



St. MARRY UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**DETERMINATION OF THE REAL PROPERTY VALUATION METHODS
IN SELECTED PRIVATE BANKS (THE CASE OF ADDIS ABABA)**

BY

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ADVISOR

MOHAMMED SEID (ASS. PROF)

JUNE 2023

ADDIS ABABA, ETHIOPIA

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**St. MARRY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS**

**Determination of the real Property valuation methods in selected Private Banks
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**By
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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Mohammed Seid (ASS. PROF). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher-learning institution for the purpose of earning any degree.

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St. Mary's University, Addis Ababa June, 2023 G.C

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This is to certify that the thesis entitled “**Determination of the real Property valuation methods in selected Private Banks (The case of Addis Ababa)**” submitted in partial fulfillment of the requirements for the degree of **Master’s** in Accounting and Finance, the Graduate Program of the **Accounting and Finance**, and has been carried out by **Netsanet Fita** Id. No **SGS/0218/2013A**, under my supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department for defense.

Mohammed Seid (Ass. Professor)

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Acronyms

FDRE	Federal Democratic Republic of Ethiopia
EBA	Ethiopian Bankers Association
NBE	National Bank of Ethiopia
SPSS	Statistical Package for the Social Sciences
COTOM	Construction Management
ArcGIS System	Aeronautical Reconnaissance Coverage Geographic Information
AutoCAD	Automatic Computer Aided Design
IT	Information Technology
LHC	Land Holding Certificate
EVPMS	Engineering Valuation Program Software
MoUDC	Ministry of urban development and construction
NPL	Nonperformance Loans
MV	Market Value
MLV	Mortgage lending value
IV	Investment Value
FV	Fair Value
REITs	Real Estate Investment Trusts
RICS	Royal Institution of Chartered Surveyors
AI	Appraisal Institute
IVSC	International Valuation Standards Committee
Ro	Overall Capitalization Rate
RE	Equity Capitalization Rate
IRR	Internal Rate of Return
DCF	Discounted Cash-flow
IVSC	International Valuation Standards Council
GDP	Gross Domestic Product
ABNT	Association of Brazilian Technical Standards
IVS	International Valuation Standards
IFRS	International Financial Reporting Standards
BSc	Bachelor of Science
MSc	Master of Science
PhDs	Doctor of Philosophy
USA	United States of America
AD	Anno Domini
CBE	Commercial Bank of Ethiopia
AIDB	Agricultural and Industrial Bank
DBE	Development Bank of Ethiopia
HSB	Housing and Saving Bank
CBB	Construction and Business Bank
AA	Addis Ababa
ADB	Asian Development Bank

Abstract

Real estate valuation is now considered to be one of the most important aspects of any property and is a vital practice in investment appraisal. The real estate valuation industry in Ethiopian private banks, however, is characterized by variation, unfair competition, and discrepancy. Accordingly identify the existing real property valuation factors, regulation used, methods used & digital system extend to modernize it.is the main concern of the study. The study under take in Addis Ababa were the head office of the private banks exits. Total population sampling method was conducted to gather data through questionnaire & both interviews from 107 valuers which works within 6 selected private banks. Descriptive statistics is used to analysis the data by using SPSS version 20 software. Most selected banks use the cost approach either wholly or in combination with the other two approaches. The main factor affecting real property valuation are Geographical location, property type (style, use and age) and market condition. The senior management's involvement and the institutes' policies and procedures for various real estate goals are additional factors. All banks have guidelines which may adopted from Ethiopian Bankers Association regulation or used as it is. Though there is no standard regulation used as a country. Standard excel software is mostly used by these banks only Dashen banks develop its own EVPMS software. National regulation and institution is necessary. Regarding valuers, variation, and software used for valuation could be another area for other research.

Key words: - Real estate valuation, Private banks, Descriptive statistics, EVPMS software

Chapter One: Introduction

1.1 Background of the study

Valuation can be defined as the process of estimating value. Valuation is an art requiring judgment and forecast. It is a purpose in which conclusions about value are arrived at by a scientific analysis of the available data. (Elizabeth,2017)

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. The real property encompasses all the rights, interests, and benefits related to the ownership of the real estate. (Elizabeth,2017) 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 (Bekele,2020).

Real estate valuation is a vital constituent of every business. As land and property are key elements required for the production of goods, the value of real estate depends on the uses to which it is put and, hence, on the demand for the product that is being produced. The value of the property is affected by a number of factors including the general economy, demand and supply products duct, availability of finance, legal impact, planning system, physical constraints, and other social and economic elements influencing the market (Ermiyas,2020). As an end product, the valuation process establishes the market value of property by estimating the exchange price, which will be used for the property transaction in the marketplace at a particular moment in time (Bekele,2020).

Appropriate valuation method plays an important role in minimizing the existence of under and over-valuations. The Real Property market and its valuation practice in Ethiopia evolved through various stages right from 1905 E.C due to the establishment of Abyssinia Bank (Biniyam,2017). Studies state that there is inconsistency and ambiguity while determining the value of properties of projects of financial institutions (banks) there are claims and complaints raised from different customers and employees of the banks, so as much as possible this study will be clearing different complaints 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 their purposes.

The study's purpose is to support the valuation industry by determining the optimum method for valuation, the elements that affect valuation, the regulations in place, and the valuation techniques employed by these banks. After identifying, it is best to recommend the best approach, work on the value factors after doing so, and then suggest the best technique for regulation of this industry.

1.2 Statements of the Problem

The Federal Government, through main stakeholders such as the Ministry of Finance and the National Bank of Ethiopia, should spearhead the growth of the valuation of real property practices. The effective and accurate valuation of real property is base for any business in any kind of institution making use of appropriate methods used in the valuation process is very important for a correct decision on investment appraisal. Properties are valued mainly for compensation during public infrastructure development, forced sale by court order, and for collateral purposes (Bereket, 2019). The most ordinarily used bases of valuation in the valuation technique are market value, mortgage lending value, investment value, synergistic value, fair value, and special value. Regarding the suitability of valuation techniques, many potential factors may affect the accuracy of valuation results, investment judgment, the valuation method as much as possible should not be identified, assessed, or mitigated, and the most suitable approach for the development should be chosen. When we look at the real property valuation system, the idea of what kind of technology has been used and what has been modernized is one of the questions of this research. It has not been covered by many studies, so in this study the idea has been addressed in detail. In earlier major concern is only related to proprietorship, but due to denationalization, and related reasons property is now seen as a good investment vehicle that requires proper estimating so as to ensure that parties involved in any operation are not economically short-changed. There is no valuation standard, as a result real property valuation has been practiced without any framework based on intuitive knowledge by a committee. This is why most institutional and professional valuers are not taking it as its main obligation as a starting point in addressing common issues in property valuation/appraisal. Lack of using standardized methods means unfair compensation of right holders which is against the

constitution. Moreover, there is no strong national institution that gives clear policy as well as technical and financial guidance for real property valuation (Habtamu, 2019). Particularly, there is no policy for real property valuation in the country at any level. The value of real property value valuated by banks is arguable due to dissimilarity between their approach and current fair value in detail cost of property. Due to this, multi participants have complained on the valuation of the properties which are valued by private banks in Addis Ababa town. Based on the objective of banks in Addis Ababa there is variability in valuation methods and current market value of property. The practice leads to the incompatibility in valuations made by one or more private banks in a single property, deficiency of uniformity of guidelines, high variation with detailed cost of construction & banks approximate cost assessment. Borrowers have different outlooks regarding the value assessed by banks, and they believe that the amount appraised by banks is much less than the value of their property (Yohannes, 2022). This makes the customer (Client) unsatisfactory with the bank's performance. Therefore, the current study is to determine real property valuation methods to undertake in selected private banks in the case of Addis Ababa town, Ethiopia.

1.3 Research Questions

More specifically this research attempt to answer the following questions:

- What real property valuation methods are used by selected private banks in Addis Ababa?
- What are the factors affecting real property valuation during estimation in Addis Ababa?
- What are the existing regulations used by selected private banks in Addis Ababa?
- What is the digital system extending to modernize the sector?

1.4 Research Objectives

1.4.1 General Objective of the study

The main focus and aim of conducting this research are to a determination of the real Property valuation methods in selected Private Banks The case of Addis Ababa.

1.4.2 Specific Objective of the study

The specific objectives of the study were

- To assess existing real property valuation methodologies of selected private banks in Addis Ababa
- To identify the factors affecting real property valuation during estimation
- Identify the existing regulations used by selected private banks in Addis Ababa
- Identifying the digital system extend to modernize the sector

1.5 Significance of Study

Banking work affects individuals, organizations, service providers, etc. who go through many ups and downs in life. Therefore, by working on Real Property Valuation, which is one of the main work of banks, we benefit all these parties. This study helps by identify real property valuation Methodologies and factor affecting real property valuation of selected Privat banks in Addis Ababa.

The private Banks will benefit from the study as a source of information and foundation for the real property valuation that can help to improve and control the valuation methods regarding to the case that related to estimation issue.

From this study, real property valuation opens a way for the relevant legal entities to review the laws they have issued and to look at things that need to be adjusted in the future. Fill the knowledge gap currently identified and serve as baseline research for further research

1.6 Scope of Study

The scope of this study is limited to the practice of property valuation and the techniques or methods adopted by selected private banks in Addis Ababa. The study takes six Private banks. The findings regarding to this title is limited to real property valuations for bank financing in Addis Ababa in addition, the accuracy 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.

1.7.Limitation of the study

Lack of time was the main challenge of this study. The second problem faced was this study did not have any operating budget. However, the researcher has done the study effectively by resisting the challenges. The third problem was the lack of written literature on real property valuation practice in the Ethiopian context.

1.8 Organization of the paper

The study consists of five chapters and each chapter has sub topics. Chapter one incorporates introduction and it discusses about background information for the study, statement of problem, research question, objectives of the study, significance of the study ,scope of the study, Limitation of the study & Organization of the paper.

Chapter two; provide detailed review of literature which is related to the subject discussed. Chapter three; includes the methodology with in the research where description of the study, research approach, research design, population and samples, data sources and types, data collection procedures, ethical consideration and data analysis will be presented. Chapter four includes the data presentation and analysis and chapter five will cover the summary, the conclusion and recommendation of findings of the research.

Chapter Two: LITERATURE REVIEW

This chapter provide theoretical and empirical frameworks for the study by reviewing related literatures on real property valuation in two broad sections. The first section presents theoretical literatures on the definition & concept related to Real property valuation, bases, approaches & principle of real property valuation & what it seems in Ethiopia context. The second section is devoted to the reviews of empirical studies in other countries at large and In Ethiopia, along the gaps observed, in particular. By intervening in each section, the researcher picks the gaps witnessed in the empirical studies and shows those to be bridged by the study.

2.1. Theoretical Literature Review

2.1.1 Definition and concepts

Property: has a very extensive meaning in its real sense. Property is a term describing anything that a person or a business has legal title over, affording owners certain enforceable rights over said items. Property refers to the rules that govern people's access to and control of physical things (tangible assets) like land, natural resources, and manufactured goods as well as of non-physical things (intangible assets) such as inventions or contractual rights and financial claims(Yasin,2019).Type of Property includes real property, personal property, private property, intangible property and cultural property (traditional medicines and goods or products identified to a specific cultural community and context) government-owned property, and more.

Real Property

Real property includes land, buildings occupying the land, and the rights to use and enjoy the land. Real property is the focal point of real estate, which deals with transactions (e.g., buying, selling, renting, and managing) involving land and buildings used for residential, commercial, and agricultural use. The owner of real property has all of the rights of ownership, including the right to possess, sell, lease, and enjoy the land.

Real estate

Real estate is considered real property that includes land and anything permanently attached to it or built on it, whether natural or man-made. It differs from personal property, which is not

permanently attached to the land, such as vehicles, boats, jewelry, furniture, and farm equipment. Real property includes the physical property of the real estate, but it expands its definition to include a bundle of ownership and usage rights.

Valuation

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 account the features of the property and also considering all the underlying economic factors of the market including the range of alternative investments” (Elizabeth,2017).

Property valuation

A **Property valuation**, simply put, is the process of getting an estimate of the worth of a property at the time of the valuation. Property valuation is the process of forming an opinion of value in-exchange under certain assumptions.

Valuer

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 manner.

2.1.2 Concepts of Valuation

Valuation is a combination of knowledge and skills accumulated from studies and job experience that blend together with the art of seeing, appreciating, and analyzing the subject property and value contributing factors.

Valuation is required for a wide range of purposes including the property purchase or sale, transfer, mortgage, rent, insurance, expropriation, investment, financing, rating, estate or inheritance settlement, taxation, and etc. The purpose has to be determined before the valuation is performed, even if the valuation method is independent of the valuation purpose (Vide, Steponas, Louise & Naglis,2010).

There are several methods and techniques for arriving at a valuation—each of which may produce a different value. Valuations can be quickly impacted by corporate earnings or economic events that force analysts to retool their valuation models. While quantitative in nature, valuation often involves some degree of subjective input or assumptions. Valuation is important because it provides prospective buyers with an idea of how much they should pay for an asset or company and for prospective sellers, how much they should sell for.

“Basis of valuation is a statement of the fundamental terms upon which a hypothetical exchange is assumed to take place” The valuation basis describes the nature of the assumed transaction, the relationship and motivation of the parties and the extent to which the asset is exposed to the market. Sometimes, the valuation basis and valuation approach are taken as the same, but the latter is the way to reach specific values depending on the chosen valuation basis. the basis of valuation guides the result of valuation. As a result, the valuation assignment for any purpose should be supported by a recognized basis of valuation. (Asres, Lind, & Alemu, B.Y.,2020). The common valuation bases in the valuation literature are market value (MV), mortgage lending value (MLV), investment value (IV), and fair value (FV)

"Valuation approach is the fundamental way in which, considering the available evidence, the valuer considers how to determine the value of the subject property"(Asres, H.B., Lind, H. & Alemu, B.Y.,2020) The valuation approach is the way to reach specific values depending on the chosen valuation basis by considering the available evidence. Three conventional valuation approaches are recognized in the valuation literature. These are market approach, cost approach and income approach (TEGoVA, 2016).

2.1.3 Real Property Valuation

Valuation of Real Property means any valuation of any right, interest or benefit related to the ownership, occupation or use of real property including land and all things that are a natural part of the land as well as any improvements to the land (but excluding plant, machinery and equipment) expressed as an Assessed Value.

The concern in real property valuation is to estimate the property interests which can be defined by state or the law of individual jurisdictions and are often regulated by legislation. It is widely used in financial and other markets to assist private or public institutions decision

making in the process of financial reporting, taxation, compulsory acquisition, purchasing and selling, loan security or other statutory purposes (Habtamu,2018).

Real property includes all the rights, interests, and benefits related to the ownership of real estate. An interest or interests in real property is normally demonstrated by some evidence of ownership (e.g., a title deed) separate from the physical real estate. Real property is a non-physical concept.

Real property is distinguished from most goods and services because of the relatively longer period required to market what is a relatively illiquid commodity in order to achieve a price that represents its Market Value. This characteristically longer exposure time, the absence of a 'spot market' (a market in which commodities are available for immediate sale), and the nature and diversity of properties and property markets give rise to the need for Professional Valuers and Valuation Standards.

Real estate is commonly classified into two classes: residential and nonresidential properties. Residential properties are single-family houses, condominiums, and multifamily properties such as apartment houses. Non-residential properties are office and retail buildings, factories, warehouses, hotels, and institutional real estate like hospitals and universities (Tewachew,2020).

The factors affecting real Property valuation

There are a number of factors that impact real estate prices, availability, and investment potential. There are 4 Key Factors That Drive the Real Estate Market.

1. Demographics provide information on the age, income, and regional preferences of actual or potential buyers, what percentage of buyers are retirees, and what percentage might buy a vacation or second home.
2. Interest rates impact the price and demand of real estate—lower rates bring in more buyers, reflecting the lower cost of getting a mortgage, but also expand the demand for real estate, which can then drive-up prices.
3. Real estate prices often follow the cycles of the economy, but investors can mitigate this risk by buying REITs or other diversified holdings that are either not tied to economic cycles or that can withstand downturns.
4. Government policies and legislation, including tax incentives, deductions, and subsidies can boost or hinder demand for real estate.

Purpose of real property valuation

The purpose of real property valuation refers to the information that the client wants the appraiser to provide the report. In most cases the client wants the appraiser to provide an opinion about a defined type of value for a specific property interest in a specific parcel of real estate as of a specific date. Buyers and sellers of real estate use appraiser to help determine how much to ask for the property, and how much to pay for it. Financial institutions use appraisals in connection with their lending activities, to evaluate the property that is offered as loan security. Governments use appraisals for taxation and compulsory acquisition. Appraisals are also frequently used to guide investment decisions and help with business planning (Tewachew,2020).

As previously stated, property, valuation is applicable for various purposes. The valuer's special expertise, however, is to assess the capital or rental value of any particular property at a certain time. The valuer will need to know the purpose for which the valuation is required and the intentions and circumstances of the client or employer on whose behalf it is being prepared. This information is essential because it will affect the calculation of the value. The Valuation is done for the following purposes; (Elizabeth,2017).

i. **Sale report:** the common purpose for requesting a valuation is for sale. Although, this is often referred to as a valuation, it is actually more similar to marketing advice as normally the estimate of price is given for a future date after the property has been fully marketed. Conversely, a valuation for purchase is by its nature, an estimate of the individual's best bid and thus is a calculation of worth.

ii. **Accounting purpose:** a more correct use of the term valuation is the value of property as reported in company (or public) accounts. The majority of property owners have to prepare valuation of their properties for the purpose of their accounts. Is a statement of the company's wealth on a particular date. Thus, the value of the property element with in the business is an estimate of the market value on the date of the accounts.

iii. **Loan security:** banks and other lenders commission the valuation of property acting as collateral for a loan. They want a market value on which they can judge the amount of the loan based on "loan to value" ratio. They are attempting to manage the risk of the loan by ensuring that the property has sufficient value to act as security for the amount lent.

iv. **Minimum price or auction reserve:** often when a company or public body is selling its assets by tender or auction, they are obliged only accept offers in excess of their valuation of the asset. Thus, a market value has to be determined as a guide. Similarly, in cases where an owner has a property that is unusual or where there are special circumstances pertaining to it, the valuer may be instructed to place a reserve value on the property for auction.

v. **Insurance:** all property must be insured in the case of replacement but this is unconnected to the sale price which of course incubuses the land. For insurance purpose the normal bases of valuation adopted will be the cost of replacing the building in the event of destruction or partial destruction.

vi. **Taxation:** value's frequently have to value property for tax purposes. The principal taxes fall in to the groups: capital and revenue. Often these valuations are formula based and diverge from normal market value calculations.

vii. **Acquisition:** sometimes a property is compulsorily acquired by the government. Suitable amount as compensation shall have to be paid to the owner, for which valuation of a property has to be carried out

2.1.4 Bases of Real Property Valuation

Bases of value is important in dictating valuation approaches, inputs and assumptions applied in valuation estimation (Habtamu,2019). Basis of valuation is a statement of the fundamental measurement assumptions of a valuation upon which a hypothetical exchange is assumed to take place and describes the nature of the assumed transaction, the relationship and motivation of the parties, and the extent to which the asset is exposed to the market (RICS, 2019,856).

The basis of valuation guides the result of valuation Asres, Lind & Alemu, B.Y. 2020. Due to the contextual differences among nations on market circumstances, legislations, and practices, the choice of a specific valuation basis in one case may be inappropriate to another (TEGoVA, 2016). It is critical for any valuation to be performed using the basis of value that is appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer selection of methods, inputs and assumptions, and the ultimate opinion of value. The bases of value recognized in the global standards are:

Market Value (MV): - Most probable price that would be achieved in a hypothetical exchange in a free and open market. Provides objective results, it conforms to value in exchange, accurate in most markets.

Mortgage Lending Value (MLV): -It is a value at risk approach to manage the risk exposure of credit institutions taking into account special safety requirements. Provides long-term sustainable value, does not track price bubbles. But it is subjective, does not confirm to any known economic concepts of value, requires high-level of valuation skill.

Investment Value (IV): - Indicates the benefits that a person or an entity enjoys from ownership of an asset. It conforms to value in use and is a better measurement for investment decisions. Though, provides a snapshot value at the valuation date, there are various investment values for a property, it is subjective.

Fair Value (FV): -Indicates the price that would be reasonably agreed between two specific parties from the exchange of an asset. It measures and reports assets and liabilities on the basis of their actual or estimated prices. The asset is not necessarily exposed to the wider market.

Synergistic value: - “Synergistic value is an additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer, then it is an example of special value” (Ermiyas,2020).

2.1.5 Real Property Valuation Methodology

There are different methods in the literature on real estate valuation. However, in practice, the three most well-known methods are; market (comparison), income and cost methods and traditional valuation methods of these methods are used. In addition to traditional methods, there are statistical valuation methods and advanced valuation methods (Dr. Naci ,2021).

Basically, property valuation all over the world follows the same methods. In some jurisdiction those rules are written in formal law and codes in other professional organization were organizing the formal patterns of valuation like the Royal Institution of Chartered Surveyors (RICS), London, the Appraisal Institute (AI), Chicago or the International Valuation Standards Committee (IVSC), London, or the European Group of Valuers' Association (TEGoVA), Brussels.

Valuations of land and property are usually undertaken by the valuation surveyor for a variety of different purposes. The purpose of the valuation will affect the assessment of its value, and this may differ because of the assumptions made and also because they are only estimates of value in any way.

The main focus of the valuation is to address and justify the concept of economic value. A number of methods including classical comparative, investment, contractor's methods, as well as residual and profits (receipts and expenditure) or others are used for the estimating market value of property.

The majority of valuation methods are based on some forms of comparison. This can be direct capital comparison or build on a range of observations that allow establishing the value. Any of these methods are referred to as traditional. Nonetheless, each country can have a different method adopted for non-specialized and specialized property valuation, which is determined by individual national culture and experiences (Vida, Steponas, Louise and Naglis, 2010).

There are three internationally recognized methods of property valuation and they are all based on the principle of market comparison. They are sales comparison; income capitalization; and replacement cost.

The Sales Comparison Method

The sales comparison method is one of the more accurate methods of estimating market value. In the sales comparison approach transaction prices of highly comparable and recently sold properties are used to estimate the market value of the subject property being valued. If meanwhile the general market conditions have changed, then persons are only willing to pay comparable prices adjusted by the general price level for properties. A property may be valued by comparing it to similar properties for which recent price information is available.

The degree of similarity or difference between the subject property and the comparable sales is usually established on the following elements of comparison: property rights conveyed, financing terms, conditions of sale, expenditures made immediately after purchase, market conditions (time), location, physical characteristics, economic characteristics, use (zoning), and non-reality components of value (Belachew, 2013).

Sale Comparison Method is preferable but when available sales data are not sufficient other methods are used. 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 (Elizabeth,2017).

As (Ermiyas, 2020), one of the weaknesses of the sales comparison approach is to find significant information about the property of comparison when it comes to location-, technical-, legal- and economical characteristics, and qualities. In the sales comparison method, it is not that easy to compare the subject property's income variables (rent, rental area, what is included and excluded in terms of taxes, etc.) to comparable' variables. The same problem is applied to operating and maintenance costs. It can be necessary to find out and give information on both real circumstances and circumstances adjusted to market conditions regarding rents, vacancies, operating and maintenance costs, and their estimated values must be openly showed in one's calculations.

Sales price of comparable \pm Adjustments = Indicated Value of subject property...Equation

Advantage of Sales Comparison Approach

- ✓ Appraiser, real estate market participants and clients understand and use it
- ✓ It gets around the problems of estimating costs, depreciation, rentals, and expenses
- ✓ It is generally accepted by the courts, judicial bodies and the general public

Disadvantage of Sales Comparison Approach

- ✓ It is sometimes difficult to obtain comparable properties
- ✓ Making adjustments for differences requires careful judgment and experience
- ✓ It is often difficult to obtain relevant information relating to each sale
- ✓ The data is historical in nature

The Income (capitalization) Method

Income method is usually applied for property that is capable of generating rental income and for which an investor is the most likely purchaser. The income approach to value consists of methods, techniques, and mathematical procedures that a valuer uses to analyze a property's capacity to generate benefits (i.e., usually the monetary benefits of income and reversion) and convert these benefits into an indication of present value (Belachew,2013).

Income methods are based on basic investment analysis methods, which do not mean that the sales comparison and the cost approaches are no good for valuing income properties. The problem with the sales comparison approach lies on the fact that income properties are not frequently traded, so the available sample becomes so small that it is very difficult to apply that method. Due to the characteristics of income properties, the cost approach is also difficult to be applied. In this case, the income approach is the most appropriate method to assessing this type of properties. The economic rationale of the income approach for existing properties is that no investor will pay more for a property than he/she will retrieve by holding the property (Belachew,2013).

In applying the income method, a property valuer assumes that the investor ultimately seeks a total return greater than or equal to the amount invested. Therefore, the investor's expected return consists of two components: full recovery of the amount invested, i.e., the return of capital and a reward for the assumption of risk, i.e., a return on invested capital. Because the returns from real estate may take a variety of forms, many rates, or measures of return, are used in capitalization. All measures of return can be categorized as either income rates, such as an overall capitalization rate²⁹ (Ro) or equity capitalization rate (RE), or discount rates, such as an effective interest rate (the rate of return on debt capital), yield rate (the rate used to convert future payments into present value), or internal rate of return (IRR)

According to Ball et al. (1998) there are two recognized approaches to valuing a property using the income method: yield method and discounted cash-flow (DCF) method. Both calculate the present value of future economic benefits. the yield method is based on a "perpetual capitalization" of forward-looking calculations of net operating income for the first years. The net operating income for the subject property is calculated out of the annual surpluses of rental payments discounting operational and maintenance costs (including property tax and eventual

rent for leasehold site) drawn from the gross income. The Discounted Cash-Flow (DCF) method is built on a present value estimation of operating net during a specific calculation period as well as a present value estimation of a residual value at the termination of the calculation period.

Advantage of income Approach

✓ It is particularly applicable in estimating the value of income-producing properties

Disadvantage of income Approach

✓ The major problem with the income approach is the difficulty of selecting an appropriate capitalization rate

✓ Estimating the income and operating expense can sometimes prove difficult

✓ It is off limited use in the appraisal of owner-occupied and special purpose properties

✓ The data is historical in nature

Replacement Cost Method

Some properties are regarded as specialized because their use requires them to be constructed in a particular way, including highly production-specific manufacturing plants such as chemical works and oil refineries; public administration facilities such as prisons, schools and colleges, hospitals, town halls, art galleries and court facilities; and transport infrastructure such as airports and railway buildings. Alternatively, the property might be specialized by virtue of its size or location such as large research and development facility in a remote location ideal for a company's specific requirement but with little or no demand in the open market. Valuations of the existing use of specialized properties are required for financial reporting purposes, property taxation, compulsory purchase and compensation. It is seldom possible to value specialized properties using a sales comparison or income capitalization method because they are rarely, if ever, sold or let in the open market except as part of a business or entity. Instead, a replacement cost method is used (Yasin,2019).

Replacement cost approach: According to ADB (2007) the method does not actually calculate a market value. Instead, it calculates a replacement cost for the improvements that have been made to the land, typically in the form of buildings and additional man-made land uses such as car parks and the like. It is therefore fundamentally different from the valuation methods described so far. Because of an almost complete lack of comparable market transaction information the

method seeks to estimate replacement cost rather than exchange price. It does not produce a market valuation (value-in-exchange) as such because cost relates to production rather than exchange, and it is often regarded as the method of last resort for this reason. The method involves assessing the value of the land in its existing use and adding the replacement cost of the building and other structures, adjusted for age and obsolescence (Tirsit,2018).

The replacement cost method values the expropriated property by determining the replacement or reproduction cost of improvements, less depreciation, plus the market value of the land. Hence, this predominantly serves to value buildings as well as utilities, but not the land itself. It is especially considered one of the better methods for determining a utility's fair market value, it is assumed that landowners may be compensated fully by other approaches, especially where the property is not shown to be both unique in nature and location and also indispensable to the conduct of the landowners' business operations on the site from which a part is taken. So, mostly, buildings of a unique character are valued using this method (Yasin,2019).

Replacement cost of improvements-Depreciation allowance due to age and / or obsolescence= Current cost of existing improvements + Value of land= Value of property

Advantage of Replacement cost Method

- ✓ The public tends to understand it
- ✓ It is often the only method to use in appraisal of special purpose properties
- ✓ It is relatively easy for the appraiser in making a cost calculation
- ✓ It is useful for new homes in a subdivision

Disadvantage of Replacement cost Method

- ✓ It is difficult to estimate depreciation, particularly in older buildings
- ✓ While the cost of construction appears relatively easy to estimate, there is no exact cost figure.
- ✓ Construction cost is constantly changing the data is historical in nature

2.1.6 Property Valuer

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 manner. In some jurisdictions, licensing is required before one can act as a valuer. Because a valuation reviewer must also be a valuer, to assist with the legibility of these standards, the term valuer includes valuation reviewers except where it is expressly stated otherwise, or is clear from the context that valuation reviewers are excluded (Yasin,2019).

When resorting to valuation of any property, a valuer must be expert in the trade. The valuer’s 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 (Elizabeth,2017).

The main task of valuer, by definition is to find the value of a property. To do this, property valuer have to possess and be competent in a diverse range of skills, such as:

- ✓ A knowledge of building construction
- ✓ An awareness of environmental issues.
- ✓ Research methods
- ✓ Calculation
- ✓ Measurement
- ✓ Report writing
- ✓ Negotiation
- ✓ Law
- ✓ Management and business finance
- ✓ A working knowledge of economics and politics

These are acquired and refined through a lengthy process of academic study, practical experience and lifelong learning, also known as continuing professional development There are three main reasons why valuers are employed because of their specialist knowledge:

- ❖ The property market is an imperfect one – supply and demand are always changing and are

different in each location and for each type of property and information on transactions is often restricted;

- ❖ Each individual property and the interests therein tend to be unique, or at least never exactly the same as other properties;
- ❖ Legislation – the complex and inter-related laws relating to property are forever changing, and only a specialist with full knowledge of them, which needs to be constantly updated, can successfully interpret them correctly.

It is because qualified professional valuer makes an in-depth study of these matters, and is fully informed of all factors affecting property values, that they can formulate a reasonable and logical opinion on a value for a given property and situation.

According to Michael Blackledge 2009, the main tasks undertaken by valuer are:

- ❖ Receiving and confirming instructions;
- ❖ Inspecting the property and its location;
- ❖ Liaising with the client's other professional advisers where necessary, such as accountants, lawyers and management consultants;
- ❖ Researching and analyzing all relevant information;
- ❖ Carrying out all calculations to arrive at a valuation;
- ❖ Reporting the results of the research and providing the valuation;
- ❖ Negotiating with the other party's representatives to reach agreement;
- ❖ Instructing solicitors on behalf of a client or employer;
- ❖ Providing property advisory and management services.

Due to their familiarity with factors related to real property, its method of construction and property development with its market supply and demand data, proves that engineers are close to give valuation service. Also, the Accountants and Bankers believe that the conventional valuation methods are shrouded in mystery and indefensible.

2.1.7 Principle of Real property Valuation

The principles of valuation are the guiding factors in market analysis; they define how and why value rises or falls. They are fundamental. However, an investment in real estate may be valued based on one of several different measurements in addition to the price. According to (Tewachew,2021) ten major principles that govern property valuation are:

1. Principles of anticipation: markets are continually estimating the future value of properties and Market value often is affected by expectations about future events.

2. Principles of Balance: the highest market value will result when the size and type of improvements are proportional to each other as well as the land.

3. Principles of Change: This principle tells us, “No condition remains the same indefinitely; change is part of the economic cycle.” Property values are affected by the change in several ways. These include local economic and demographic trends, physical age and condition of the property and surrounding properties, character of a neighborhood or city, and natural events like disasters (hurricanes and earthquakes, for example).

4. Principles of computation: The principle of competition states, “Opportunities for a profitable investment led to competition.” This has consequences for the valuation of all properties. Thus, as long as demand remains unchanged, the emergence of competing properties will tend to weaken market value for all similar properties.

5. Principles of conformity: This concept is, “A property is most likely to appreciate in value along with other, similar properties in the same neighborhood.” The value of the property is increase when there is a reasonable similarity among the improvements in a neighborhood.

6. Contribution: Making improvements to the property will cause growth in market value to an extent (increasing returns) and the value of a component of property depends upon its contribution to the whole. The additional market value one may expect from improving a property is not equal to cost, but to the contribution, those changes make to actual market value.

7. Consistent use: The principle of consistent use states that the entire property must be valued with a single-use. It is improper to value a property on the basis of one use for the land and another use for the improvements.

8. Progression and regression: this principle states that “A property’s value may increase due to the existence of similar properties in similar locations, containing greater quality” and “A property” value may decrease due to the existence of similar properties in similar locations, containing lower quality.”

9. Substitution: This principle is, “A property’s greatest potential market value is limited by the market value of other, similar properties.” the buyer is not paying more for a property than the cost of producing an equally desirable substitute property.

10. Highest and best use: It is closely related to the principle that “Real estate valuation is maximized when land is utilized in the best possible way.” In the real estate market, the maximum benefit of investing either in land or improved property, whichever produces the greatest overall investment return.

2.2. Empirical Literature Review

As the main aim of this research was to determine the real property valuation methods in selected private banks (the case of Addis Ababa) different authors and researcher’s idea and recommendations regarding the related topic of real property valuation are analyzed and presented. Although the introduction of real property valuation in Ethiopia are dated in the 1905 E.C with the establishment of Abyssinian Bank, which was based on a fifty-year agreement with the Anglo-Egyptian National Bank. For the ease of presenting the literature those studies regarding the valuation methods used by Ethiopian banks, factors affecting real property valuation, existing regulation used & digital system extend are reviewed from different researchers are included in this literature.

A study conducted by (Elizabet, 2017) on assessment of real property valuation method practice in Ethiopia Banks, in Addis Ababa case study, in this study the methods or technique of real property valuation in Ethiopian Banks was reviewed and found to be cost approach method it takes the lion share and some of them uses income capitalization approach method. Another thing was to assess the problems and difficulties deemed to be a cause of variation that arises in real property valuation of the banks was using out dated guideline of real property valuation manual, unfreeable method to employed for Real Property valuation, not correctly identify the purpose of valuation & lack of experience of valuator. Finally, the study try to recommend on improvement of property valuation method in Ethiopian banks. This include updating the real property manual and reliable market data within reasonable time, the valuation should be done in team basis and use one types of valuation Methodology, develop clear procedure must have prepared to

minimize subjectivity, implementing different method has to be applied for valuation, conducting real property valuation training must be given to cope up the valuer capacity, the Banking Industry should develop national standard of valuation methods across the country.

Similarly, Bekele, 2020 work on the assessment of real property valuation methods in Ethiopian financial institutions the case of Jimma zone. To get a rational result analysis of data was processed using simple statistical approach, examining, tabulating and by using the relative importance index method (RII) determining the property valuator's perceptions of the relative importance of the identified performance factors and ranking the different performance factor. The study analyze the current practices of real property valuation methods 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. The study compare existing practices of real property valuation methods between the private and governmental financial institutions the it found that 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. According to the study The most factors affecting real property valuation are market condition, Quantity, area and volume and materials types. In other case the valuers 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. Finally, the study assess the effectiveness of financial institutions, customize the real property valuation methods from Ethiopian Bankers Association as the study shown 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. This shows that EBA valuation methods guideline is effectively used by all banks.

2.2.1 Literature Gap

The gap, also considered the missing piece or pieces in the research literature, is the area that has not yet been explored or is under-explored. This could be a population or sample (size, type, location, etc.), research method, data collection and/or analysis, or other research variables or conditions.

Most studies conducted in Ethiopia which related to Real property valuation areas are limited to regional state of the country but as sources show most financial institution almost all perform valuation in head office standard. As the head office of this institution found in Addis Ababa So further research is necessary to address this gap.

Some study have too large sample size when we consider the time giving for the study, cost of the study & the availability of the professionals it makes some points to put our doubts on the study.

Further study was recommended by previous researchers since less study's done on the Real property valuation in Ethiopia

There is no study which covers the relation between technology and real property valuation in Ethiopian Banks.

Chapter Three: RESEARCH METHODOLOGY

Methodology is the systematic, theoretical analysis of the methods applied to a field of study. It comprises the theoretical analysis of the body of methods and principles associated with a branch of knowledge. This section discusses the methodology used in this research. It explores the way the research was designed, the instruments that were applied in the data collection and methods of analysis used in the study. Different sources of information and data are investigated. Also, data and information sources, research instruments and methods of analysis are presented.

3.1. Description of the Study Area

The study on Determination of the real Property valuation methods in selected Private Banks conducted in Addis Ababa city. Addis Ababa, the political capital and the most important commercial and cultural center of Ethiopia, is geographically located at the heart of the nation, 9o2’N latitude and 38o45’E longitude. Its average altitude is 2,400 meter above sea level, with the highest elevations at Entoto Hill to the north reaching 3,200 meters. This makes Addis Ababa one of the high-altitude capital cities of the world (Abnet, Dawit, Imam, Tsion, Yonas 2017).

United Nations Population Projections estimated the population of metro area of Addis Ababa to be 5,228,000 in 2022(Wikipedia) The city is divided in to11 sub-city administrations This are Addis Ketema, Akaky Kaliti, Arada, Bole, Gullele, Kirkos, Kolfe Keranio, Lideta, Nifas Silk-Lafto, Yeka & Lemi Kura.

Addis Ababa is the seat of many international organizations and consuls of many countries. This ancient city's climate, its location, its level of development, the behavior of its residents, etc. have mostly made it preferable. In this study, we look at what the banking sector in Addis Ababa is doing in terms of Real Property Valuation.

3.2 Research Design

Descriptive type of the research allows the researcher to describe what was the condition that were held in the ongoing process, effects that were evident and trends, etc. and it would also tell about the present as well as past and give the chance to gather data to come up with specific results of the study objectives. This type of the research method analyzes data using ratios,

percentages, averages, variance, and standard deviations. It also employs charts, tables and diagrams to graphically describe the existing phenomena (Sandra & Siedlechi, 2020). This research use descriptive research design.

3.3 Research Approach

A research approach is the procedure selected by the researcher to collect, analyze, and interpret data. Several sources of data and methods of data collection were used in this research. Questionary and Interview are the main method of data collection.

Mixed methods approach is used to research in this study. The selection of a research approach depends on the nature of the research problem the researchers' own experience, and the audience for the investigation (Habtamu,2021). This study employed a mixed research approach because of its strength of drawing on both qualitative and quantitative research and minimizing the limitations of both approaches. The mixed approach is an important. strategy for improving accuracy, checking bias in research methods, making clear links to different methods, and making good use of triangulation (Habtamu ,2021).

3.4 Population and Sample Size of the Study

According to Habtamu, 2021Commercial banks have organized engineers to value properties at the head office level. However, some banks employed engineers at a few district offices. But Branch offices are not organized to carry out property valuation. In Addis Ababa as of National bank there are 29 Private banks that are registered and open branches.

Table 3.1: -Name of Private Banks, Year of Establishment and Number of Branches

	Bank Name	Year Est.	No of Branches
1	Nib International Bank	1999	98
2	Abay Bank	2010	159 ^[2]

	Bank Name	Year Est.	No of Branches
3	Addis International Bank	2011	64 ^[4]
4	Awash International Bank	1994	430 ^[6]
5	Bank of Abyssinia	1996	233 ^[8]
6	Berhan International Bank	2010	46
7	Bunna International Bank	2009	205 ^[10]
8	Cooperative Bank of Oromia	2005	467
9	Dashen Bank	1995	438
10	Dehub Global Bank	2012	123
11	Enat Bank	2013	7
12	Lion International Bank	2006	235
13	Oromia International Bank	2008	14
14	Hibret Bank	1998	380 ^[15]
15	Wegagen Bank	1997	211 ^[16]

	Bank Name	Year Est.	No of Branches
16	Zemen Bank	2009	86
17	ZamZam Bank	2021	10
18	Hijra Bank	2021	17
19	Siinqee Bank	2021	402
20	Shabelle Bank	2021	
21	Amhara Bank	2021	140
22	Ahadu Bank	2022	
23	Goh Betch Bank SC	2021	
24	Tsedey Bank	2022	
25	Tsehay Bank	2022	
26	Gadaa Bank S.C	2022	
27	Sidama Bank S.C		
28	Rammis Bank S.C	2022	

	Bank Name	Year Est.	No of Branches
29	Omo Bank Share Company	2022	

Source: - National Bank of Ethiopia

Since research is time and money costly this research can't take place in all banks. From all these 6 private banks which practicing real property valuation are chosen. Those banks are mainly located in the capital city of Ethiopia; all of them have national coverage of real property valuation practice applicable in the same basis for all areas. This are the oldest banks from others so they will be the mirror for Private banks Real property valuation system practice in Ethiopia.

TABLE 3.2: - SELECTED BANKS PROFILES (NBE 2017)

S/N	Name of banks	Year of establishment (G.C)	Age (years)
1	Awash Bank	1994	29
2	Dashen Bank	2003	20
3	Bank of Abyssinia	1996	27
4	Nib International Bank	1999	24
5	Wegagen Bank	1997	26
6	United Bank	1998	25

Source: - National Bank of Ethiopia

Sample is the group of individuals who will actually participate in the research. sampling method is the process of selecting a sample that is representative of the group as a whole.

In this research **Total population sampling** method is applied. The number of property valuers and higher officials of the valuation department are small in size and easily accessed, this are 107, all of them who are available during the survey time are included in the sample.

3.5 DATA COLLECTION INSTRUMENT (TOOLS)

Data-collection instruments means tests, questionnaires, inventories, interview schedules or guides, rating scales, and survey plans or any other forms which are used to collect information on substantially identical items from 10 or more respondents.

The data collection approach adopted for conducting this research includes both primary and secondary sources. Questionnaire & Interview provide the primary data for this thesis while the Secondary data in this paper include gathering and study on detailed literature review, relevant documents and papers, legal concepts and provisions, valuation methods internet sources, as well as reviewing related archival documents on real property valuations manuals.

Questionnaires

A questionnaire is a written list of questions, the answers to which are recorded by respondents. (Tewachw, 2020) A questionnaire is one of the most important tools to collect primary data from respondents. It is an important tool to collect facts and opinions from a large number of respondents although it is expensive and time taking (Habtamu,2021). In this study, a structured questionnaire was employed to collect direct information from valuers. The questionnaire was constructed based on the literature review and has been developed through experts' judgment. Then, the questionnaire was validated through expert judgment. The study employed closed-ended questions with Dichotomous Questions and Multi-choice questions. The respondents of the questionnaire were all valuation professionals that work for selected private Banks. The questionnaire gathered through hard copy & soft copy.

Interviews

As Habtamu, 2021. describe Interviews are one of the most important data gathering tools in understanding in-depth motivations for people's behavior or feelings (Adams, 2007). It is used to get a deep understanding of the phenomenon from valuation department head and assistance. Another reason for undertaking interviews was to get more information in greater depth and to get an opportunity to restructure questions based on the reaction of the interviewees. An interview can be employed face to face, through the post, internet, or telephones.

In this study, face-to-face interviews were used. It was used to get more accurate information since the investigator controls the data collection process. The interview undertaken for this thesis was based on both structured and semi-structured face-to-face interview, here the interviewer and interviewee engage in formal interviews. This method used for a person who may have no time for fill Questionnaire.

3.6 Method of Data Analysis

In this study, descriptive statistics (mean, frequency and percentage) were used to analyze the quantitative data found from the questionnaire. Statistical package for social sciences (SPSS) version 20 software is used to assist in analyzing the quantitative data.

3.7 Instrument validity and reliability

In this study, validity was checked through triangulation of data that were collected through multiple sources (interviews and surveys) from different sources including valuation Experts, Senior Valuation Engineer, Associate Collateral Valuator, Property valuator & Valuation Department Director. Working Position name differ according to the bank internal structure.

Moreover, to establish validity, pilot testing was undertaken before questionnaires were administered. Based on the pretesting result, the content of questions, formats, and scales was improved. To realize reliability, data collection and sampling procedures were held with great emphasis.

Sampling techniques and sample size were determined based on scientifically recommended techniques. To increase the reliability and validity of the interview result, the researcher himself conducted all the interviews and administered all the surveys. Since valuers understand questions by themselves, the researcher gave the questionnaire and collected it on appointment. In cases of misunderstanding of questions, the researcher described it on the date of appointment.

According to Taber (2018), Cronbach's alpha greater than or equal to 0.70 is a sufficient measure of reliability or internal consistency of questions. For the quantitative data, SPSS was used to assess the reliability and validity of the data i.e., to ensure the validity and reliability of the research findings, the Cronbach's alpha coefficient test was used. The Cronbach's alpha values of all the variables showed that the values were all statistically significant at 0.918. This

result suggests that the questionnaire is acceptable and that there is an internal consistency of the items. This is because the reliability figure obtained is acceptable.

Table 3.2: -Reliability Statistics

Cronbach's Alpha	N of Items
.918	16

Table 3 1. Reliability Statistics

Source: - survey result 2023

3.8 Ethical Considerations

According to Saunders, Lewis and Thorn hill, 2012, ethics refers to the appropriateness of your behavior in relation to the rights of those who become the subject of your work, or are affected by it. As the information is composing to be collected from the respondents by the researcher, the data was collected concurring to their willing. The study was free from bias and respondents were not requested to compose their name and address, to keep and guarantee their security. The data was collected from willing respondents without any unethical behavior or forceful action. The results or a report of the study used for academic purpose only and response of the participant is confidential and analyzed in aggregate without any change by the researcher. In addition, the works of previous investigations or studies are cited appropriately by the researcher.

CHAPTER FOUR: DATA INTERPRETATION AND ANALYSIS

Introduction

The purpose of this study is the assessment of general existing practices of real property valuation methods, recognizing and understand factors affecting property valuation methods, overseeing the valuation guideline applied in private financial institutions and identifying the mechanism (manually or software aide) used by the private banks in valuation process.

This chapter discusses the interpretation and presentation of findings obtained from the conducted analysis including the background information of the respondents and finding of the analysis based on the objective of the study 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 research was conducted using a close-ended questionnaire with Dichotomous Questions and Multi-choice questions. Hence, the data analysis and discussion of the research findings will be presented here below.

4.1. Questionnaire Response Rate and Interview Success Rate

The questionnaire was physically distributed to valuator of six selected private banks & interview with department heads. The data collection procedure for the research followed the following pattern: first, the permission of the bank asked by formal written letter from St. Mary university, after permission gain respondents were contacted and asked for their consent to participate in the study; then, they were informed about how confidentiality and ethical principles would be protected during the research process. After that, total of 107 questionnaires were distributed to the respondents and from that 95 (88.79%) questionnaires were properly filled and ready for analysis. After that, the data were entered into SPSS and the dataset was rechecked to ensure the accuracy of the data entry. The minimum and maximum data values on each variable related to each case were checked to detect any irregular or unusual data values.

4.2 Demographic Background of Respondents

The demographic characteristics of the respondents include educational status, Academics qualification, working experience in Valuation sector and working position of the valuator. The study also sought to determine the gender category of the respondent to ensure equitably of engaged in the research.

Table 4. 1 Respondents Profile

Variables	Items	Frequency	Percent
What is your gender	Female	10	10.5
	Male	85	89.5
Educational status	Degree	52	54.7
	Masters	38	40.0
	Advanced Diploma	5	5.3
	Others	0	0
Academics qualification	Civil Engineering	65	68.5
	COTOM	3	3.16
	Electromechanical	10	10.54
	Others	17	17.8
How many years have you worked on property valuation	less than 5 years	40	42.1
	5-10	30	31.6
	11-15	10	10.5
	above 15	15	15.8
In what position you are working in the bank	valuation expert	50	52.6
	loan officer	20	21.1
	branch manager	0	0
	Other	25	26.3

Source: - survey result 2023

The findings show that 85 (89.5%) were male and 10 (10.5%) were female respondents as Table 4.1 demonstrates: The results presented in Table 4.1 show that the majority of the respondents were male. This also indicates that there is more male valuator than female ones in the banks.

Another common demographic variable studied was educational level and the study also set out to establish respondents' level of education and found that the majority of the respondents have a degree as evidenced by 52(54.7%), while 38(40.0%) of the respondents have master's and 5 (5.3%) of the respondent have Advance Diploma. In addition, according to interview with department heads of this selected banks valuation training is given to the valuator to increase their knowledge in the field. According to this interview Valuation Theories, Valuation Principles, Valuation Basis, Valuation Process, Valuation Approaches/Methods, Valuation standard and Valuation Reporting are giving.

Academic qualification is one of the components of Demographic part. As the result indicate 65(68.5%) of respondent are civil Engineers,3(3.16%) is COTOM, 10(10.54%) are Electromechanical and 17(17.8%) are others that not mention in this questionnaire. As of the information gained from the interview now a day there are Valuation Engineer who work in real property valuation this play a great role in every angle.

The respondents were also asked to provide information on their work experience in the valuation and findings show that the largest number of respondents had stayed below 5 years of services within the bank found 40 (42.1%). This is followed by those respondents with 5-10 years of services who were 30 (31.6%), 10 (10.5%) of the respondents had spent 11-15 years, respondents had spent above 15 years 15(15.8%) in the bank. This implies most valuator is young, energetic and risk taker.

Also, respondents were asked to indicate their working position from provided alternative. The result shows that from all respondents the professional who named by valuation experts are 50(52.6%) and Loan officer are 20(21.1%). But none of the respondent are branch manager. Similarly, there are 25(26.3%) professionals who are named moderately than mentioned one in this questionnaire.

4.3 REAL PROPERTY VALUATION METHODS IN SELECTED PRIVATE BANKS

This component of the study focused on how real property valuation methods are currently used in the chosen banks. As the result of survey indicate in table 4.2 the method to employed for real property valuation is the main reason for variation on property valuation evaluation results between banks. The reason of variation because of the method to employed for Real Property valuation, purpose(objective) of the valuation, experience of valuator and used guideline are as follow respectively 78(36.3%), 46(21.4%), 45(20.9%) & 46(21.4%) Therefore, choosing the appropriate approach for the appropriate valuation is of utmost importance.

Table 4. 2. The reason for variation on property evaluation results between Banks

Variable	Frequency	Percent
The Method to employed for Real Property valuation	78	36.3%
The purpose (objective) of the valuation	46	21.4%
Experience of valuator	45	20.9%
used guideline	46	21.4%

Source: -survey result 2023

In most selected private banks found in Addis Ababa, the types of real property valuated are commercial buildings, residential buildings(villas), hotel buildings and agricultural buildings. Besides Gas station, coffee processing properties and industrial buildings are other elements of valuation within these banks as gathered information from the interview. Residential buildings are the sort of real estate that are valued for collateral (loan security and mortgage) the most commonly.

Table 4. 3 What types of property valuation techniques do you use?

		Frequency	Percent	Valid Percent
Valid	Cost approach method	15	15.8	15.8
	Income capitalization approach	7	7.4	7.4
	Sales comparison	3	3.2	3.2
	Income capitalization & cost Approach	46	48.4	48.4
	Cost approach & Sales Comparison	24	25.3	25.3
	Total	95	100.0	100.0

Source: - Survey result 2023

As per the respondents replied show in Table 4.3, the type of property valuation method mostly used is the cost approach method and it takes the high role in Banks. the Banking industry is used cost approach method, and it protects the banking industry from risks related with revenue and profit. Additionally, this selected Banks use this approach by combine with income & sales, mostly with Income is vastly practicable. 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.

Replacement cost new and reproduction cost new are the two cost approach strategies that might be applied. Replacement cost is the current price of a brand-new item with the same or nearly identical usefulness as the item being valued. The most affordable new property that could take the place of the service offered by the subject would be the replacement property. Reproduction Cost New is the price that would be paid today to create a brand-new reproduction of the asset under appraisal using identical or very similar materials.

All three ways are appropriate on a global scale, but the market approach is the most precise and dependable one—and only if the requisite market value can be quickly determined. Since the market approach makes use of the pricing and other pertinent data produced by market

transactions involving comparable or identical assets or liabilities. Our country's market is inactive because there have been few recent transactions, price quotations are not based on current information and vary widely, indices that were once strongly correlated with the fair values of assets or liabilities are now clearly uncorrelated, the market has become toxic, and there is little information that is available to the general public.

Another benefit of using the cost approach is that real estate can be valued using any one of four optional methods: the detailed technique (quantity survey method), the unit-in-place method, the comparative (area/volume) method, and the trending method.

As the type of building, structure, durability, size, shape, road width, quality of the materials used in the construction, and current pricing of materials all affect a building's value. Additionally, it depends on the neighborhoods if it is a market area with higher property values than a residential area and on the building's specific features, such as the sewer, water supply, and electricity, among others. The building's value is calculated by figuring out its construction cost at today's rate and allowing a reasonable depreciation. The most common ways to determine a building's age are via records, if any are accessible, inquiries, and eye assessment. In the case of the cost approach, we may easily apply the currently existing standard real property valuation methodologies.

The banks value real property for a variety of legitimate reasons, as stated in the literature study. Questionary surveys provided evidence for this. This are for Project expansion 35(13.9%), buying (Collateral) 68(27.1%) & Selling (Foreclosure) 21(8.4%), Asset Acquisition and merger 21(8.4%), mortgages and security of loan 60(23.9%), Tax assessment 16(6.4%), For compensation 51(20.3%) and other than mention.

As the desk study show mostly the practice of real property valuation is emphasis to lend money rather than other purposes such as tax assessment, rental purpose and asset acquisition & merger. Therefore, the real estate valuation objective has a limited range of application and requires stockholder development to handle asset value.

Table 4. 4. The purpose of property valuation in your Bank

Variable	Frequency	Percent
Project expansion	35	13.9
Buying (Collateral), selling (Foreclosure)	68	27.1
Mortgage	21	8.4
Security of loans	60	23.9
For compensation	51	20.3

Source: - Survey result 2023

As desk study shown the process of having supervisors review the property appraisal created by the bank’s appraiser based on a local survey and the bank’s methodology is called property value supervision. According to the results of the questionnaire survey, some banks would use an independent regulatory agency or independent consultant.

Table 4. 5. Do you have an independent Consultant or Supervisor during valuation in your Bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	50.5	54.5	54.5
	No	40	42.1	45.5	100.0
	Total	88	92.6	100.0	
Missing	8	7	7.4		
Total		95	100.0		

Source: - Survey result 2023

The main role of the banking supervisory authority should be to “monitor the internal controls in place at banks” so as to ensure that they are effective and operate properly. The existence of supervisor by itself doesn’t give a proof for the quality of valuation. So, for the valuator question have been realized does the consultant or supervisor properly oversee the valuation process. Here is the response of the valuator.

Table 4. 6. The consultant or supervisor properly oversee the valuation process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	71	74.7	82.6	82.6
	not sure	15	15.8	17.4	100.0
	Total	86	90.5	100.0	
Missing	8	9	9.5		
Total		95	100.0		

Source: - Survey result 2023

From the survey the result shows some banks would use an independent regulatory agency or independent consultant during the valuation process in order to produce accurate valuation results by highlighting the following;

- Looking at the methods
- Documenting, consistency with the valuation guide lines
- Checking arithmetic errors
- Facilitating the process
- Making a fair value of valuated real property

Table 4. 7. Aspect and extent do the consultant or supervisor inspect the valuation improve it

		Frequency	Percent	Valid Percent
Valid	evaluating the fairness	65	68.4	76.5
	Facilitation	8	8.4	9.4
	Checking the accuracy	8	8.4	9.4
	Checking the proper use of accepted methodology	4	4.2	4.7
	Total	85	89.5	100.0
Missing	8	10	10.5	
Total		95	100.0	

Source: - Survey result 2023

The respondent rate as shown in Table 4.8, the rate of occurrence of property valuation claims by the customer due to under or over valuation observed, in view of this; 9% of the respondents give that it can be leveled as Frequent, 72% least frequent, no occurrence 8%.

Table 4. 8. How do you level the occurrence of property valuation claim by the customer due to under or overestimation observed?

		Frequency	Percent	Valid Percent
Valid	Frequently	9	9.5	10.1
	Least Frequent	72	75.8	80.9
	no occurrence	8	8.4	9.0
	Total	89	93.7	100.0
Missing	8	6	6.3	
Total		95	100.0	

Source: - Survey result 2023

The respondents think that reason for frequent valuation result claims frequently cited the lack of standardization and uniformity in the property assessment process, the issue of outdated guidelines, and incorrect cost calculation techniques.

But when we look at the desk study, we discover that customers demand high value estimates for bank collateral, expansion, compensation, and sale purposes but need lower value estimates for governmental cases and purchase objectives. 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) should therefore be used by banks to satisfy customer demand. This measurement is market-based rather than entity-specific.

In interview with head of valuation department the question about occurrence of discrepancy when using two or more method was released. Most disagree with this idea but some of them agree with the occurrence of discrepancy. According to the respondents, the reasons for the disparate valuation results, the fluctuation of the market (volatile) rate of the properties, the issue of institutions preparing conflicting manuals within the same year, and the lack of a standard rate and standard rent value of real properties are all supported.

The disparity in real estate valuation in Ethiopian banks was also considerable and far from the real estate market price for the reasons listed below, and the issues were shared by all the banks. The cost increases when one chooses to deny payment. If a bank or lender has previously recovered a bad debt, they do not evaluate the actual value of your home at all throughout the foreclosure process. Lack of valuation regulatory framework, Lack of valuation standard & Valuation methodology is the main reason for variation according to this study.

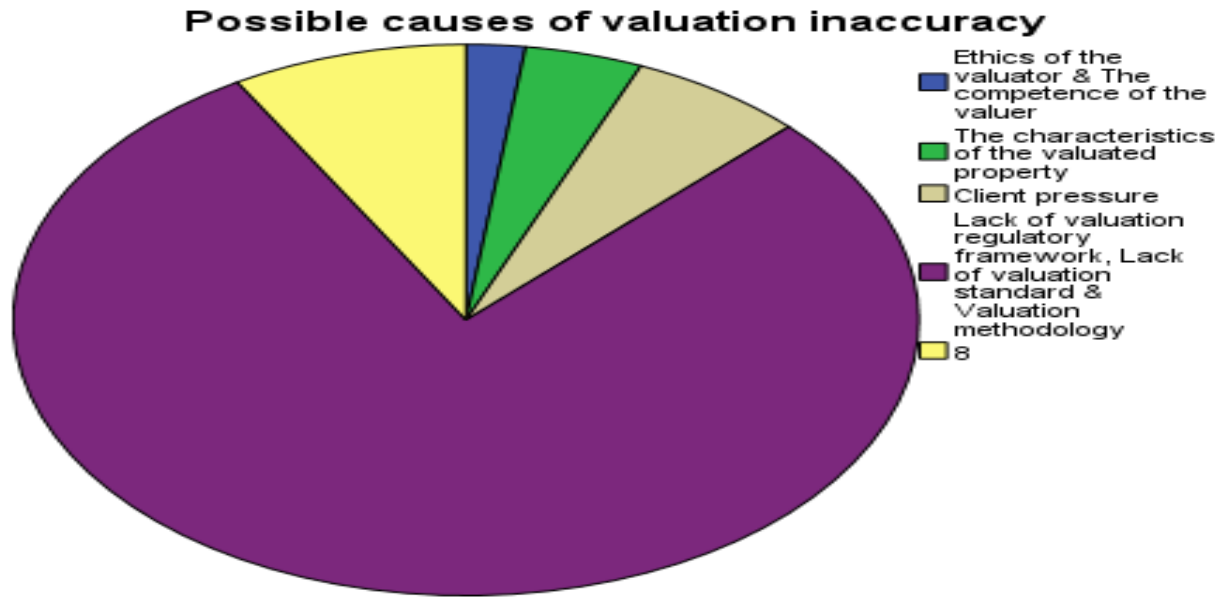


Figure: Pie chart of Possible cause of valuation inaccuracy

Source: -Survey result 2023

As per the replies, the valuers are sure about the improvement of real property valuation now a days refer table 4.9

Table 4.9. Have you noticed improvements in the practice of property valuation in Ethiopia now days?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	75	78.9	82.4	82.4
	No	7	7.4	7.7	90.1
	Not sure	9	9.5	9.9	100.0
	Total	91	95.8	100.0	
Missing	8	4	4.2		
Total		95	100.0		

Source: - Survey result 2023

The reason for the enhancement is;

- Growth of economic activity in the country
- Growth of private business makers or developers
- Insufficient work towards learning and growth of valuer
- Change on the governmental policy

Table 4. 10. Contributing factors for the property evaluation method improvements these days

Variable	Frequency	Percent
The country economic growth activity	55	27.6
Availability of Expert in the country	36	18.1
Change in Government policy	30	15.1
Growth of private business makers or developers	18	9.0
Learning and growth of the professional/ asset valuator	60	30.2

Source: -Survey result 2023

4.4The digital system extend to modernize the Real property valuation

It is true that some jobs, such as valuations and appraisals, still need a lot of the time and effort of a skilled professional. There must be some systems in place to lessen the burden placed on the valuator. Working with software is essential not just for reducing strain but also for accuracy, fairness, and time savings.

Table 4.11. By what mechanisms do you execute real property valuation work

	Frequency	Percent	Valid Percent	Cumulative Percent
Manually	7	7.4	7.4	7.4
By using special software	19	20.0	20.0	27.4
Both manually and special software	63	66.3	66.3	93.7
Other	6	6.3	6.3	100.0
Total	95	100.0	100.0	

Source: -Survey result 2023

As regards to the result of the study most banks work by using manually & special software. Overseeing the document and working the quantity is done manually. Valuating as grade of the building and considering other things done by a standardized excel generated through an empirical formula. However, Dashen Bank use a software rather than Excel. ArcGIS & AutoCAD software are used to locate properties.

Table 4. 12. What kind of software do you us for evaluation purpose?

	Frequency	Percent	Valid Percent	Cumulative Percent
Standardization Microsoft Excel spread	59	62.1	62.1	62.1
EVPMS	18	18.9	18.9	81.1
ArcGIS	9	9.5	9.5	90.5
Other	9	9.5	9.5	100.0
Total	95	100.0	100.0	

Source: - Survey result 2023

EVPMS

EVPMS is Engineering valuation program software that developed by Dashen bank IT department. Before this software developed there was memo that have been used by the. The content of this memo changed to EVPMS. But after this software developed, it was used in a way that goes with the manual and update the things found on Memo.

This Valuation aid software's used for time management, uniformity of works among the valuator, to cross check the exactness of location of property with respect to the provided coordinate point on LHC, to increase the valuator accuracy & this are better for tracking.

Benefit of the software's used by selected banks

Valuation software is also used in the world of commercial real estate, too. Here, it's particularly helpful to automate a lot of the time-consuming and manual processes involved with a transaction like underwriting, assessments of collateral and more. Similar factors will still be considered like the age of the property and nearby amenities.

Of course, it's crucial to note that valuation software is not without its limitations. The quality of the valuation is ultimately only as good as the quality of the data you feed into it and even public records can be out-of-date depending on the property or the area you're talking about. Likewise, valuation software will not necessarily consider the current condition of the home in question. Still, it's an excellent starting point and a way to save all parties involved a great deal of time and money in the process.

As respondent respond the special software used by these selected banks are as the following
For accuracy, Decrease discrepancy & Time-saving respectively

Table 4.13. What is the benefit of the software's used by selected banks

	Frequency	Percent	Valid Percent	Cumulative Percent
Time-saving	36	37.9	37.9	37.9
For accuracy	46	48.4	48.4	86.3
Valid decrease discrepancy	6	6.3	6.3	92.6
Other	7	7.4	7.4	100.0
Total	95	100.0	100.0	

Source: - Survey result 2023

Updating the software is essential thing because raining with technology, regulation, market value, and accuracy is necessary. Every bank that contained in this research update their software (that used for valuation) within 6 months up to 3 years.

Table 4.14. How often you update the software you use?

	Frequency	Percent	Valid Percent	Cumulative Percent
every 6month	61	64.2	64.2	64.2
Valid every year	21	22.1	22.1	86.3
within 3 years	13	13.7	13.7	100.0
Total	95	100.0	100.0	

Source: -Survey result 2023

4.5 FACTORS AFFECTING REAL PROPERTY VALUATION

As desk study shows there are seventeen components of factors affecting real property valuation. This are Geographical location, Property type (style and age), Distance from main road, General use of property, supply & demand, Condition & depreciation information, Layout, Specification, Design, Materials type, Method of measurement, Geology, Topography, Accessibility, Quantity (area & volume), Availability of basic utility & Market condition. From

this some are selected to survey which mostly influence the valuation estimation. The survey's findings demonstrate the importance of the factors closely influencing real estate valuation.

Table 4.15. Factors which affect real property valuation estimation

Variable	Frequency	Percent
Geographical location	65	24.7
property type, style use and age	58	22.1
Distance from the main road	39	14.8
supply and demand	40	15.2
market condition	61	23.2

Source: - Survey result 2023

A valuer will examine the property type, its age, condition, and location when reviewing the desk study. Market factors are also taken into consideration, such as if there is a high demand in the area where the property is located for that specific sort of property. The value of the property to the banks may also be impacted by zoning limitations and property size.

Building costs in various locations are determined using their individual unit pricing manuals, or, more specifically, using unit rates of construction works prepared for those regions. Since the majority of industrial construction materials are shipped from Addis Ababa, the cost of the majority of construction projects in regions outside of Addis Ababa is greater than the unit rate for Addis Ababa.

Building replacement costs in various locations are determined using their individual unit pricing manuals, or, more specifically, using the unit rate of construction projects designed for those regions. Since the majority of industrial construction materials are shipped from Addis Ababa, the cost of the majority of construction projects in non-AA regions is greater than the unit rate in AA.

The top management's involvement and the institutes' rules and procedures on various real estate purposes are additional factors that have an impact on real estate valuation. For instance, if the

lender had given the loan and the borrower was unable to repay it, the lender would be obliged to sell the property in order to recoup the debt. In these situations, where a rapid and inexpensive sale is required, it is improbable that the lender could obtain an accurate price to withhold payment for the difference in costs. If a bank or lender has previously recovered a bad debt, they do not evaluate the actual value of your home at all throughout the foreclosure process.

4.6 The existing regulations used by selected private banks

One of the reasons for variation, inaccuracy, and discrepancy is absence of regulatory institute. This was supported by the result of survey.

Table 4.16. Which institution is regulating the bank concerning property valuation?

	Frequency	Percent	Valid Percent	Cumulative Percent
Ministry of urban development and construction /MoUDC/	4	4.2	4.6	4.6
National Bank of Ethiopia/NBE/	3	3.2	3.4	8.0
Valid Municipalities	2	2.1	2.3	10.3
There is no regulatory institution for the mortgage valuation	75	78.9	86.2	96.6
International	3	3.2	3.4	100.0
Total	87	91.6	100.0	
Missing	8	8.4		
Total	95	100.0		

Source: - Survey result 2023

Nearly all financial institutions (banks), according to the respondents, have their own guidelines (valuation manuals), often customized versions of national manuals (such as the Ethiopian Bankers Association manual).

Table 4. 17Bank guideline (valuation manual) to valuate real property

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	75	78.9	90.4	90.4
	No	8	8.4	9.6	100.0
	Total	83	87.4	100.0	
Missing	8	12	12.6		
Total		95	100.0		

Source: -Survey result 2023

The majority of banks have their own common ground rule and a property valuation guideline to value properties in accordance with their procedures. They use the Ethiopian Bankers Association (EBA) standard as a benchmark, modifying it somewhat to include their own procedures (although some banks follow the EBA guideline directly). As a result, the process is efficient, which lessens bias, aids banks in easy amendment, and encourages flexibility. However, some banks rely on locally developed manuals, such as the one created by the Ethiopian Bankers Association (EBA), making it unfair to value current property valuations.

Table 4. 18. kind of real property valuation Guideline does your organization use?

	Frequency	Percent	Valid Percent
International Standard	12	12.6	12.6
Valid Particularly prepared by the organization itself customizing from (EBA) Manual	76	80.0	80.0
Other	4	4.2	4.2
8	3	3.2	3.2
Total	95	100.0	100.0

Source: -Survey result 2023

According to the respondents, 75.8% said their institution changes the valuation manual annually, while the remaining 11.6% said they don't. However, according to the desk study, the majority of financial institutions fail to update their guidelines on schedule and continue to apply stale guidelines while disregarding the state of the market. Additionally, this made the financial institution vulnerable since it made it difficult for other financial institutions (banks) to calculate nonperformance loans (NPL), and it prevented them from estimating the property's worth as collateral.

Table 4.19. Does the manual you use for the evaluation be updated through time?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes, it will be updated every time	72	75.8	86.7	86.7
No, it doesn't update	11	11.6	13.3	100.0
Total	83	87.4	100.0	
Missing 8	12	12.6		
Total	95	100.0		

Source: - Survey result 2023

4.7 Result and discussions from interview

Interviews with the department heads of a selected private banks with manager and assistant positions were done. At the time of the interview, one of these two banks' heads were not available. Therefore, 0.16% was unsuccessful. The result of the interview was as follow.

Expectation from property valuator before they value the property

The role of valuator in property valuation is vast. So first the valuator must be read for valuation purpose here are some points that are mention during the interview this are what they think the valuator must know before starting valuation.

- ✓ academically it is better if they have knowledge of building design & construction concept
- ✓ to know legally accepted documents needed for valuation like lease agreement concepts & bank's property valuation manual
- ✓ need know how to value the property
- ✓ it will be good if construction experiences are averable
- ✓ identify the location of property as per the given LHC (Land Holding Certificate)
- ✓ Knowledge of differentiating material type & Building construction background
- ✓ software Knowledge
- ✓ should know about location standards of the specified city/town
- ✓ should know about methods of valuation
- ✓ Building cost, Procedural both credit & valuation procedures
- ✓ Market value, income & coast value of the property

Property valuation training

All respondent says the banks give valuation training for their valuator. The following are the content of this training.

- ✓ Valuation Theories
- ✓ Valuation Principles
- ✓ Valuation Basis

- ✓ Valuation Process
- ✓ Valuation Approaches/ Methods
- ✓ Valuation Standard
- ✓ Valuation Reporting
- ✓ How to value properties based on the bank valuation manual

Academic background for property valuator

According to the respondent valuation must be performed by

- ✓ Valuation Engineer
- ✓ Civil Engineering
- ✓ Electromechanical
- ✓ COTOM
- ✓ Architectural
- ✓ Agricultural Engineer

Types of real property valuated within this 5years

The type of property valuated by these banks is as follows.

- ✓ Residential Building
- ✓ Office building
- ✓ Commercial Building
- ✓ Industrial Building
- ✓ Hotel
- ✓ Gas station
- ✓ Coffee processing properties

Benefit of using valuation software

As the questionnaire survey show all banks use both manually and software to valuate. The software's are Excel, ArcCAD, GIS, Autocad & EVPMS. The purpose of this software differ

some are for locate direction some for calculation and others for appraising. So, in this interview survey what is the benefit of using this software were asked and the respondent says

- ✓ Time management
- ✓ uniformity of works among the valuers
- ✓ used in valuation process to cross check exactness of location of property with respect to the provided coordinate point on LHC.
- ✓ Better for tracking
- ✓ Increase our accuracy
- ✓ It's time efficient

Discrepancy in using two or more methods

- ✓ Real Market price variation
- ✓ Both vary with time and condition
- ✓ Luck of data in case of income approach
- ✓ Some reports do not reflect the real market
- ✓ The cost approach is less compared to income capitalization
- ✓ unable to find reliable data
- ✓ current market inflation problem
- ✓ Some rate more than sold others sell more than rated

Property that not incorporated with the organization guideline

As the Questionary survey is indicate all selected banks have manual. But as valuation is vast including all things in the manual may be not possible on this ground the respondent asks how to treat the property that not incorporated with the organization guideline

- ✓ By using invoice
- ✓ The valuation will be done by taking some assumption and remarks

- ✓ Special properties may be evaluated using the technics of engineering i.e., their cast (Lump sum)
- ✓ First, we discuss with our division manager to figure out the best possible way to estimate the property (we'll use cost breakdown method)
- ✓ we use take off method
- ✓ we ask for specification & detailing of the special structure to calculate the takeoff
- ✓ A new memo is calculated to address the new kind of property which will later be inserted into the manual

Property valued by two or more different banks

As the respondent answer reason for the property valuation Variation between two or more banks is

- ✓ The difference in bank's manual
- ✓ No standard regulation
- ✓ Market price variation

Recommendation to minimize variation in property valuation

The following points are recommended by the respondent to minimize variation

- ✓ Use international standards
- ✓ Updating the bank's manual & procedures more frequently & accurately
- ✓ Digital registration of every property
- ✓ Adapt proper guidelines
- ✓ Control market inflation
- ✓ Giving continuous training to valuers
- ✓ The bank should conduct detail assessment on property & consider all situation on the ground

4.8 Summary of Questionary survey, Interview and Desk review

As the respondent replay the valuator must be prepared academically, knowledgably, and professionally. Property valuator takes a valuation train by the offer of the banks. This valuation train include valuation theories, valuation principles, valuation Basis, Valuation process and etc. This training decreases the variation in valuation & discrepancy caused by valuator potential.

Mostly variation happened in valuation result between banks. The reason for the variation is the method to employed for real property valuation, the purpose of the valuation, experience of valuator & used guideline.

In order to minimize the shortcoming of real property valuation and most of the Banks respondents are recommending the following points:

- Updating the real property manual and reliable market data within reasonable time.
- The valuation should be done in team basis and use one types of valuation Methodology
- Develop clear procedure must have prepared to minimize subjectivity
- Implementing different method has to be applied for valuation
- Conducting real property valuation training must be given to cope up the valuer capacity
- The Banking Industry should develop national standard of valuation methods across the country

As desk study show most private and governmental banks use Cost approach method. But in this research the questionnaire survey indicates most selected banks use cost approach by combine with the two approaches. Using the right valuation decrease variation in valuation.

As the response get from questionnaire indicate more than a half of respondent says there are supervisor in their banks. This supervisor properly oversees the valuation process. The purpose of this supervision is to evaluating the fairness, Facilitation, Checking the accuracy & checking the proper use of accepted methodology.

The selected banks use both manually & special software. This software used both for valuation and locate the position. Dashen bank use a special software which is developed by the bank IT

department. The other use standard excels. Every software update within 6 months up to 3 years. The benefit of using this software is Time-saving, for accuracy, decrease discrepancy, for time management, uniformity of work & better for tracking etc.

The factors affecting real property valuation methods as the desk study, interview and questionnaire analysis this are as follow Geographical location, property type (style, and age), Distance from the main road, General use of property, Condition & depreciation information, Layout, Specification, Design, Materials type, Method of measurement, Geology, Topography, Accessibility, Quantity (area and volume), Availability of basic utility & market condition. From this Geographical location & property type (style, use & age) are the most influential factor from the others.

All selected banks have guideline to valuate real properties. The Ethiopian Bankers Association (EBA) use as base for the valuation guideline in most banks. Sometimes there are property's that are not include in the valuation manual in this case as respondent replay valuation done by taking some assumption and some develop a new memo.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The findings and results of the investigation are summarized in this chapter. Conclusions are reached and recommendations are given based on the main discoveries and outcomes. The proposals call for improvements to the real estate appraisal industry as well as implications for additional research.

5.1 Summary of Finding

The main objective of this research is to determination of the real Property valuation methods in selected Private Banks The case of Addis Ababa. In this research Total population sampling method is applied in this method questionnaires which was distributed to 107 respondents 95 of questionnaires were collected which are 88.79%.

A Reliability test was administered by the study using Cronbach's Alpha (α) coefficient and statistically calculated to determine the reliability of the data about all the variables of the study and The Cronbach's α was computed using SPSS package 20 and according to table 4.1 it was 0.918. Therefore, data obtained using these scales are highly reliable to analysis.

In General Background Information of Respondents, findings show that 108 (61.7%) were male and 85 (89.5 %) were female respondents which show that the majority of the respondents were male also respondents were asked to indicate their Educational status, Academic qualification, work experience majority of response are 52(54.7 %) is first degree holder with large portion of civil E

ngineering and findings show that the largest number of respondents had work experience of below 5 years & 5-10years of services within the bank this is 40(42.1%) & 30(31.6%) respectively. Most of the respondent work in Valuation position.

The method to employed for real property valuation is the main reason for variation on property valuation evaluation results between banks. Since the research mainly take its action in assessing the method used by these banks. As the table 4.4 shows Cost approach is implemented it could be exclusively or by mixed with the two approaches. From all type of property valuated

Residential building get high amount of frequency. As of the research the banks mostly value to lend money rather than other purpose. some banks would use an independent regulatory agency during the valuation process in order to produce accurate valuation results.

The mechanism used by the banks to value is both manually and by using software. Standardized Excel is the most applicable software by the selected banks. Dashen bank use its own software which is called EVPMS. ArcGIS & AutoCAD software are used to locate properties in selected banks.

From the survey find that Geographical location, Property type (style, use & age) & market condition are mostly affecting real property valuation.

Almost all banks have guideline to value a property. This guideline within most banks developed from Ethiopian Bankers Association (EBA). Also, this guideline updated every time.

5.2 Conclusion

- **What real property valuation methodologies are used by selected private banks in Addis Ababa?**

The cost approach is used in all of the chosen banks, either wholly or in combination with the other two approaches. Off course the selection of method to use to value depend on the purpose of valuation, base of valuation & type of real property. By not ignoring the above-mentioned points as the result show the approach implemented to value get strength when combine with each other. The outcome supports the industry's employment of the cost approach method, which shields the banking sector from risks that could threaten its ability to continue operating.

- **What are the factors affecting real property valuation during estimation in Addis Ababa?**

Geographical location, property type (style, use and age) and market condition are the most influential factors which affect real property valuation.

In another scenario, the valuers would consider the property's type, age, and condition in addition to its location. The senior management's involvement and the institutes' policies

and procedures for various real estate goals are additional factors. Private banks do not take depreciation values into account.

- **What are the existing regulations used by selected private banks in Addis Ababa?**

Each bank's value is made in accordance with its own guidelines mostly developed from EBA for collateral, foreclosure, mortgages, and security loans. As a result, the banking sector's service is restricted in order to make use of real estate valuation. there is no common regulation for real property valuation in the country standard.

- **What is the digital system extending to modernize the sector?**

The mechanism used by these selected banks is both manual & Software aid. From all banks Dashen Bank develop its own software which is called EVPMS. This will reduce the pressure and stress on the job. The others banks use Standard excel. This software's are update 6month up to 3years.

5.3 Recommendation

Based on the results of the study, the following recommendations are forwarded to enhance (improve) the practice real property valuation in Ethiopian banks-Addis Ababa.

- A supervisor or independent consultant enhances the valuation outcome. Therefore, it will be advantageous for both parties if a consulting or oversight firm is established for valuation purposes.
- The disagreement that results from utilizing two or more methods is reduced by the presence of established procedures and guidelines as a common, knowledge of the type of real property for which a valuation approach should be used and the aim of the valuation, and adequate data on valuation.
- To enhance the processes of valuation and facilitate the process of updating the manual, every financial institution should be set up with an independent consultant or research center.
- The banks valuation process will be well in time management, accurate in the valuation and decrease variation if they use special software developed only for this purpose. Since, I appreciate the banks to develop their own software.
- Regarding valuers, variation, and software used for valuation could be another area for other research.

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Annex 1: QUESTIONNAIRE

Dear Sir/Madam:

This survey is aimed at collecting information about “Determination of the real Property valuation methods in selected Private Banks The case of Addis Ababa”. Thus, I would like to ask you to complete the following questions to reflect your opinion as accurately as possible Your responses are voluntary and will be confidential. Responses will not be identified by individual. All responses will be compiled together and analyzed as a group.

With Regards!

Netsanet Fita/Researcher

Instruction for completing the questioner

- Don't write your name please.
- For the questions having no alternative response, you are requested to give short and precise response, in the line provided

Section I: -Personal Information

1. What is your Gender
A) Female B) Male
2. Educational status?
A) B.Sc. C)Advance Diploma
B) M.Sc. D) others
3. Academic Qualification
A) Civil Engineering
B) COTOM
C) Electromechanical
D) Other
4. How many years have you worked on property valuation?
A) < 5 years B)5-10 years C)10-15 years D)>15year

5. In what position you are working in the bank?
- | | |
|---------------------|-------------------|
| A) Valuation Expert | C) Branch Manager |
| B) Loan Officer | D) Other |

Section III: -Real Property Valuation (Methodology of real property valuation, Factors Affecting real property valuation & Regulation on real property valuation)

1. What is the purpose of property valuation in your Bank? (You can select more than one)

A) Project expansion
B) Buying (Collateral) & selling (Foreclosure)
C) Mortgage
D) Security of loans
E) For compensation
F) Others
2. By what mechanisms do you execute real property valuation work?

A) Manually	C) Both A&B
B) By using Special Software	D) Other
3. What kind of software you use for evaluation purpose?

A) Standardization Microsoft Excel spread	C) ARCGIS
B) EVPMS	D) Other
4. What is the benefit of the software

A) Time saving	C) decrease discrepancy
B) For accuracy	D) Other
5. How often you update the software you use?

A) With in a month	D) within 3 years
B) every 6month	E) software updating is not trained
C) every year	
6. What types of property valuation techniques do you use?

A) Income capitalization approach method	D) Income capitalization & Cost Approach
B) Cost approach method	E) Cost approach & Sales comparison
C) Sales comparison	F) Other

7. Which institution is regulating the bank concerning property valuation?
 - A) International
 - B) Ministry of urban development and construction /MoUDC/
 - C) National Bank of Ethiopia/NBE/
 - D) Municipalities
 - E) If any other institution, please describe here
 - F) There is no regulatory institution for the valuation
8. Does your bank have guideline (valuation manual) to value real properties?
 - A) Yes
 - B) No
9. What kind of real property valuation Guideline does your organization use?
 - A) International Standard
 - B) Ethiopia Bankers Association (EBA) Manual
 - C) Particularly prepared by the organization itself customizing from Ethiopia Bankers Association (EBA) Manual
 - D) other
10. Does the manual you use for the evaluation be updated through time?
 - A) Yes, it will be updated every time
 - B) No, it doesn't update
11. Possible causes of valuation inaccuracy
 - A) Ethics of the valuator & The competence of the valuer
 - B) The characteristics of the valued property
 - C) Lack of data from the market
 - D) Client pressure
 - E) Lack of valuation regulatory framework, Lack of valuation standard & Valuation methodology
 - F) The imperfection of the property market
12. Do you have an independent Consultant or Supervisor during valuation in your Bank?
 - A) Yes
 - B) No
13. Does the consultant or supervisor properly oversee the evaluation process?
 - A) Yes
 - B) No
 - C) Not Sure

14. In what aspect and extent does the consultant or supervisor inspect the valuation improve it?
- A) evaluating the fairness
 - B) Facilitation
 - C)Checking the accuracy
 - D)Checking the proper use of accepted methodology
 - E) Others
15. The factors which affect real property valuation estimation mostly (You can select more than one)
- A) Geographical location
 - B) property type, style use and age
 - C) Distance from the main road
 - D) supply and demand
 - E) market condition
 - F) Others
16. What do you think is the reason for variation on property valuation results between Banks?
(You can select more than one)
- A) The Method to employed for Real Property valuation
 - B) The purpose (objective) of the valuation
 - C) Experience of valuator
 - D) used guideline
 - E) Others
17. How do you level the occurrence of property valuation claim by the customer due to under or overestimation observed?
- A) Most Frequent
 - B) Frequently
 - C) Least Frequent
 - D) No Occurrence
18. Have you noticed improvements in the practice of property valuation in Ethiopia now days?
- A) Yes
 - B) No
 - C) Not sure
19. Which of the following reasons are contributing factors for the property evaluation method improvements these days? (You can select more than one)
- A) The country economic growth activity
 - B) Availability of Expert in the country
 - C) Change in Government policy
 - D) Growth of private business makers or developers
 - E) Learning and growth of the professional/ asset valuator
 - F) Others

Annex 2 : Interview Question for Valuator and Manager

1. What do you believe property valuers should be aware of before valuing the property?
2. Did you give property valuation training for the valuator? what were the contents of the property valuation training?
3. In whose academic background should you believe that property valuation should be performed?
4. What type of real property did you value in the past five years?
5. What is the benefit of using valuation software?
6. Have you ever seen any Discrepancy in using two or more methods? What is the reason for the real property discrepancy?
7. If there are the types properties not incorporated in your organization guideline (valuation manual), please specify & how to treat it?
8. What do you recommend to minimize variation in property valuation?
9. Have you ever got the chance to see a property valued by two or more different banks in the same year and noticed any significant variation in the valuation results?
10. what are the factors for them in accuracy between different banks?