Copyright Statement

The digital copy of this thesis is protected by the Copyright Act 1994 (New Zealand).

This thesis may be consulted by you, provided you comply with the provisions of the Act and the following conditions of use:

- Any use you make of these documents or images must be for research or private study purposes only, and you may not make them available to any other person.
- Authors control the copyright of their thesis. You will recognise the author's right to be identified as the author of this thesis, and due acknowledgement will be made to the author where appropriate.
- You will obtain the author's permission before publishing any material from their thesis.

To request permissions please use the Feedback form on our webpage. [http://researchspace.auckland.ac.nz/feedback](http://researchspace.auckland.ac.nz/feedback)

General copyright and disclaimer

In addition to the above conditions, authors give their consent for the digital copy of their work to be used subject to the conditions specified on the Library Thesis Consent Form.
CHAPTER 7  CLIENT INTERVIEWS

7.0  INTRODUCTION

Chapter 6 set out to verify and revise where necessary the initial framework of postulated factors affecting client influence as detailed in Figure 5.1. The results of the analysis of valuer interviews facilitated the construction of a revised framework of factors that affect client influence. In addition to this they permitted an in-depth understanding of these factors from the valuer's viewpoint. This chapter sets out the results from the in-depth interviewing process undertaken with experienced, 'sophisticated clients'. The results of the valuer interviews indicated that clients with certain characteristics may have the ability to influence valuations in different ways. Therefore in order to accurately reflect the valuation process within large institutional funds only clients that had substantial experience of working for property investment funds and had been closely involved in the management and commissioning of asset valuations were included in the sample of respondents.

As with valuers, in-depth interviews were considered as the most effective process for collecting complex perceptions of the second major player in the valuation process. After completion of the client interviews, a within-case analysis was carried out for each interview and a cross-case analysis for all client interviews.

Figure 7.1 sets out the process of identifying factors and sub-factors affecting client influence. Each client interview was treated in the same way as the valuer interviews and each was summarised for factors and sub-factors and compared with definitions from valuer interviews. From this analysis no major discrepancies from the valuer interviews were determined. It was evident however from the analysis that the valuer interviews resulted in more of a factual list of definitions and their relationships to client influence, whereas the client interviews tended to look behind some of the themes and allowed for a deeper understanding of the valuation process and the incentives, power and opportunities clients may use to influence valuation outcomes. These two different perspectives may have resulted from the difference in the prompt that was used at the start of the client interviews, but it may also be that clients were more comfortable in discussing their own personal experiences within the context of the valuation process. This chapter also reports on Stage 4 of the research process consisting of interviews carried out with valuers and clients in order to determine their feedback on the accuracy of the findings from the valuer and client interviews.

The chapter is set out in the following sections:

Section 7.1  discusses the data collection methods

Section 7.2  explains the data interpretation process
Section 7.3 discusses the incentives clients have to influence valuations

Section 7.4 sets out the power available to clients to carry out their influence

Section 7.5 explains the opportunities for a client to exert their power

Section 7.6 presents a comparative analysis of the revised framework set out in Chapter 6 and the final framework as presented in this chapter.

Section 7.7 outlines the results of the client and valuer feedback interviews

Section 7.8 summarises the findings of the chapter

7.1 DATA COLLECTION

As set out in Chapter 4 the processes incorporated into this stage of the research were very similar to that employed in Stage 2. Client respondents were chosen on the basis of their potential to aid in the development of theoretical insights (Taylor and Bogdan, 1998). The interviews with valuers indicated that clients with specific characteristics could influence valuation outcomes in different ways. This led to the decision to interview only sophisticated clients in order to understand the valuation process within large organisations. As previously stated a sophisticated client is defined as:

A client that has a large amount of experience in the management and/or valuation of property assets. They tend to be larger companies very much involved in the day to day management of large property portfolios. They typically use expert and information power in order to influence the outcome of the final valuation figure.

In order to fulfil this requirement all interviewees were experienced property management executives or institutional property investors. Seven clients were asked to participate and all agreed. Each individual had in excess of ten years of commercial property experience; all held senior positions within their respective organisations and instructed valuers on a regular basis. As with the valuer interviews the number of interviews was not predetermined but evolved. The sampling was again directed by the logic and aim of the types of coding procedures used in analysing and interpreting the data. The final number of interviewees was therefore identified by saturation, when the interpretation of the interviews became repetitive and no new themes emerged (Carson et al., 2001; Strauss and Corbin, 1998). As explained in Chapter 4, although the number of respondents included in the sample was theoretically based it should be noted that in the context of the New Zealand market at the time, the companies represented made up in excess of 50% of the total as defined by the Property Council of New Zealand Weightings Survey (2000).
Each interview was carried out at the interviewee's place of work in Auckland, or if this was not possible (one interviewee was based in Wellington) the researcher's place of work. Each interview took place in a location where participants were unable to be overheard and no interruptions were possible. Due to the complexity of the subject and length of each interview, the first six interviews were carried out jointly by two interviewers, but as the researcher and judge were persuaded that patterns and themes were well defined, the final interview was carried out by the researcher alone. In the interviews utilising two interviewers, one interviewer guided the questions and the second interviewer listened and contributed if pertinent issues were not addressed, or certain issues required further clarification or investigation. There was no evidence that the interviewees were intimidated by being questioned by two interviewers and none voiced any concern. Each interview with the agreement of the interviewee was recorded and audio taped. An initial prompt was used at the commencement of each interview. This prompt allowed the respondent to start talking about issues most relevant to them in the context of the client-valuer relationship:

"As you may be aware, a great deal of public and research attention has been brought to bear in recent years on the issue of valuation accuracy, and the degree to which valuations are accurate and an unbiased estimate of a property's market value. In exploring this issue, researchers have focussed in general on valuation methods, the quality and quantity of information available to valuers and the effects that the use of heuristics or rules of thumb has on value estimations.

Little attention has been paid to the effects that the client/valuer relationship may have on valuations. To address this shortcoming, we are undertaking a series of interviews with valuers and clients in an effort to improve our understanding of the client/valuer relationship. A pilot study based on interviews with valuers has now been completed, and our attention now turns to clients. To just get things kicked off and to begin our interview today, we would like to start off with the following question - How do you as a client describe the client/valuer relationship?"

A number of topics were also pursued by the interviewer if not already covered by the interviewee without prompting: These included: the purpose of commissioning valuations; the person/organisation for which the valuations were required; the frequency of commissioning valuations; the selection of the valuation firm; the role the interviewer plays in the valuation process; how compensation is agreed with valuers; the accuracy of valuations; their opinion of a valuer reporting a range of values; whether the client organisation produce in-house valuations and the information provided by the client organisation to the valuer. After each interview was completed it was transcribed and the data interpreted. The following section describes this process.
7.2 DATA INTERPRETATION

As with the valuer interviews analysed in Chapter 6, the main purpose of the client interviews was to uncover as many factors as possible as to the role a client may play in the valuation process and their ability to influence valuation outcomes. Chapter 6 accomplished this from the viewpoint of the valuer. However, to understand the valuation process more holistically it is important to gain insights not only from the valuer but also the client.

The interpretation of the client interviews followed a similar procedure to the valuer interviews by way of the "open coding" technique as recommended by Strauss and Corbin (1998). The coding process included the researcher, a judge and an arbiter as in Stage 2. The researcher first analysed one selected interview and labelled the main concepts backed up with evidence from the transcripts. Descriptions for each of these concepts were then defined. A second academic with knowledge of the valuation process was then elected a judge and examined the outcome of the analysis. Agreement was then reached between the researcher and judge as to the accuracy and relevance of the concepts and ideas. Once the process was completed for the seven interviews it was clear that additional interviews would not add substantially to the understanding of the valuation process from the perspective of the client and thus saturation had been reached.

As in Stage 2, Stage 3 also utilised a case-research approach. The within-case analysis of the client interviews can be found in Appendix 7A and the cross-case analysis in Appendix 7B.

The outcome of the data interpretation of the client interviews differed from the valuer interviews in that two distinct patterns of results were observed. One of these patterns can be described as more factual and could be compared with the results from the valuer interviews. The second pattern emphasised the behavioral elements of the valuation process more, in particular the areas of a client incentive to influence, their power to influence and finally the opportunities they have to influence.

Figures 7.1 and 7.2 show the differing research processes and the different types of material reported in the client transcripts. Through the process set out in Figure 7.1 the researcher was able to assemble information relating to the valuation process itself and the clients role within that process, whereas Figure 7.2 reflects the process utilised for revising the framework of different factors and sub-factors and their relationship to the potential influence clients may have over valuation outcomes.
Many of the factors and themes highlighted in the client interviews mirrored those of the valuers. The interviews with clients, however, also reflected the clients' personal perspectives of the valuation process. The main variation between the client and valuer interviews was that clients in their discussions concentrated more on the valuation process and the opportunities clients have to influence the final valuation. This may have been the result of the alternative prompt that was used to commence the interviews, but may also reflect the fact that clients were more comfortable in discussing their own personal experiences within the context of the valuation process. It should be noted that clients were encouraged to discuss different types of valuations, but the majority of their responses related to periodic valuations for performance measurement and thus many of the specific conclusions set out relate to this. A number of respondents did make mention of incentives and the opportunities available to them to influence one-off valuations for bank lending and sales and valuations for rent review purposes and these have been identified specifically in the text. In general, however, the concepts of incentives, power, influence and opportunities are applicable for valuations commissioned for different purposes.

The analysis specific to the client interviews were categorised into three main themes and are discussed in the following sections:

- **Section 7.3** Client incentives to influence valuations
- **Section 7.4** Powers available to clients to carry out influence
- **Section 7.5** Client opportunities to exert their power.
Conceptualising the Influence of Clients on Valuations

FIGURE 7.2 THE PROCESS OF IDENTIFYING FACTORS AND SUB-FACTORS AFFECTING CLIENT INFLUENCE

1. Seven clients interviewed by 1 or 2 interviewers
2. Interviews transcribed
3. Interview 1 summarised and analysed for factors and sub-factors by the researcher
4. Definitions revised for factors and sub-factors found in client interviews by the researcher
5. Definitions agreed upon between researcher and judge
6. Interview 2 summarised and analysed for factors and sub-factors by researcher
7. New and revised definitions compiled for factors and sub-factors by researcher
8. New and revised definitions agreed upon by researcher and judge
9. Interview 3 summarised and analysed for factors and sub-factors by researcher
10. New and revised definitions compiled for factors and sub-factors by researcher
11. New and revised definitions agreed upon by researcher and judge
12. Interview 4 summarised and analysed for factors and sub-factors by researcher
13. New and revised definitions compiled for factors and sub-factors by researcher
14. New and revised definitions agreed upon by researcher and judge
15. Interview 5 summarised and analysed for factors and sub-factors by researcher
16. New and revised definitions compiled for factors and sub-factors by researcher
17. New and revised definitions agreed upon by researcher and judge
18. Interview 6 summarised and analysed for factors and sub-factors by researcher
19. New and revised definitions compiled for factors and sub-factors by researcher
20. New and revised definitions agreed upon by researcher and judge
21. Interview 7 summarised and analysed for factors and sub-factors by researcher
22. New and revised definitions compiled for factors and sub-factors by researcher
23. New and revised definitions agreed upon by researcher and judge
24. Final definitions agreed upon by researcher, judge and arbiter
25. Compilation of a revised framework of factors affecting client influence

197
7.3 CLIENT INCENTIVES TO INFLUENCE VALUATIONS

The interpretation of the client interviews identified a number of incentives that may encourage clients to influence valuation outcomes. Figure 7.3 lists each of these together with an indication as to how many of the respondents referred to them in their interview. The incentives identified can be divided into four main categories, and are discussed in the following sections:

Section 7.3.1 market credibility
Section 7.3.2 accurate and realistic valuations
Section 7.3.3 purpose of valuations affecting outcomes
Section 7.3.4 performance measurement of client

FIGURE 7.3 CLIENT INCENTIVES TO INFLUENCE VALUATION OUTCOMES

<table>
<thead>
<tr>
<th>CLIENT INCENTIVE</th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Credibility</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistency in valuations</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting consistent and attractive dividends/returns to unit holders</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Perceived market transparency</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Accurate and realistic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic management</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Commercial rather than evidential approach</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Instructing competent valuers</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Purpose for valuation affecting the preferred outcome</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Performance measurement of client</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance measurement</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Performance-based compensation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>In-house valuation/book value validation</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Value or strategy</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Client opinion of value</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7.3.1 Market credibility

Respondents indicated that a common incentive for a client acting on behalf of a property fund to influence a valuation is to ensure that published valuations are conducive to market credibility. This is not only credibility with shareholders but also with the market as a whole. The importance placed on having credibility in the market place by the respondents may have been in part a reflection of the market environment within New Zealand at the time of the interviews. A number of funds had been accused of being over valued and had paid the price in the form of reduced shareholder confidence.
and market credibility. This significance of market perception demonstrates the importance of not looking at the valuation in isolation but as an integral part of the whole commercial environment as suggested in Chapter 1, Figure 1.3.

Under the general category of market credibility, the respondents highlighted three sub-categories: the importance of consistency in valuations; reporting consistent and attractive dividends/returns to unit holders; and perceived market transparency. Each of these will be discussed in the following sections. Appendix 7B sets out a number of quotes from the interviews which indicate the importance of such client concerns.

7.3.1.1 Consistency in valuations
An analysis of the transcripts clearly indicates that consistency is a major concern to the clients interviewed and they would spend substantial time in ensuring that their reporting reflected consistency not only from year to year but also consistency across the whole portfolio of properties:

".... It is mainly to do with getting consistency, and making sure that they are genuine market values."

When discussing consistency from year to year the clients highlighted the effect of potential problems when changing valuers. For example one respondent advised that they:

"..... review the historic valuation that have been done on the properties to look, for you know, a valuer may value it for two years, to make sure it is reflected, that there is consistency there in terms of what they are saying now and that there are no discrepancies from one valuer to another..."

Another respondent stated:

"... if you get a 10% shift up or down in your value because you have changed valuers, what does that tell the market? It tells you that you values have gone up suddenly, and that's not necessarily the case, so it carries some pretty major risks ... rotation ... I think"

The interpretation of the data from the client interviews also suggests that clients were not only concerned about the consistency in their valuations but also their effect on the ability to report consistent and attractive returns to their shareholders.

7.3.1.2 Reporting consistent and attractive dividends/returns to shareholders
The interviews clearly showed that a client's reputation in the market place is critical to them and thus they are keen to report attractive dividends to their shareholders in order to demonstrate their ability to perform in the market. All respondents were aware, however, of the importance of taking a long term view and as one respondent explained a situation where valuations were:
"... held at an artificially high level, now if you've reported a property as being worth a certain amount for three or four successive years and then the market's improving how on earth do you tell your client that it's now worth less than what it was last year ..?"

Credibility was perceived by the respondents as being closely associated with market transparency. This will be discussed in the following section.

7.3.1.3 Market transparency
Interpretation of the data indicates that client behaviour is influenced throughout the valuation process by their need to ensure transparency. As one client suggested:

"...the market is sophisticated these days and there's a lot of information, you've got to be transparent and you know we've worked really hard to make sure we are transparent..."

This importance to maintain transparency was clearly demonstrated when the clients described how they decide upon which valuer and valuation firm to instruct to carry out valuations on their behalf, for example one respondent noted that:

".. there's an issue of how will the market regard the fact that we're using ABC Ltd as valuers and certainly our Board sort of talk quite a bit about that ..."

The significance of the Board was also clearly illustrated with the respondents indicating that all decisions related to the Trust had to be sanctioned by the Board who need to be:

"... fully appraised of all situations and context..."

One client advised that in order to assure market credibility and transparency their company had instituted a peer review process where two sets of valuers are instructed to carry out any valuation and then they talk and agree with the final outcome. In addition to these issues relating to market credibility, the respondents interviewed also stressed the importance of producing accurate and realistic valuations. These are discussed in the following section.

7.3.2 Accurate and realistic valuations
The importance of receiving accurate and realistic valuations was essential for the respondents interviewed for two main reasons. Firstly, as already discussed they enhanced the market credibility of a fund and secondly, they provided an essential tool for the effective strategic portfolio management. The three major themes that were uncovered within the category of accurate and realistic valuations were: their importance in strategic management; ensuring that valuations were a true reflection of the commercial environment; and that appropriate and competent valuers were instructed to carry out valuations. Each of these is discussed in the following sections.
7.3.2.1 Management of future liability

Accurate and realistic valuations were perceived by clients as an essential tool for the effective strategic management of a property and as one client commented:

"... if we understand the valuation process of our assets, we make better decisions about the strategic direction of the portfolio from an asset management perspective, also whether or not that building has a future in the portfolio or not, so it is very important to understand its valuation direction, whether or not the asset has any economic value for us ...."

The interviews also highlighted that if previous valuations are not accurate and realistic, then things may be:

"....really difficult for us downstream and you do have to change strategies for properties where stuff wasn’t for sale maybe ....:" 

Other problems that were highlighted by the client interviews related to valuations where they have had some "pretty severe disappointments" when the sale price ends up severely below the figures reported by the valuer. Respondents again emphasised the importance of consistency from year to year and they suggested that this can be achieved more successfully if a valuation is accurate and realistic for example;

"... there's no point in artificially propping the thing up because you're going to have to bite the bullet sooner or later and be realistic as to what it is worth ..."

A recurring theme amongst a majority of respondents was the criticism of the valuation methods utilised by valuers which the clients interviewed believed failed to reflect the true commercial property environment. This will be discussed in the following section.

7.3.2.2 Commercial versus evidential approach

The clients interviewed suggested that valuers in the market tended to be:

"... very technically based" and "... don't necessarily have a really good appreciation of how property functions and the rationale for people investing in property ..."

They stressed the importance for a valuer to have the ability to understand the property market. As one respondent explained:

"... the more commercial they are, the more they understand transactional behaviour, the more they are able to take a view on valuations that I believe are more accurate than someone who is probably really technical..." 

The clients therefore felt that in order to report accurate and realistic valuation it was essential to instruct valuers that have a thorough understanding of the workings of the market and would not rely
only on market evidence which could result in them being "backward" looking. This was explained clearly by one respondent:

"... if we feel don't feel that they have a good understanding of where the market is going, rather than has been, then they won't generate our respect and won't certainly be providing the skills we are looking for..."

The interpretation of the data therefore suggests that the clients have a particular view of how an accurate and realistic valuation should be undertaken. This perception in turn affects their decision as to who they consider to be a competent valuer and therefore who they will instruct to undertake their valuations. This is considered in the following section.

7.3.2.3 Instructing competent valuers

In order to be able to produce accurate and realistic valuations, clients are keen to instruct only competent valuers who they believe understand the market, as one client explained:

"... I'd try and pick the valuer that I sort of think is best for the market and that, that means for me genuinely understanding the market and giving me you know the highest level of accuracy ..."

One respondent highlighted that for a certain valuations valuers require specific skills:

"for certain types of property and depending on the complexity, if you like, or the asset, you need to employ a valuer that is appropriately skilled to deal with those types of assets."

This need for certain skills was explored by another respondent who advised that they would look to a valuation firm that employs a range of valuers with relevant skills, experience and market knowledge:

"...a good cross section of the market, access to market information and ... a track record of doing this type of work and having access to the information needed to do this sort of work is important..."

In summary, the interpretation of the data from client interviews indicates that the sophisticated clients interviewed are motivated by a desire to receive valuations that are a true reflection of the market value of a property. There was evidence however that their perception of an accurate valuation may vary from that of a valuer. The clients interviewed believe that valuers tend to place more emphasis on comparable evidence than the commercial reality of the market which the clients perceive as providing backward looking results.

The next theme identified from the client interviews was the effect of the purpose of the valuation on the valuation result.
7.3.3 Purpose of valuations affecting outcomes
The clients interviewed suggested that the purpose of a valuation may affect whether the client wishes to be provided with a valuation accurately representing the true market value of a property. For example market credibility and the need for accurate and realistic valuations seemed more prevalent in the case of end of year valuations published in annual reports and available in the public domain. When valuations were commissioned for purposes other than periodic valuations for performance measurement, respondents indicated that other influences may prevail which may result in a client placing pressure on a valuer to report a particular figure. For example, as quoted from one respondent in the context of a rent review:

"I guess that, you know if you're a lessee why brief a valuer ... if he's not going to give you a low figure, so that you can use it in your negotiations..."

Valuations identified as particularly vulnerable include valuations commissioned to support anticipated property acquisitions and sales, in these situations valuers may be influenced to either report a low value thus enabling fund managers to accept an offer, or a high value in order to validate the purchase price of a property. As one respondent noted:

"... say you're doing a trade... and they're saying ... I want to trade those three properties for my one, I want my value to be as high as possible, and I'll put pressure on the valuer to do that, and the guy on the other side would be putting pressure on his valuer to get his three properties' values up as well..."

The interpretation of the client interviews, as with the valuer interviews, suggests that the purpose of a valuation will affect the amount and type of pressure a client may place on a valuer to alter a valuation. They also suggested that this may also be affected by the way a client's performance is assessed. This will be considered in the next section.

7.3.4 Performance measurement of client
The interpretation of the client interviews suggests that many property executives' performance may be based on the performance of the property fund they are managing. This may also affect how they influence valuation outcomes. In many cases property performance may also be reflected in the amount of remuneration they receive. As one client stated:

"I think property executives frequently are trying to defend their book values, you know they are judged on personal performance ..."

The client interviews therefore reflect the outcome of the valuer interviews that recommended that clients should have to declare themselves and maybe instructions to carry out valuations should come from a third party.

Whether the client directly carries out in-house valuations was identified by the clients as affecting the amount of pressure they may place on a valuer. This is discussed in the following section.
7.3.5 In-house valuations

Finally, an incentive for a client to place pressure on a valuer to report a particular figure may occur when a client’s company employs property professionals who are able to undertake in-house valuations. In circumstances such as these, external valuations may be used to validate the in-house valuations and book values. One respondent explained the potential effect of the in-house valuation as follows:

“...Some of our in-house valuations are lower and some are higher (than the valuers), it depends on the reason for the valuation, if it is to sell an asset we might challenge as part of the process, we may for Board requirements get an external valuation which is higher than we think it is, we would be challenging and saying, why do you think there is going to be so much growth in the asset, why do you think it is going to perform so well? ‘Cos we don’t think that it is...”

Clients do not necessarily have to undertake formal in-house valuations to have a view on the value of properties in their portfolio, they will generally however have an “internal opinion on values”. Again this opinion may motivate them to influence an external valuer’s reported value if it fails to correspond to their view of value.

“... when we get a valuation from a valuer that we disagree with, we will let them know and discuss it ...”

In summary, the interpretation of the client interviews suggests that clients may be motivated to influence valuation outcomes. Five main groups of incentives were identified. These were firstly, factors related to market credibility which included the motivation for clients to ensure that valuations were consistent and that they reported attractive and/or consistent returns to unit holders. There was also a need from the client’s perspective that the whole valuation process was perceived as transparent to the market. The second group of factors related to the accuracy and realism of the valuation. This was perceived as essential by the respondents in enabling them to strategically manage future liability. It was also evident that the group of sophisticated clients interviewed had their own opinion on what they believed to be accurate and credible valuations which they described as commercial rather than evidence-based valuations. This belief provided an incentive for them to encourage valuers to take a more commercial approach.

Another result of this was its effect on a client’s perception of what constituted a competent valuer and their incentive to instruct such a valuer. The purpose for which a valuation is commissioned also has the ability of providing an incentive for a client to influence valuation outcomes. An example of such a purpose is a valuation undertaken for an intended sale of a property, where a client will be pushing for a valuation figure as high as possible. If a client’s remuneration or reputation is measured by the performance of the property portfolio they are managing then this may create another incentive for client influence. Finally, under the general term client incentive, where a client who undertakes formal
Conceptualising the Influence of Clients on Valuations

internal valuations may have a clear opinion value of a property they may be motivated to influence a valuer's reported figure if it does not correspond to their perception of the market.

There is evidence therefore that clients possess a number of incentives to influence valuation outcomes. However in order to successfully influence the outcome of a valuation they also require the power and opportunity to do so. The next section discusses the clients' power to exert such influence.

7.4 POWERS AVAILABLE TO CLIENTS TO CARRY OUT INFLUENCE

In order to influence valuation outcomes clients require not only an incentive to do so but they must also possess the power and the opportunity to exert that power. The clients interviewed all specified the way in which this influence could be exerted on the valuer. A client's ability to influence was also highlighted by valuers in the interviews discussed in Chapter 6. Four types of power were identified by the clients interviewed, expert power, information power, reward and coercive power and procedural power. The first three of these were identified in the valuer interviews and included in the revised framework of client influence as set out at the end of Chapter 6. The client interviews' however, acknowledged procedural power as an additional power available to the client. Each form of power will be discussed in the following sections.

7.4.1 Expert power

Expert power as defined in Chapter 6 can be exerted where a client uses their experience and/or expertise to influence the outcome of a valuation. All the clients interviewed had a great amount of expertise and knowledge relating to the property markets they were investing in. They were also experienced in the use of different valuation techniques and methodologies and most had strong opinions as to which methodologies they wished to be used in the valuation of their portfolios. All respondents suggested that they were likely to use their experience and knowledge to assist the valuation process, in particular in the identification of inconsistencies and inaccuracies when reviewing draft valuations. One respondent confirmed that as part of the valuation process they would check all the valuers' assumptions and check for mistakes such as transposition of numbers.

As highlighted in the previous section respondents advised that for valuing certain valuation purposes they were unhappy with the use of transaction or evidence-based valuations and perceived a more commercial approach to be a more accurate reflection of market value. One interviewee summarised this as follows

"There are some good valuers out there, but also some who are very technically-based and don't necessarily have a good appreciation of how property functions and the rationale for people investing in property ... and consequently they tend to be very negative in the way they react to market changes ..."
Further to this, respondents suggested that valuers were not aware of the many nuances relating to the overall investment quality of many properties including building quality and design. They were critical of the ability of many valuers to determine the attractiveness of certain properties and markets to different categories of investors. One respondent remarked that valuers do not give enough emphasis to the:

"..Differentiation in quality between properties .... Tenants have strong views about the technical performance of properties and move because of that; they'll move because the air conditioning is not working and valuers do not take that sufficiently into account..."

An interpretation of the client interview transcripts found that property executives managing complex commercial property portfolios expressed strong criticisms of the way valuers approached valuations. However respondents managing less complex assets such as industrial properties or specialised property assets were more supportive.

The issue of subjectivity, or as described by one respondent as the "discrepancy in the view of the value,..." was identified by each of the respondents. Subjectivity may lead to the valuer and client negotiating the final valuation outcome and thus influencing the reported value. Respondents indicated that subjectivity was particularly evident in markets with a small number of transactions (or in some cases none) of similar properties.

It was evident from the interviews with experienced clients that they all possessed the ability through their expertise and experience to influence valuation outcomes. Another form of power identified was information power which is discussed in the following section.

7.4.2 Information power
From the interpretation of the interviews with valuers (see Chapter 6) and clients it was evident that valuers often rely on their clients for information. All seven clients interviewed possess a considerable amount of information relating to their property portfolios. In a number of cases they also have access to market information not readily available to the valuer. The client therefore has the opportunity to provide information they consider relevant to the valuer which may in turn influence their valuation outcome. The information they are able to provide the valuer may relate specifically to the buildings in their own portfolio and also to the investment market more generally. For example one respondent suggested a typical valuer's dialogue as follows:

"we weren't aware of that deal" ,

or

"that changes our market understanding. OK, that means that the growth is higher or that market rent is actually higher for the building".
Providing valuers with this type of information may encourage them to increase the valuation figure from the one in the original draft valuation.

As discussed previously most of the clients interviewed were keen to record values for their properties that were in their opinion as accurate and realistic as possible. In order to achieve this, the clients interviewed advised that they would pass on as much information as possible relating to their buildings and the market to their valuer. They indicated that it was not uncommon for valuers to be given full access to files relating to a client's portfolio including copies of all previous valuations and sale and purchase agreements. Some respondents, however, felt that unlimited access to all information could bias the valuation and thus they chose to hold back certain information. One respondent confirmed that he does not disclose to the valuer the complete property "game plan", including intentions to sell as they did not wish the valuer to be influenced by such information.

The specific information that clients supplied their valuers was varied and a list can be found in Figure 7.4. This suggests that the amount and type of information supplied by the client to the valuer may vary considerably between different clients, for example one respondent that was keen on sharing as much information as possible with his valuer was of the opinion that the more information shared with the valuer the more accurate the estimate of market value would be. He summarised this by saying "I think in general, they (valuers) (do make a good job in estimating market value), I think it's certainly affected by how helpful you are to them in sharing either your market knowledge, specific knowledge of transactions or things like that ... I guess it is just a disclosure thing ..."

This approach was endorsed by another client who suggested that his organisation would give the valuer:

"everything we can",

he also stated that they

"wouldn't resist giving them information about any of our particular properties",

and he was of the opinion that

"...everyone gains from sharing experiences and views. I mean the valuers will also say "hey we don't know everything, I mean, ... they are always ringing me asking me my thoughts on what's happening ... it's a sharing of information ... it's an equal dialogue, I mean I'd be amazed, if people just sort of say, "hey, here are the keys go and have a look and just write a valuation and you know, then that's a very passive involvement .. to me, but perhaps their motivation might be quite different... "

207
Conceptualising the Influence of Clients on Valuations

Generally, however, respondents indicated that formally they would only supply information specific to the buildings being valued by the valuer:

"...I make up a list of information that specifically relates to the property, I do all that sort of thing, and then forward all that information that specifically relates to the property, I do all that sort of thing, and then forward all that information in the form of an instruction ..."

Another respondent suggested that not only would they only supply information relating to the specific property to the valuer on a formal basis but they chose only to:

"...supply all the tenancy schedule information and operating expense information and that is the only information that we supply them; they make all the other assumptions with respect to capex, leasing up, market rents, growth rates, probably about all other valuation assumptions and ... then they would generally, based on our history with them, take about three weeks to churn out a draft.."

In addition to specific market information, respondents also indicated that on a more informal basis they would be prepared to supply market-oriented information. As one respondent explained:

"... I wouldn't say that we don't give them market information; we don't formally give them market information that is their job to come up with the market story for their valuation. We talk about market information, informally as well, we have done this deal and that one is about to happen..."

The sharing of market information was especially prevalent in the larger funds as they were active in the market place and were privy to certain market information outside their portfolio, For example one respondent stated:

"... there has been times where, by virtue of our sort of land holdings in a particular area, we're conscious of a couple of things that are happening or not happening or that have been talked about and we'll typically say to the valuers, "you are aware of this, this and this".

Another respondent representing a large fund saw it as their obligation to educate the market and were thus in the process of organising workshops for valuers to learn about the dynamics of the property market:

"... and from next year onwards we will, with the valuers three months out, sit down with the valuers and have a half day workshop about the market and challenge ideas and talk about ideas, market trends, reasons for a growth view versus another growth view and so forth ... partly as a way, partly as a responsibility for being a big player in the New Zealand market, and make sure that everyone is lifting their game..."
An analysis of the client interviews also uncovered situations where the client relied more heavily on the valuer for market information, for example when a client is considering a new acquisition, one respondent identified the difference between a valuation of a potential acquisition as compared with an existing investment:

"...if it's a new property then we don't know as much about it and therefore we probably want the valuer to help us a lot more. I mean if it's an existing asset, potentially we know much more about the lease structure than they do."

From this analysis it was clear that the client has the capacity to give the valuer as little or as much information as they deem necessary. By supplying or withholding information relating to their specific buildings or market information not readily accessible to the valuer, the client has the ability to influence valuation outcomes. The opportunity to influence a valuation outcome is therefore provided as part of the valuation process and this will be discussed further in Section 7.5. In addition to information power the client also has the potential to use coercive and reward power to influence valuations, the next section considers this further.

**FIGURE 7.4 SPECIFIC INFORMATION SUPPLIED BY THE CLIENT AS RECORDED IN INTERVIEWS**

<table>
<thead>
<tr>
<th>Formal Information</th>
<th>C1</th>
<th>C2</th>
<th>C3</th>
<th>C4</th>
<th>C5</th>
<th>C6</th>
<th>C7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement to lease</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anomalies in the lease</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average vacancy rate for portfolio</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book values</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Booklet on BOMA measured areas</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building information</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure known and/or budgets</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes to rental or physical changes</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Construction costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Contact names and numbers of property and business managers</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract rentals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
7.4.3 Reward and coercive power

The interpretation of the data collected from the valuer and client interviews highlight the potential for clients to use reward and coercive power. The clients interviewed all represented companies that controlled substantial property portfolios and were thus in a position to provide valuers with a large amount of income over a number of years. It is conceivable that (as discussed in Chapter 6) that some valuers could be tempted to report values in order please their client to ensure future instructions. The clients interviewed did report specific cases where they had made decisions not to renew a valuer’s contract due to their “non-commercial” approach, for example refusal to use discounted cash flow analysis. They also described occasions where they stopped using a valuer because they considered the quality of their work to be sub-standard. An important feature of reward and coercive power is that the client may possess this power without actively yielding it. For example the potential of further work
Conceptualising the Influence of Clients on Valuations

for a client may be all that is required for a client to influence the preparation of a valuation report by a valuer reporting a value they believe will satisfy a client.

Fee scales did not seem to be a major issue in the Auckland market at the time of this investigation. It seems that valuers were aware of the competition from other valuation companies and were "pretty realistic" in their fee quotations. It should be noted however, that respondents gave examples of the quality and accuracy of valuations being adversely affected if fees were negotiated too hard. A valuer agreeing to carry out a valuation for too little remuneration could force a valuer to spend less time on researching and carrying out the valuation or alternatively employing a junior valuer to do much of the work. One respondent noted:

"... if you negotiate the fees down too much it affects the time ... and their attitude towards the effort they put into it ..."

Respondents also indicated that the amount of coercive influence may be affected by the purpose of the valuation. They suggested that it may be particularly prevalent where clients are involved in lease negotiations, purchasing or selling a building, or requiring a favourable valuation for borrowing purposes. As found in the analysis of the valuer interviews, clients suggested that developers (rather than funds) requiring finance, placed substantial pressure on valuers to value properties at an inflated rate.

The types of clients interviewed were all from large organisations and thus had the ability to supply valuers with a considerable amount of work. The evidence from the interviews suggests that valuers may be aware of such power and would be keen if possible to report values that were acceptable to the client. In addition to information power, reward and coercive power, the client interviews set out clearly the potential for a client to exercise procedural power. This is discussed further in the following section.

7.4.4 Procedural power
The evidence for procedural power as a means of influencing valuations was a major theme throughout all client interviews. Respondents indicated that within the New Zealand commercial environment, this procedural power took the form of the close control that clients have over the entire valuation process, especially in the context of annual valuations. This control generates a wide variety of opportunities for client influence and allows for the deployment of expert power and information power. It seems likely that procedural power may exist at an intra-valuer level where the client has the ability to influence the valuer personally, and may also exist on an inter-valuer level where the client influences the whole valuation process, including such decisions as the choice of valuer, the type and amount of information made available to the valuer, the regularity of valuations, the date of the valuation and whether to include a peer review process.
Procedural power is unique amongst the type of power that clients have to influence valuations as it does not exist only as a means of influence, but its existence also has the ability to create opportunities for clients to apply the power that they possess. Section 7.5 examines more closely these opportunities and how they may influence the outcome of a valuation report.

In summary, in order for a client to influence a valuation outcome, they require an incentive to influence and the power to influence. This section summarised the types of power that clients have to influence valuation outcomes. Information power, expert power and reward and coercive power were all included in Figure 6.3 in the previous chapter, as the types of influence clients can place on valuers. Procedural power, however, was not explicitly mentioned. Further examination indicates that this type of power was implicit in areas related to the valuation process and client instructions. The next section now examines the valuation process from the viewpoint of the clients interviewed, within the context of creating opportunities for clients to exert their power on valuation outcomes.

7.5 OPPORTUNITIES CLIENTS HAVE TO EXERT POWER

As discussed in previous sections, three elements need to be present before a client can influence valuation outcomes. These are incentives to influence, the power to influence and finally the opportunity to influence. In many cases the incentive for a client to influence valuation decisions comes from a concern to ensure market transparency, consistency and accurate and realistic valuations. The powers they may use include expert power, information power, reward and coercive power. Procedural power within the context of the client interviews was closely associated with the client's ability to control the valuation process. This control can create an opportunity for client influence. The next section discusses in detail the mechanics of the valuation process and the specific opportunities it creates for client influence as revealed from the client interviews.

7.5.1 The valuation process

All respondents discussed their role in the valuation process and from these discussions it was evident that a number of stages in the valuation process created opportunities for client influence. These stages can be categorised as follows:

i. The timing of the valuation, choice and number of valuers and term of contract
ii. Pre-valuation meeting
iii. Fee negotiation
iv. Instruction process
v. Informal discussions
vi. Supply of information by client
vii. Completion of the draft report by the valuer
viii. Submission of a draft valuation report by the valuer
ix. Draft valuation review
Conceptualising the Influence of Clients on Valuations

x. Draft valuation review meeting
xi. Resubmitted draft report by the valuer
xii. Final agreed valuation submitted

Figure 7.5 lists each of these stages together with a brief description. A discussion of each of these processes together with comments on the vulnerability of each stage to client influence follows.

**FIGURE 7.5 A TYPICAL VALUATION PROCESS AS DETERMINED BY CLIENT INTERVIEWS**

<table>
<thead>
<tr>
<th>Steps to the process</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>i The timing of the valuation, choice and number of valuers and term of contract</td>
<td>Influenced by competence, past experience, acceptance by banks and rotational requirements. Can also be influenced by external requirements of banks or other lending institutions.</td>
</tr>
<tr>
<td>ii Pre-valuation meeting</td>
<td>Find out valuers view on the market, discuss valuation and market trends, discuss changes from previous years. Share views on the market.</td>
</tr>
<tr>
<td>iii Fee negotiation</td>
<td>Fee negotiation is normally carried out after the pre-valuation meeting and before the instruction process. There was evidence however that fee negotiation could form part of the pre-valuation meeting or be carried out after the instruction stage. At the time interviews were carried out the fees being proposed by valuers were seen as reasonable by clients.</td>
</tr>
<tr>
<td>iv Instruction process</td>
<td>No standard instruction process; can range from a simple letter of instruction which will include the date of the valuation, the delivery date to more complex documentation.</td>
</tr>
<tr>
<td>v Informal discussions</td>
<td>May be used as an opportunity to disseminate information to the valuer about the quality and performance of property assets.</td>
</tr>
<tr>
<td>vi Supply of information by client</td>
<td>Range of information may be supplied (see previous section) ranging from tenancy schedules and operating expenses to more complete information. Valuer may inspect files in the client’s office.</td>
</tr>
<tr>
<td>vii Completion of the draft report by the valuer</td>
<td>The client will specify how long the valuer has to submit their draft report. Interviews suggest that a typical time period would be approximately four weeks.</td>
</tr>
<tr>
<td>viii Submission of draft valuation by the valuer</td>
<td>Report submitted to client responsible for valuation process. The information to be included in the draft valuation will be prescribed by the client.</td>
</tr>
<tr>
<td>ix Draft valuation review</td>
<td>Draft valuation will be reviewed by the client in order to verify, check for accuracy, and test for assumptions. The number of people involved in the review will depend on each client company.</td>
</tr>
<tr>
<td>x Draft valuation review meeting</td>
<td>Meeting will in many cases take place between experts within the client’s company and the valuers involved in the valuation to rigorously go through the client’s review of the valuation and point out any mistakes or areas where the client disagrees with the valuation report. The client may advise of additional information to support their view.</td>
</tr>
<tr>
<td>xi Resubmission of the draft report by the valuer</td>
<td>Checked again by client.</td>
</tr>
<tr>
<td>xii Final agreed valuation submitted</td>
<td>Signed off by client.</td>
</tr>
</tbody>
</table>
Stage 1, as illustrated in Figure 7.5 clearly identifies the number of decisions a client is required to make even before the formal commencement of the valuation process. These can be summarised as:

i. the choice and number of valuers;
ii. timing of the valuation; and
iii. the terms of their contract.

The client in most cases has complete control over all of these decisions (unless the bank or lender specifies an approved valuer).

As discussed previously there were a number of reasons for a client's choice of valuer. The most common basis for choice, as determined from the interviews, is that clients would only instruct valuers that they considered had expert knowledge, their respect and independence. One respondent explained their choice of valuer was made primarily because they were the:

"best for the market and that means genuinely understanding the market and giving ...
the highest level of accuracy ...".

Other choices could be affected by historical reasons. For example, one respondent explained that they would instruct their valuers because:

"they're people that we're comfortable with".

In addition to this, analysis of the interviews indicated that clients had a clear view as to how they considered valuations should be undertaken. They would therefore be inclined to instruct a valuer that they perceived as competent in the use of the methodology that they believed had the ability to accurately reflect market conditions. This was illustrated by one client proclaiming that "evidence-based valuations" were "absolutely inappropriate". He therefore felt that it was "... very important to look at the future value" and was insistent that any valuer they commissioned had to be competent in the application of discounted cash flow analysis. The ability of the client to instruct a valuer to use a specific methodology when undertaking a valuation implies that they have the opportunity to directly influence the valuation process and thus the valuation outcome. There was also evidence that they may indirectly influence the outcome in circumstances where valuers who are aware of a client's preference may alter their valuation approach.

Clients control the choice of valuer and the terms of their contract. They also have the opportunity to determine whether to instruct them on a rotational basis. All but one of the respondents chose to rotate their valuers on a two or three yearly cycle. For example one client stressed that:

"... a valuation has to be done by a different valuer once every three years; you can only have the same valuer two years in a row doing the same property ..."
For some clients the rotation of valuers was undertaken voluntarily, but for others there was a statutory obligation under their Trust Deed. Clients that have rotated valuers on a regular basis believe that this practice has resulted in enhanced market transparency and a reduction in the likelihood of a valuer defending historic values. One respondent expressed the opinion that if valuers are instructed for more than two consecutive years then the valuer:

"... won't respond quickly to a falling market; they sort of feel a moral obligation to support an historical valuation and defend it...."

A conflicting opinion voiced by one respondent was that a change of valuer would only lead to inconsistencies and adversely affect market credibility. He summed his view up as follows:

"...if we change valuers, there will be suspicion as to why..."

An interpretation of the interviews also indicated that clients have flexibility in determining the specific timing of their valuations. For example one respondent noted that

"... in the trust deed we have to value every 18 months and we have decided to do it annually, ... and roll it six monthly..."

In addition to this respondents also advised that they had the ability to influence the:

"valuation pattern of a property portfolio".

For example one respondent suggested that:

"... if a lease deal is concluded or if you spend a whole bunch of capital expenditure on a building in say March, we might put it up for valuation in May to realise or balance what's in the book versus what is showing as it's last valuation ..."

Not only do clients have control over the pre-valuation process, in the majority of cases they also have, the ability to decide on the number of valuers and or valuation firms they would instruct to carry out their valuations each year. One respondent advised that they "have a panel of four valuers" and they instruct them "every 12 months on each property...". Another respondent advised that they have a panel of:

"three at present ... we try and get a reasonable spread so that we're not getting one firm being pre-eminent in one particular area."

As previously indicated it was important for clients to commission only valuers "acceptable" to the market and to the banks to ensure the market credibility of the fund. At the time of the interviews, respondents highlighted that there was only a small pool of valuers that they were able to draw from, and these tended to be those employed by international multi-disciplinary companies. Respondents also emphasised the importance of commissioning only valuers who they perceived as competent. To assist in determining their choice of valuer, the clients interviewed commonly accessed a wide
selection of valuation reports compiled by a variety of valuers and valuation firms. Access to these reports was used as a means to assess the competency of individual valuers and valuation firms and thus assisted in the choice of valuer to be instructed by each fund.

Before officially instructing a valuer to value a portfolio it is common for the client to set up a "pre-valuation" meeting to discuss valuation issues with the valuer they intend to instruct. This stage in the valuation process permits the client to "sit down and meet with them" and "talk about all the properties". The pre-valuation meeting creates an opportunity for a client to share their views, information and opinions which may influence a valuers' perception of a property or property market. In addition to this many of the valuers have a long term relationship with their client and are aware of their client's preferences and perceptions as to how valuations should be undertaken and how much their portfolio is worth:

"...we're continually talking to them ... during the year and discussing with them ... maybe things that we're looking at doing in particular buildings and what their views on the impact would be."

The next stage identified by all respondents in the valuation process was the negotiation of fees. These negotiations may form part of the pre-valuation meeting or may be negotiated separately. One respondent advised that they negotiate the fees after the instruction stage where they will:

"...ask for quotes from the valuer ..., and once they provide their quotes, if they are acceptable to us, then we will go ahead with the valuation ..."

Respondents indicated that at the time of the interviews valuers' fee quotes were:

"competitive and reasonable"...fees don't matter that much, fees have come down ... over the last five or ten years..."

They suggested that on the whole clients do not make a choice "...simply because of the quote" and in many cases the valuer knows they are going to get the job anyway and when asked for a quote:

'... they know they've got to do the right thing and keep it reasonably competitive..."

Respondents were also of the opinion that negotiating the fees too low could result in a substandard valuation being completed:

"...if you negotiate the fees down too much it affects the time ... and their attitude towards the effort they put into it ... "

After fees have been agreed upon, the more formal stage of the valuation process is activated. Responses from the clients give no indication of the existence of a "standard letter of instruction" for annual valuations or other types of valuation. The formality of the instruction process varies greatly between companies, with one respondent confirming that they
"...don't actually have a form or a bit of paper".

When they instruct a valuer they just:

"sit down ... it's reasonably informal, but ... we know the valuers and they work with us frequently ... we obviously identify the property and we are asking them to look at it's potential growth, share with them the whole situation, we just try and tell them everything there is about it and discuss the dynamics of the market".

This approach to a valuation again allows the client to use expert and information power to influence individual valuers as to their opinion of the market. The lack of uniformity in the instruction process between different clients creates the opportunity for the client to stipulate their own preferences, for example as already discussed it permits instructions to include a specific valuation methodology. One client stated that they don't

"believe you need to go to the effort of discounted cash flow analysis on a simple industrial, on an apparently simple building that's got some complications we may specifically request that method is used ."

The lack of a standard instruction process permits clients to instruct valuers to include their own specific assumptions in the valuation report. The interviews for example identified situations where a client may insist on the inclusion of disposal costs and a defined marketing period. The amount and type of information disclosed by the client to the valuer may also vary considerable between clients. Some clients may choose to divulge a wide range of data including sensitive information pertaining to potential deals and calculations such as average vacancy rates, whereas other clients provide the bare minimum of information.

Once the instruction process has been completed, all respondents advised that the next step in the standard valuation process is the submission a copy of a draft report for review by the client. The client will stipulate as part of their instruction:

"the date (they) need the draft by or draft figures and the date they need the final report".

Typically the timescale is approximately one month.

Interviews with both valuers and clients indicate that the submission of a draft report by a valuer to a client is common practice in the New Zealand environment (and also in the UK, see Baum et al 2000). Evidence from the interviews suggests that this stage of the valuation process is not only vulnerable to client influence, but in reality encourages clients to influence reported values. Analysis of the interviews suggests that submission and review of the draft report by the sophisticated clients interviewed, comprises an extensive exercise with the client seeking explanations on all assumptions
and the checking of all figures for any discrepancies or inaccuracies. Many respondents maintained that above all, they were seeking any inconsistencies within individual properties and also inconsistencies across their portfolio. They also emphasised that it was not their intention to change the valuation or "influence the outcome" but that they considered the review process as an opportunity to pick up any factual errors in the report. One client stated that they did not believe that checking the report was:

"... a process where you look to challenge the number, but it is more to review information accuracy and methodological accuracy".

A number of respondents saw the submission of the draft report as an important information gathering exercise which enabled them to "justify" their valuation if necessary.

It was evident that the draft valuation review process is taken extremely seriously by all respondents, and that as part of the review all areas of the valuation report come under close scrutiny by the client. The valuer is therefore placed in a position where they must be able to justify all aspects of their report. For example, one client who invested considerable resources in the process advised that three property experts on their team would be responsible for checking different aspects of the valuation as part of the review; the:

"executive manager would look at the valuation process, methodology applied and ... valuation style...", whereas the " ... asset manager would look for data verification to ensure that all sets of current expenses have been captured by the valuation process for the specific asset ..." and a "property analyst" who is also an "expert valuer in his own right check for much the same sort of things, process, methodology, technical competency..."

The level of expertise and resources that a client invests into the review process has the capacity to influence a valuer to change their views and thus change the final valuation outcome. One client advised that in general they would have between 25 and 30 properties being valued at one time and approximately a quarter to a half of them would be adjusted during the review process. Another client described a situation where they believed the valuer had taken the wrong approach when valuing a particular asset. After discussions about the methodology adopted for a particular valuation the valuer admitted that:

"... wow we never thought of it like that, we don't think like that, we go to the market for comparables...".

In this case the respondent did concede that their input could be described as influence:

"...Perhaps it is influence, it is that kind of machination of valuation ideas, approach and styles that we discuss with our valuers in the process of the valuation exercise. .."
Once the draft valuation has been reviewed by the client, the valuer will make any changes that they consider appropriate and then this will lead to a final sign off by the valuer and client.

In summary, it was evident that the valuation process creates a variety of opportunities for a client to influence valuation outcomes. This was especially the case for sophisticated clients who have the ability to use their expertise and information power to influence their valuer's reported value. The total control that the client has over the valuation process and their ability to review the draft valuation are significant factors in permitting such influence. An analysis of the interview transcripts has permitted an in-depth understanding of the incentives, power and opportunities clients have to influence the valuation process. This understanding provides important insights into valuer and client behaviour in the decision-making process surrounding the production of valuation reports. The outcome of this analysis assists in revising the framework of client influence as set out in Chapter 6 to better reflect the factors of client influence as reported by both clients and valuers. In order to compile the updated framework a comparative study was undertaken between the findings of the valuer and client interviews. This study is set out in the flowing sections.

7.6 COMPARATIVE ANALYSIS OF VALUER AND CLIENT INTERVIEWS

In order to accurately reflect the factors affecting client influence as reported by both experienced valuers and sophisticated clients a comparative study was undertaken to revise the framework as set out in Figure 6.3. The following discussion presents the analysis under the headings as set out in Chapter 6 as follows:

Section 7.6.1 client pressure and influence
Section 7.6.2 client characteristics
Section 7.6.3 purpose of the valuation
Section 7.6.4 valuation process
Section 7.6.5 valuer characteristics
Section 7.6.6 valuation firm characteristics
Section 7.6.7 valuation issues
Section 7.6.8 client relationship, and
Section 7.6.9 external pressures

7.6.1 Client pressure and influence
As outlined in Chapter 6, the valuer interviews identified eight discrete areas of client influence. These were described as client expectations, information power, expert influence, badgering, coercive power, reward power, client instructions and general influence. All these pressures were also identified by the clients interviewed. In addition to this, as discussed in the previous section, an interpretation of the data from the client interviews further categorised these areas of influence into: client incentives, client power and client opportunities affecting valuation outcomes.
Client expectations were categorised as an incentive to influence valuation whereas information power, expert influence, badgering, coercive and reward power were categorised as powers a client may have to influence valuation outcomes. Client instructions were categorised both as a type of power a client may exert under the category of procedural power and also as part of the opportunities created by the valuation process. To reflect this in the revised framework, client instructions have been included under the heading of "the valuation process".

Another difference between both sets of interviews was that the clients, because of their personal experiences, concentrated almost exclusively on the valuation process for large property investment organisations and thus information power and expert power were perceived as having much more prevalence than other forms of power. This is discussed at length in the following sections. A summary of the comparative analysis of client pressure/influence between the valuer interviews and client and valuer interviews is provided in Figure 7.6.

**FIGURE 7.6  COMPARATIVE ANALYSIS OF CLIENT PRESSURE/INFLUENCE BETWEEN VALUER INTERVIEWS AND COMBINED VALUER AND CLIENT INTERVIEWS**

<table>
<thead>
<tr>
<th>CLIENT PRESSURE/INFLUENCE</th>
<th>Revised from valuer interviews</th>
<th>Revised from valuer and client interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client expectations</td>
<td>Client expectations</td>
<td>Client incentives</td>
</tr>
<tr>
<td>Information power</td>
<td>Information power</td>
<td>Client incentives</td>
</tr>
<tr>
<td>Expert power</td>
<td>Expert power</td>
<td>Coercive power</td>
</tr>
<tr>
<td>Badgering</td>
<td>Badgering</td>
<td>Reward power</td>
</tr>
<tr>
<td>Coercive power</td>
<td>Coercive power</td>
<td>Procedural power</td>
</tr>
<tr>
<td>Reward power</td>
<td>Reward power</td>
<td></td>
</tr>
<tr>
<td>Client instructions</td>
<td>(now included in &quot;valuation process&quot;)</td>
<td></td>
</tr>
<tr>
<td>General influence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 7.6.2 Client Characteristics

The next area identified by valuers in their interviews related to the characteristics of the client. Valuers identified a number of categories of clients with an ability to influence valuations in a number of ways. As previously stated the sample of clients for the second set of interviews was exclusively "sophisticated clients" as defined in Chapter 6.

The evidence set out in the forthcoming sections gives further credence to the findings related to sophisticated clients from Chapter 6. Clients in many cases felt that they had as much if not more knowledge than the valuers they instruct and they therefore utilise expert and information power to influence the valuation outcome. The respondents interviewed also displayed the traits of an ethical client when they expressed their intention of ensuring that the valuer produced an accurate and credible valuation outcome.

Although the client interviews concentrated exclusively on the sophisticated client, there was no indication that the interpretation of the different types of clients highlighted by the valuer interviews
was not a true reflection of the factors that affect the amount and type of client pressure placed on valuers to change valuation outcomes. There was therefore no evidence to revise the framework for these factors as shown in Figure 7.7.

FIGURE 7.7 COMPARATIVE ANALYSIS OF TYPE OF CLIENT BETWEEN VALUER INTERVIEWS AND COMBINED VALUER AND CLIENT INTERVIEWS

<table>
<thead>
<tr>
<th>TYPE OF CLIENT</th>
<th>Revised from valuer interviews</th>
<th>Revised from valuer and client interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sophisticated</td>
<td>Revised from valuer interviews</td>
<td>Revised from valuer and client interviews</td>
</tr>
<tr>
<td>Unsophisticated</td>
<td>Revised from valuer interviews</td>
<td>Revised from valuer and client interviews</td>
</tr>
<tr>
<td>Client remuneration method</td>
<td>Bank</td>
<td>Bank</td>
</tr>
<tr>
<td>Bank</td>
<td>Size of client</td>
<td>Size of client</td>
</tr>
<tr>
<td>Distressed client</td>
<td>Ethical client</td>
<td>Ethical client</td>
</tr>
<tr>
<td>Unethical client</td>
<td>Unethical client</td>
<td>Unethical client</td>
</tr>
</tbody>
</table>

7.6.3 The purpose of a valuation

As discussed in Chapter 6 all the valuers interviewed identified the purpose of the valuation as being a key determinant as to how a valuation would be approached by both the valuer and the client. The transcripts pertaining to the client interviews tended to concentrate their discussions on valuation for reporting purposes. They did suggest however, that valuations commissioned to support anticipated property acquisitions and sales could be particularly vulnerable. Valuations surrounding rent reviews and valuations commissioned to enable borrowing were also perceived as potential situations where clients may be encouraged to exert pressure on the valuer. From the comparative analysis of both client and valuer interviews minor revisions have been made to Figure 6.12 as set out in Figure 7.8.

FIGURE 7.8 COMPARATIVE ANALYSIS OF PURPOSE OF VALUATION BETWEEN VALUER INTERVIEWS AND COMBINED VALUER AND CLIENT INTERVIEWS

<table>
<thead>
<tr>
<th>PURPOSE OF VALUATION</th>
<th>Revised from valuer interviews</th>
<th>Revised from valuer and client interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset valuations</td>
<td>Asset valuations</td>
<td>Asset valuations</td>
</tr>
<tr>
<td>Borrowing</td>
<td>Borrowing</td>
<td>Borrowing</td>
</tr>
<tr>
<td>Negotiation</td>
<td>Rent reviews</td>
<td>Rent reviews</td>
</tr>
<tr>
<td></td>
<td>Property acquisitions</td>
<td>Property acquisitions</td>
</tr>
</tbody>
</table>

7.6.4 The valuation process

Both valuer and client interviews identified the valuation process as creating the opportunity for the client to influence valuation outcomes. Such elements as the draft report and client instructions were discussed at length in both sets of interviews. The analysis of the client interviews complemented the findings of the valuer interviews in that they clarified the detailed steps of the valuation process and the specific opportunities for influence. These results were set out in Section 7.3.3. Overall, therefore, the client interviews reflected the findings of the valuer interviews and also provided evidence that the valuation process provides opportunities for client influence. The analysis of the client interviews as set out in Figure 7.9 permitted additions to the framework created from the valuer interviews (Figure
6.3. Supplementary to these additions, the in-depth understanding of the valuation process provided by the client interviews resulted in 'reporting standards' being moved to external pressures and "time pressure" to valuation issues.

FIGURE 7.9 COMPARATIVE ANALYSIS OF THE VALUATION PROCESS BETWEEN VALUER INTERVIEWS AND COMBINED VALUER AND CLIENT INTERVIEWS

<table>
<thead>
<tr>
<th>THE VALUATION PROCESS</th>
<th>Revised from valuer interviews</th>
<th>Revised from valuer and client interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuer rotation</td>
<td>Choice of valuer</td>
<td>Term of contract</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pre-valuation meeting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fee negotiation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Instruction process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Informal discussions</td>
</tr>
<tr>
<td>Valuer rotation</td>
<td>Choice of valuer</td>
<td>Term of contract</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pre-valuation meeting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fee negotiation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Instruction process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Informal discussions</td>
</tr>
<tr>
<td></td>
<td>Independent party</td>
<td>Independent party</td>
</tr>
<tr>
<td></td>
<td>Peer review</td>
<td>Peer review</td>
</tr>
<tr>
<td></td>
<td>Reporting standards</td>
<td>(include under &quot;external pressures&quot;)</td>
</tr>
<tr>
<td></td>
<td>Quality control</td>
<td>Quality control</td>
</tr>
<tr>
<td></td>
<td>Time pressure</td>
<td>(include under &quot;valuation issues&quot;)</td>
</tr>
</tbody>
</table>

7.6.5 Valuer characteristics

A number of the issues surrounding valuer characteristics highlighted in the valuer interviews were also discussed by the clients. Clients were keen to report accurate and consistent valuations which were credible in the market place. They were thus reluctant to instruct a valuer who did not possess a good reputation in the market. One client suggested that valuers did exist that could be too easily influenced and this led to their valuations being unreliable. He and other client respondents advised that they would not instruct valuers who they perceived to be "unethical" or "flexible". One client suggested that unethical valuers are not "mainstream" and thus don't tend to be on bank panels. He suggested that these companies tend to work more in the "bottom end of the market with inexperienced players".

The amount and type of valuer experience was specifically noted by one client, who perceived that the more experienced valuers are able to network more effectively and thus are aware as to what is happening in the market. The clients interviewed did not, however, comment on the relationship between valuer experience and vulnerability to client influence.

A number of clients suggested that the market was aware of valuers that valued "conservatively" and clients that were looking to purchase a property would tend to be attracted to them. One respondent summed up the situation as follows:
"...you know if you want a high figure you go to 'valuer A' and if you want a low figure you go to 'valuer B', I mean they play those games. I try to get someone who is accurate."

In addition to this another client suggested that the most 'conservative' valuers come from the larger firms who are dealing with "the larger properties". They were not sure why they tended to be more conservative but speculated that it might be because they tend to value larger scale properties and: "the larger a property they have got to take more of a conservative view".

The method in which a valuer may be remunerated was not identified as an issue in the client interviews. This may be because sophisticated clients tend to instruct valuers who work for the larger firms that pay their staff essentially a straight salary and, as suggested by the valuer interviews, would be less likely to be influenced by the prospect of getting a fee.

In summary, the results of the client interviews did not contradict the outcome of the valuer interviews. It was evident that clients were aware of unethical valuers in the market place that could be influenced by the client. They also were also aware of valuers that could be approached to undertake an optimistic or conservative valuation. There was a suggestion that the more conservative valuers worked for the larger valuation practices. The outcome of the comparative analysis between the outcome of the valuer and client interviews can be found in Figure 7.10.

**FIGURE 7.10 COMPARATIVE ANALYSIS OF VALUER CHARACTERISTICS BETWEEN VALUER INTERVIEWS AND COMBINED VALUER AND CLIENT INTERVIEWS**

<table>
<thead>
<tr>
<th>VALUER CHARACTERISTICS</th>
<th>Revised from valuer interviews</th>
<th>Revised from valuer and client interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td></td>
<td>Level of integrity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ease of influence</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td>Amount and type of experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expertise/competence</td>
</tr>
<tr>
<td>Experience/expertise</td>
<td></td>
<td>Optimistic vs pessimistic</td>
</tr>
<tr>
<td>Remuneration methods</td>
<td></td>
<td>Remuneration methods</td>
</tr>
<tr>
<td>Perception as to valuer's role</td>
<td></td>
<td>Perception as to valuer's role</td>
</tr>
<tr>
<td>Specialisation</td>
<td></td>
<td>Specialisation</td>
</tr>
</tbody>
</table>

### 7.6.6 Valuation firm characteristics

A number of the clients interviewed indicated that the size of a valuation firm may determine the quality of their work. The main thrust of this argument was that larger firms had substantial research capabilities and thus had the resources to conduct more accurate and credible valuations. As previously noted all respondents elected to instruct valuers that were perceived as credible in the market place and were acceptable to banks. They also would only instruct valuation practices that could produce accurate and consistent valuations. The companies they tended to favour were the larger international multidisciplinary companies which they believed were perceived as credible from a public perspective. The added attraction of a multi-disciplinary practice was that their valuers tended to
receive information more quickly and accurately from real estate agents. One respondent indicated that they were initially reluctant to instruct multi-disciplinary firms, but they have:

"gravitated almost exclusively now to multi-disciplinary practices and I do think
... they ... get more cross-fertilisation with the dynamics of what's happening "

In summary, from the sample of sophisticated clients, it seems that their choice of valuer is determined by their commitment to accurate and consistent valuations which are credible in the market place. This in turn has resulted in them instructing valuers from the larger multi-disciplinary firms, who may be less likely to be easily influenced. Figure 7.11 sets out a list of revised factors relating to the valuation firm derived from both valuer and client interviews.

**FIGURE 7.11** COMPARATIVE ANALYSIS OF THE VALUATION FIRM CHARACTERISTICS BETWEEN VALUER INTERVIEWS AND COMBINED CLIENT AND VALUER INTERVIEWS

<table>
<thead>
<tr>
<th>Valuation Firm Characteristics</th>
<th>Revised from Valuer Interviews</th>
<th>Revised from Valuer and Client Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of firm</td>
<td>Size of firm</td>
<td></td>
</tr>
<tr>
<td>Multidisciplinary</td>
<td>Multidisciplinary</td>
<td></td>
</tr>
<tr>
<td>Environment (team or individualistic)</td>
<td>Environment (team or individualistic)</td>
<td></td>
</tr>
<tr>
<td>Type of Firm</td>
<td>Type of firm</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Market credibility</td>
<td></td>
</tr>
</tbody>
</table>

7.6.7 Valuation issues

Another factor that the interpretation of the valuer interviews identified as having the potential to affect the degree of influence a client can place over a valuer, relates to valuation issues. Valuation issues identified by the valuers interviewed, as set out in Chapter 6, included methodology, standard and thoroughness, range of values, previous valuations, type of building/complexity of the valuation, contract price, definition of market value, time pressure, and subjectivity/opinion. The responses from the client interviews are now examined in the context of these initial findings.

The valuers interviewed indicated that the use of different methodologies to produce a valuation can result in different valuation outcomes. Therefore if a client as part of their instruction brief stipulates a preferred methodology then they are influencing the valuation outcome. From the client interviews it was evident that sophisticated clients in many cases have a preferred methodology and have the opportunity both informally and formally through the valuation process to stipulate the methodology to be used by the valuer. As discussed in section 7.6 these opportunities exist initially through the instruction and pre-valuation process and again in the negotiation of the draft report.

The interpretation of the data provided by the valuer interviews also indicates that the standard and thoroughness of a valuation report can affect the amount of influence a client can exert over a valuer. The more expertise and research a valuer has undertaken the less vulnerable they will be to client
influence. As discussed previously a client has the opportunity to exercise both expert and information power over the valuer throughout the valuation process and if the valuer is inexperienced or has not undertaken thorough research they are vulnerable to the influence of the client. This is particularly evident in the context of a sophisticated client who has the ability to use their expertise and information in an attempt to influence the valuation outcome.

Valuers, as described in the previous chapter, indicated that the concept of a range of defensible values as a major factor offering opportunity for client influence. The interpretation of the client interviews also described the subjectivity associated with property valuation and the difficulty in defining pinpoint values. As with the valuers, clients did not perceive valuation as an exact science and suggested that a range of values normally exists for a property.

The definition of market value in an attempt to determine the sale price between a willing buyer and willing seller, reflects the subjectivity of valuations. One client explained that buyers are individual people who each have a subjective view of what a property is worth and it is therefore highly unlikely that they would come up with the same figure even under the same terms and conditions.

The interviews of both the clients and valuers confirm the subjectivity of valuations and the existence of a range of values. Clients explained, however, that they were under an obligation for reporting purposes to determine a pinpoint value for a property, as two of the clients interviewed explained:

"It's a case of having to come up with a pinpoint value for setting unit prices".

and that:

"publishing a range of values does not work; everyone needs a single figure".

For certain purposes however, clients may instruct a valuer to supply a range of values:

"Our valuers place a pinpoint value on a property, but for acquisitions they may supply a range of values, but these have to be quite tight".

The analysis of both valuer and client interviews suggest that a valuer acting professionally will only report within a range of "acceptable" values, which could be determined by their client's requirements:

"particularly in the case of rent reviews".

It should also be noted that both valuer and client interviews suggest that the more complex the property the more difficult it is to identify a pinpoint value.

As previously noted the clients interviewed indicated that a prior valuation carried out on a property may affect a subsequent valuation; this result was also found in the interpretation of the client
Conceptualising the Influence of Clients on Valuations

interviews. In order to reduce this effect, all but one of the clients interviewed implemented a policy of valuer rotation, with no property being valued by the same valuer for more than two years.

The interpretation of the data from the valuer interviews concluded that more complex valuations increased the opportunity for clients to provide the valuer with information and expertise and thus exert information power. In addition to this valuers would also be susceptible to expert power. The interviews with sophisticated clients also provided strong evidence that the more complex a valuation the more information a client has and the more they can choose to supply the valuer.

An analysis of the valuer interviews also concluded that a valuer's knowledge of a contract price could affect the outcome of a valuation. From the interviews with clients, it was apparent that the disclosure or nondisclosure of such information was very much at the discretion of the individual client and could thus constitute information power which in turn could affect the valuation outcome.

The term market value as already discussed is perceived by both clients and valuers as subjective and thus the interpretation by different market players may vary. A definition of market value was not specifically considered in the interviews with clients. Concepts associated with fair market value such as a realistic marketing period or a realistic marketing budget were identified as issues that could be negotiated between valuer and client. As with valuer interviews, there was an element of uncertainty in how the term market value should be determined and thus this uncertainty provides opportunities for a client to influence the final valuation outcome.

Non-technical factors were also identified by valuers as being influential in the valuation of properties, for example providing evidence as to a rising market. The sophisticated clients interviewed were active players in the property market and therefore had the ability to provide market information which in turn could influence valuation outcomes. The interpretation of the data attained from the client interviews suggests that all respondents had a long term involvement with their client and thus the opportunity to discuss market conditions was likely. In addition to this the standard valuation process as described by clients (Figure 7.5) includes a pre-valuation meeting where clients and valuers have the opportunity to exchange views on the market and other issues surrounding the valuation of a property.

Time pressure was another theme identified from an interpretation of valuer interviews and as outlined in the previous chapter, valuers generally acknowledge that it is not appropriate to accept a valuation assignment that places undue time pressures upon them. Although the client interviews did not specifically identify situations where a client would place undue pressure on a valuer to produce a valuation, it was evident that the client has significant control over the valuation process which includes giving instructions to clients as to the dates that the draft and final valuations should be completed. This control offers the opportunity to the client to place time pressure upon the valuer. This may be further exacerbated if the client provides the valuer with substantial work opportunities and therefore would not wish to disappoint the client or decline the instruction. Figure 6.3 includes “time
pressure" under the general characteristic of "valuation process". However, after an analysis of the client interviews it was concluded that time pressure should be moved to "valuation issues". Finally as set out in section 7.3.5, the interviews revealed the impact of in-house valuations on the incentive the client has to affect valuation outcomes.

In summary, the data interpretation of both valuer and client interviews indicate that a number of valuation issues have the ability to affect the amount and type of client influence on valuation outcomes. The additional information presented from the client interviews indicates that "time pressure" should be included under "valuation issues" together with "non-technical factors", that the standard of valuation should include thoroughness and finally the impact of in-house valuations should be considered. These results are set out in Figure 7.12.

7.6.8 Client relationship

The analysis of the valuer interviews indicated that the nature of the relationship between the client and the valuer could affect valuation outcomes. The three elements with the potential to specifically affect outcomes were trust, respect and the length of the relationship. Each of the clients interviewed emphasised that they only instruct valuers that they classify as being credible and competent. Instructing only valuers they consider credible and competent may restrict the potential influence a client can place on a valuer to influence a valuation outcome. It was also apparent that the majority of the relationships between a sophisticated client and valuer could be defined as trusting relationships which could have the affect of the valuer accepting information provided by the client thus making them more vulnerable to client influence.

All the clients interviewed advised that they have maintained a close, long-term association with their valuers, and described their relationship with their valuer as a "partnership". This relationship in many instances involves daily contact between the client and the valuer which provides plenty of opportunity for the client to express their views to the valuer relating to the value of properties within their portfolios. This could in turn influence a valuer to present a reported value to their client that they know
would be acceptable. Conversely, the valuer may have acquired enough knowledge to build in an adjustment in their draft valuation in anticipation of their client's potential influence.

By combining the results of both sets of interviews it was evident that there were no major discrepancies between the opinions expressed by valuers and clients. The addition of a sub-factor described as the "amount of contact" between the valuer and client was included under the category of client influence to reflect that the more contact the valuer has with the client the more opportunity the client has to present their opinion of the market and the value of their properties. The revised set of factors relating to the client relationship can be found in Figure 7.13.

**FIGURE 7.13 COMPARATIVE ANALYSIS OF THE CLIENT RELATIONSHIP BETWEEN VALUER INTERVIEWS AND COMBINED VALUER AND CLIENT INTERVIEWS**

<table>
<thead>
<tr>
<th>CLIENT RELATIONSHIP</th>
<th>Revised from valuer interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revised from valuer and client interviews</td>
</tr>
<tr>
<td>Trust</td>
<td>Trust</td>
</tr>
<tr>
<td>Respect</td>
<td>Respect</td>
</tr>
<tr>
<td>Type of relationship</td>
<td>Type of relationship</td>
</tr>
<tr>
<td>Length of relationship</td>
<td>Length of relationship</td>
</tr>
<tr>
<td></td>
<td>Amount of contact</td>
</tr>
</tbody>
</table>

### 7.6.9 External pressures

The final set of issues identified by the valuer interviews were "external pressures". These included such factors as the regulatory framework guiding valuation practice, reputation and market credibility, case law, financial reporting standards and market conditions. All these issues were raised by the clients interviewed. Although the regulatory framework was not discussed in any detail by the clients interviewed they acknowledged that the majority of the valuations they commissioned were for statutory purposes. In addition to this the valuations were available for public scrutiny in annual reports and thus they were under pressure to publish "credible and accurate" valuations. A number of clients also indicated that they were obliged to follow reporting standard SSAP 17 which amongst other guidelines requires the valuer to report a pinpoint value for a property rather than a range of values.

Valuer interviews also identified market conditions as having the ability to affect the amount of influence a client can place on a valuer. They identified two areas. Firstly, competition within the valuation market itself; and secondly, market conditions within the property market. The client interviews did imply that there was only a small pool of valuers in New Zealand acceptable to banks with the competency to carry out valuation for the larger commercial property funds. Clients also noted that competitive behaviour between these companies was evident especially in terms of fee quotations. This degree of competitiveness in the valuation market (as identified in the valuer interviews) may have the effect of encouraging a valuer to agree to certain requests from their client. These requests may relate to fee negotiation, the choice of methodology or other issues that valuer may consider important to a client and may provide opportunities for client influence.
Other information collected from clients relating to external pressures suggested that when a new valuer was introduced to value a property on a rotational basis there was the danger that they may act in a way to discredit the previous valuation. Overall however there was evidence that a valuation firm would want to demonstrate to a client that they were competent and that they had the ability to carry out accurate and credible valuations and this in turn could lead to them being influenced by the expert power of the client.

The lack of comparables within a 'quiet' property market was also identified as adding subjectivity to a valuation. This subjectivity could result in a valuer being more vulnerable to client influence not only by a client’s expert power but also information power if they are privy to information not generally available.

The results of the valuer interviews relating to external pressures were endorsed by the client interviews. No additional pressures were identified as shown in Figure 7.14.

**FIGURE 7.14 COMPARATIVE ANALYSIS OF EXTERNAL PRESSURES BETWEEN VALUER INTERVIEWS AND COMBINED VALUER AND CLIENT INTERVIEWS**

<table>
<thead>
<tr>
<th>EXTERNAL PRESSURES</th>
<th>Revised from valuer interviews</th>
<th>Revised from valuer and client interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised from valuer interviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory framework</td>
<td>Regulatory framework</td>
<td></td>
</tr>
<tr>
<td>Market credibility</td>
<td>Market credibility</td>
<td></td>
</tr>
<tr>
<td>Case law</td>
<td>Case law</td>
<td></td>
</tr>
<tr>
<td>Financial reporting standards</td>
<td>Financial reporting standards</td>
<td></td>
</tr>
<tr>
<td>Market conditions</td>
<td>Market conditions</td>
<td></td>
</tr>
</tbody>
</table>

Section 7.6 has demonstrated that when comparing the results of the analysis of both valuer and client interviews no major discrepancies were identified. On the contrary, the client interviews help to endorse the views summarised within the valuer interviews. The perceptions of the clients also helped a deeper understanding of a number of aspects of client influence and these are reflected in Figures 7.10 to 7.14. From these analyses a revised framework of client influence was derived and this can be viewed in Figure 7.15.
Conceptualising the Influence of Clients on Valuations

**FIGURE 7.15 REVISED FRAMEWORK OF FACTORS AFFECTING CLIENT INFLUENCE AS REPORTED BY EXPERIENCED VALUERS AND SOPHISTICATED CLIENTS**

- **Type of client**
  - Sophisticated
  - Unsophisticated
  - Client remuneration method
  - Bank
  - Developer
  - Size of client
  - Distressed client
  - Ethical client
  - Unethical client

- **External Pressures**
  - Regulatory framework
  - Market credibility
  - Case law
  - Financial reporting standards
  - Market condition

- **Valuer traits**
  - Level of integrity
  - Ease of influence
  - Age
  - Amount and type of experience
  - Expertise and competence
  - Optimistic vs. pessimistic
  - Remuneration method
  - Perception as to valuer's role
  - Specialisation

- **Client relationship**
  - Trust
  - Respect
  - Type of relationship
  - Length of relationship
  - Amount of contact

- **Client Pressure/Influence**
  - Client expectations
  - Client incentives
  - Information power
  - Expert power
  - Badgering
  - Coercive power
  - Reward Power
  - Procedural power
  - Amount of influence

- **Valuation process**
  - Client instructions
  - Timing of valuations
  - Choice of valuer
  - Term of contract
  - Pre-valuation meeting
  - Fee negotiation
  - Instruction process
  - Informal discussions
  - Supply of client information
  - Draft report
  - Independent party
  - Peer review

- **Purpose of valuation**
  - Asset valuations
  - Borrowing
  - Rent reviews
  - Property acquisitions

- **Valuation Firm**
  - Size of firm
  - Research capability
  - Multidisciplinary
  - Environment (team or individualistic)
  - Market credibility
  - Type of firm

- **Valuation issues**
  - Methodology
  - Standard and thoroughness
  - Range of values
  - Previous valuation of property
  - Type of building/complexity of the valuation
  - Definition of market value
  - Subjectivity/opinion
  - Knowledge of contract price
  - Non-technical factors
  - Time pressure
  - In-house valuations

230
Conceptualising the influence of Clients on Valuations

**FIGURE 7.16 STEPS IN THE VALUATION PROCESS AND TYPICAL FORMS OF INFLUENCE POTENTIAL**

<table>
<thead>
<tr>
<th>STEPS IN THE VALUATION PROCESS</th>
<th>TYPE OF INFLUENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>The timing of the valuation, choice and number of valuers and term of contract</td>
<td>Procedural</td>
</tr>
<tr>
<td>Pre-valuation meeting</td>
<td>Expert Information</td>
</tr>
<tr>
<td>Fee negotiation</td>
<td>Reward Coercive</td>
</tr>
<tr>
<td>Instruction process</td>
<td>Procedural</td>
</tr>
<tr>
<td>Informal discussions</td>
<td>Expert Information</td>
</tr>
<tr>
<td>Supply of information by client</td>
<td>Expert Information</td>
</tr>
<tr>
<td>Completion of the draft report by the valuer</td>
<td>Procedural</td>
</tr>
<tr>
<td>Submission of draft valuation by the valuer</td>
<td>Expert Information Reward Coercive</td>
</tr>
<tr>
<td>Draft valuation review</td>
<td>Expert Information Reward Coercive</td>
</tr>
<tr>
<td>Draft valuation review meeting</td>
<td>Expert Information Reward Coercive</td>
</tr>
<tr>
<td>Draft reports issued</td>
<td>Expert Information Reward Coercive</td>
</tr>
<tr>
<td>Final valuation report signed off by client and valuer</td>
<td>Expert Information Reward Coercive</td>
</tr>
</tbody>
</table>
Chapters 6 and 7 have described the process and outcomes of Stages 2 and 3 of the research process. They have demonstrated how this process proved effective in generating theory by means of constructing a theoretical framework of client influence as perceived by a number of experienced valuers and clients within the Auckland area. In addition to this, further insights into the valuation process were gained which had not previously been published in academic property literature. In order to ensure the framework and other findings were an accurate reflection of the understanding of the valuation process by experienced clients and valuers, three valuers and three clients were interviewed to determine their feedback on the accuracy of the results. Each of these valuers and clients had in excess of ten years experience in either commissioning or undertaking valuations. The respondents were shown copies of the following figures set out in this study and asked to comment on them:

- Figure 7.3  Client incentives to influence valuation outcomes
- Figure 7.4  Specific information supplied by the client as recorded in client interviews
- Figure 7.5  A typical valuation process as determined by client interviews
- Figure 7.15 Revised framework of factors affecting client influence as reported by experienced valuers and sophisticated clients, and
- Figure 7.16  Steps in the valuation process and typical forms of influence potential

The valuers and clients confirmed that these diagrams and tables accurately reflected their perception of the valuation process and the role of the client in influencing valuation outcomes. One valuer did comment on the lack of conformity between clients as to the amount and type of information supplied to the valuer (Figure 7.4), he confirmed that in his opinion the list was "comprehensive" and explained the importance of the effect of bank requirements on the provision of such information. The valuers also highlighted the influence of the bank on the valuation process and other reporting requirements. The iterative nature of the typical valuation process was also discussed, where a valuer may present draft numbers to a client for comment that are sent back to the valuer. This process could be repeated a number of times.

Another area of clarification provided by the clients interviewed was the effect of insurance indemnity. One client suggested that a valuer working for a large firm with a high amount of personal indemnity insurance may be more prepared to be influenced by a client than another valuer working for a smaller organisation with a lesser indemnity insurance. They also suggested that in more recent times valuers working for larger organisations are tending to become more commercial in their outlook and accepting the subjectivity of valuations within the market. Finally the feedback from valuers suggested that with the expansion of large international property institutions investing in New Zealand, valuers working for international organisations may face pressure from head office outside New Zealand to comply with a client's wishes in order minimise any risk of losing work internationally.
In summary, the feedback from valuers and clients confirmed their agreement with the findings of this study. The feedback process did clarify however that the input of the banks in the valuation process may have been understated. They also suggested that the amount of indemnity insurance held by a valuation firm may affect the amount of influence a client may have on the valuation process. Finally, they highlighted the changing nature of the valuation profession in New Zealand with evidence that valuers working of larger international companies are becoming more commercial in their approach to valuations and also the potential effect of international investors placing pressure on New Zealand valuers by threatening to change service providers overseas. These findings provide an opportunity for further study. Firstly by investigating the valuation process and the ability of a client to influence valuation outcomes from the perspective of bankers and financiers, secondly by looking at the effect of professional indemnity insurance on the valuation process and thirdly by examining the more recent trends in the valuation profession and their effects on potential client influence.

7.8 SUMMARY

The objective of this chapter was to further develop an holistic and deeper understanding of the valuation process and the potential for client influence by clients involved directly in the commissioning of valuations for property funds in New Zealand. The perceptions of these clients have assisted in enhancing the results from the valuer interviews covered in Chapter 6. The results provide a comprehensive understanding of the valuation process and specifically the incentives, power and opportunities clients have to influence valuations.

The results discussed in this chapter suggest that there are a number of specific influences not previously documented in the property literature that appear to have the potential to affect valuation outcomes and the valuations that are ultimately reported to stakeholders. In particular the strong influence the client has over the whole valuation process was uncovered. The main findings of the research suggest that clients possess not only the incentives and the ability to influence valuation outcomes, but the valuation process itself is largely governed by the client and provides opportunities for them to exert their power over the valuer. This influence does not only exist within the formal valuation process, but informally before the valuation has been commissioned.

This analysis has assisted in formulating a revised framework of factors affecting client influence as reported by both experienced valuers and sophisticated clients. This framework set out in Figure 7.15 therefore is a culmination of information derived from literature which was then updated with information from interviews with experienced valuers and was finally revised with input from client interviews.
In addition to the compilation of a revised framework, the interviews with clients permitted a more in-depth understanding of the valuation process and the roles of both valuers and clients within it. Clients have a number of incentives and motivations to influence valuation results.

In the case of the clients interviewed, the need for market credibility and accurate and realistic valuations were paramount. Other incentives can also exist when the client’s remuneration is performance-based or when valuations are used for such purposes as rent reviews and borrowing, or when they are required to validate in-house valuations. Where these incentives exist the client may exert power over the valuer to influence the valuation outcome. There are a number of different types of power as previously discussed, however the ones identified most commonly in the interviews with clients can be categorised as ‘expert power’, ‘information power’, ‘reward and coercive power’ and ‘procedural power’. Procedural power also has the ability to create opportunities for clients to exert their influence through their control of the valuation process, including the choice of valuer, the terms of the contract, the instruction process and in the case of all the funds interviewed the draft review process. Figure 7.16 sets out the steps in the valuation process and identifies the most likely forms of influence available to a client.

An important observation within these interviews was that in most cases where clients are using their power to influence valuations they are doing it with a motive to create more accurate, consistent and justifiable valuations. There is therefore a strong possibility that client influence may assist in the production of more accurate valuations and not automatically give rise to a bias away from market values. Depending on the purpose of the valuation, incentive, ability and opportunity may exist for a client to assist a valuer in valuing towards what they believe is a more accurate reflection of market value. Hence recommendations to reduce the role of the client in the valuation process have to be treated cautiously. This chapter further highlights the complexity of the client valuer relationship. Client influence has great potential to affect valuations, but further research is required to identify whether influence may drive valuations away from or towards market values. It was clear from these interviews that clients have an important role to play in the supply of information, expertise and experience to the valuer and it should not be assumed that by separating the two, valuations will automatically become more accurate reflections of market value. The global trends towards greater transparency and higher levels of disclosure will have implications for the way clients and valuers contract and ultimately may reduce the amount of power available to the client and the opportunity to exert this power over the valuer.

Stage 4 of the research process which constituted feedback interviews with three valuers and three “sophisticated” property managers indicated that the findings reported in this chapter were an accurate reflection of the perception of both experienced valuers and sophisticated clients as to the factors affecting client influence and the valuation process. They did indicate, however that the role of the bank, professional indemnity insurance and the effect of the changing commercial environment should be investigated further.
Chapter 8 now follows and sets out the summary, key findings, and scholarly and professional contributions, together with limitations of the research, and suggests areas for future research.

Chapter 7 References


