through introduction of the subject of development appraisal in annual conferences and mandatory professional continuous development seminars of the Nigerian Institution of Estate Surveyors and Valuers.

ii. The number of development appraisal carried out by estate firms in the area within the period under review is not commensurate with the number of property development in the area. It therefore, follows that majority of the projects were without development appraisal. Hence mass enlightenment of the public on the benefit of development appraisal is desirable to increase the level of practice of development appraisal.

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