

A theoretical approach to overcoming the challenges valuing Agricultural Property (Asset) for various purposes in Awka Anambra State, Southeastern Nigeria.

Ifediora, Christian Osita

Paul University Awka, Anambra State Nigeria.

ABSTRACT: The study focused on a theoretical approach to overcoming the challenges encountered while valuing agricultural property (asset) for various purposes. The farm produce (products) were thoroughly considered with reference to sales and emphasis on profit drawn. It also considered the methods to be adopted valuing various assets of the farm including plant and machinery. While valuing such complex property, the method of valuation adopted for various assets including the farm produce (products) were considered with a view of overcoming the challenges on ways to carrying future valuations on such agricultural property. This study no doubt considered the various purposes for which the agricultural property is being valued and made some specific findings with respect to what constituted challenges while carrying out valuation for agricultural properties and ultimately proffered solutions to identified challenges.

KEYWORDS: Challenges, Agricultural Property, Asset, Valuation.

1.0 INTRODUCTION

This study was limited to the challenges encountered while valuing agricultural Properties for various purposes in Awka, Anambra South eastern Nigeria.

The study covers only a geographical area of Awka, due to the relatively high commercialized and urbanized nature of Awka and for the purpose of Convenience, a brief (insight)/trend in valuation of Agricultural Property in Awka were used as data for this study. The study highlights the challenges encountered by Valuers in such valuation.

It therefore examined the challenges encountered by the Valuers and proffered solutions to the identified challenges.

2.0 PROBLEMS

The key issue in business expansion is finance, also real estate which agricultural property is part of requires huge financial/capital outlay to bring it into limelight.

Where farmers seek for fund to expand their farm for more profit and possibly meet ever increasing demand for agricultural products especially in urban center, finance and financing option has always been a major challenge. When Valuers are approached by farmers to advices on the finance option, he has to sit down and analyze various finance option available as well as check the major reason why the client(s) is seeking for more fund.

When he is settled for the finance option, the next would be the challenge on how to value such complex property which rarely comes up for valuation. He is also faced with problems of the best and fair valuation method to adopt, apart from that the Valuer also faces the challenge of how to value farm produce; he must place value on them.

Also facing the Valuer is how to gather data needed for analysis of sales, these however is needed in preparation of loan repayment schedule and possibly advice the client on how to go about the servicing of such loan.

These challenges therefore prompted the study of the challenges encountered while valuing agricultural property for various purposes.

3.0 REVIEW OF RELATED LITERATURE

This chapter helps to paint a clearer pictures of the various terms frequently used in valuation of agricultural property (asset) for various purposes. It also reviews the works of other researchers on the topic of this critical analysis. In this critical analysis, there is need to define the terms;

3.1 Valuation Concept and definition

Valuation of landed property or real estate appraisal is a process of establishing an opinion of value for an interest in landed property/real estate. RICS (2006) describes a valuation as 'a professional individual's opinion

of the capital or rental price or value of a property on a defined basis'. Market valuation is a profession that has its roots in land economics and investment appraisal.

3.2 Agricultural Property (Asset) Definition

Agricultural property has been defined in many ways, in dictionary of Real Estate Appraisal, agricultural property is defined as improved or unimproved land that is devoted to or available for the production of crops and other products of the soil, for example, fruits, timber, pasture and building for livestock.

However, the aforementioned definition should cover plant, machinery and equipment used for agricultural production, for example, production of day old chicks, etc. Udechukwu. (2008) defined agricultural properties as properties used for the cultivation of crops and rearing of animals, for example bare farm land, farm house, ranches, orchards, pasture land, cottages, etc. put together. Therefore, agricultural properties can simply be defined as properties, whether land, buildings, plants, machinery and equipment, used for agricultural purposes. Agricultural properties are lands suitable to or used for the production of a wide range of commodities intended directly or indirectly for human consumption Ogunba. (2013).

Assets of agricultural property for valuation include the land, the structural improvements, plants and machinery attached to the land, plant and machinery not attached to the land, biological assets (living animals or plants) attached to the land and biological assets not attached to the land (IVS, 2007).

3.2.1 Classifications/Components of/an Agricultural Property

The agricultural uses of land may be classified in the following broad groups (IVS, 2007):

1. Crop farms.
2. Dairy Farms.
3. Perennial plants.
4. Forestry/Timberland.
5. Irrigation land.
6. Livestock Ranches/Stations.
7. Special Purpose Properties.

The components of a farm which were articulated by Kuye. (2003) can be summarized as follows:

1. Farmland.
2. Farm roads.
3. Farm House/Buildings.
4. Irrigation Facilities.
5. Plant and Machinery
6. Fences.

3.3 Agricultural property Valuation.

Kuye opined that valuation of agricultural properties is one aspect of valuation that is scarcely carried out (especially in the tropics) when compared to other aspects such as valuation of residential properties, special properties, etc. This, he noted, has made it subject of interest in both the academic and professional circles. The consideration of agricultural properties does not change the definition or meaning of valuation – the art and science of determining the value of an interest(s) in property for a specific purpose or purposes, at a specific date(s), after taking into consideration the nature of the property and state of the market. This definition covers all classes of property, be it residential, commercial, industrial, agricultural, etc.

In the furtherance of the aforementioned, it is essential to mention that the final value to be arrived at an agricultural valuation represent an aggregate value of the various components of the subject farm/agricultural property. But this depends on the purpose, basis and method of valuation which one decides to adopt. For instance, if a Valuer is Valuing for sale/purchase using the income/investment method, he may not use aggregate values but rather capitalize the net from the investment. However, a method such as Depreciated cost (DRC) method will involve aggregating the depreciated replacement cost of the various components of the farm or agricultural investment.

3.4 The Valuation Exercise

The valuation of *farm quarters is expected to be done using investment method; this applies to the farm office, and warehouse.* The reason being that the property is believed to be beneficially occupied and generating income flow; the investment method of valuation can therefore be considered as the most appropriate for the exercise. Due consideration must be given to the present cost of building materials will result in rentals not reflecting the income flow commensurate on such property. To reduce this, Valuers should therefore apply "Security Factor". This is the coefficient of open market rental value over the prevailing rental. The present cost of building materials is expected to compel Valuers to use the replacement cost approach as a check to arrive at a fair Open Market Value. The investment method sums up the total of the projected income making provisions

A theoretical approach to overcoming the challenges valuing Agricultural Property (Asset) for

for outgoing. The cost method on the other hand contemplates the cost of putting up similar structures based on prevailing priced bill of quantities for such property and the value of site improvements less appropriate percentage for depreciation and obsolescence.

The two methods can be correlated and which will form the basis of any conclusive opinion.

For valuation of *fish ponds, farm quarters, farm offices, warehouse, hatchery block, parent stock house, holding pen house, brooding house*. Depreciated Replacement cost DRC, should be considered appropriate because the structures do not rarely come to market and mostly its comparable cannot easily be found and there has not been evidence of let or even sale of such in recent times.

In valuation for plants and machineries, various methods should be considered in order to arrive at a fair opinion of value. Replacement cost method should be used while market comparison and book value method should be adopted as a check.

In servicing of loans; emphasis should be made in relation to profit/sale made from the sale of eggs, broilers, fishes and old layers, this applies to other farm produce not itemized. They should however be compared with other farms in the town. The sizes of eggs and boilers should be considered in terms of weight. This applies to fishes (cat) as they are sold based on the weight in kilograms (kg). It is however of importance that maturity of the farm produce (product) e.g. (chicken and fishes) produced are taken into consideration while trying to estimate profits. Seasonality in sales should also be considered as sale of broilers witness high patronage especially during festive period.

4.0 METHODOLOGY/APPROACH/DATA PRESENTATION AND INTERPRETATION

Data was collected from the consultants, practicing Estate Surveyors and Valuers as well as farm owners and their employees within Awka. The questionnaire was used to obtain the required information which will help Valuers to arrive at the final opinion of value. Oral interview were also held with practicing Valuers and farmers alike who also gave an in-depth account of methods of valuation and farm operations. This highlighted challenges and provided a basis of analysis that will guide the drawing of conclusion and recommendation. Reconnaissance survey was conducted and should constantly be conducted as need be to obtain firsthand information on farm operations and Valuers who have done farm valuation in past were also interviewed; in addition to survey is observation.

Questionnaires were designed and administered to practicing Estate Surveyors and Valuers. To the farm owners and their employees; more of interviews were done and expected to be done when need arises.

Simple random sampling technique was used and evenly spread and without bias, 50 questionnaires were distributed in all and a total of 41 were returned. Respondents were required to rate the challenges and recommendation based on 5 point likert scale ranging from *Unimportant to Very Important* and *Strongly Disagree to Strongly Agree*, i.e. from 1 – 5, with point 5 representing very important and strongly agree respectively. In analyzing data collected, the use of descriptive statistical tools of analysis through the use of simple percentages was adopted.

4.1 DATA PRESENTATION

TABLE 1: AGE OF RESPONDENTS

AGE OF RESPONDENTS	NUMBER	PERCENTAGE
20 – 29	17	41.46%
30 – 39	16	39.02%
40 – 49	5	12.19%
50 and above	3	7.31%
TOTAL	41	100

TABLE 2: GENDER

GENDER	NUMBER	PERCENTAGE
Male	30	73.17%
Female	11	26.82%
TOTAL	41	100

TABLE 3: EDUCATIONAL QUALIFICATION OF RESPONDENTS

EDUCATIONAL QUALIFICATION	NUMBER	PERCENTAGE
School certificate	9	21.95%
Diploma	2	4.87%
BSc / B Tech / HND	27	65.85%

Post Graduate	3	7.31%
TOTAL	41	100

TABLE 4: DATA PRESENTATION ON CHALLENGES ENCOUNTERED BY VALUERS VALUING AGRICULTURAL PROPERTIES AND SCALES

S/NO	Challenges	5	4	3	2	1
1	Inaccurate data presented by the farm operators/owners.	19	17	-	4	1
2	Unwillingness of farm owners/operators to volunteer the accurate information with respect to sale and profit made from the farm proceed.	18	18	1	3	1
3	Unwillingness on the part of farm owners/operators to present invoices for machineries and plants purchased.	17	19	-	5	-
4	Valuers inexperience of farm operations and management leading to poor access to knowledge and judgment on the things to value.	21	18	1	1	-
5	Absence of evidence on recent information sales/let of similar property.	23	15	2	1	-
6	Absence of data base for information on Agricultural property.	17	21	-	2	1
7	Inaccurate data presented by the farm operators/owners.	18	22	-	1	-

TABLE 5: DATA PRESENTATION ON SOLUTIONS/RECOMMENDATIONS TO CHALLENGES FACED WHILE VALUING AGRICULTURAL PROPERTIES.

S/NO	Challenges	5	4	3	2	1
1	There is need for data base for were information can be stored and sourced.	18	21	1	1	-
2	Valuers to always visit relevant websites and source for information on plant and machinery there are valuing.	21	14	2	3	1
3	There is need to visit other farms part from the subject farm for information.	18	19	1	3	-
4	Valuers to observe with keen interest the operations going on in the property they are inspecting for valuation.	19	20	1	1	-
5	Valuers to have one on one interview or contact with employees in order get more and reliable information especially in relation to sales of agricultural products.	17	19	2	2	1
6	Effort to be to have MCPD on valuation of agricultural properties.	21	17	1	1	1
7	Valuers must familiarize themselves on farm operations by visiting the farm.	18	20	2	1	-
8	Need for proper use of other methods of valuation as a check against the other.	19	17	2	2	1
9	Strict adherence to valuation standard and Guidance notes on valuation of agricultural properties.	17	19	2	1	2

5.0 FINDINGS, CONCLUSION AND RECOMMENDATION.

Some challenges usually feature in valuation of different types of property but that of agricultural property is usually peculiar because valuers are not always familiar with such property especially the operations of farm. The following are findings in the course of this research.

1. Inaccurate data presented by the farm operators/owners.
2. Unwillingness of farm owners/operators to volunteer accurate information with respect to sale and profit made from the farm proceed.
3. Unwillingness on the part of farm owners/operators to present invoices in case machineries and plants purchased.

4. Valuers inexperience of farm operations and management leading to poor access to knowledge and judgment on the things to value.
5. Absence of evidence on recent information sales/let of similar property.
6. Absence of data base for information on Agricultural property.

5.2.1. CONCLUSION AND RECOMMENDATION

It can be concluded that valuation for agricultural properties have some challenges, it takes experience, diligence and further consultation of research materials and visit to farms for one to familiarize him/herself on farm operation.

Based on the challenges encountered while valuing agricultural properties for various purposes, the following recommendations will help in arriving at a fair and final opinion of mortgage value:

It is recommended that when a Valuer notices some fowl play and inaccuracy in terms of data presented by farm owners/operators, the Valuers should go extra mile and sourced for right information by asking questions from other farms around.

The Valuers needs the knowledge of farm operations, this is critical in valuation of agricultural property, he may not necessarily become a farmer but establishment of small farm at his backyard as this will equally help him have some idea of how these products mature and are sold; and even visits of similar farms apart from the one valuing.

Development of a data base for agricultural properties is also very essential to valuation of any agricultural property, it is expected that when such data is developed, even though that there are no evidence of recent sale for such property, one can have idea of the sales from the farm produce and its prices in the market.

Summarily, the recommendations are as follows:

Estate Surveyors should work at developing a data base and devote some pages in the data base or website for agricultural properties and valuation and work at updating it in full assistance with farm owners/operators.

While carrying out valuation of such nature, the Valuers should as matter of importance visit other farms in order to get accurate information in matters relating to sales of agricultural products.

Observation also is very essential, this will reveal to Valuers, the sizes of the farm products and price tags even without the Farm owners/operators volunteering the same information. From observation the Valuers can estimate the prices of fishes among others.

It is expected that Valuers should also contact workers/farm attendants one on one in away the farm owners would not know what is going on as they are also in a better position to volunteer certain information in relation to sales and profits.

It is recommended also that data base development is very critical, when this is developed Valuers should be meant to deposit valuation reports done by their respective firms to be made accessible with some securities attached to avoid unnecessary duplication, i.e. the valuation reports can only be readable not downloadable.

There should National MCPD will shall be designed to focus mainly on the valuation of agricultural properties, in addition to this is devoting or introduction of course on farm operations and management in schools or better still Estate School developed for one year internship or practical study on valuation profession as opposed to the issues of filling log book and writing synopsis and critical analysis before becoming registered.

Use of one method of valuation as checkagainst the other is also very important as this will go a long way in arriving at the fair opinion of value.

Conclusively, it is expected that when the above recommendations are taking into practice, valuation of agricultural properties will be done at ease without numerous challenges.

REFERENCES:

- [1] Ezimuo, P.N., Onyejika, C.J. and Emoh, F.I. (2014). Sources of Real Estate Finance and their impact on property development in Nigeria. A case study of Mortgage institutions in Lagos Metropolis. *British Journal of Environmental Research*, 2 (2), 35-58.
- [2] Kalu, I.U. (2001). *Property Valuation and Appraisal*. Imo: Adyudo Press.
- [3] Ogunba, O.A. (2013). *Principles and Practice of Property Valuation in Nigeria*. Ibadan: Atlantis books.
- [4] Olusegun, K. (2009). *Practical approach to Plant and Machinery Valuation*. Lagos: Climax Communications Limited.
- [5] Onyejika, C.J. and Emoh, F.I. (2014). Adopting the best practices for the Valuation of Agricultural properties in Nigeria. *Estate Surveyors and Valuers*. Vol. 39, No 1. Pp 57-65.
- [6] Stokes, J.R. and Brinch, B.M. (2001). Valuing Agricultural Mortgage Backed Securities. *Journal of Agricultural and Applied Economics*, 33(3).
- [7] Udechukwu, C.E. (2006). *Principles of Valuation*. Lagos: Treem Nigeria Limited.