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CHAPTER 8  SUMMARY AND CONCLUSIONS

8.0  INTRODUCTION

The main aim of this research as set out in Chapter 1 was to build theory in order to achieve an in-depth understanding of the valuation process and the role of client influence. This aim was successfully completed with a culmination of a theoretical framework as set out in Chapter 7. In order to fulfil this aim a number of specific objectives were identified (Chapter 1 Section 1.12.) These were:

i. To critically review the relevant behavioural real estate and valuation literature relating to influence and valuation outcomes.
ii. To examine the relevant auditing and marketing literature relating to "influence".
iii. To compile a framework affecting client influence from reviewed literature.
iv. To assess the perception of valuers and clients as to the influence of clients in valuation outcomes.
v. To produce a theoretical framework synthesising the effects of influence on the outcome of reported values.
vi. To evaluate the implications of client influence on the workings of the commercial property market.

This final chapter demonstrates how each of these objectives was accomplished. It summarises the study, discusses the key findings, presents the scholarly and professional contributions, describes the limitations and suggests areas for future research.

This chapter is set out as follows:

Section 8.1  summarises each chapter of the thesis
Section 8.2  discusses the key findings from the literature and from the study
Section 8.3  discusses the scholarly contributions
Section 8.4  examines the professional contributions
Section 8.5  highlights the limitations of the research
Section 8.6  sets out the opportunities for further research
Section 8.7  sets out the final conclusions of the study

8.1  CHAPTER SUMMARIES

Chapter 1 of the study set out the background to the research. It questioned the degree to which valuations are accurate and unbiased estimates of a property's 'true' market value. It suggested that because of the commercial nature of property valuations that client influence
may be a factor affecting valuation outcomes and pointed to the ineffectiveness of quantitative research methodologies in gaining an holistic framework of client influence. The chapter also set out the research aim and objectives: to build theory in order to achieve an in-depth understanding of the valuation process and the role of client influence.

Chapter 2 constituted a review of the relevant property literature in order to gain an insight into the topic of client influence and provide context for the study. The research areas specifically examined included behavioural real estate which affords an insight into the decision-making behaviour within property activity. The literature addressing client influence and feedback was reviewed which permitted an understanding of the topic from both anecdotal and empirical perspectives. Research exploring the areas of valuation accuracy, variation, smoothing and lagging was examined in order to identify why valuations may not provide an accurate reflection of market values.

The review of the property-related literature highlighted the limited number of studies pertaining specifically to client influence. Chapter 3 expanded this to incorporate literature relating to influence within the wider context of professional services. These articles included those relating to auditor independence which identified many parallels between the valuation and auditing industries especially in the areas of economic independence and ambiguity. The marketing literature relating to decision making within the contexts of the family, organisations and the business to business environment was also considered. These literatures provide useful insights into the potential for client influence within a commercial environment. The literature relating to professional services marketing was also explored. This provided insights into the unique features of services marketing and the importance of the client in the delivery of such a service.

The design for the research study was set out in chapter 4, with the overall goal of constructing a theoretical framework of client influence to assist in building theory. The research question was established as “How do clients influence valuation outcomes?”. This question described the specific query to be addressed, set the parameters for the study and suggested appropriate methods to be used for data gathering and analysis. Constructionism assisted in identifying the underlying assumption about reality governing the research, based on the premise that different people construct meaning in different ways even in relation to the same phenomena. The theoretical perspective was determined to be interpretivism which was guided by the study’s goal of assessing the nature of reality for both valuers and clients regarding the valuation process. This perspective differs from that of the majority of published property literature which tends to embrace the positivist approach. The methodology considered most appropriate for the study was grounded theory.
Taking into account the epistemology, theoretical perspective and logistical issues, the appropriate research methods for the study were determined to be, in-depth one-to-one interviews together with a case research approach permitting a systematic interpretation of the transcripts. The research process consisted of four stages. The first of these was the literature review and the construction of a preliminary framework of client influence. The second stage incorporated the one-to-one interviews with valuers and the compilation of an updated framework. Stage 3 consisted of one-to-one interviews with clients and the compilation of a revised framework; and Stage 4 collected feedback from a number of experienced valuers and clients in order to enhance the trustworthiness of the findings.

The steps taken to develop an initial conceptual framework of client influence within the valuation process were described in Chapter 5. This framework together with the research question acted as the foundation of the research process and as a guide to further enquiry. The framework was based on the review of the literature and was a useful step in the development of grounded theory. The framework included a number of proposed factors capable of affecting the amount of influence and strategies that may be used by clients to influence valuation outcomes. These factors included the characteristics of the service, service provider, client and external factors. The output of this framework was not designed for hypothesis testing but together with the research question provided a foundation for the study and acted as a guide for further enquiry.

The in-depth interviewing process undertaken with experienced valuers was set out in Chapter 6. The main aim of the interviews was to discover the perceptions of these valuers as to the role the client plays in the valuation process. Five experienced New Zealand registered valuers were interviewed; the number of respondents was determined by theoretical sampling. The interviews were transcribed and the data interpreted. The interpretation of the data not only permitted the revision of the framework of client influence, but the richness of the information also highlighted a number of additional relationships between the client, valuer and reported values. The key findings from these interviews are set out in section 8.2.

A description of the in-depth interview process with experienced 'sophisticated clients' is set out in Chapter 7. The epistemology governing this study assumes that different people construct meaning in different ways even in relation to the same phenomena. In order to gain greater insights into the phenomena of client influence, interviews were carried out with the second major contributor to the valuation process, the client. The results of the valuer interviews indicated that clients with certain characteristics may have the ability to influence valuations in different ways. Therefore, 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. The data collection and interpretation process as used for the valuer
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interviews was followed. In order to update the framework compiled from the valuer interviews a comparative study was carried out analysing the differences between the outcome of the valuer and client interviews. Finally, in order to ensure the trustworthiness of the findings, feedback interviews were carried out with a number of valuers and experienced property managers. The key findings from the literature review and the study are discussed in the following section.

8.2   KEY FINDINGS AND CONCLUSIONS

8.2.1   Key findings from the literature

The review of the property-related literature as set out in Chapter 2 demonstrated clearly that the valuation process does not necessarily reflect the rational process assumed in traditional property research. Questions surrounding the accuracy of valuations have proved to be of concern to many property academics over a number of years and have been well documented. Since the 1990s when Diaz introduced a behavioural approach to property research a deeper understanding of the valuation process and the behaviour of valuers within that process has resulted. Most importantly, behavioural property research has demonstrated that valuer behaviour does not necessarily follow a rational normative process as suggested by traditional economic theory. There is substantial evidence to suggest a widespread use of heuristics by experienced valuers when carrying out valuations and making estimates of value. In particular a number of studies have clearly demonstrated the use of the anchoring and adjustment heuristic in relation to a number of anchor points including knowledge of the contract price, previous value judgements and the recency of the information considered.

A search for literature directly addressing client influence within the valuation context identified a limited number of empirical studies. In addition to these, several papers reported substantial anecdotal evidence suggesting that client influence affects valuer behaviour and valuation outcomes. The papers have identified the existence of performance-based fees received by asset managers and financial dependency of appraisers on the client as potentially causing both problems relating to ethical issues and also impacting on valuation accuracy. As well as anecdotal evidence a number of experiments have demonstrated empirically that client feedback has a significant effect on the perception of the valuer's role in the valuation process and that valuers lack independence when carrying out valuations. Other empirical studies also argue that client influence does exist and although they provide a number of insights into the reasons and opportunities for such influence they do not attempt to provide an holistic theoretical framework of influence.

The review of the literature also examined a number of studies relating to valuation accuracy demonstrating the differing likelihoods of valuation outcomes falling within a certain range of the sale price. A summary of the literature indicates a high variation in results which again
emphasises the imprecise nature of property valuation. The difficulty valuers have in reporting accurate valuations is also reflected in the literature examining valuation variance. These studies conclude that valuers are not generally able to value to within 5-10% of the mean value. The results of this research indicate that there may be a large number of variables affecting the variance reported between valuations. They further emphasise that valuation is not a science and that there are many factors that may affect a valuer’s perception of value.

The literature review relating specifically to valuation smoothing and lagging indicated that valuations used for the basis of performance measurement tend to reflect a low level of volatility of property returns relative to other investment classes. The literature suggests that it is becoming increasingly accepted by property academics that valuers responses to external influence may increase the likelihood of biased figures and thus valuation smoothing. These external influences may include such behavioural issues as valuers relying on past estimates and making insufficient adjustment from previous value judgements and client influence.

The review of the academic property literature relating to valuer behaviour, valuation accuracy, bias and smoothing all indicate that there are many behavioural issues that may affect valuation outcomes. Evidence suggests that heuristics may be one explanation for such phenomena, but a growing literature also suggests that the role of the client within the valuation process could also be a factor worth considering. The review also highlighted the limited amount of qualitative enquiry into the role of the client in the valuation process and suggests that further in-depth analysis of client and valuer perceptions of the valuation process could help to identify why and how clients may affect valuation outcomes. Insights into these areas may assist in explaining such concepts as valuation accuracy and smoothing.

In order to understand more fully the potential for client influence and the relationship between a client and professional services provider, the literature in a number of other fields was reviewed including auditor independence, business to business/ organisational decision making and decision making within a professional services environment. The auditing literature relating to independence was particularly useful where many issues were considered relevant to both valuers and auditors. In particular the potential problems associated with independence and the client relationship were established. Three structural aspects affecting independence were acknowledged as “ambiguity”, “attachment”, and “approval”. Each of these was explored further in relation to valuer independence and the valuation process. The asymmetrical power relationship between client and auditor was also investigated and compared with the one-sided relationship commonly cited as being present in the client/valuer relationship. Other more technical issues identified as having the potential to affect the independence of auditors and valuers were rules and regulations, precedents and comparables. With regards to influence itself, the auditing literature assisted in the understanding as to the types of specific powers available to the client. These include authoritative, expertise, coercive and personal powers.
Finally ethical and moral reasoning were identified as potential factors affecting auditor independence and subject to client influence and the valuation process.

An investigation into the term 'influence' was particularly useful in defining a number of key concepts including influence, relative influence, indirect and direct influence. In addition, a number of powers or strategies were also identified and acknowledged as being capable of affecting decision-making outcomes. These included expert power, reward and coercive power and information power. How decisions are made within and between organisations offered some useful insights as to how the characteristics of individual participants within an organisation together with certain external characteristics can affect the decision-making process and the potential influence of individuals. Finally, the professional services literature emphasised the close relationship between the client and service provider and the potential implications for client independence and the valuation process.

The outcomes from the review of the property related and non-property related literature assisted in identifying variables to be included in the conceptual framework as set out in Chapter 5. They were also useful in informing the interviews with valuers and clients as set out in Chapters 5 and 6. The reviews identified a dearth of literature relating specifically to client influence and valuations, in particular lack of a theoretical framework of client influence pertaining to the commercial valuation process. The reviews highlighted the desirability of appreciating more fully the complexity of the client-valuer relationship and developing a comprehensive understanding of the client's role in the valuation process. These observations identified certain gaps in the literature and were instrumental in guiding the research aim and methodology of this study.

The research aim was to construct a theoretical framework of client influence to assist in achieving an in-depth understanding of the commercial valuation process and the roles played by the client within this process. The review also determined that most work in the literature pertaining to behavioural property research has been undertaken utilising a quantitative research approach. In order to achieve a richer, more in-depth understanding of the topic, a qualitative research approach was utilised. The key findings from the review of the literature permitted an overview of factors affecting the relationship between the valuer and client and the potential influence clients could have on the valuation process. This understanding formed the context of the study described in this thesis. The key findings from the interviews carried out as part of this study are described in the following section.
8.2.2 Key findings of the study

As previously discussed, the findings from the study were gained from interviews with experienced valuers and sophisticated clients. This section summarises a number of the key findings, firstly from the valuer interviews and then from the client interviews.

The main aim of the valuer interviews was to discover the perceptions of experienced Auckland valuers as to the role the client plays in the valuation process and their ability to influence valuation outcomes. The use of a qualitative approach enabled an in-depth understanding of the valuation process and highlighted different factors that may affect the type and degree of influence clients may have on this process. Insights into the type of strategies and power available to different types of clients were also identified.

The interpretation of the interviews acknowledged that the characteristics of individual clients, the client valuer relationships, the valuation processes, the purpose of the valuation, valuation issues, the characteristics of the valuation firm and individual valuer and external pressures all have the potential to affect the amount and type of influence a client has over the valuation process. This can be compared to the original framework informed by the literature and the researcher's experience which included only the four main characteristics of service characteristics, external characteristics, service provider characteristics and client characteristics.

The interviews permitted an in-depth understanding of the influence strategies that may be utilised by clients. Eight influence strategies were identified as being commonly used by a variety of clients. These were client expectations, information power, expert power, badgering, coercive power, reward power, client instructions and general influence. These expand on the influence strategies identified in the auditing literature by Pasewark and Wilkerson (1998) and the organisational decision making literature of Kohli (1989). It was interesting to note that the client may not necessarily consciously influence valuation outcomes or even vocalise their preferences. The valuer may, however, assume certain expectations and these assumptions may have the potential to affect the way a valuer approaches a valuation. This may be compared with the concept of indirect influence as described in the family decision-making literature (Rossiter, 1978).

The valuer interviews also suggest that different influence strategies tend to be used by clients with different characteristics. This finding was of particular significance as it had not previously been identified in the academic property literature. The transcripts indicate that the use of expert and information power tends to be utilised by larger and more sophisticated clients. Other strategies such as badgering and coercive strategies are more commonly used by smaller and inexperienced clients. Another finding of interest was that certain clients could reflect more than
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one client characteristic thus affecting the way they may influence valuation outcomes. For example, smaller non-institutional developers with a large amount of experience and knowledge of the property market may tend to favour badgering and coercive strategies in contrast to other clients possessing equal knowledge and experience who may rely more on information and expert power.

Another significant issue relating to the type of influence strategies highlighted by the interviews was the importance of many clients in providing valuers with property or market-specific information. The interviews suggest that the client has control over the supply of this information resulting in a great diversity in the amount and type of information supplied by individual clients. The provision of information may be perceived by many as "proper" influence on the valuation process. However, clients may also choose to omit to supply certain information to the valuer which could be regarded as a form of "improper" influence that may be hard to detect. This could also be true of the use of expert power where the client may have more experience and expertise in valuing their properties than the valuer.

The client valuer relationship was another factor having the potential to affect the amount of influence a client can place on a valuation outcome and also in determining the type of influence strategies more likely to be used. The valuers described the client valuer relationship as typical of a professional services provider as described in the literature review (Gummesson, 1978; Alreck, 1994). In particular the relationship can be compared with that of the auditor and client where there is a tension between valuer independence and providing the client with the service they desire. As with auditors, valuers may be forced to compromise their independence when balancing professional ethics with the economic practicalities of operating a viable business (Windsor and Ashkanasy, 1995; Mautz and Sharaf, 1961). It was apparent that the longer and more trusting the relationship and the more respect the client and valuer have for each other the greater the potential for influence. This can may be partially explained by Bazerman et al's (2002) concept of 'Familiarity,' where auditors when given a choice of harming their client or harming faceless investors may subconsciously lean towards reporting results more in their client's favour.

In addition to valuer and client characteristics, factors relating to the valuation process itself were identified as having the potential to affect the amount and type of influence a client may have in affecting valuation outcomes. The ability to effect the process includes the ability of the client to pay, select and fire the valuer which as in the auditing literature results in the asymmetrical relationship between the client and the service provider. This may therefore result as a core incentive to compromise independence (Saul, 1996). The effect of the valuation process also proved important in relation to the common practice in New Zealand of valuers providing their clients with valuation estimates or entire draft reports prior to their finalisation. This process presents clients with an opportunity to influence final valuations or, as perceived
by some, to ensure the accuracy of the report. This practice is not unique to New Zealand and was also identified by Baum et al (2002).

In addition to the valuation process, the purpose of the valuation and technical valuation issues were also considered as factors with the potential of affecting client influence on valuation outcomes. The interviews indicated that valuations for different purposes could result in different valuation outcomes. The valuers' interviews advised that as long as a valuation falls within a range of defensible values then a valuer could adjust their valuation figure higher or lower them depending on the requirements of their client. As with many other findings from this research, these results again emphasise the opinion that is associated with valuations and the amount of this subjectivity may vary between different valuation assignments. This outcome parallels the findings of Bazerman et al (2002) and Hackenbrack and Nelson who suggest that subjectivity in auditing assignments may have an affect on auditor independence.

The characteristics of the valuer and also the type of company they work for were also identified as having the potential to affect valuation outcomes. The integrity of the valuer and their expertise and experience was of particular importance together with the potential for a valuation firm to provide additional support to ensure that valuation outcomes are an accurate reflection of the market.

Finally, external pressures, including the effectiveness of the regulatory framework, were identified as important aspects affecting the potential for client influence and directing valuer behaviour. The regulatory framework was of particular interest as the valuers interviewed seemed not to be guided by an in-depth knowledge of the regulations governing valuations, but rather by their own understanding of ethics and definition of market value. There was a common theme from the transcripts that indicated that valuers would be more concerned as to their ability to defend their value in court than the specific code of ethics and legal requirements governing their profession.

In addition to factors specifically informing the revised framework of client influence the richness of the information attained from the valuer interviews also revealed a number of specific associations between the client, valuer and reported values. These insights proved particularly useful in identifying the relationship between the type of client, the influence strategy used, the ethics of the valuer and the effect on the reported value. The results indicate that sophisticated clients will tend to use expert and information power and unsophisticated clients reward/coercive and information power. In addition, the results indicate that expert and information power have the ability to change a valuer's original assessment of a property's value, whereas reward and coercive power do not. How ethical a valuer is may also affect how much they will be prepared to alter an original value estimate. Ethical valuers will only be prepared to change the original reported value within or outside the original range of defensible
values whereas unethical valuers will be prepared to change the original reported value beyond the original range of defensible values. These results may explain the results of the Worzala et al (1998) and Kinnard et al (1997) studies, where the amount of adjustment required by the client did not affect a valuer's decision. The relevant factor, therefore may not be the specific amount of adjustment but rather whether the adjustment amount can be defended by the valuer.

The results from the valuer interviews reflect a large and varied number of factors with the potential of affecting the amount and direction of client influences. It is possible that these factors may have predictable results on their effect on valuation outcomes. However, the bias in any particular valuation could vary considerably. The results overall indicate the importance of understanding the complex behavioural issues associated with the valuation process and question the simplistic and technical valuation process as adopted in traditional property research.

The interviewing of experienced valuers permitted an holistic view of the valuation process and provided many additional insights into valuer and client behaviour within the valuation process permitting the building of theory that had not been possible through utilising a quantitative methodology. However, these interviews are limited as they provide evidence only from the viewpoint of the valuer. To be consistent with an interpretive philosophy it was essential to investigate how the other primary participant in the valuation process, the client, perceives their role in the valuation process. Collecting these insights from the client provides the ability to triangulate the data collected from valuer interviews and produce further insights into the client valuer relationship and their roles in the valuation process. A summary of the key findings is set out below.

The interviews with experienced clients introduced a deeper understanding of the valuation process from the perspective of the client. The results of these interviews again suggest that there are a number of potential influences not previously documented in the property literature that may affect valuation outcomes and the valuations that are ultimately reported to stakeholders.

The interpretation of the transcripts from these interviews assisted in theory building with the formulation of a revised framework of client influence incorporating the perceptions of the experienced valuers and the sophisticated clients interviewed. The framework set out in Chapter 7 is thus a culmination of knowledge derived from the literature and from interviews with the two key players in the valuation process. A number of revisions to the framework can be described as clarifications of the earlier framework and some reflected the greater in-depth understanding permitted by examining the insights from the sophisticated clients.
The most significant observation from the client interviews was the power the client has to control the valuation process, this control results in providing opportunities for the client to influence valuation outcomes. The clients interviewed indicated that these opportunities not only exist as part of the formal valuation process, but informally before the valuation has been commissioned. The key elements in the valuation process permitting the client to affect valuation outcomes include the client instructions, timing of the valuation, choice of valuer, term of the contract, pre-valuation meeting, fee negotiations, instruction process and informal discussions. This control over the valuation process and the ability it creates for influence was identified as procedural power and thus the revised framework of client influence as illustrated in Chapter 7 includes procedural power under the category client pressure/influence.

The effect of the expertise and competence of the valuer in their ability to resist client influence was another factor identified in the client interviews, there was evidence that the more research undertaken by the valuers and the more competent they are the less opportunity available to the client to question the valuation outcome. This expertise and competence also affected the type of firms preferred by the clients interviewed. For example their preference was for valuation firms with both research capability and market credibility.

The client/valuer relationship was discussed by both the clients and valuers interviewed. It was observed by the clients that in addition to the trust, respect, type and length of relationship the amount of contact between a client and valuer could affect the potential influence of the client. For example, a valuer and client may have only be working with each other for a few months but share information on a daily basis, whereas a longstanding client may only contact their valuer to instruct them at the beginning of every financial year.

The client interviews not only assisted in updating the framework of client influence but they also provided invaluable insights into the incentives, opportunities and the ability clients have to influence valuation outcomes. Market credibility was highlighted as a major incentive, hence the necessity for clients to report accurate and realistic valuations. Clients may also wish to influence valuations in order to gain a personal advantage. For example, performance-based remuneration was identified as having the potential to an incentive for clients to increase reported valuation figures. Other situations that have the capacity to provide incentives for a client to affect valuation outcomes relate to the purpose for which the valuation is being carried out. For example, whether valuations are to be used for rent reviews and borrowing purposes, or when they are required to validate in-house valuations.

The opportunities for a client to affect valuations as previously discussed are created predominantly by the valuation process and the control the client has over this process, in particular in their choice of valuer, the terms of their contract, the instruction process and the draft review process. Thus the ability for a client to affect valuation outcomes emanates from
their use of ‘expert power’, ‘information power’, ‘reward and coercive power’ and ‘procedural power’.

An important observation within these interviews was that sophisticated clients are motivated to influence the valuation process in order to create accurate, consistent and justifiable valuations. It could be argued, therefore, that client influence may result in the production of more accurate valuations and not bias valuation figures away from market values. Hence recommendations to reduce the role of the client in the valuation process have to be treated cautiously. It should be noted, however, that the results discussed here are taken from interviews with ethical and sophisticated clients. If a client has a tendency to act in an unethical manner then it could be argued that regulations may be essential to safeguard the valuer and other stakeholders.

From the analysis of both the valuer and the client interviews it is clear that the valuations carried out for large sophisticated clients have the potential to affect market values generally. These sophisticated clients, as previously noted, tend to be active in both purchasing and selling investment properties and thus the sale or purchase price of a property becomes market evidence which in turn has the ability to affect subsequent market valuations. In addition, when a valuer is placed in a position of valuing a property for a sophisticated client active in the market place they are often aware that the client’s opinion of value reflects that of a “willing buyer” or “willing seller”. Their willingness to purchase or sell at a particular price may therefore be considered by the valuer as an accurate assessment of the price that a property will be bought or sold for.

The feedback interviews carried out with experienced clients and valuers identified a number of other observations relating to the framework of client influence. The first of these was the role the banks may play in the valuation process and how they may affect the potential for clients to influence valuation outcomes. There was also some suggestion that the banks, as financiers for the purchase or development of properties, may themselves be responsible for influencing valuation outcomes. This finding is reflected in the Figure 1.3 where the banks can be identified as a major stakeholder of a valuation within the commercial environment. Additional research is needed to investigate further the role of the bank in the valuation process.

The feedback interviews also indicated that a valuer working on behalf of a New Zealand branch of an international valuation company could be placed under pressure by an overseas office providing a client non-valuation and valuation services to “please” the client. If this is the case then the concern expressed by auditing academics (for example Lindbergh and Beck, 2004; Ashbaugh, 2004; Palmrose, 1986; Frankel et al, 2002) may also be applicable to the valuation profession. Finally the feedback interviews suggested that there has been a trend in more recent years for valuers working for larger international multidisciplinary companies to have become more commercial in their approach to valuation reporting.
The findings of this study emphasise the complexity of the client/valuer relationship and the
great potential the client has to affect valuation outcomes. It was clear from these interviews that
clients have an important role to play in assisting the valuer to complete a valuation task by
supplying information, expertise and experience. It should not therefore be assumed that merely
by isolating the client and valuer from each other valuations will automatically become more
accurate reflections of market value. The global trends towards greater transparency and higher
levels of disclosure 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.

This section has summarised the main findings from the literature and the current study. The
next two sections investigate both the scholarly and professional contributions of the study.

8.3 SCHOLARLY CONTRIBUTIONS

Contributions in two key areas to the property academic discipline can be identified from this
study. The first of these relates to the effect of the research approach and methodology. By
utilising a qualitative methodology in investigating the behaviour of the client and the valuer,
this study permitted an holistic understanding of the valuation process and the role of the client
and valuer. More specifically, the chosen research methodology allowed the researcher to
explore freely the experiences of both valuers and clients within the valuation process. Such an
approach has thus resulted in effective theory building and reaching a deeper level of
understanding of the commercial valuation process and the effect of client influence which has
not been possible in previous quantitative studies.

The second major area of scholarly contribution relates to the complexity of the valuation
process and the numerous factors and relationships that can affect the amount and type of
client influence. Although published studies have identified a number of different individual
behavioural elements that make up the complexity of the process, there has been no attempt at
building theory by producing an holistic framework of client influence. A summary of the findings
that reflect the complexity of the process and contribute to the body of knowledge within the
property discipline are set out below.

The study provided a deeper understanding of the different types of influence strategies
available to clients when attempting to influence valuation outcomes. These insights have not
previously been addressed within the property literature. They include indirect influence based
on the assumptions valuers may make regarding their clients' expectations. "Legitimate"
influence which includes information and expert power and "illegitimate" influence includes the
use of badgering and coercive power. The recognition of the existence and effect of procedural
power, reflecting the client's control over the valuation process is also an important finding and contribution to the academic literature. By highlighting this control over the valuation process the study also demonstrates the numerous opportunities that a client has to influence valuation outcomes. These opportunities have not been noted explicitly in the academic property literature.

The identification of specific client incentives, opportunities and ability to influence valuation outcomes can also be considered as a contribution to the academic body of knowledge. Incentives can have a positive or negative effect on valuation accuracy. For example, if a client requires an accurate valuation for strategic purposes then they may place pressure on the valuer to encourage this. However, if the purpose of the valuation is for negotiation purposes then a valuer may be placed under pressure to value a property more in line with the client's position. This highlights another contribution to the property literature that reflects the findings of the professional services marketing literature by identifying the tension between providing an independent assessment of market value and satisfying a client. The effect of this tension highlights a fundamental assumption made by many of the respondents in this study who emphasised the subjective nature of the valuation process and thus accepted the concept of a range of defensible values. This concept permits a valuer to move within this 'grey area', allowing a valuer to value a property at a figure that can comfortably be defended in court and at the same time allow them to satisfy their client's requirements.

Another clear contribution to the valuation literature is the finding that different client characteristics have the ability to affect the type and amount of influence a client can have on valuation outcomes. Previous academic studies tend not to distinguish between clients with different characteristics and their ability to influence valuations.

Overall this study has indicated that the client has the ability to influence valuation outcomes and thus the role of the client may indeed be a factor that should be taken into account when analysing such phenomena as valuation smoothing and valuation accuracy.

In summary, by utilising a qualitative methodology this study has successfully fulfilled its aim of building theory within the academic property literature. It has identified the complexity of the valuation process from a behavioural viewpoint and created an holistic framework of client influence. The next section sets out some additional professional contributions.

8.4 PROFESSIONAL CONTRIBUTIONS

As previously discussed, this study has identified the various stages of the valuation process, the different types of influence strategies utilised by a client together with the overall role of the
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...client in the valuation process. Highlighting this knowledge serves as a significant professional contribution to the property profession.

Knowledge relating to client influence can assist the profession in understanding more fully the role of both the client and valuer in the valuation process and the tension between independence and customer satisfaction. This knowledge can therefore be used to educate valuers and clients into their roles in the valuation process and identify potentially vulnerable areas that should be safeguarded.

Other contributions of the study relate to the finding from the client interviews regarding the ability of valuers to undertake valuations that are realistic within the commercial context. For example, clients generally felt that valuers were backward looking and were not aware of the commercial reality relating to the buying and selling of property. This information should encourage the profession to examine current valuation practices and their ability in accurately determining the value of certain properties in specific market situations.

In addition to behavioural issues relating to valuation this study has also highlighted a number of technical issues affecting the potential of accurate valuations that should be considered by the profession. These include the effect of the concept of the range of defensible values to reported values and the effectiveness of a peer review process.

This study clearly demonstrated that sophisticated clients have control over the valuation process. Although the clients interviewed were motivated by the need for accurate valuations and were therefore keen to use their influence to produce realistic outcomes this may not be the case for all clients. It is essential therefore that the profession examine the current practice regulations to ensure that stakeholders can be assured that reported values by registered valuers are perceived as accurate and independent. This in turn has implications for the valuers Registration Board in New Zealand and how they carry out their regulatory role.

Many of these issues were considered in the UK following the findings of the Carsberg Report (Chapter 2) and have resulted in revised practice standards.

This study has successfully fulfilled its aim of building theory by producing an holistic framework of client influence. This framework has resulted in a greater understanding of the numerous behavioural elements of the valuation process. However, as with all studies, it has its limitations. These are set out in the following section.
8.5 LIMITATIONS

As previously indicated, no one study can successfully consider all the effects and ramifications of client influence. Four main limitations were identified. Firstly, if viewed from a traditional property research perspective the results in this study are not generalisable to the general population of valuers and clients. The qualitative methodology and the methods utilised in the study were designed to build theory and thus dig deep into the data rather than to test it over large populations. Secondly, the study examines valuation only within the Auckland context, and the results cannot be assumed to be valid in other areas of New Zealand or overseas. Nevertheless the Baum et al (2002) study indicates similar results are coming out of the UK.

The third limitation of this study is that it concentrates largely upon the client/valuer relationship within larger sophisticated organisations. The main reason for this approach was that the valuer interviews indicated that different clients behave in different ways and so in order to understand the client valuer behaviour within large institutions the client interviews were limited to the sophisticated client.

Finally, as highlighted by the feedback from a number of valuers and clients at the end of the study, the other key player in the valuation process, the banker, was not interviewed. Insights from this third key player would identify the effect of their requirements on the valuation process.

As with all such limitations, these provide researchers with a number of future research opportunities, as discussed in the following section.

8.6 AREAS FOR FUTURE RESEARCH

As indicated in the previous section, the limitations of the study provide the potential for future research in a number of areas. Firstly, as identified in the feedback surveys, interviews with bankers should be undertaken in order to incorporate the perceptions of this third key player into a framework of participant influence. Secondly, the interviews with clients concentrated on the perceptions of large sophisticated client only. As highlighted, particularly in the interviews with valuers, different client characteristics may affect the way in which clients attempt to influence the valuation process. Additional interviews with a range of clients with different characteristics would add another dimension to the framework of client influence. It would also be useful to extend the study to interview valuers working outside the main Auckland market to see if their perception of the valuation process and client influence differs from experienced valuers working within the Auckland market.

In addition to these opportunities it would also be advantageous to compare the findings of this study to interviews with valuers in other countries to see if the behaviour of valuers and clients
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working in more or less regulated environments affects their perceptions of the valuation process and the opportunities for clients to influence valuation outcomes. The study undertaken by Baum et al (2002) suggests that similar characteristics are apparent in the UK property market.

Another limitation of this study as perceived from a positivist standpoint is that the results are not generalisable to the market as a whole. Opportunities therefore exist to take the findings of this study and analyse them within a positivist framework in order to test them within a larger, more generalisable context. For example, such techniques as surveys together with structural equation modelling may be a viable option. Such a study was published recently by McAllister et al (2003) where they conducted interviews that indicated the presence of a seasonal effect on periodic valuations, with greater effort and information being applied to annual and quarterly than monthly valuations. From these insights they then analysed the valuations within the IPD Monthly Index and confirmed this effect with around 5% more appraisals being moved upwards or downwards at each quarter day than the other months.

Other opportunities regarding future research also exist in taking some of the behavioural findings and examining the implications for such issues as valuation variation, valuation smoothing and valuation accuracy. Again the McAllister et al (2003) study did this successfully.

Research should also be undertaken from the viewpoint of valuation as a profession. An examination of the effect of regulations and education on the behaviour of valuers and clients both within New Zealand and internationally may assist in increasing the public's perception of valuer independence. In summary, this section has clearly indicated that the in-depth understanding of client valuer relationship and the role of the client in influencing valuations has created many opportunities for future research which could contribute to the body of knowledge within this area. From the topics outlines above it is clear that opportunities exist for effective studies utilising both quantitative and qualitative methodologies and applied in a variety of philosophical research perspectives.

8.7 CONCLUSION

In conclusion, this chapter has provided an overview of the study together with its contributions, limitations and opportunities for future research. Although these contributions to both the academic and professional community are not exhaustive they illustrate that the study has successfully completed its aim of building theory and from this has created a firm foundation for opportunities for further study in this area.

In addition to theory formation, this chapter has also demonstrated the power of utilising a qualitative approach and the potential of such an approach in further developing theory within
the area of property behavioural research. The in-depth understanding as to how valuers and clients interact has identified the tension that exists between valuer independence and client expectations which may need to be considered by the regulatory body in terms of its effect on valuer independence and on professional practice

Chapter 8 References


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APPENDICES

Appendix 6A SUMMARY OF VALUER INTERVIEWS WITHIN-CASE ANALYSIS

Appendix 6A1 Summary of interview with Valuer 1

- The first thing valuer 1 would do when asked to carry out a valuation would be to determine the basis of value. A valuation must be based on market evidence.
- He would then make a point of finding out what it is a client wants to know, and if there were any specific issues.
- He suggested that he would not be able to provide a value for all occasions or for all circumstances. He was very aware of different types of values for different clients. For example a value for an investor. He highlighted that different clients require different reporting standards; for example sophisticated property trusts may require more sophisticated methodology and information than a less sophisticated company.
- There are clients that ring him on a regular basis requesting his view on things, which means if they instruct him to carry out a valuation they have prior knowledge of his thoughts on certain property issues.
- There are valuations that require little client relationship. Clients will often ask what documentation the valuer requires from them. If there are any problems then the valuer will go back to that client, but otherwise the client input is immaterial. Other valuations require a much closer client relationship. For example asset valuations where the valuer works much more closely with the client and has regular meetings with them.
- There are valuations which are ongoing and the client has certain expectations as to process and timeframes which have to be adhered to. Good, regular communication with the client is essential in these circumstances, it is important to let the client know what the valuer is going to deliver and when.
- There are clients that a valuer may have a close relationship with. This relationship may include sitting in on meetings and giving consulting advice on such things as the value of building projects.
- There are situations where a client may receive a valuation that they do not agree with, they may then ask another valuer who they have a relationship with to come in and comment on that valuation.
- Some valuers may be very dogmatic in their approach and in situations such as these it is possible to bring another valuer in and the parties to negotiate around a table.
- The personalities of the parties involved in a valuation may affect valuation negotiations. A more experienced valuer will be aware of how other people respond to negotiations.
- Valuer 1 believes that all clients will have an agenda and it is therefore up to each individual valuer to balance satisfying the client's agenda and also a valuer's responsibility in terms of ethical requirements. Valuer 1 knows where to start and stop and will advise a client accordingly. He will not act as an advocate for a client and will be prepared to walk away if a situation requiring him to do this arises. Advocacy in his opinion is where a valuer argues the point of view from the client's point of view rather than the value.
- Depending on the integrity of a valuer and his/her approach to a valuation, two valuers may come up with different figures.
- Rental issues are ripe for client advocacy. In these cases a client expects a valuer to run their point of view. Rental evidence may cover a wide range. If a valuer is acting for a lessee they will advocate a figure lower in the range and the lessor's valuer at the higher end. That may not be true advocacy as it looks at a range of options. Advocacy is when a valuer "shoots" for a value outside the defensible range of values where there is no support for that viewpoint. If a valuer acts outside his ethical responsibilities, then that can be considered advocacy.
- There are clients that will go to specific valuers because they know that they will work as an advocate for them. There are only a few valuers that would be interested in advocacy as they are likely to end up in court defending their valuation. The courts talk about a margin of error of about 10%; if a valuation is within that range then a valuer will have no case to answer. However valuers who are constantly acting as advocates eventually lose perspective and they may start to stray outside this limit.
- Client advocacy tends to take place mostly in the residential sector as there tends to be a small client who stands to lose money; valuers acting in this manner tend to get found out. With a more sophisticated client a valuer will submit a draft report which will be negotiated with the client. A peer review process may also be introduced, but the reviewer is often under the same pressures as the initial valuer.
- National valuation companies tend to be chosen for peer review. There is a lot of discussion that goes on in such a process and the valuations tend to be complex, so any evidence of client advocacy would be difficult to expose. Valuers also tend to lag the market.
- Valuers tend to be naturally conservative; they should explain in more detail how they have come up with their valuation figure. Valuers often do not have enough in-depth market knowledge. A client may fail to divulge to a valuer all required information and thus he may be able to influence the outcome of the valuation.
- Most of the time a client will not be deliberately trying to influence the valuation result. Valuers may sometimes fail to question or challenge the client enough. This may be because they are too busy getting the job done and are therefore under time pressure.
There are clients who just want the number. There are situations when they will require a certain figure especially when buying or selling.

In my career as a valuer I have never been bribed.

There are some valuers that may end up as unethical and expose themselves professionally. This may be encouraged by a very competitive market and the valuer's fear of not earning fees. This is more prevalent where a valuer is earning a living on fees and commission rather than a salary. A valuer can reduce the risk of being approached to act unethically if they build up a reputation for being ethical.

Many valuers have little security in that they are not guaranteed a steady income, especially in certain market conditions.

A young valuer who works for a firm with little integrity is more likely to learn from this culture and having little integrity themselves.

Some firms and valuers have a reputation for being conservative or optimistic. It is not always obvious why some companies gain this reputation over others and it may not be related to what they are doing as valuers.

Some valuers may think they are doing the right job, but may be acting as advocates, producing values that are not supportable; they may end up being selective with their information based on their client's requirements. Some valuer's may identify too closely with their clients objectives and not their own. The best instructions come from independent parties that are disinterested in the outcome.

As a valuer gets older he/she may be more susceptible to selective viewpoints. Young valuers tend to have more control and guidance; although there is a danger that a young inexperienced valuer may get complex tasks to do that they have not enough experience to carry them out accurately.

Valuers should only take instructions where they are qualified. There are examples where valuers have stepped out of their area of expertise and made mistakes. A valuer may be tempted to step outside his/her area of expertise if they have a good client they do not want to lose to another valuer.

A valuer valuing the same property for a long time may end up losing their objectivity, but at the same time they are under pressure to retain clients.

Appendix 6A2 Summary of interview with Valuer 2

- Valuer 2 believes that the purpose of a valuation is very important and there can be different values for different purposes. The type of client and purpose of the valuation affects the valuation figure expected by a client.
- There is a range of values that exists for any property and the market situation and the type of property can influence this range. In a difficult market, the range would be greater. It is essential that valuers listen carefully to their client's instructions.
- The purpose of the valuation can affect the value a valuer places on a property. The valuer needs to be aware of what the valuation is going to be used for. It is important to listen to the client's instructions and include this information in your report.
- Client influence can take the form of the client painting a rosy picture of the market and the property. Clients may withhold information from the valuer in order to try and hide any downside. Clients have been known to inflate the areas of the building. Developers try and paint the rosier picture of all; distressed clients may also attempt this in an attempt to get the value of their properties increased.
- Offering the valuer an inducement-based fee can affect the valuation outcome.
- A client could come to you with a specific valuation figure in mind and offer a valuer a performance-based fee if that figure is achieved. Performance-based fees are against the rules of the NZIV and the ethics of the profession.
- Getting potential business from a client could influence a valuer's performance for that client. It may affect the fees quoted in order to attract future work. The relationship with established clients permits more discussion on the level of the valuation and can allow these established clients more opportunity for getting their point of view across.
- Showing clients a copy of a draft report is quite common. This gives the client the opportunity to "pick holes in it" and influence it. Clients do on some occasions bring to the attention of the valuer things they haven't taken into account and mistakes or errors. They have the opportunity to influence the valuer on factual information and also subjective issues. A client may supply the valuer with their own market information.
- If an agent has been involved, they may attempt to influence the valuation outcome to increase the likelihood of earning their fee.
- Larger companies (clients) tend to have more expertise. They have the ability to influence the fee, supply information, including market information and check the draft report.
- Some clients will inform the valuer of the contract price they have on the property, others do not wish to divulge it. Some valuers feel it is not appropriate to ask for the contract price, whereas others believe that they have an obligation to do so.
- Some clients will advise a valuer of their target figure and request the opportunity to comment on the draft report before it is finalised.
Some clients will be very adamant about the valuation figure they require. There are different limits that an individual valuer will go to report the client's required value. Some valuation companies will have an internal peer review process where they can discuss the valuation with other valuers within the company.

The end value is really a matter of opinion. A valuer may report a range of values and in a report the valuer might state that this is at the low end or the full end of the range.

Most valuers will have a limit that they will be prepared to report; different valuers will have different limits.

Some clients may have expectations of value in excess of a valuer's opinion. If the valuer knows this and feels that the client will be difficult to work with, they may increase their fees.

In situations where the valuer may think that a property should be written down, they may face badgering from the client.

More knowledgeable clients will be able to supply information. Different types of clients will be tougher on their expectations than others.

Some clients are more ethical than others. Banks are the most ethical, and are least likely to "badger" a valuer, although they will switch valuers if they feel they are not getting the quality of the service they require. Generally major property companies and trusts are also ethical.

Valuers may have different perceptions of the NZIV definition of market value. Some valuers perceive it as the HIGHEST PRICE that you would expect the property to sell for. Valuers must have evidence to support their valuation. Many valuers are now required to use discounted cash flow methods. By using this method any small change in any of the many variables can result a large change in the end valuation figure. For many properties their value is well known in the market. The client may have more power to influence a complex valuation as they are required to supply larger amounts of information.

Most valuations are commissioned for statutory purposes. If this is not the case the client may be better off getting an appraisal from a real estate agent.

Listed property companies require annual valuations.

There is a requirement for many companies to rotate valuers; rotation may be perceived as providing a control process. Valuers involved know that someone else is going to follow them and analyse their work. If a valuer has carried out a previous valuation on a property this may affect the outcome of his/her valuation on the same property. After approximately two years the effect of carrying out a previous valuation on a property would not be as prevalent. There are occasions where a valuer may be instructed to value a property on a monthly basis.

Valuers who are paid on commission rather than salary could be more susceptible to influence by a client, as they have more to lose.

The amount a valuer is prepared to move on a valuation will depend on the individual valuer's integrity.

Age and experience can influence the valuer. Younger inexperienced valuers may find it more difficult to deal with more difficult clients. It may depend on personalities as younger valuers may also stay closer to the textbook and be less flexible as opposed to more experienced valuers who know from experience that they can move within a certain range without any major implications. Experience may be a stronger influence than age.

Individual companies work in different ways. Some valuations may tend to be completed by an individual whereas others may be more of a team exercise and more of a company valuation. In the non-multidisciplinary smaller firms it tends to be down to the individual rather than the company.

The market perceives there to be landlords' valuers and tenants' valuers. In rental valuations valuers tend to act as advocates for either the landlord or tenant. This should not be the case in valuations for statutory purposes, but generally there is a perception that they get a higher value from some valuers than others.

At the end of the day a valuer cannot lose sight of the fact that they could end up in a witness box. A valuation has to be defendable and there has to be some evidence.

In different market conditions valuers may tend to vary in their accuracy of their valuations. In a market collapse valuers aren't as harsh as the market and in a boom they may be behind the market. As they are always looking backwards, it is important to take into account market evidence but also to talk to agents too, to get more of a balanced viewpoint.

Appendix 6A3 Summary of interview with Valuer 3

A valuer needs to be aware of what is happening in the market and work out what is going on in a buyer's head.

A valuer is required to come up with a value that reflects what a willing purchaser would pay and what a willing buyer would accept. So a valuer has to understand the behaviour of each of these players in the market.

A range of values exists for each property and it is up to a valuer to ascertain where in the range a specific value for an individual property should sit.

The pinpoint value chosen by a valuer may be higher or lower depending on whether a valuer and the market players are optimistic or pessimistic.

A valuation outcome may be influenced by the type of client and their expectations as to the value of a property.

The valuer's relationship with the client, the sophistication of a client and their analytical expertise can all affect their ability to influence the valuation outcome and the amount a valuer may move a valuation outside a range of values.
Client instructions may also affect the valuation outcome. The vaguer the instructions, the more conservative the valuation will tend to be. There is always a range of values that a valuer will be comfortable with surrounding a valuation figure. The better the instructions the more accurate the valuation.

There are clients who know what value they want on a property, but they do not know how to get there. The valuer needs to explain the process to them. Different methodologies will give different answers.

The valuer will have more confidence if a client makes clear the purpose of the valuation. This purpose will in turn affect the way a valuer will proceed with the valuation and thus could affect the outcome of the valuation.

In most cases a draft report is given to a client for discussion before the final report is produced. It is important to get feedback from a client as generally a client will know a property better than a valuer. The draft report gives the client a chance to highlight any issues they feel appropriate. How raw a draft report is when it is sent to a client will depend on the client/valuer relationship.

The revision of a valuation after speaking to the client may not necessarily mean a change in the valuation figure.

There are a number of ways a client may provide input into the valuation report. These may include expressing an opinion on such things as escalations in terms of a development, the physical aspect of the building, future expectations and methodology. The client may also comment on the valuation figure and where it sits in the range of values.

It is important to get feedback from the client as they tend to know the property being valued better than the valuer. This is particularly important for unusual and specialist properties. The valuer should be more knowledgeable, however, in areas regarding the general market.

The purpose of a valuation and the outcome required by the client may affect the way a client interacts with a valuer.

In some cases the client will be more optimistic than the valuer and attempt to talk the value up.

A client may bring to the attention of the valuer emotive or physical points about the valuation. At the end of the day it is a matter of opinion and/or judgment.

An institutional manager will be less likely to be aggressive whilst negotiating a valuation figure than a developer. Developers have their money on the line.

If an institutional manager is paid a performance-based salary then they may be more inclined to place more pressure on a valuer.

In the residential market clients are focused on the valuation figure being at a level that it does not frustrate a deal.

A client may refuse to pay the fee unless they are happy with the final valuation figure.

Some clients may be quite aggressive if they do not agree with the valuation outcome. This is usually solved through a process of negotiation. There are situations where a valuer and client will not be able to agree. In these circumstances the valuer has to place a value on the property despite the client's expectations. There will be a range of values depending on the opinion of either party. A client may give the valuer information to change the draft valuation figure.

There are times in a consulting context where a valuer will report to a client a range of justifiable values. Depending on the type of client and purpose of the valuation they may want to highlight the higher end of the range or the lower end.

There are certain situations where a valuer may be pushed into an advocacy role, although valuers should not be influenced by the client's instruction, in reality they are. A valuer is also influenced by the client highlighting all the good attributes of a property and not the negative.

A valuer can value a property up or down due to the existence of a range of values. It is important if possible for a valuer not to complete a valuation in one go, as doing it in more than one sitting reduces the influence of preconceived expectations.

A valuer should get someone to review a valuation before it goes out.

A valuer may be encouraged to focus harder when coming up with a value where a client has previously advised of their value expectations.

Some valuers believe that there can be more than one answer to a valuation, whereas others believe that there is one right answer and that answer that is non negotiable.

There can be many different views on certain attributes of a property. For example in Wellington for many purchasers a coastal property would indicate a positive attribute, whereas for others it could suggest exposure to winds. As with purchasers different valuers may also come up with different perceptions of different attributes.

The range of values that will depend on the opinion of the individual valuer. The range of values would be wider than within 5% - 10% and the more complex the property, the wider the range may be.

When estimating market value there is a range of values. If ten valuers valued a property you would receive ten different answers. There will always be some common ground but the extremes may be as great as plus or minus 20%. By using more than one methodology a valuer will generally create a range of values.

It is necessary for a valuer to interpret the market taking into account types of potential purchasers and how these purchasers would value a property. This can be achieved by utilising different methodologies and thus achieving a range of values.

Clients are more interested in value justification than the way the valuer came up with the final value.

A client may be able to influence a valuation by way of instructions including the information they provide the valuer.

Information provided by the client should be checked and if it has not been then this should be stated clearly in the valuation report.
A valuer will question a client if he/she thinks that the information provided by them is incorrect, but this may be done in a round about manner.

Some valuers do not believe that the contract price on the property being valued should be disclosed to the valuer; however other valuers believe that the contract price and any other information should be made available as it is valid market information. It is believed by some valuers that if the contract price is not sought by the valuer then the valuer may be acting negligently. However, they should not necessarily value to the contract figure.

If appropriate a valuer should make enquiries to the real estate agent selling the property being valued for information on the list price, the contract price and they should also enquire as to how long the property has been on the market. The information should not necessarily be taken at face value as an agent will probably spin it to their advantage. In a number of circumstances the valuer should ask for more information in order to understand a specific deal more thoroughly in order to justify their final answer.

A valuer can be influenced by the client's intentions and the purpose of the valuation. As part of the valuation consultation process the valuer will report a range of values to the client and depending on the purpose they will then both agree at which end of the range the valuation will sit.

If a client gives a valuer the figure of a previous valuation for a property undertaken by another valuer, it may induce the valuer to double check whether his/her figure is substantially different. The valuer may then ask for a copy of the valuation report to check again.

Valuers will come up with their own value but they are aware of the client's requirements. For example, in some situations institutions may want to keep valuations fairly static or climbing slightly.

If valuers have previously valued a property they may include in their report a comment explaining any changes. Some valuers if they find they had made a mistake previously may attempt to cover it up. If valuations are transparent the client may be more likely to accept the change.

Valuers may differ in their methodology and the amount of information they source may vary.

Individual valuer traits will determine whether a valuer tends to be pessimistic or optimistic. These differences may come from training and/or experience. For example, the breadth and range of their experience and whether they have always type of client they have serviced.

The preference of a client for a more conservative or optimistic valuation might influence the valuer they instruct. For example, a developer will seek a more optimistic valuer. A valuer has the opportunity to be pessimistic or optimistic due to the existence of a range of values that they can work within. A pessimistic valuer will tend to value at the lower end of the range and an optimistic valuer at the higher end.

Valuer experience and training will affect the way they carry out valuations. For example valuers trained in the Valuation New Zealand environment versus a fee-oriented practice may have a different approach to carrying out valuations. Other influences would include whether a valuer has been reprimanded before for valuing too high. The companies that a valuer has worked for, will influence the type of experience gained and the competency of the valuer.

It is up to each individual valuer as to whether they are prepared to change their valuation outcome; it will also depend on the ethic of the company they work for. Different valuation firms will have different levels of rigor expected from their valuers. The checking procedure may be moved to suit the client in some instances.

There are valuers that are preferred by the lessee or the lessor.

Lessor's valuers will tend to value at the top of the range and lessee valuers at the bottom end of the range.

If a valuer makes a decision to report a value based purely on the expectations of their client then this cannot be considered a valuation, it has more to do with earning fees. At the end of the day a client has to use a valuer that has market credibility, so it is important for a valuer to retain this credibility.

Some people will shop around for a valuation that suits them best in terms of outcome.

The personality of a client and the amount of respect that a valuer has for them may affect the way they can influence the valuation outcome.

The size of a client and how often you deal with them and thus the amount of potential fees may have an affect on the amount of influence they can place on a valuer. But at the end of the day a valuation has to stand on its own merits.

Appendix 6A4 Summary of interview with Valuer 4

Large clients commissioning asset valuations will sit down and negotiate with the valuer the level at which they consider the valuation outcome should sit. If the client receives a performance-based remuneration they may try and influence the valuer to leave some value back for the current year in order to report it for the following year. Valuers will get placed under a certain amount of pressure to value to the client's expectations.

Larger clients will often have a formalised peer review process involving more than one set of valuers. The client may divide their portfolio into three and instruct a different firm to value each section of the portfolio. The panel of valuers and the client may then take part in a negotiation process.

The peer review process is considered as quite constructive; valuers get the opportunity to learn from each other. The client also appreciates the process and if they know that a panel of valuers have reached a consensus they will generally be less likely to try and influence the valuation figure.
The peer review increases a valuation’s credibility especially where the valuation accurately reflects the performance of a client’s portfolio and reduces the possibility of mistakes.

The type of company instructing the valuer can affect the valuation process for example if the client is a major fund and/or a publicly listed company.

The peer review process has the benefit of increasing market credibility especially if the client has had a chequered history.

Clients can use their expertise and any information they possess to influence a valuer’s end reported value.

The valuation process can differ depending on the sophistication and experience of the client. Less sophisticated clients may not require such a high level of market credibility. Smaller clients may need to have their hands held through the valuation process and the valuer may have to explain the valuation much more than to a larger and more sophisticated client. There are clients that do not agree with the final valuation figure and may threaten not to use the valuer’s service again. It is up to the individual valuer to keep their integrity to report a value that can be defended even if they are threatened with the prospect of losing a client they must be prepared to walk away.

A developer may use a visit to the site of the property in an attempt to influence a valuer to report a value at a higher figure. The developer may then use badgering tactics warning that if the valuation was reported at a level lower than required then he would go broke and would never give the valuer any work again.

There is evidence of valuers practising in the market producing valuation figures depending on their client’s requirements.

Rental work is another area where the valuer has a lot of pressure placed on them.

It is up to the individual valuer to maintain their integrity and not prejudice themselves.

Valuations to a certain extent are a matter of opinion no one can be said to be right or wrong. There is a range of defensible values, but outside that a valuer should “call it quits”. Case law says you are allowed 10% on either side of the figure.

Sophisticated clients may place downward pressure on the valuer especially when they know the market is going to scrutinise the valuation figure. Generally there is more pressure to value upwards rather than downwards.

Sophisticated clients may ask the valuer to ease off the valuation figure slightly. Less sophisticated clients want as much as they can out of their buildings.

Smaller clients are more willing to really push their tenants at rent review, whereas more sophisticated clients will try and develop strong relationships with their tenants and don’t push them to the same extent.

There is strong pressure from the client on a valuer valuing for mortgage finance, the bank in those circumstances plays a part and they will scrutinise the valuation on completion.

There are clients that may lie to a valuer, but on the whole the relationship between client and valuer is pretty honest and open. Bigger clients will tend to produce all the information requested by a valuer, including information not purely associated with the building.

The trust between client and valuer is related to the amount of information the client is prepared to divulge. Any information withheld by a client would tend to have a negative effect on the valuation outcome.

Being a young valuer does have an impact on your relationship with the client and you really have to prove yourself. Certain clients may try and intimidate young, inexperienced valuers.

Some valuers have a reputation for being optimistic or pessimistic and different clients will be attracted to different valuers based on this perception and their requirements.

Valuers and clients establish different types of relationships, some clients may insist on using a certain valuer and others will refuse to work with a particular valuer.

Younger valuers tend to be more thorough in terms of reporting. Many older valuers are unable to do discounted cash flows. Younger valuers tend to be prepared to work harder as they are trying to establish themselves. Their reports will tend to be longer and they tend to do every valuation on a spread sheet (this may in part be because they do not know the market well), whereas an older valuer may not.

Larger clients want the valuation outcome together with evidence and market commentary; they don’t want to be told what they already know. Mortgage valuations will need to be more thorough.

Portfolios are about the only situation where a valuer may be asked to bring the value down.

Peer review ensures a reliable valuation with integrity. Valuer rotation also helps.

Valuers will be influenced by previous valuations that they have undertaken. They will be reluctant to drop the price drastically from a valuation they have previously undertaken for a client.

Fund managers may want to keep the value down and report even growth in the future. A valuer will look back at what they reported the previous year and if the valuation figure they have come up with this year is very different then a valuer would be inclined to reconsider their valuation outcome and compare it with the previous figure.

There is a range of values for an individual property and different people will come up with different figures. As part of the peer review process the range and the appropriate place within the range will be discussed.

There are so many different things related to buildings that may be viewed subjectively.

There is a range of values and an acceptable margin of error for any valuation. There is a grey area where no one has got it right or wrong. The main reason for this would be the liquidity factor, in that property is traded on an infrequent
basis. A valuer may be prepared to move within this band; however a valuer will become aware when they move outside this band as nothing stacks up with the evidence.

- A valuer would be prepared to move within the grey area created by this range of values as there is no point in upsetting a client. No valuation is going to be exact and it is always going to be a matter of opinion which will often come down to negotiation to find some common ground.
- There are valuers that are renowned for reporting valuation figures that the client wants regardless of the evidence. It is up to the individual valuer to maintain their integrity and refuse to move outside this range.
- Small to medium clients tend to be more likely to coerce or badger the valuer (less sophisticated clients) and threaten to go somewhere else if they do not receive the valuation figure they require.
- Sophisticated clients are more prepared to accept a valuation figure as long as there is a valid reason and logic behind it. Smaller clients are more inclined to say this is the figure I want and will go to any lengths to get that figure.
- The peer review process is not truly independent as you know what you are working towards.
- I don’t ask for the contract price if it is not offered. The contract price to a degree does influence a valuer. If you are within the margin of error then you tend to work towards that figure.
- Although there is a range, a valuer will sometimes have to report a pinpoint figure, especially for financial reporting purposes. Valuation companies may have an internal peer review process and therefore the client will get the firm’s valuation not an individual valuer’s valuation.
- Some valuation companies may have quality reporting standards. These standards assist in the valuer reporting an error-free valuation. Without an internal review and quality reporting process a client may receive a valuation with errors.
- Time pressure can affect the quality of a valuation report, some clients have unrealistic expectations as to the time it takes to complete a valuation. Some valuers will not take on work if the time pressure is unrealistic.
- Prior valuations do affect a valuation; valuers will look back and see what they have done before. The range of values reflected by a previous valuation does give some area of comfort in that it gives a valuer something to aim for.
- Valuer rotation is beneficial in cases of portfolio valuations.
- There are valuers who are prepared to report a valuation figure specified by the client. These valuers do not tend to work in a team environment and just want to make some quick money. The market tends to know who these valuers are. They are more prevalent in smaller valuation companies, although it tends to be an individual thing rather than a company thing. Valuers that are working independently within large organisations are not immune.
- Valuation companies can be characterised as being optimistic or pessimistic, there may not be any particular reasons for this.
- Older valuers are often perceived as being more pessimistic. They don’t tend to dig deep for evidence and they have established clients that they have acted for years and years.
- Valuer’s access to real estate agents within their organisation can be of benefit as information can be gained before it hits the market. Real estate agents can provide in-depth information on market behaviour from a non-valuers perspective.
- A more established company will tend not to create such problems to valuers as a small unknown client. In many cases it is hard to determine whether a client will become a problem at the instruction stage and it may take 2 or 3 telephone conversations until it becomes evident.
- Before commissioning a valuer a client may make it clear that they are seeking a particular figure. It is up to the valuer as to whether they are prepared to take on such a job (integrity).
- Where there is little evidence available to the valuer the more personal opinion he/she may need to use and the client may have more influence over the valuer.
- Clients with different expertise may scrutinise and question a valuation differently. Sophisticated experienced clients will look at how the valuer has analysed and interpreted the evidence. Valuers have to be able to stay within the range of defensible values.
- Some clients may refuse to work with valuers of certain personalities.
- Pleasing a client and receiving a financial reward is always important to a valuer but the valuer can only go so far to please a client before compromising themselves.
- Valuers that are remunerated on a commission basis may be more likely to be influenced by clients outside the range of defensible values.
- Some clients are looking for valuers that are prepared to lie in order to get the result they require.
- A client that is remunerated on a performance basis may place more pressure on the valuer to come up with an attractive valuation figure.
- The client will often push the valuer to change their reported valuation figure. It is really up to the valuer how far they are prepared to move.
Appendix 6A5 Summary of interview with Valuer 5

- A valuer should be an interpreter of the market as opposed to setting the market.
- Our clients know what they are expecting in a report, they expect you to perform and explain your findings rationally. They expect you to understand the market and to give justification to your findings.
- Different types of client require different methodologies to be used and different approaches to be taken when calculating a valuation figure. Reporting requirements and standards can both vary substantially between clients.
- Investors from different countries and different types of organisations may view the value of investments in different ways. Clients may have different expectations from the valuer as to the methodology and standard of reporting.
- The amount of information available to the valuer can affect the quality of the valuation report; a lack of information can lead to a more pessimistic report. A fixed fee valuation is agreed on the assumption that all relevant information is available. Good information helps the valuer understand the relevant issues surrounding the valuation. Clients can get frustrated as to the amount of information they are expected to produce. The better the information, the better the valuation. Good information assists with the whole valuation process.
- The valuation figure should be the same whether it be for a buyer or a seller, or someone just holding onto an asset. The end figure must stand up to market comparison and future market conditions.
- Buyers and sellers have different perceptions of value; owners think that their buildings are worth more and purchasers less. There is often therefore a range of values and as valuers we now often give a range; we often have to give a number but are keen to give a range. There are imperfections in the market place and it is not precise.
- There have been many deals where the buyer has been prepared to pay 20% above anyone else; he can see something in it that no-one else can. There are also situations where buyers can be only 0.1% different from each other.
- There is scope for the value to be considered within a range. We would use a range quite a lot in rental assessments.
- Depending on the purpose of the valuation clients may or may not want a range of values reported. For example if the valuation is being used for negotiation purposes the client is less likely to want a range to be reported.
- A draft report is often given to the client before being handed over as part of the negotiation and they want a definite figure reported. Where there is a range, the valuation figure may skew depending on the purpose of the report and the client.
- Draft reports sent to clients are more prevalent for asset valuations than other types of valuations. Feedback from the property asset manager ensures that there are no glaring mistakes, so it is like an external check before going out as final.
- Some organisations employ in-house valuers who always like to see the numbers first. Mortgage valuations are more straightforward; they are normally sent straight off with no discussion. The valuation of developments may require a number of drafts as changes occur.
- Asset managers may use expert influence to change the reported value. Developers tend to use more “badgering” techniques.
- Information provided by the client can influence the outcome of a valuation. Property managers may use expert influence to influence reported values. This can be achieved by raising legitimate points and identifying areas that can be more strongly weighted by the valuer.
- Developers can provide evidence of pre sales which might affect a valuer’s figure.
- Bankers are usually pessimistic and will tend to pressure downwards; developers are usually looking for a higher figure and will pressure the valuer upwards.
- Valuers may place strategies into place to take into account difficulties developers may cause.
- Developers may want to have a specific company to value for them. This is because of the company’s reputation and credibility with the banks.
- With developers in particular, if they put too much pressure on the valuer, the valuer with integrity may have to “call it quits”.
- Valuers tend to put into place specific strategies such as charging a higher fee to deal with developers.
- There may be other valuers prepared to produce a valuation suited to the developer’s requirements.
- There are genuinely optimistic and pessimistic valuers in the market.
- Valuers have reputations for different specialities. For example, carrying out valuations for tenants or landlords.
- Some valuers tend to give higher or lower valuation figures depending on what type of client they have been working for. Players in the market will choose to instruct a specific valuation firm depending on their reputation in the market.
- Potential clients considering purchasing a property may commission a valuer who has previously valued the property as there is less investigative work to consider.
- Where there are benchmarks available, the valuation process is fairly rigid and valuation accuracy would be high. Therefore valuations incorporating elements of forecasting have a larger range than a cash flow which is directly pinpointed to the market today where a valuer has investment benchmarks to work on.
- Different valuers might use different valuation methodologies and approaches; this may be related to their technical expertise and experience. Valuers that are not able to use discounted cash flow techniques can cause problems.
- Older valuers tend to be more conservative.
In general valuers may find that there is less pressure placed on them if they are able to report to an independent party, rather than directly to the client.

Valuer rotation provides a good checking process. It means that every 2 or 3 years the valuer obtains a fresh view of a property. It also helps to ensure that any mistakes are not compounded.

The client valuer relationship has to be at arms length and if valuers break that rule they are going to end up in real trouble. A valuer has to ensure credibility, independence and confidentiality.
### SAMPLE OF VALUER RESPONSES TO INDIVIDUAL FACTORS CROSS CASE ANALYSIS

#### Appendix 6B1

**Illustrative sample of responses to individual factors relating to client pressure/influence**

<table>
<thead>
<tr>
<th>CLIENT PRESSURE/INFLUENCE</th>
<th>ILLUSTRATIVE VALUER COMMENT</th>
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<tbody>
<tr>
<td>Client expectations</td>
<td>&quot;we know they have agendas and essentially we will respond to those agendas ... my agenda is only to satisfy two issues, one the client in terms of his agenda, but the second one is my responsibilities ... in terms of ethical requirements...&quot;</td>
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<td></td>
<td>&quot;... they know they have got to please that particular crowd to keep the work ....&quot;</td>
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<td></td>
<td>&quot;....I think that scale fees had a lot of disadvantages, but one of the advantages that they did have it didn’t put you under pressure in trying to perform to clients’ expectations unreasonably...&quot;</td>
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<td></td>
<td>&quot;... but certainly, if, to my mind if someone walks in the door and says I need a valuation. I’ve got to sell the property and I want to make it the highest you possible can, you .... may well come up with a different valuation figure than ... if a big banking client comes in and asks you for a very conservative, realistic figure for say the fire sale of this property.&quot;</td>
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<tr>
<td></td>
<td>&quot;... another client might come to you and want to put a different perspective, so you do it in September for a client who asks you to be tremendously bullish, then the next month another client comes to you and says they want to be bearish .... It’s very difficult to put a valuation report in such a short space of time, two reports with very different figures ...&quot;</td>
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<tr>
<td></td>
<td>&quot;... whereas for other clients, they’re wanting an answer ... for what they need it for, what they are going to use it for .... they want a higher value than we are currently talking and for obvious reasons they are talking us up.....&quot;</td>
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</tbody>
</table>
|                           | "...well you know they came out right at the start and told us what value they wanted.... They said “this is the value we want in this exercise”.

"I mean obviously the client does impact on it, and because of their expectations as well, we get put under a lot of pressure to change values based on what they expect ..."

"... they want to be able to report every year that they have had nice growth every year .... They don’t want to have to put into their annual report, oh we’ve had an unrealised valuation loss ...

"The clients we are dealing with, knowing what they are expecting in a report at the end of the day, you really need to understand some of these issues to be able to relate to them..."

| Information power         | "The reality is clients should be cross examined a hell of a lot more closely than they are, not that they are trying to be deceptive deliberately, but it is naturally human nature to tell the person something that will be to your advantage and not tell them the things that are not to your advantage..."

". the larger more complex valuations, very often the client has to supply quite a lot of information or it will come through the Property Manager so there may be quite a lot of figures that you are reliant on, but in my experience there’s never any question of any figures being cooked or anything like that...

"... very often you take a valuation instruction and your point of contact is an agent ... Now he is going to take the opportunity to try and condition you ... because he’s got his commission resting on it. So he is going to give you all the comparables that he knows about, and obviously do his best to convince you that it’s a great deal..."

"... you would ... not go back to them and say “you’ve given us the wrong information”, you’d say “we’ve found something different to what you’ve given us, have we got it wrong?” or “have we misunderstood”..."
| Expert influence | “...the traditional way of doing that is to go through the valuation in great detail and then to find those points that this particular person thinks that enough direction has not been given in favour of a particular viewpoint, in other words stress those issues that will only push the value level up.... Why did you take a terminal value based on a on a 10.5% cap rate rather than 7.5% ...”

“...well there could be mistakes and there could be just an error, you have certain contract rents that are wrong or you've missed some part of the cash flow .... They want to make sure ... that you've taken full account of reversions and so on and all the different cash flow items are included...”

"I think as a generalisation the larger, the bigger clients will be the ones with more expertise. It's the St Luke's and the Kiwi Incomes and the Trans Tasman's who have the staff who are able to supply you with all the information you need for the valuation process in terms of comparables and in terms of scrutinising draft reports and so on and checking that everything's there."

"I believe it's fairly important (client comment) because.... I think the client knows the property more than you do, particularly for ... the unusual properties because as a valuer you wouldn't come across them that often, and yet they're dealing with the property on a day to day basis, they would have a better understanding of the property than you would..."

"... if they go through the methodologies you've used, ... why have you got 10-12% in your DCF, why have you got 8-10%, why'd you select 9%, you go through that process..."

" it maybe just that they've brought up an issue that you hadn't considered with the property down the road that you've ... relied heavily on,... And you'll go back and have a look at it and say yeh maybe they have got a point ...."  

"... in some institutions they have in-house valuers, they always like to see the numbers first. They like to sort of have their say, which they do on occasions, and on occasions it has had an effect on the value where we have changed our view, having regard to some of their points of view, so it is fair to say that has occurred." |
| Badgering | “...if it is a write down situation, it’s quite clear, the client will throw their hands in the air and look at me for sympathy and will say, this is a write down ... can you please help to minimise the write down."  

“... he said “what's the answer” he wasn't interested in the report and I told him what figure came out at the end of the day and he thumped his desk and shouted and yelled and said it's no good to me."

"A classic example would be a development, where the developer just has very unrealistic expectations of the market rent .... And he said you guys have got it wrong, it's worth a lot more thaa that ...and he said well based on that I'm going to go broke on this ..."

“They'll try and intimidate you. I've had situations where they say "what the hell do you know what
### Reward power

"...they know they have got to please that particular crowd to keep the work, they may come up with a value level at a certain point and then it will be discussed and there will be a lot of client interaction going on there..."

"So if you haven't got a lot of work to do and you are a residential valuer and somebody comes through the door ..... you are probably thinking about feeding the family .... But they are always at the back of your mind..."

"... well I think it is purely the temptation aspect, I think, that's the reason for it (performance-based fees)."

"I suppose though that leads on to the question of whether the clients with the most clout are able to dish out the most valuation work have the ability to influence valuers more than just a man in the street, someone who you are doing a one-off valuation for."

"... well you have to say they are more likely to influence you more than a one off client and if it's potential for bigger fees out of them, you'd say well, more likely to do a better job for them or you'll more likely to go out of your way to retain them ... well I think that will come through on your value consideration part of your report."

"No one likes to lose income but at some point you can't start prejudicing yourself .... You always bear in the back of your mind that it's income, it's money in the back of your, in your back pocket so to a degree pleasing the client, pleasing the client is number one, your number one aim.....but you can only take it so far to please them .... Before you start compromising yourself."

### Coercive power

"... I can remember back in the 80's being asked to undertake a valuation on a performance basis. In other words if the value isn't achieved, then we don't need the valuation and you don't get your fee."

"... you're going to be influenced by the prospect of getting a fee ... if it's not coming to the figure you're not going to get a fee, so you're then going to try and scratch your head, human nature obviously is going to make you want to keep reviewing it to see if you can't get to that figure ... there's obviously going to be a temptation to go beyond where you would normally go..."

"I rang through the answers, he then said 'we'll stick the report and you know don't bother sending your fee' was his answer to my valuation and that was the end of the matter."

"I mean you're facing the prospect of losing a client which is losing income, but at the end of the day we're not prepared to work for the people who are going to put us under that sort of pressure and make us, you know prejudice ourselves."

"... It might be three or four times a year whereby we just flatly refuse to say, which isn't a great amount for the number of jobs you do in a year .... It does happen, they'll say we're going somewhere else ...

"So when a developer says to us, "we can get this job done a lot cheaper somewhere else" we say fine, we are happy with that. We'll do the job, but only on that fee, we are very firm on fees for developers."

### Client instructions

*I think they could be identifying too closely with their client's objectives and not their own ... the best instructions that you get are from parties that are disinterested in the outcome."

"...obviously got to listen to the instructions of your client. Now you do run into a problem as with that sort of approach ... you've got to be careful and you could do a valuation for a developer and the developer goes to extreme lengths to get you to value the property as highly as possible ... six months..."
Conceptualising the Influence of Clients on Valuations

or a year down the track there’s a bank and the bank gives you another instruction, so it is possible to get yourself tied in knots.*

“I know there is a tendency to use discounted cash flow and that’s favoured by a lot of clients and certainly we are called upon to use discounted cash flow...”

“In theory you should be uninfluenced by your instruction, you should come up with a current market value, but it is very difficult to move away from how you were originally introduced to a situation, that you’re gonna be influenced by, as much as you try not to be you certainly are going to have a different slant on the property initially”.

“...you are likely to be influenced by the intentions of the party ... you know in an ideal world you could be instructed by someone who is independent that could just say, well you are required to do a valuation on this property.”

General influence
"...the other issues relating to the way in which I look at reporting to a client is that I have to offer them a service which I think they need...".

"...it’s at the heart of what we do because behind all that pressure and amongst all that pressure you’re getting to service clients’ needs and to basically be friends with your client ... to provide a service ...."

"... when there’s less information, the client ... does have a bit more impact and probably has a lot more to say because they’ll be saying to you, you’ve come up with this figure you know, what evidence is saying to you that, it’s not, you know, this figure...

"I mean the client will try anything, whereas it is up to the valuer to the extent that they are going to let that relationship be an influence..."

Appendix 6B2
Illustrative sample of responses to individual factors relating to the type of client

<table>
<thead>
<tr>
<th>THE TYPE OF CLIENT</th>
<th>ILLUSTRATIVE VALUER COMMENT</th>
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| Sophisticated      | "A lot of the work I do ...I am dealing with large organisations who have no investment income ... they are more interested in saying 'for g-ds sake give us the numbers that we can put in our financial statements."
|                    | "You know if you are dealing with an institutional manager, they’re less likely to be as aggressive in the way they approach the valuation process than if it was a developer who it is their property."
|                    | "...but generally the client knows the property better than the valuer does, that the client understands the market better than the valuer does and that ... as a valuer .... You are better off submitting a draft report which includes a value .... You have got a document that you can explore any attributes that you may have missed, or, you’ve over emphasised or whatever and given the client an opportunity to highlight anything like that ... you can revise it or think about it and then offer your opinion."
|                    | "Downward pressure has, believe it or not, does actually occur ... it happens more with sophisticated clients whereby they know that they’re going to get analysed to death".
|                    | "I mean most of our clients are corporate clients ... I guess they’re more prepared to accept your advice provided there’s ... valid reason and logic behind it. I guess ... they’re probably a bit more sophisticated whereas the smaller client has figure in his mind and says this is what I want and he will go at any lengths to get that figure."
|                    | "For certain purposes we prepare draft reports quite regularly, in particular where reports are done for asset purposes we would normally prepare a draft report and then fire a copy down to the property

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<tr>
<th>Developer</th>
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<tbody>
<tr>
<td>&quot;...it tends to be that a developer will try and paint the rosiest possible picture, and will allude to lots of interest, for examples in lettings and possibly, quite possibly there is interest, but they will certainly lead you to believe that the whole picture is much rosier than it may actually be...&quot;</td>
</tr>
<tr>
<td>&quot;...if there were any factors affecting value, any downside at all, they (developers) would try and hide it from you ... there may be a lease for example that has been entered into and there may be inducements that they don't tell you about and that's always a favourite.&quot;</td>
</tr>
<tr>
<td>&quot;...you know if you're dealing with an institutional manager, they're less likely to be as aggressive in the way they approach the valuation process than if it was a developer...&quot;.</td>
</tr>
<tr>
<td>&quot;... a developer is more likely to use someone who they know will come up with a more optimistic view on the property than someone who is not...&quot;</td>
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<thead>
<tr>
<th>Unsophisticated</th>
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<tbody>
<tr>
<td>&quot;...small clients are damned difficult to deal with...and if somebody like a purchaser of a Fletcher Home starts to lose money, it is a very personal issue and they will do something about it.&quot;</td>
</tr>
<tr>
<td>&quot;...so they don't actually know how you are going to determine that value, so you would need to interpret that, so the way you get around it's going to be a bit more vague ...&quot;</td>
</tr>
<tr>
<td>&quot;.... Those clients generally .. are a lot smaller and less sophisticated and probably not reporting to a rigorous market ... and they will have a mindset unless you can provide ... a reasonable argument ... you know ... it's a matter of holding those clients' hands a lot more and really talking through things and probably going into a lot more depth ... there are still plenty just think you got it wrong, we're not going to use you again...&quot;</td>
</tr>
<tr>
<td>&quot;...there are certain valuers that are just renowned for just putting basically the figures on that people want ... I would say it would happen in the medium to smaller firms that are dealing with less sophisticated clients ... the smaller client has a figure in his mind and says this is what I want and he will go at any lengths to get that figure.&quot;</td>
</tr>
<tr>
<td>&quot;...but I mean if it's Joe Bloggs from down the road, you've got an idea he's going to be more of a problem than XYZ Property Ltd, you know that own $400 million worth of property.&quot;</td>
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<th>Developer</th>
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<tr>
<td>&quot;Less sophisticated clients tend to push much harder at rent reviews, whereby more sophisticated clients will wish to develop strong relationships and work harder at keeping tenants...&quot;</td>
</tr>
<tr>
<td>&quot;...some clients are frustrated with the process of providing information (less sophisticated) .... &quot;what do you need all this information for?&quot;, we are telling you aren't we, why do you need to see it?&quot;</td>
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<thead>
<tr>
<th>Unsophisticated</th>
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<tbody>
<tr>
<td>&quot;...we tend to charge them more (developers), we look to charge developers higher fees than what we charge out institutional clients for several reasons, higher risks on projects, they are generally harder clients to work for and you might get the odd one that doesn't pay. So when a developer says to us, &quot;we can get this done a lot cheaper somewhere else&quot;, we say fine we are happy with that. We'll do the job,</td>
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"In some institutions they have in-house valuers, they always like to see the numbers first. They like to sort of have their say .... And on occasions its had an affect on the value where we have changed our view, having regard to some of their points of view."
<table>
<thead>
<tr>
<th>Institutions</th>
<th>“If you are dealing with an institutional manager, they’re less likely to be aggressive in the way they approach the valuation process than if it was a developer who…. It is their property.”</th>
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<tbody>
<tr>
<td>Banks</td>
<td>“…you’ve got some valuers that do a lot of work for banks and are known to be quite conservative and they will always be below the purchase price on a house …. No matter how good the acquisition ….”</td>
</tr>
<tr>
<td>Distressed client</td>
<td>“…other types of clients might be property owners who are distressed and who are trying to get valuations on their properties increased so that they can raise more equity. … they might not be developers as such, they might just be staving off the approaches of the banks and it is possible for valuers, obviously to get caught by that. That’s your worst kind of client, the ones that are about to go under….”</td>
</tr>
<tr>
<td>Ethical client/unethical</td>
<td>“I suppose falling into the most ethical category would be banks I think, I think that the banks are generally very straightforward … and they don’t try and put pressure, I think they are more likely just to switch clients if they don’t think they’re getting the service they want, sorry switch valuers..”</td>
</tr>
<tr>
<td>Client remuneration method</td>
<td>“…because these guys get paid based on how the trust performs, they may say, no we’ll just leave it at that and save some for next year, given that they know they can have a bit more growth next year … to help out bonuses type of thing and that’s a common theme that comes through” (valuer 4)</td>
</tr>
<tr>
<td>Size of client</td>
<td>“…Well size comes back to, I suppose how often you deal with them maybe, if you’re dealing with them on a more regular basis you’re more likely to be more open to what they have suggested because you...”</td>
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</table>
have a bit more trust ... they are more likely to influence you more than a one-off client..."

**Buyer/seller**

"But the sort of issues I am talking about come when you are in the adversarial type, or if there is an issue relating to buying and selling, if someone wants to sell it as an individual they probably want to present it in the best possible light in value terms"

"... if someone walks in the door and says I need a valuation, I've got to sell the property and I want you to make it the highest you possible can ... you can well come up with a different valuation figure than if ... a big banking client comes in and asks for a very conservative, realistic figure for say the fire sale of this property".

"... if you're working for a purchaser, they would want to know what the bottom ranges are, so they can go into bat

**Landlord/tenant**

"if you are acting for the lessee you will advocate the lower end of the range because you would say, why would a tenant want to go out into the market and pay more than this group of people are paying in that range...... The lessor's valuer on the other hand is saying, look there is a group of people up here who are paying a lot of money for their premises now".

**Culture/nationality**

"... they (Australians and Americans) are looking at it slightly different to the Asian market and this might affect the range of values because they are looking at a property slightly differently"

"We would certainly for that type of client (Asian) put in more detailed depreciating replacement value approach and a replacement cost estimate..."

"...but certainly instructions that come out of the East from Hong Kong, Singapore, where there’s Asian owners, yes you might find that those clients tend to be very tough on the fees as well as on the expectation. ... it’s more the fee than the value as such, yes it has got to be the very cheapest and you’ve still got to meet all the deadlines and then they want you to do extra work, then they don’t want to pay you any more .... So yes I suppose that influences you when the phone rings and the client appears in front of you, or phones you from overseas. Yes, you’ve got this stereotype, this picture in your brain."

**Personality**

"It comes back to .. personality or you put it under the guise of the individual instructing you and what respect you have for them."

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**Appendix 6B3**

**Illustrative sample of responses to individual factors relating to the purpose of the valuation**

<table>
<thead>
<tr>
<th>PURPOSE OF THE VALUATION</th>
<th>ILLUSTRATIVE VALUER COMMENT</th>
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<tbody>
<tr>
<td>Lending purposes</td>
<td>&quot;Well for example if ... you’re not made aware that it (the valuation) is going to be used for mortgage finance purposes, the client perhaps lies to you, he says, no I’m going to sell the property, I want you to wind this up and then you find the bank comes to you and says we have got a valuation from so and so, it’s got your name on can you readdress it to us ... so you’ve got to be very .... if your not adhering to this value for all purposes scenario.&quot;</td>
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<td></td>
<td>&quot;... the other situation where we, you often get upward pressure is where obviously it’s for mortgage finance and these guys need as much money as they can and they want to push it right to the absolute limit and that way their mortgage advance is that much higher...&quot;</td>
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<td></td>
<td>&quot;For valuations like mortgage .... They are just sent straight out and usually there is no discussion, we do the job and it goes out.&quot;</td>
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<tr>
<td>Asset valuations</td>
<td>&quot;... major asset valuations have become like rent reviews now whereby you come up with a figure and then you sit down and discuss it.&quot;</td>
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<td></td>
<td>&quot;.... Portfolios are really the only situation when we’re asked to bring them say, down...&quot;</td>
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</table>
Conceptualising the Influence of Clients on Valuations

"... they want to report every year that they've had nice growth every year into the future, they want their portfolio to keep going, they don't want to have to put in their annual report, oh we've had an unrealised valuation loss..."

"For certain purpose we prepare draft reports quite regularly. In particular where reports are done for asset purposes we will normally prepare a draft report and then fire a copy down to the property asset manager...."

Leasing/rent reviews purposes
"It (client advocacy) happens specifically with rental issues, the general perception of a client is that you are there to somehow run their point of view"

"... you'd say the same would be ... or a leasing point of view if a rent review is coming up, you know there's a range of rentals you can adopt here, this is what we would strike it at .... If you are dealing with the lessor they would want to be, they'll want you to highlight the upper range."

"... a few clients that have purposely withheld information because they know it's going to have a negative impact on that value, particularly in rent review cases."

Sale/purchase purposes
"... if you're working for a purchaser, they would want to know what the bottom ranges are, so they can go into bat and take off .... You would say 'well here's a range of values my valuation would be this', but clearly you can go down to these levels".

Matrimonial purposes
"Matrimonials, if the value is there, one might slant one way and the other one slant the other way and the market might say something else"

General
"I always believe that the purpose of the valuation is very important and I suppose I believe that you can have different values for different purposes."

"...If you were told it (the valuation) was going to be used for litigation you would be a hell of a lot more exacting in the way you did it than if you were told to give an indication to you know a family trust to do an in-house transaction..."

"...... so when some clients want to use the valuation report to negotiate, they don't like a range for that purpose ... 'cos immediately the other side will straight away go for the upper level, or the lower level of the range depending on what side they are on ....".

Appendix 6B4 Illustrative sample of responses to individual factors relating to the valuation process

<table>
<thead>
<tr>
<th>THE VALUATION PROCESS</th>
<th>ILLUSTRATIVE VALUER EXAMPLES</th>
</tr>
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<tbody>
<tr>
<td>Draft report</td>
<td>‘... it may be moved up or alternatively it may not be moved up and the traditional way of doing that is go through the valuation in great detail and then to find those points this particular person thinks that enough direction has not been given in favour of a particular viewpoint....’</td>
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<td></td>
<td>‘... many clients might ask for a draft to just to give them that opportunity. That's ... quite a common ploy and I think valuers know that when they're asked to produce a draft, that's just what it means, it means that you've got to produce your report but leave it in draft form which gives the client a chance to read it and I suppose to pick holes with it and yes if necessary try and influence it...’</td>
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<tr>
<td></td>
<td>‘Sometimes ... for genuine reasons. ..... they'll bring to your attention factors that perhaps you haven't placed full weight on’ (draft valuation)</td>
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<td></td>
<td>‘... I am quite relaxed if the client says you do your valuation and come up with your figures and send them in to me. Very few clients would want you to finalise the reports though and finalise all the figures without having a look at them. At the very least they would want a schedule of all the actual figures before you then go to finalise the report.’</td>
</tr>
<tr>
<td></td>
<td>‘... If you're offering a report to a client who you know and you've dealt with before, you're quite happy...'</td>
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to give them a pretty raw draft that covers a lot of issues for them to think about that you can then discuss, if we come up with the final value, compared to a new client where you wouldn't want to go through the process cause you know the way they may interpret or misinterpret that."

"...if you... offer them (a new client) a raw report that suggests you are vague in your thinking, they may misinterpret it as being a way of manipulating or a lack of confidence in your work, whereas it's an opportunity to discuss the value some more, before your conclusion."

"... most of the work we get involved with... we have given a draft, but most of the valuations we end up getting, .. are of a nature that need to be discussed before the final valuation is produced, that you'd want to have discussions with a client..."

"...I think that you are better off submitting a draft report which includes a value, so you have concluded a value at this stage of the draft, you have got a document you can explore any attributes that you may have missed or you've over emphasised or whatever and giving the client the opportunity to highlight anything like that and then you know, you can revise it or think about it and then offer your opinion."

"I suppose the things that will come out (of the draft report) is the physical, or the correctness of descriptions to make sure that you may have missed something, or the physical correctness of a property, the expectation side of the report as far as the future comment, and I suppose that the last one that you'll have in there is the weighting you have applied to the various methodologies, you've come up with say three or however many figures you have come up with and where your figure finally lies within that range..."

"...in many respects major asset valuation have become like rent reviews now whereby you come up with a figure and then you sit down and discuss it."  

".. but the only thing that is typical is probably say from my work that goes out, maybe fifty percent of the job will get changed before they go out not through errors or such but more through just having differences of opinion, you know and sitting down and debating the issues, and it also helps because you sit down and debate issues with the client."  

"... so for that purpose (negotiation) we would probably provide a draft report to the client first and it may well be changed ... before it is actually handed over for negotiation, to change those sort of things that are counterproductive to the valuation process.."

"For certain purposes we prepare draft reports quite regularly. In particular where reports are done for asset purposes we would normally prepare a draft report and then fire a copy down to the property asset manager, just so they can have a final check of it to make sure there is nothing glaring, so if you like, a bit of an external check on it before it actually goes out as final. So that is done quite regularly because it is far easier to pick something up at that point, than if after you have actually signed off and the numbers have gone into the annual report, you know it is a bit late then. ....In some institutions they have in-house valuers, they always like to see the numbers first. They like to sort of have their say, which they do on occasions, and on occasions its had an affect on the value where we have changed our view, having regard to some of their points of view, so its fair to say that has occurred."

<table>
<thead>
<tr>
<th>Independent party</th>
<th>&quot;It makes it a lot easier for the valuer and the reporting, because there is an independent party in there if you like other than the actual owner having an influence on the valuer ...&quot;</th>
</tr>
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<tbody>
<tr>
<td>Valuer rotation</td>
<td>&quot;.....I think there's a requirement not to have the valuations done more than two or three years in a row for a property by the same valuer.&quot;</td>
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<td>&quot;... It's a control mechanism for valuers generally because they know that someone else is going to follow them when they're doing the valuation. Next year it will be somebody else, you know it's like a peer review type thing.&quot;</td>
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<td>&quot;...now firms are in a situation where they're getting a panel and they're rotating the valuers, you get three cracks at it sort of thing, for three years in a row and then you know, then you become the peer reviewist type situation.&quot;</td>
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</table>
"... it just makes the end figure that much more reliable or it's got, ...... it's just to give it a bit of integrity I guess and different valuers will come up with different answers, just keep things ticking over so that one valuer's not every year saying well last year I put this on it so this year I'll put this on it."

"if I was going to be a portfolio manager ...... I would change my valuers on a regular basis just having gone through the process and knowing what happens."

"As we move into the next decade it will becoming even more so in the rotational valuation process.."

"I think just the plain rotational basis is quite adequate in most circumstances because you are getting the checks every two to three years, normally most rotations where I work, I only value a property for two years and then we are off for one or two years and then we are on again, it is a good check process."

"it means that you are getting a fresh view which is always healthy, secondly, if there happens to be a mistake it is not compounded, it's picked up .... everybody is human and there could be a mistake there, so if you get another firm that may pick it up ....."

Peer review

"... there is a lot of influence that comes from that point down to there, the processes that they are adopting now are peer review processes somebody else looks at these valuations but they are under the same pressures I can't see that it makes a dam bit of difference."

"... and you know it's something that if there is a lot of pressure being put on to increase the value then it's something that would be discussed around the office...

"... you go through the process and then you get to the end you look at your answer and say is that a reasonable answer for the property, it's very difficult to stop and say "yes it is" or "no it isn't" after you've gone through that work unless you have that break or you get someone else to review it, when I say someone else to review it, um someone else quite distinct from the process and like in this firm you have second reviews, second partner reviews...

"... Usually the second review is, they're not going to revalue the property shall we say, they're not going to say "that you've come up with this value, you should be here" they're just going to give you thoughts to relook at your value."

"A peer review, yeh. And I think that's an excellent system now. We were sort of a bit sceptical about it at first just thinking well these guys, their sole objective is to find mistakes in our valuations but as it's turned out it hasn't worked like that and it's actually been quite a constructive process because you know the clients are getting the benefit of three minds and also the valuers are learning at the same time so I mean, in terms of the end value, the clients are generally a lot happier if the three valuers can reach a consensus or the panel of valuers can reach a consensus. They're less likely to come back at you and say well don't you think you should know, alter this or alter that to come up with the figure that they want."

"... I think they're just trying to get a bit more credibility about their, about their values that they're presenting to the market (by using a peer review process)."

"that's the thing with the peer review process, you know what you're working towards which I guess in some ways perhaps makes it a little, which flaws it to a degree I mean it's not truly independent but then again they don't want, the client doesn't want to pay to have the valuation done three times so I guess it's a cost issue as well."

"... in many respects the client doesn't get one person's valuation, they actually get the firm's valuation because you've got to sit down and discuss it with the rest of the valuers why you've done this and how you've interpreted the information and that sort of thing so I mean we peer review before the job goes out."

"... all the issues that you think that are relevant and your peer reviewer thinks are relevant are brought out into the open and discussed and debated before it even leaves the office. It gets very bureaucratic at times but it's quite, when you're meeting pretty difficult deadlines it's a difficult process to go through but you know I think it's worthwhile."
### Conceptualising the Influence of Clients on Valuations

| Reporting standards | "Obviously for financial reporting purposes under SSAP17 that sort of thing, you've got to put a figure on. In that situation you've got to come up with a figure but you know we will put in a range without specifying and say it's got to lie somewhere in here but we can't be certain as to where it's going to lie."

"Financial reporting can't put a range under SSAP17, you have to give them a figure less disposal costs"

| Quality control | "I've had clients who say I like all this paperwork and, formalising the whole thing and they know exactly what they're going to get and when and quite often how much it's going to cost them, but they also recognise that it's you know it's not just one person's opinion, it's, in this situation you're representing the company."

"... having this ISO9002 obligation it just means that the client generally is going to get a report that's mistake free because you've also got to get someone else to read it for grammar and spelling and that sort of thing and they're also going to get a figure that you know is, well, you know, error free and the only difference then is interpretation of how the firm's really interpreted the market data in terms of the figure and I think quite possibly the valuation as a whole benefit from you know, like an internal peer review process."

| Client instructions | Also see client requirements under client influence

"... Valuer Y may be operating in a totally different way he may be there just to do valuations in terms of his clients requirements and therefore you get different answers, well I suspect that you would get different answers anyway but you would get different focus from his tasks on what he is doing so when you talk client relationships you may be looking for a more simple version as to how I would relate to a client instructions, we have a process we deal with the process that comes through, it doesn't happen with me every process is different. Well not every, but a large proportion of it are different and every time that I think of one process for that client will be different There may be some underlying structural elements that I haven't identified which apply to all clients such as how I will relate to them, how I will respond to them and so forth but I actually respond on the conditions at the time. I can't do it any other way."

### Appendix 6B5  Illustrative sample of responses to individual factors relating to valuer traits

<table>
<thead>
<tr>
<th>VALUER TRAITS</th>
<th>ILLUSTRATIVE VALUER COMMENTS</th>
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<tbody>
<tr>
<td>Integrity</td>
<td>&quot;... my agenda is only to satisfy two issues, one the client in terms of his agenda, but the second one is my responsibilities as I perceive them to be in terms of ethical requirements.&quot;</td>
</tr>
</tbody>
</table>

"What I consider advocacy is when you extend beyond and you start to argue the client's point of view rather than the value that relates to the client's point of view." |

"... client's will go to specific valuers because they are aware that that happens .... It is well known in the market that is what takes place ... you just slant the value a bit in that direction."

"... I believe valuers lose their perception over time, if they do this because they are too busy to try and satisfy and not busy enough trying to get where the market is. They then start to stray and they stray in both directions off the line because they don't know where it is any more." |

"... valuers do quite strange things in their relationships with clients out of all proportion to ways that they expose themselves professionally..."

"... if a valuer goes to work for a firm, how shall I say, a relatively dodgy reputation .... There is a reasonable likelihood that that person will end up adopting that procedure..."

"As a valuer gets older, the valuer normally becomes more entrenched in views and is more susceptible to being put on the wrong track."

"... you're going to be influenced by the prospect of getting a fee, ... if it's not coming to the figure you're not going to get a fee so you're then going to try and scratch your head, human nature obviously
Conceptualising the Influence of Clients on Valuations

is going to make you want to keep reviewing it to see if you can't get to that figure and you, there's obviously going to be a temptation to go beyond where you would normally go, so....*

"I suppose at the end of the day you may be faced with a situation where a client is just damned adamant about it. And that there is a difference of opinion and it's a question of how far you can move and still remain comfortable..... at the end of the day you, everybody's got their limit and you just go as far as you can."

"Different valuers have different limits so yes, some will go further than others in terms of, in terms of how high they'd go, yes because let's face it that tends to be where the pressure is being put to, to increase the values."

".... their (the valuers) own standard of ethics, their preparedness to bend rules I suppose. Just to sign off on something that may be in their heart they don't believe and I suppose would be an issue. The integrity I suppose, the integrity, the integrity of the person. Yes, I mean there's, there's all types out there."

"... that's the dilemma of a valuer and that your dealing with one opinion of the market, not say the average of the market he's definitely to one side of the average, at the end of the day you know it's going to come to a point where I'll say "well that's my answer" and I suppose that's all you can do, you say "well you know this is my answer" and he'll either accept it or not."

"...he can't be valuing a property according to the standards and he's out there and I, you know if there's one there's got to be two. Now I'd say that you know in the scheme of things there's only be a couple percent of valuers who are like that but you know, there are people who are out there who do that."

"..... if you make the conscious decision that you're gonna chase the client by chasing their value for clients, clearly you've stepped outside what a valuation is, it's not your opinion, it's someone else's opinion and you know I'd say by definition your not doing a valuation anymore."

"..... we have to turn round and say we're not going that high or not going that low for whatever reason and we lose work because of it but at the end of the day we've got to maintain our integrity and so in those situations you do get put under a lot of pressure."

"He obviously went somewhere else and has got the number that he probably wanted to take to the bank and that's the end of the matter, but you know as far as we were concerned we were as high as we were prepared to go. ...... But I mean you've just got to maintain your integrity and just say well you can only go so far before you start prejudicing yourself."

".... there are certain valuers that are just renowned for just putting basically the figures on that people want .... I would say it would happen more in the medium to smaller firms that are dealing with the less sophisticated clients, .... the smaller client has a figure in his mind and says this is what I want and he will go to any lengths to get that figure."

"But if you're sort of within that margin then you do tend to work towards the figure, yeh it does influence you."

"The guys that generally are prepared to go out, sort of put the figure on for the client are the guys that really just want to make quick money."

"No one likes to lose income but at some point you can't start prejudicing yourself, you know so you've really got to say I'm not going to do it but you always bear in the back of your mind that it's income, it's money in the back of your, in your back pocket so to a degree pleasing the client, pleasing the client is number one, is your number one aim, we're in that service industry but you can only take it so far to please them in terms of, before you start compromising yourself."

"Sometimes ... for good will reasons I'll say, 'look I know you are going to have to go and get someone else to do the job, they might have a slightly different perspective than me, I am happy to call it quits.'
| Perception of the valuer's role | "There could be another valuer that could well see more in line with the developer, that's happened in the past, that's fine..."

"To be a valuer of any standing that wants to get repeat work, they've got to have credibility, then you observe the normal commercial rules of confidentiality and impartiality and ensuring you don't reach or have conflicts of interest and that sort of mess, that's very important."

*I would say well I am sorry but you better go somewhere else because I am not an advocate I am an advocate for a position I am not an advocate for you."

*What I consider advocacy is when you extend beyond and you start to argue the client's point of view rather than the value that relates to the client's point of view.

"There is however one very strong catch which usually gets advocacy valuers out if I can say that, it is that you walk into a danger line there so if you move the value from that point to that point, I believe valuers lose their perception over time if they do this because they are too busy to try and satisfy and not busy enough trying to get where the market is. They then start to stray and they stray in both directions off the line because they don't know where it is any more.

"... I think that they (client advocates) cover the whole range, but I think the ones that are most obvious are in the residential sector because they tend to get found out more."

"It happens in rental consultancy quite a lot, you can have landlord's valuers and tenant's valuers and you get some valuers who specialise on the tenant's side and some who tend to specialise on the landlord's side. I agree with that sort of advocacy because it's a process that seems to work and you end up with in the end a middle of the line figure anyway so I can, I believe that advocating for a client is possible in that arena. But not when it comes to the market value for a statutory purpose, but yes I suppose there is a perception that you get a higher value from some valuers."

| The amount and type of experience | "...well if they have always dealt for the vendors or you know one sector of the market, if they have always dealt for lessors in rental determinations, they have always heard one side of the argument, as much as they can probably say they can be balanced, um, if you've had experience on both sides of the fence your appreciation of what is the market value I'd say would be better and there are valuers who have camped themselves on either side."

"... In a rental arbitration, you just know that's their work and this person is a lessor's valuer. You know these people, you know if you get a report from this company it will be high in the range.

"... valuers have reputations for different specialities. Some might be acting for a tenant in a rent review, they're very good at tenant advocacy, arguing on the tenant side, they've had good experience with that, they've built up a practice where they do that a lot...."

"... you get some valuers in town that continuously act for tenants and some continuously act for landlords, I mean we are more in the landlord camp...."

"... and the market does secure your practice somewhat based on you know how you have built and how you have got a known reputation and a name, you've got some valuers that do a lot of work for banks and are known to be quite conservative and they'll always be below the purchase price on a house consistently, no matter how good the acquisition, and is currently worth more than what you paid for it, 'sorry that's it I am doing it for a bank and I could not let my bank have a valuation more than what the purchase price is'.

"...... basically no valuer should be taking an instruction which he is not qualified to get involved in,...... there was a Christchurch guy who basically all his life had been valuing residential he accepted a valuation for a commercial property and he stuffed it up. He was the first to admit it. He was also an older valuer as it happens."

*I suppose the greater the experience the less chance they are of getting themselves into hot water.*

"as a generalisation you might find that the younger valuers who are perhaps closer to the text books may be less flexible than an older more experienced valuer who, who may have learned to, if you move two or three percent the world won't come crashing down around your ears...."

"... valuers have reputations for different specialities. Some might be acting for a tenant in a rent..."
review, they're very good at tenant advocacy, arguing on the tenant side, they've had good experience with that, they've built up a practice where they do that a lot ….."

| Age       | "As a valuer gets older, the valuer normally becomes more entrenched in views and is more susceptible to being put on the wrong track."
|           | "There was a Christchurch guy who basically all his life had been valuing residential he accepted a valuation for a commercial property and he stuffed it up. He was the first to admit it. He was also an older valuer as it happens."  
|           | "I think age and experience will certainly influence the valuer. I suppose the greater the experience the less chance they are of getting themselves into hot water."  
|           | "I think the younger valuers are going to find it more difficult to cope with, with clients because of their inexperience and that may result in different valuation figures. … as a generalisation you might find that the younger valuers who are perhaps closer to the text books may be less flexible than an older more experienced valuer who, who may have learned to, if you move two or three percent the world won't come crashing down around your ears or the sky won't fall on top of you but, whereas the younger valuer might, have a different view so, I mean that's a bit of a generalisation but it, it, I suppose it can go the other way where you could have a younger valuer who because of his inexperience is influenced far too much by the client and comes up with something that you know is, can't be justified so I think it could go either way, so I can see that, that age could come into it but because of the experience not necessarily because of the age, because of the length of time that the person's been practising."  
|           | "… got to prove yourself to them once that situation and age is no barrier, once you've provided you know quality work for them and they know that you, you know that what you're talking about in that situation then work will start coming back, directly back to me or they'll come back to me with queries, but initially it's, you've really got to prove yourself with them, yeh."  
|           | I think the older guys have been round the traps for so long that they can, reading reports from the older guys will be more of a, almost like a conversation the report whereas the younger guys tend to go through the steps more rigorously and to the book to a certain extent but also having said that you'll see, there will always be that balance between the, the older guys generally can't do a discounted cash flow."  
|           | "Yeh, I mean I guess off the record the younger people are prepared to work that much harder and strive to do a better job whereas the older guys I think now are tending, some of them now are getting well over their fifties and getting towards retirement and you know just sort of want to get the work out and that sort of thing."  
|           | "….. although my report would probably be five to ten pages longer than my boss's report for example, but from behind the scenes you know just what goes into it, you put that much more time into getting better evidence and that sort of thing, it's, you talk with the younger guys around the place and it's the same, the same situation, you sort of, I guess it's because you're trying to establish yourself and also you need to do the extra work because you don't understand the market quite as well. They've had a bit more experience."  
|           | "….. the older valuers are quite often perceived to be more conservative, not quite as in touch with the market we'd like to think but that could be perceived as being a trait, the guys that have been around for a while and don't want to rock the boat too much, never really dig properly you know."  
|           | "….. the older guys what I was saying before they quite often don't take the time to get the best evidence or really satisfy themselves that they've really dug as deep as they can dig. They'd all deny that evidently but it goes on, when you sit down with those guys in a rental negotiation and they're using evidence so way out of date that you know they haven't done the job, you know they haven't even looked at the evidence so."  
|           | "Yes, I think that age can have an impact on the approach taken, and also the view they may come to".  
<p>|           | &quot;Oh in my experience, some of the older valuers are more set in their ways, what they think about |</p>
<table>
<thead>
<tr>
<th>Optimistic vs pessimistic</th>
<th>&quot;....... we had a reputation for being conservative. Now that makes no sense at all we are not conservative, if anything there are many occasions when we have probably overvalued in the market, but that is the reputation we have got, we have been told that many times we wanted to go to a conservative valuer because we really want to know where the bottom line is.&quot;</th>
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<tr>
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<td>&quot;...there is a range of values you can determine at any time for a property, it's the position within that range that you come up with your value, whether you are optimistic or pessimistic, .... if people are optimistic at this time um you would say you'd be going to the upper side of the values because the vendor will, the seller would be more bullish.&quot;</td>
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<td></td>
<td>&quot;At the end of the day, it's more likely to be individually based, cause I know ah, you know pick a firm and then you look at the valuers within that firm and you know that they are going to be ah more optimistic or more pessimistic or more conservative I suppose you'd say, more conservative or more ah, liberal in the way they will adopt or apply or determine a valuation. So its you know a personal, it's going to come down to an individual stance, an individual.&quot;</td>
</tr>
</tbody>
</table>
|                          | "You know, rightly or wrongly you know there are people out there that you say, 'here's going to be an optimistic valuer or a lessor's valuer'.

|                          | "..... a developer is more likely to use someone who they know who will come up with a more optimistic view on the property than someone who is not." |
|                          | "... there are you know people out there you can say, you know they are a lessee's valuer." In a rental arbitration, you just know that's their work and this person is a lessor's valuer. You know these people, you know if you get a report from this company it will be high in the range." |
|                          | "... certain valuers will value high, and people, depending on what they want, will go to a, that valuer knowing full well that they're going to get a full valuation out of it." |
|                          | "... we're categorised as being conservative and we don't know why. We quite often sit down and take a look at it and say why is this and we can't seem to work out why." |
|                          | "The second issue is there are ... more optimistic and pessimistic valuers around, I think there are, to be quite frank, I think there are. I think everybody genuinely tries to do a straight up job." |
|                          | "... you've got some valuers that do a lot of work for banks and are known to be quite conservative and they'll always be below the purchase price on a house consistently, no matter how good the acquisition, and is currently worth more than what you paid for it, 'sorry that's it I am doing it for a bank and I could not let my bank have a valuation more than what the purchase price is'.

|                          | "They are meeting someone's needs, they're meeting the bankers needs and they're happy with that and that's how they call it and they see it, and then you have got other valuers which you know might have a reputation for being a bit more optimistic." |

<table>
<thead>
<tr>
<th>Valuer remuneration method</th>
<th>&quot;I think scale fees had a lot of disadvantages, but one of the advantages that they did have it didn't&quot; put you under pressure in trying to perform to clients expectations unreasonably just to take money home to their family.&quot;</th>
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<tbody>
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<td></td>
<td>&quot;you can see the difference between someone who works on a salary for a major company as opposed to a valuer who's perhaps working from home and all of the quoted fee is going in his pocket or he may be working for a smaller firm and taking 50% or 55% or whatever they get of the fee in his own pocket, so there's I suppose there's pressure there to take instructions and certainly to be influenced by the size of the job and the size of the fee and ultimately, again if we were going back to the developers scenario, I suppose ultimately the level of value that can be placed on the property, it's all influencing the valuer. I suppose to explain it further, it's, if I turn down a $25,000 instruction okay, it doesn't mean a lot in my pocket, it probably means something to other people in the office as well but it's, you can see there's a difference there between that and someone whose commission driven and who's taking, basically a percentage of the fee as their income. I'm not too sure just how many firms operate like that around town and you know how much are, how many are sort of basic salary based. I think there's more a tendency now certainly with the major firms for the valuers to be salary based and then a bonus on top, which I think is a good thing, yes, I think that's the way it probably should be, so that's....&quot;</td>
</tr>
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</table>
"I suppose potentially there could be the ability to influence the valuer by way of remuneration. Of course we're in a different year now but I can remember back in the 80's being asked to undertake valuations on a performance basis. In other words if the value isn't achieved then we don't need the valuation and you don't get your fee."

"... you're going to be influenced by the prospect of getting a fee, you're not getting a fee when you're doing your valuation so, so you do the valuation on various properties and you add it up, if it's not coming to the figure you're not going to get a fee so you're then going to try and scratch your head, human nature obviously is going to make you want to keep reviewing it to see if you can't get to that figure and you, there's obviously going to be a temptation to go beyond where you would normally go, so...."

".... you will get individuals who, even if they're on straight commission basis will be very .... ethical ... you know, wouldn't change their view point regardless of whether they are commissioned or whether they are salary driven, and then or course you get the other extreme, but um, so it will be individual based but it also would depend on the ethic of the company they work for um, because there maybe companies out there that, you know don't give a monkey's how you generate your fees, you just generate your fees because we're out to make money"

"... perhaps the salary commission situation. All the big firms' staff are salaried, we're all salaried, .... but I guess for a commission based valuer you'd be more prepared to maybe to go the extra step that someone else wouldn't be prepared to go to just because, I mean I get paid no matter what. If I turned work away then I still get the same amount of money every week whereas if you're on commission you might be saying I haven't done that much this month well perhaps I'd better do this."

**Appendix 6B6**  
**Illustrative sample of responses to individual factors relating to the valuation firm**

<table>
<thead>
<tr>
<th>VALUATION FIRM</th>
<th>ILLUSTRATIVE VALUER COMMENTS</th>
</tr>
</thead>
</table>
| Size of firm   | "basically a valuer in a smaller business or on many cases only on an annual contract and the work drops off he has no income and the work doesn't flow through the door he has no income now I think that is an undue influence in the way in which valuers relate to their clients."

"I think if you go outside the multidisciplinary company to the smaller firms of valuers, I think it is all down to individuals rather than the company. I mean they might be a team approach that they will share data and secretaries and so on and help each other with valuations but I, I don't think you get a sort of a corporate valuation figure."

"The guys that generally are prepared to go out, sort of put the figure on for the client are the guys that really just want to make quick money and they're in, there's one pretty big firm where there's a recognised valuer, I wouldn't say that they're reputable in valuation terms and there's guys in the smaller firms that I've heard particularly in residential."

| Multidisciplinary | ".... if there is a lot of pressure being put on to increase the value then it's something that would be discussed around the office, they may discuss it with the agency sources our own agency transaction sources and so on. At the end of the day you, everybody's got their limit and you just go as far as you can."

"I think if you go outside the multidisciplinary company to the smaller firms of valuers, I think it is all down to individuals rather than the company. I mean they might be a team approach that they will share data and secretaries and so on and help each other with valuations but I, I don't think you get a sort of a corporate valuation figure." |
Appendix 6B7 Illustrative sample of responses to individual factors relating to valuation issues

<table>
<thead>
<tr>
<th>VALUATION ISSUES</th>
<th>ILLUSTRATIVE VALUER COMMENTS</th>
</tr>
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<tbody>
<tr>
<td>Methodology</td>
<td>&quot;... if I was acting for .. Company A or Company B (institutional investors) I would report, and I would analyse quite significantly the market data, the sales evidence and whatever it is DCF’s whatever and I would say well that’s fine that’s a past event but the predations that these people must have made to sustain that sort of level of potential... I look well beyond the data that I read.&quot;</td>
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<td></td>
<td>&quot;... Courts have never really accepted DCF methodology they just proceed by a process of analogy. It’s a matter of proving, they’ll simply write down, take all the comparatives, make adjustments and prove a figure, which might not be right but it’s been proved by the court.&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;... because they’re basing it on evidence and they’re always looking backwards so if you want the real up to the minute, what is happening right now you go and ask an agent who’ll tell you what’s happening right now, today and you know you can get, which is what we try to bring to bear in our valuations all the same you get the evidence but you’ve got to talk to the agents too and try and build that into your view really.&quot;</td>
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<td>&quot;..., as far as the methodology, ... there were two approaches we’ve both used, we used the third approach which they didn’t use and that indicated a different value, now ... when we discussed it with the client, that third methodology was discussed but they ... had no opinion on it until we had done the work, but the third valuer actually indicated a higher value than that could be paid for it and justifiably paid for it and it indicated a different way of looking at the property, so you know ..., are we heading down the wrong path here, that as far as you’re talking about more methodology that.&quot;</td>
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<td></td>
<td>&quot;... the Asians were buying as a relationship between current yield and cost and DCF was not such a relevant methodology. As a valuer you were interpreting that there are more purchasers than sellers in the market that are focusing on that direction and you would go that way.&quot;</td>
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<td>&quot;...if you use more than one methodology in coming up with a value you are giving them a range, like a DCF approach, like discounted cash flow where you’re using a range of discount rates, ... and if you do a cost approach, usually that’s point value, you usually come up with a range of values under a cost approach, but you’re gonna come up with a range within the methodologies and then the three figures if you’ve come up with three figures, are likely to be different and I always am suspicious of valuation...&quot;</td>
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</table>
reports that come up with very similar answers under those approaches ...."  
"emphasis we place on different methodologies ..." will depend on the type of client

"... they (Australians and Americans) are looking at it slightly differently to the Asian market and this might affect the range of values because they are looking at the property slightly differently"

"We would certainly for that type of client (Asian client) we would always put in more detailed depreciating replacement value approach and a replacement cost estimate ... as opposed to, if you are doing a valuation for an institution, ... you just emphasise the discounted cash flow and secondary approach you should do a direct capitalisation approach on a couple of bases ......"

"... we just recently picked up a portfolio, because the incumbent valuer wasn't doing DCF's and wasn't probably capable of doing DCF's, in a market-related manner, so that particular firm because they are looking at that property in a more narrow sense, conceivable could form different opinion of value."

Standards/thoroughness

"..... there are valuers who search out certain amounts of information and that's enough for them. There are others who would be very thorough in their research to come up with an answer. There are valuers, you know that use one methodology to come up with an answer and come up with an answer and be satisfied with that ...

"... there are two effects (relying on shoddy information from clients). ... If I go in and we have fixed a fee to value, we always fix it on the basis that this information is going to be available . . . . . . . the second thing is on the accuracy of the valuation and the amount of disclaimers and paragraphs you have to put into the valuation which impacts ...

"So the effect and the quality of the job is that you can't get to and understand the issue that you need to, to form a valuation such as operating expenses, reconciliations and non-recoverables in a shopping centre."

"..., if you can provide a valuer with the best quality information, all signed leases, all opex reconciliations all worked out for you, all the titles and copies of the encumbrances, ... all the zoning issues are outlined and clarified and any issues are clearly addressed and some managers are extraordinarily good at that, they really are, they're really professional and know that one of the property managers jobs is to enhance value and so that's a very important role to give good briefing to valuers, because that in effect it is an enhancing value process and making sure the information that the valuer gets is reliable, it certainly helps the process undoubtedly."

Range of values

"...it is not certain as to where that rental should be in that range naturally if you are acting for the lessee you will advocate the lower end of the range because you will say, why would a tenant want to go out into the market and pay more than this group of people are paying in that range. ... The lessor's valuer on the other hand is saying, look there is a group of people up here who are paying a lot of money for their premises."

"... the leading English cases talk about a margin of error of 10% the Singer and Friedlander up to 15% in exceptional circumstances... the usual stuff ... if any court is going to rule or in the case where the Registration Board is going to be considering it, if it is only 5 to 10% away there is just no case to answer. There is just no need to so therefore the valuer knows that he moves a little bit in that direction it is not a problem ...

"It might be 10 or 20 percent range in a really difficult market but it could possibly be more and depending on the characteristics of the property of course as well. But it would squeeze up for some properties in a good market making little difference, you know, some things are easy to value, easy to sell, some things aren't, so that range is going to change so there's quite a lot in that I think, and, that's my belief anyway and that's the way I operate."

"... it's a matter of opinion whether a 10% or a 9.5% cap rate applies, or a 9.75% cap rate applies and different valuers may apply these sorts of cap rates. Equally the rental may be subject to variance, market rental up to 5 or 10%, so that's producing your variations with your lowest rent at 10% being the low end and your highest market rent up at 9.5% being the other end of the range so that, that's, any valuer can put those ranges on himself."
"Well not equally happy (with all the values in a range). I think, no we would still want to classify it. You'd still know that this was the low end, and this was full and you'd know that obviously at the full end it would be much harder to sell but I suppose you're looking at the most probable price I suppose. Yes, we generally like it to be in the middle there somewhere....."

"Cause there is a range of values you can determine at any time for a property, it's the position within that range that you come up with your value, whether you are optimistic or pessimistic, .... if people are optimistic at this time um you would say you'd be going to the upper side of the values because the vendor will, the seller would be more bullish ...." 

"Well again, you know you have a range of values you can select, you're going to be more conservative on where you lie within that range than if your instructions are quite clear."

"... if you're working for a purchaser, they would want to know what the bottom ranges are so they can go into bat and take off, ... where as quite clearly if you are dealing with the lessor they would want to be, they'll want you to highlight the upper range."

"... by and large you can value a property up or down because of the range of values you can come out of a property...."

* So you know, from my frame of mind I know it's not a narrow band, there are some valuers who expect, who will state that you should be within 5% to 10% of the valuation of the valuer's property and it's quite clearly not true because it just doesn't happen, it gets wider than that and you know.

"Well you know you've got market value of what is an appropriate period of marketing time, what is a willing buyer/willing seller, ... how long is a piece of string, .... that's why I have no doubt that there is a range of values and that in theory if you got ten people, be they valuers or anyone come up with, you know you ask them for a point figure but also ask them for a range that likely as not, there is going to be some common grounds in there but that the common ground might be, you know the extremes might be plus or minus 20%, so it's, you know 40% is a fair wide range."

".....if you use more than one methodology in coming up with a value you are giving them a range..."

"... you know they are a lessee's valuer. In a rental arbitration, you just know that's their work and this person is a lessor's valuer. You know these people; you know if you get a report from this company it will be high in the range.

"... case law says you're allowed ten percent either side of the supposed correct figure and to a degree well we'll move our valuations to an extent but I mean it gets to a point where it's quite obvious that you're pushing the realms of reality and at that point you've sort of got to call it quits."

" ...... if I'm doing a valuation of a major city building I'll value it on you know, passing income, the market income and discounted cashflow, I'll line the figures up and I'll see what they're showing me and then you sort of work within that range to come up with an end number which then, it sits within a range in itself because another valuer will come along and come up with a different number."

" .... you, be prepared to move within a band and it gets pretty clear when you get outside that band, nothing stacks up with the evidence. ...."

"I mean you don't want to annoy your clients for the sake of moving within a grey area I mean you're prepared to move, to move to an extent provided there's valid reason of course."

"sometimes ..., we will need to put a point figure on, we'll say our current market value lies between and we'll give them a range and say if you need a point figure say for a mortgage recommendation we would be happy to put that in ... in a situation where it's difficult to give a clear interpretation of the market, you know, you'll put a range on."

"financial reporting can't put a range under SSAP17, you have to give them a figure less disposal costs."

" .... because of that grey area issue, values always going to lie within a range." (valuer 4)

"... they (Australians and Americans) are looking at it slightly differently to the Asian market and this
might affect the range of values because they are looking at the property slightly differently."

"The owners always think their properties are worth just you know just that little bit more than what you’re telling them and the purchasers like to think it’s not really worth that is it, you know, it’s a little bit on the lower side. So there’s a bit of a range but now often we would give a range."

"We would say it’s probably in this range and obviously we usually fix a number but we’re quite keen on the value market ranges actually."

"There is certainly scope to consider that the value should be within a range and a range is also very helpful to clients in understanding too, you know why, they’re in a range and they’re bidding for a property for example, you know where their tolerances are...."

"... we normally put a range on the capitalisation approach, a range on the DCF approach and just talk them through the paragraph of the various ranges and what it’s indicating and sometimes you know our concluded value that they require for reporting for example, we would be commenting on how that sits within the range."

"You give them a range which sort of satisfies their... egos or whatever it might be that is driving them ... and you need to give them a balanced view, so when, some clients want to use the valuation report to negotiate, they don’t like a range for that purpose... ’cos immediately the other side will straight away go for the upper level, or the level of the range depending on what side they are on...."

"... you would expect it to be relatively close because you are working off some very firm market data, there’s a whole lot of new leases in the building to benchmark on, and all the details of them, you had some good sales evidence, so you know you had some very good benchmarking out there in the market, but you expect it to be quite close, ... where you don’t have that good accurate benchmarking or forecasting. I think the range is much greater..."

Previous valuation

"...I have valued it now for 2, 3 different owners and for different reasons over different periods of time that I think you lose your objectivity, ... I guess whatever level it will include me you are trying to satisfy the client in terms of his value expectations ...."

"If it’s a reasonable interval (since carrying out a previous valuation). More than two years I don’t think it would matter too much but even then there’s an inbuilt perception of what’s happened in the last year and I suppose if you’re, you know if that type of property has generally been increasing a bit, you’ve got an expectation when you come to do it that oh this is going to go up too by a similar amount so I suppose that’s an influencing factor, even if it’s a year ago. Certainly if you did it two weeks ago or two months ago you might have a problem changing it, and sometimes that happens."

"... you do it in September for a client who asks you to be tremendously bullish and then the next month another client comes to you and says they want to be bearish and find all sorts of faults you know, ... two reports with very different figures so yes it is very difficult."

"Well if you’ve already valued it for the client and he’s purchased the property, you then subsequently do a valuation, you know within a short time frame you’re not going to be very different...."

"... if you were told by the client that we’ve had a previous valuation of say $300,000 ... if they said the word $300,000 but didn’t show you the report you would take that as being like any other piece of information you’ve just received, you’d check it, you wouldn’t accept $300,000 and you wouldn’t feel that you had to value it at $300,000. What it would do ... if you valued it and you came up with $150,000, the first thing you do is go back through your calculations and make sure you haven’t made a mistake..."

"at the end of the day you’d come up with your own value, but what you’re saying is ... you know in some institutions .. they like to keep the values reasonably static or slightly climbing but they don’t like a variation between valuations."

"If we’d done the valuation previously at $300,000 and you’re doing a revaluation, ...., if the reason for the report was the same, market value for financial reporting purposes .... in your comments in your report you would make a statement that we valued this property last, at this date and we valued it at this price, since then these things have happened, to make us change our opinion or not change our..."
Conceptualising the Influence of Clients on Valuations

| Type of building /complexity of the valuation | "... the larger more complex valuations, very often the client has to supply quite a bit of the information or it will come through the Property Manager so there may be quite a lot of figures that you are reliant on."
|  | "... warehouse I mean you've then got differences of opinion on whether the profile of the building is important or the stud height or factors outside of purely the income that are going to impact on the building, you know where it sits, its position by the road below that's probably more of the traditional valuation, well differences I guess you'd call them whereas in a central city building everyone knows, and which is what the major clients tend to own you know, the big stuff everyone knows that okay they sit within a certain bracket so you take things aside and then it's just really where you think the market's going because generally they're valued on a discounted cash flow basis so it's, it's purely what you think, you know, the growth is going to be over the next ten years or where you think the market rent is going to be in the year 2002, that sort of thing, what's an appropriate cap rate at year 10." |
| Contract price | "... I sometimes take instructions where there's been a sale and the client doesn't want me, doesn't want to divulge it. I believe that you have to enquire, I believe it would be negligent not to enquire, it's a transaction after all so I always make sure I enquire ...." |
|  | "I think you've got to ask I believe, although I've come across a lot of valuers in New Zealand, especially coming straight out of university, who believe it's not right to ask because they're supposed to know the answer, they are the valuers. ... but I certainly believe it is negligent so you know I tell all my people that they have to ask but what I say to clients is I have to ask you this but you don't need to answer, you don't need to tell me and I put it in the report if they don't tell me. ... There are some clients who... don't want you to know when you go out to do the job, ... because they don't want you to be influenced by the knowledge. They want to see what you come up with ...." |
|  | "Reading through some people's evidence ... they've stated that you shouldn't know some stuff, in this case they were talking about contract price of a sale and you shouldn't know that before you do your valuation, and if you do know that you should not do the valuation, because you're not independent is their reasoning and I don't accept that. I believe you should know what the contract price is ... because it's quite clearly information that is in the market ....." |
|  | "... back in the 70s through to 89 when I was a residential valuer you would ask the agent what's the price it's going through at. When you did a residential valuation, there is a time when they say, well to ask after you've come up with the valuation, but um you know I, if I pick up the keys from the agent and say 'what's the contract price, what is the list price, how long is it been listed for, how many offers have been put to the vendor or, you know is this the first offer?' that doesn't mean you just accept the information full stop......" |
|  | "I don't ask unless it's given to me (the contract price). Some people say look we're paying this, you
<table>
<thead>
<tr>
<th>Definition of market value</th>
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<tr>
<td>&quot;I think there is a standard NZIV definition basically the highest price that you would expect the property to go on sale. That's generally the market value, so at the end of the day you've got to have some evidence to support that....&quot;</td>
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</table>

"A buyer in the property market, the value, the valuation is to come up with a value, that value is what you would expect a willing purchaser would pay, also they value partly on the other side of the coin is what the willing seller would sell for, you could say the same with the, ....considering what the sellers are going through at the time, what is forcing them, at the moment in residential markets you'd say that there maybe some pressure on sellers to be moving in the market place, from .... a non-economic sense. The comments that we've been getting in the market place that it's not a good time for property, whether they support that by economic analysis or not, they just feel like its not a good time to buy, not a good time to be owning I should say and move off, but they may not actually stop and think about why they are selling at the time."

"You've got market value of what is an appropriate period of marketing time, what is a willing buyer/willing seller, yeah how long is a piece of string, kind of, well you know it’s not but it is, but you know that's why I have no doubt that there is a range of values ...."  

"I'm always working towards my estimation of what the fair current market value is, arm's length transaction etc .... I've put myself in the client's shoes ..... if say I was buying this property what would I want to pay for it based on the information in front of me and it's my interpretation of the market .."

<table>
<thead>
<tr>
<th>Time pressure</th>
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<tr>
<td>&quot;We don't challenge the client we are too busy getting the job so that we can get on and earn the fee and we do not want to upset the client by asking questions. The reality is clients should be cross examined a hell of a lot more closely than they are.&quot;</td>
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</table>

"..... we don't take on work if the time pressure's unrealistic that we know we've covered all the steps and you know there's no what ifs or, sitting out there, potential time bombs that you haven't looked at, but it does happen, ..... I mean the clients have very unrealistic time pressures, ..... That happens a lot whereby people will leave things to the last minute and they expect a report."

"..... we could say we can get you a number by tomorrow but is it all right if the report follows a few days later and that number will also be subject to what's in the report which quite often is sufficient."  

<table>
<thead>
<tr>
<th>Subjectivity/opinion</th>
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<tbody>
<tr>
<td>&quot;...these are sometimes quite complex tasks and there is a lot of variation and opinion used in those and they come under a lot of scrutiny from a lot of different people ....&quot;</td>
</tr>
</tbody>
</table>

"Eventually any valuer because of the behavioural nature of the process is going to say, he'll throw his hands up and say well all right let's, you know this is as far as we'll go and that's generally the outer edge in his opinion but that will be the outer edge will be different for different valuers ...."

"...you make a judgement, you know if its an emotive comment that they believe it's a more optimistic view point should be adopted, well then you think about it then you draw your own conclusion either way."

"...that's the dilemma of a valuer and that your dealing with one opinion of the market, not say the average of the market ...."

".... you know there's many properties in Wellington that enjoy views but they're exposed to both a northerly and southerly and so that, for one person the view is, they would .... and say this is a great property, where as another person would just look at the property and say 's***, we're going to be blown to hell", .... I know personally if we moved back to Wellington we'd have to have on-site parking that was on the same level as the house and that would be an attribute of the house that we would pay particular attention to, whereas for other people that would not be an issue and they would be looking at other things."  

"Clearly the difference is opinion, the judgement of what the property is.."
Valuers lagging the market

<table>
<thead>
<tr>
<th>Lack of explanation</th>
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| *"Perhaps I should add one more thing, it is an old problem, valuers being too slow in going up and too slow in going down ... it is the lag behind the market and this a real problem for valuers ..."*
| *"This is a bit of a puzzle that is a natural valuer's conservatism, he doesn't want to value in front of the market evidence he has got, so he will lag behind."*
| *"... he should be giving a lot more notes to his values ... we are not explaining a lot of the time what we do ..."*

**Appendix 6B8 Illustrative sample of responses to individual factors relating to the client relationship**

<table>
<thead>
<tr>
<th>CLIENT RELATIONSHIP</th>
<th>ILLUSTRATIVE VALUER COMMENTS</th>
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<tbody>
<tr>
<td>Trust</td>
<td><em>&quot;... if ... you're not made aware that is going to be used for mortgage finance purposes, the client perhaps lies to you ... you've got to be very careful ... if you're not adhering to this value for all purposes type scenario.&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;The way you're instructed potentially, depending on how formal the instructions are, depending on your relationship with the person you are dealing with, the confidence that you have in the client you are dealing with...&quot;</em></td>
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<tr>
<td></td>
<td><em>&quot;...but on the whole it's pretty honest and open whereby they realise you know the more information the better the job we're going to do and the bigger clients obviously anything you ask for will be given in terms of other buildings.&quot;</em></td>
</tr>
<tr>
<td>Respect/credibility</td>
<td><em>&quot;... It comes back, you say personality, or you put it under the guise of the individual instructing you and what respect you have for them.&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;...you've got to be strong with them and then they start to respect you and they won't try it again.&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;... once you've provided ... quality work for them and they know that you,... know what you are talking about in that situation then work will start coming back ... but initially ... you've really got to prove yourself with them.&quot;</em></td>
</tr>
<tr>
<td>Type/length of relationship</td>
<td><em>&quot;... I will go back and talk to the client, otherwise essentially the client is fairly immaterial and one of the difficulties I have with those clients is that I don't even remember their names, because the property is the dominating feature of the relationship...&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;the bulk of my work is a much closer client relationship and in that sort of relationship, for example asset valuations...&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;I have another involvement with X City Council which is a very close relationship, they have development projects, in that particular case the involvement is to the extent that I will not only provide values but I will sit on meetings with people so that I can continually advise them relating to any issues that to whatever issues come up...&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;...It could have been a good client ... who he had done a lot of residential work, he did all the work and he did not want to give up the opportunity of doing that one because it would have allowed someone else to come in and relate to the client...&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;I think you try to retain the client and therefore I guess ... you are trying to satisfy the client in terms of his value expectations...&quot;</em></td>
</tr>
<tr>
<td></td>
<td><em>&quot;Certainly there's obviously the ability to have quite lengthy dialogue with established clients. I suppose established clients tend to be the ones you're doing a lot of work with, you obviously get to know them quite well and you'll be on first name terms with them, so it's quite easy for them to call you up and want to discuss .... the level of a valuation and for them to put their point across ...&quot;</em></td>
</tr>
</tbody>
</table>
"... and amongst all that pressure your getting to service clients' needs and to basically be friends with your client.... To provide a service and at the end of the day, you can't lose sight of the fact that you could end up in the witness box..."

"... If you're offering a report to a client who you know and you've dealt with before, you're quite happy to give them a pretty raw draft..... compared to a new client where you wouldn't want to go through that process 'cos you know the way they may interpret or misinterpret that."

" if you ... offer them (new client a raw report that suggests you are vague in your thinking, they may misinterpret it as being a way of manipulating or a lack of confidence in your work ... whereas it's an opportunity to discuss the value more..."  

"... I suppose how often you deal with them maybe, if you're dealing with them on a more regular basis you're more likely to be more open to what they have suggested because you have a bit more trust, you know what they said is right..."

"... Some clients refuse to work with certain people just because of their personalities..."

"... I think that a valuer's relationship with a client has always got to be arms length and if you break that rule you are going to be in real trouble ... to be a a valuer of any standing that wants to get repeat work, they've got to have credibility ... and impartiality and ensuring you don't reach or have conflicts of interest and that sort of mess.."  

### Appendix 6B9 Illustrative sample of responses to individual factors relating to external pressures

<table>
<thead>
<tr>
<th>EXTERNAL PRESSURES</th>
<th>ILLUSTRATIVE VALUER COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory framework</td>
<td>&quot;Challenging terms of his ethical responsibilities, in terms of his competency responsibilities under registration those two issues or in terms of the courts in terms of a loss.&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;... all the court precedents and so forth talk about the margin of error of 10% ... up to 15% in exceptional circumstances .... Now obviously if any court is going to rule in a case where the Registration Board is going to be considering it if it is only 5 to 10% away there is just no case to answer.&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;Well yes they could be taken on (performance-based fees) ... but I think certainly registered valuers, members of the NZIV would be aware that it's, it's against the ethics of the profession.&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;... you can't lose site of the fact that you could end up in the witness box...&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;Courts have never really accepted DCF methodology they just proceed by a process of analogy...&quot;</td>
</tr>
<tr>
<td>Market credibility</td>
<td>&quot;... security of most valuers relates to two issues, one is their reputation ... they have a reputation which almost doesn't so much guarantee them, but provided they retain that reputation they will continue to get work in from clients because clients will seek them out and the client relationship through that will develop...&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;... even if you're dealing with a developer who wants our valuation to come up to get some finance, if your value is accepted by the financier as being accurate and valid and those things.... the developer is going to keep on using it regardless, if they think you are a bit light because if they come up with a valuer, you know if they've got a valuation and they take it to a financier and the financier doesn't accept it, it wouldn't matter what the value was.&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;I think just trying to get credibility in the market and the one particular firm that we really do it for (peer review) ... they've had a bit of a chequered history and it's been recognised in the past that there end values have been over-cranked and I think they're trying to get a bit more credibility... about their values that they're presenting to the market...&quot;</td>
</tr>
<tr>
<td>Case law</td>
<td>&quot;Well it's simple because all the court precedents and so forth talk about the margin of error ... but basically the leading English cases talk about a margin of error of 10% the Singer and Friedlander up to 15% in exceptional circumstances.&quot;</td>
</tr>
<tr>
<td>Financial reporting standards</td>
<td>&quot;...obviously for financial reporting purposes under SSAP17 that sort of thing, you've got to put a figure on. In that situation you've got to come up with a figure but you know we will put in a range without specifying and say it's got to lie somewhere in here but we can't be certain as to where it's going to lie...&quot;</td>
</tr>
<tr>
<td>Market conditions</td>
<td>&quot;...we are in a very competitive market we don't have the protection we used to have..... I think that scale fees had a lot of disadvantages, but one of the advantages that they did have it didn't put you under pressure in trying to perform to clients' expectations unreasonably, just to take money home to their family.&quot;</td>
</tr>
</tbody>
</table>

"...all of a sudden the valuer gets up one morning and there is no work and therefore a big client, or a relatively large client... comes in and says we will guarantee you a certain amount of work provided you do it, for a miserable fee per job, they would do things which they might otherwise not consider..." |

"It could have been a shortage of work (the reason he took the job outside his area of expertise)..." |

"...it might be 10 or 20% range in a really difficult market, but it could possibly be more and depending on the characteristics of the property of course as well. But it would squeeze up for some properties in a good market making little difference..." |

"...when you have collapse, valuers aren't as harsh as the market ..." |

"the less evidence there is then the less of an argument you've got and the more personal opinion comes into it..." |

"...when there's less information, the client you know does have a bit more impact and probably has a lot more to say because they'll be saying to you, you've come up with this figure you know, what evidence is saying to you that it's not... this figure so it's... a very hard one..." |
### Definition of Factors and Sub-factors Interpreted from The Data from Valuer Interviews

<table>
<thead>
<tr>
<th>Factor or Sub-factor</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client pressure/influence</td>
<td>The ability of the client to influence valuation outcomes by exercising different forms of power, influence and/or pressure</td>
</tr>
<tr>
<td>client expectations</td>
<td>The situation where a client influences a valuation outcome by implicitly or explicitly making known their expectations regarding the valuation outcome. This can include their expectation regarding valuation standards, methodology and/or the final figure required.</td>
</tr>
<tr>
<td>information power</td>
<td>The situation where a client provides and/or withholds information from a valuer which could in turn influence the outcome of the final valuation figure.</td>
</tr>
<tr>
<td>expert power</td>
<td>The situation where a client uses their experience and/or expertise to influence the outcome of a valuation.</td>
</tr>
<tr>
<td>badgering</td>
<td>The situation where a client constantly harasses, badgers and/or pleads with a valuer in an attempt to influence the outcome of the final valuation figure.</td>
</tr>
<tr>
<td>coercive power</td>
<td>The situation where a client punishes or threatens to punish a valuer in order to influence the outcome of the final valuation figure. This may include the threat of non-payment of fees or switching to another valuer.</td>
</tr>
<tr>
<td>reward power</td>
<td>The situation where a client rewards or promises to reward a valuer in order to influence the outcome of the final valuation figure. This may include the promise of future work, or payment of fees if a particular valuation outcome is reported.</td>
</tr>
<tr>
<td>client instructions</td>
<td>The situation whereby the client instructs a valuer in such a way that they influence the outcome of the final valuation figure. This may include identifying a specific date for the valuation and specific methods to be used.</td>
</tr>
<tr>
<td>general influence</td>
<td>The situation where the client influences the outcome of the final valuation figure by using other forms of power and influence not included under client expectations, information power, expert influence, badgering, coercive power, reward power or by specifying instructions.</td>
</tr>
<tr>
<td>Client characteristics</td>
<td>The specific characteristics of the client or client organisation. These characteristics include the main business of the client, size of the client organisation, whether the client is a purchaser or seller, landlord or tenant. They include personality of individuals, culture or nationality, moral reasoning, financial position and method of client remuneration.</td>
</tr>
<tr>
<td>sophisticated</td>
<td>A sophisticated client is 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.</td>
</tr>
<tr>
<td>unsophisticated</td>
<td>An unsophisticated client tends to be a small-sized company, or individual that does not possess the expertise and experience of</td>
</tr>
</tbody>
</table>
Conceptualising the Influence of Clients on Valuations

<table>
<thead>
<tr>
<th>Client Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>sophisticated client</td>
<td>They typically use badgering, coercive and reward power in order to influence the outcome of the final valuation figure.</td>
</tr>
<tr>
<td>developer</td>
<td>A developer is a client who undertakes property development projects. They are typically a small to medium-sized company or individual, they possess both experience and expertise. (This definition reflects the comments of the valuers interviewed that larger developers tend to also be the larger investors and for the purpose of this model are defined as &quot;sophisticated&quot; clients)</td>
</tr>
<tr>
<td>Institutional investor</td>
<td>An institution investing in property</td>
</tr>
<tr>
<td>bank</td>
<td>A substantial banking institution involved in the lending of finance for the purchase or development of property</td>
</tr>
<tr>
<td>distressed client</td>
<td>A client that is under financial distress</td>
</tr>
<tr>
<td>ethical client</td>
<td>A client that does not attempt to place undue pressure on a valuer to obtain the valuation outcome they require</td>
</tr>
<tr>
<td>unethical client</td>
<td>A client that attempts to place undue pressure on a valuer to obtain a valuation outcome they require</td>
</tr>
<tr>
<td>client remuneration method</td>
<td>The way that a client is remunerated, for example by way of salary, performance-based and/or commission</td>
</tr>
<tr>
<td>size of client</td>
<td>The size of the client in terms of the number of experienced staff and the potential for further work</td>
</tr>
<tr>
<td>Purchaser/seller</td>
<td>The purchaser of seller of property</td>
</tr>
<tr>
<td>Landlord/tenant</td>
<td>A landlord or tenant of a property</td>
</tr>
<tr>
<td>Culture/nationality</td>
<td>The culture or nationality of a client</td>
</tr>
<tr>
<td>personality</td>
<td>The personality of a client</td>
</tr>
<tr>
<td>general</td>
<td>Other types of clients or client related issues that do not fall into the above categories</td>
</tr>
<tr>
<td>Purpose of valuation</td>
<td>The intended purpose of the valuation as defined by the client, these can include mortgage, asset valuations, financing, or as a tool in the negotiation process between buyer and seller or lessor and lessee</td>
</tr>
<tr>
<td>financing purposes</td>
<td>A valuation undertaken for financing purposes</td>
</tr>
<tr>
<td>asset purposes</td>
<td>A valuation undertaken for asset purposes</td>
</tr>
<tr>
<td>leasing/rent review purposes</td>
<td>A valuation undertaken for leasing/rent review purposes</td>
</tr>
<tr>
<td>sale/purchase purposes</td>
<td>A valuation for sale/purchase purposes</td>
</tr>
<tr>
<td>matrimonial purposes</td>
<td>A valuation undertaken for matrimonial purposes</td>
</tr>
<tr>
<td>general purposes</td>
<td>A valuation undertaken for general purposes not included under financing purposes, asset purposes, leasing/rent review purposes,</td>
</tr>
</tbody>
</table>
Conceptualising the Influence of Clients on Valuations

<table>
<thead>
<tr>
<th>Concept/Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The valuation process</strong></td>
<td>The valuation process describes the sequence of steps and other factors affecting the different roles of the valuer, client and associated individuals in the completion of a valuation task.</td>
</tr>
<tr>
<td><strong>draft report</strong></td>
<td>The draft report is a report which is submitted to the client by the valuer for comment before the final version is signed off.</td>
</tr>
<tr>
<td><strong>independent party</strong></td>
<td>The independent party is a company or individual other than the client that the valuer reports to with the valuation report.</td>
</tr>
<tr>
<td><strong>valuer rotation</strong></td>
<td>Valuer rotation is a procedure whereby a valuer or valuation company is only permitted to value the same property or portfolio of properties for a limited number of consecutive years (typically 2 or 3).</td>
</tr>
<tr>
<td><strong>peer review</strong></td>
<td>Peer review is where a valuation is reviewed by an outside valuer or valuers for accuracy. Valuers involved in the peer review process may be employed by the valuation company from where the original valuer is an employee or from a valuer or valuers from an external organisation.</td>
</tr>
<tr>
<td><strong>reporting standards</strong></td>
<td>Reporting standards are the standards of reporting required by an external body.</td>
</tr>
<tr>
<td><strong>quality control</strong></td>
<td>Quality control comprises the procedures employed within a valuation company in order to ensure that outgoing valuation reports are accurate and of a high quality.</td>
</tr>
<tr>
<td><strong>time pressure</strong></td>
<td>The amount of time pressure a valuer is under in order to produce a completed valuation report.</td>
</tr>
<tr>
<td><strong>client's instructions</strong></td>
<td>The specific instructions given to a valuer at the commencement of the valuation process.</td>
</tr>
<tr>
<td><strong>Valuer characteristics</strong></td>
<td>Valuer characteristics are the individual qualities possessed by a valuer, they include integrity, perception of their role specialisation, experience, age, personality and remuneration method.</td>
</tr>
<tr>
<td><strong>valuer integrity</strong></td>
<td>The integrity of a valuer in the reporting of valuation figures that they believe are truly representative of the market.</td>
</tr>
<tr>
<td><strong>perception of the valuer's role</strong></td>
<td>How a valuer perceives their role, this could include the belief that they are independent of the client or that they are there to act as a client advocate</td>
</tr>
<tr>
<td><strong>experience/expertise</strong></td>
<td>The amount of experience or expertise a valuer may have in valuing for specific types of clients, valuing specific property types and specific market sectors</td>
</tr>
<tr>
<td><strong>age</strong></td>
<td>The age of the valuer undertaking a valuation for a client.</td>
</tr>
<tr>
<td><strong>optimistic vs. pessimistic valuer traits</strong></td>
<td>Whether a valuer is optimistic or pessimistic in their perception of the property market and whether they tend to value property at a high or low level.</td>
</tr>
<tr>
<td><strong>valuer remuneration method</strong></td>
<td>The method in which a valuer is remunerated this may be by way of...</td>
</tr>
<tr>
<td>Conceptualising the Influence of Clients on Valuations</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>a salary, commission or performance</td>
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<tr>
<td>specialisation</td>
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<tr>
<td>Specialisation is where a valuer may spend most of</td>
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<tr>
<td>his/her time undertaking valuations of a specific</td>
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<tr>
<td>nature, for example within specific property market</td>
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<tr>
<td>segments or for specific clients. This could</td>
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<tr>
<td>include specialisation in certain locations and/or</td>
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<tr>
<td>certain property types</td>
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<tr>
<td>personality</td>
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<tr>
<td>The personality of the valuer</td>
<td></td>
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<tr>
<td>other</td>
<td></td>
</tr>
<tr>
<td>Other valuer traits that are not included above</td>
<td></td>
</tr>
<tr>
<td>Valuation firm characteristics</td>
<td></td>
</tr>
<tr>
<td>Characteristics of the valuation firm describe the</td>
<td></td>
</tr>
<tr>
<td>valuation company carrying out the valuation</td>
<td></td>
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<tr>
<td>including, size, structure and team environment</td>
<td></td>
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<tr>
<td>size of firm</td>
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<tr>
<td>A description of the size of the valuation firm in</td>
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<tr>
<td>terms of the number of employees</td>
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<tr>
<td>multidisciplinary</td>
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<td>A professional property service provider that offers</td>
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<tr>
<td>services in a number of areas including real estate</td>
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<tr>
<td>agency, property management, valuation and consultancy</td>
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<tr>
<td>team or individualistic environment</td>
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<tr>
<td>This describes whether the company in which the</td>
<td></td>
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<tr>
<td>valuer is employed encourages employees to work in a</td>
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<tr>
<td>team or individualistic environment</td>
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<tr>
<td>other</td>
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<tr>
<td>Other variables that may be specific to the valuation</td>
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<tr>
<td>company, not included above.</td>
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<tr>
<td>Technical valuation Issues</td>
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<tr>
<td>Technical valuation issues describe a range of factors</td>
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<tr>
<td>a valuer takes into account when coming up with their</td>
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<tr>
<td>final valuation figure. These factors include</td>
<td></td>
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<tr>
<td>methodology, quality, range of values, previous</td>
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<tr>
<td>valuation figure, complexity of the valuation,</td>
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<tr>
<td>knowledge of the contract price, definition of</td>
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<tr>
<td>market value and the amount of subjectivity and</td>
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<tr>
<td>opinion required.</td>
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<tr>
<td>valuation methodology</td>
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<tr>
<td>The methodology utilised by the valuer in the</td>
<td></td>
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<tr>
<td>valuation report, for example the use of discounted</td>
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<tr>
<td>cash flow analysis and capitalisations rates</td>
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<tr>
<td>standard and thoroughness</td>
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<tr>
<td>The standard of the valuation report including the</td>
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<tr>
<td>accuracy of the valuation and quality of reporting</td>
<td></td>
</tr>
<tr>
<td>range of values</td>
<td></td>
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<tr>
<td>The range of values that a valuer can successfully</td>
<td></td>
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<tr>
<td>defend as being an accurate reflection of market</td>
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</tr>
<tr>
<td>value</td>
<td></td>
</tr>
<tr>
<td>previous valuation</td>
<td></td>
</tr>
<tr>
<td>A valuation of a building that has previously been</td>
<td></td>
</tr>
<tr>
<td>valued by the same valuer now undertaking a subsequent</td>
<td></td>
</tr>
<tr>
<td>valuation</td>
<td></td>
</tr>
<tr>
<td>type of building/complexity of the valuation</td>
<td></td>
</tr>
<tr>
<td>The type of property being valued and the complexity</td>
<td></td>
</tr>
<tr>
<td>of the valuation</td>
<td></td>
</tr>
<tr>
<td>definition of market value</td>
<td></td>
</tr>
<tr>
<td>The definition a valuer perceives to be market value</td>
<td></td>
</tr>
<tr>
<td>subjectivity/opinion</td>
<td></td>
</tr>
<tr>
<td>The amount of subjectivity and personal opinion</td>
<td></td>
</tr>
<tr>
<td>involved in the valuation</td>
<td></td>
</tr>
<tr>
<td>time pressure</td>
<td></td>
</tr>
<tr>
<td>The amount of time pressure a valuer is placed under</td>
<td></td>
</tr>
<tr>
<td>to complete a</td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th><strong>valuation report</strong></th>
<th>The knowledge or lack of knowledge a valuer has of the price contracted on the property being valued</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>knowledge of the contract price</strong></td>
<td>The client relationship is the relationship between the client and the valuer and includes such factors as trust, respect and type and length of the relationship.</td>
</tr>
<tr>
<td><strong>Client Relationship</strong></td>
<td>The amount of trust that has been developed between the valuer and client</td>
</tr>
<tr>
<td><strong>trust</strong></td>
<td>The amount of respect a client has for a valuer</td>
</tr>
<tr>
<td><strong>respect</strong></td>
<td>The type and/or length of relationship between the client and the valuer</td>
</tr>
<tr>
<td><strong>type of relationship and/or length of relationship</strong></td>
<td>External pressures are the pressures outside the control of the client or valuer and include such factors as the regulatory framework, market credibility, the pressure from an independent party, financial reporting standards and market conditions.</td>
</tr>
<tr>
<td><strong>External Pressures</strong></td>
<td>The regulatory framework that registered valuers work within</td>
</tr>
<tr>
<td><strong>regulatory framework</strong></td>
<td>The credibility that the valuer has in the market place and thus the credibility of the valuation in the market place</td>
</tr>
<tr>
<td><strong>market credibility</strong></td>
<td>A party that is not the client to which the valuation is reported to</td>
</tr>
<tr>
<td><strong>independent party</strong></td>
<td>Current case law relating to valuations</td>
</tr>
<tr>
<td><strong>case law</strong></td>
<td>Reporting standards imposed on the valuer</td>
</tr>
<tr>
<td><strong>financial reporting standards</strong></td>
<td>The condition of the property market and the valuation market, including consideration as to whether the property market is buoyant or static and whether comparable evidence is available.</td>
</tr>
<tr>
<td><strong>market conditions</strong></td>
<td>293</td>
</tr>
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SUMMARY OF CLIENT INTERVIEWS – WITHIN-CASE ANALYSIS

Summary of interview with Client 1

- There is a statutory requirement for us to undertake annual valuations
- We generally spread the work around two or three of the major internationally recognised practices
- We tend to talk to the valuers regularly throughout the year
- Sharing of information between both parties is important
- We have our own view on the quality of valuers and their abilities in terms of the technical and commercial viewpoint
- The valuation profession is struggling to maintain credibility because of a wide discrepancy in views relating to value
- Different valuers have different opinions, some take a more technical view and some take a more commercial view
- Analysts tend to do their valuations in-house because there are such conflicting views as to the value of a property
- It is not unusual if more than one valuer is valuing a building to have major discrepancies in the valuation outcomes
- Some valuers make generalisations about buildings and fail to look at the individual circumstances of the vendor
- A good client valuer relationship assists in obtaining all information on an individual building
- Market credibility is very important so we have instituted a peer-review process
- We instruct one valuer to undertake the valuation process on the whole portfolio and then bring in another to review the process and if there is a difference the valuers have to find a way to agree with each other
- The valuation profession is very competitive competing for fees and work
- Valuers from the big international companies do not share with other companies “how they do things”; even at seminars you only tend to get participants from smaller independent practices
- Valuers in the multidisciplinary environments have a more commercial feel for the market and this makes them much better valuers
- To be a good valuer you have got to know how to do deals and how deals are done
- A peer review valuer might value as if they are reviewing on behalf of a purchaser and therefore there will always be a difference between them and the principal valuer
- In a rent review if you are acting for a tenant you will come up with a different answer than if you were acting for a landlord; eventually there is agreement in the middle
- The peer review process allows valuers to communicate with each other and be more willing to take on board each others views
- Ultimately everyone has different information and ultimately comes up with the value that they think is right
- A review valuer will tend to take the stance of valuing a property from the standpoint of a purchaser and then they feel compelled to disagree with the principal valuer otherwise they may be perceived as not earning their fee
- We’ve adopted this valuation review process for 2 years and values have come down, but yields have gone up
- The success of any listed company is yield to investors, so even spending time trying to get accurate valuations the analyst may say we don’t believe you, we will make our own assessment of the worth of the building
- Valuers are expected to come up with different values depending who they are acting for, typically in a rent review negotiation
- Valuations are becoming less important from an investment viewpoint
- Valuations may just need to be completed to demonstrate net asset backing
- If there are people buying and selling then that is the market value
- Investors are interested in the yield, how secure the income and cash flow are
- Most people only have a two or three year view
- All our valuations are as at 1st December
- Economic issues play a part in choice of valuer and when each property in the portfolio is valued
- There may be a rotation between principal valuer and the firm that has checked the valuations
- It is more economical to use valuers that have previously valued the portfolio
- Different valuers may be used to valuing properties in different parts of the country
- It is preferable to have a different valuer valuing a building each year
- It is difficult for the valuer who has previously carried out a valuation on a property to come out with a substantially lower one the following year
- It is difficult for a valuer to decrease the value of a previous valuation as they are being relied upon to set asset values
- Valuers are under pressure to keep yields consistent with the previous year
- If there is a big change from the previous year the valuer may ease it slightly this year and add a bit more the following year
- Valuer rotation assists in reducing the effect of a previous valuation
- In the peer review process it is less likely that 2 valuers will be wrong
- There will be pressure on the valuer by the client depending on the purpose of the valuation; if the client wants to trade properties then they will want the valuation to be as high as possible
Appendix 7A 2 Summary of interview with Client 2

- The client valuer relationship should be a partnership
- We are looking for a high skill base in any valuer we instruct
- We will only instruct valuers who have the ability to look forward at the future trends in the market
- If a valuer cannot look forward then they do not have the skills that we are looking for
- When selecting a valuer we first read their reports; we then take a view on the appropriateness of their valuations
- We tend to see work from all the valuers working in the City and some we believe are a bit of a joke and wouldn’t use them
- There are other valuers that we feel have a good understanding of the dynamics of the market so we gravitate towards them
- We are not looking for a high or low valuation, just one that includes the professional input that we can take the value from
- It is very important to look at the future value of the property, the assessment of its value in 5 to 10 years to me is really important, is the property progressively falling in value
- The issue of what it is worth today is too simplistic, it is much more important to look at future trends, looking at DCF
- A knowledge of growth trends, estimates of future cap rates etc paint a much broader picture of the property and gives a good feeling of the risks associated with it

There are some very good valuers out there, but there are also valuers that are too technically focused and do not understand how properties function and the rationale for people to invest in property and they therefore tend to be very negative.

- Coming up with a valuation figure is a hard job
- Valuers have got to take a view and the more commercial they are the more they understand the transactional behaviour and the more accurate they are
- It is difficult for an experienced client with evidence not to argue with a valuer if they think that they are being too negative about a building
- Clients may have more information about the market than a valuer
- The client may interpret market knowledge differently than the valuer
- It is harder to value when there is not market information
- The less information the more interpretation and opinion
- Analysing information is as much a valuer’s skill as carrying out the mechanics of a valuation
- As part of the valuation process we first ask for a quote; if it is acceptable we then send them information including, tenancy schedules, operating expenses, budgets and cost schedules, current leasing transactions, contact names of building managers
- After supplying information the valuer is given approximately 4 weeks to prepare the valuation, we only require worksheets, evidence of sales and rentals but no site description etc
- Once worksheets are received they are sent on to the peer review valuer to see if they agree or disagree; if they are within 1% then they area asked if they are prepared to sign off on the initial valuation because they are so close
- There are valuers that want to prove that they can be more accurate than the initial valuer
- If there is a major discrepancy then the two valuers work it through together until they agree, we leave it up to them
- We don’t see a need for rotating all our properties every year
- We sometimes negotiate the fee
- There’s a responsibility on the valuer to show that they are worthy of their fee, they are responsible for the valuations
- A valuer’s fee includes the liability they have for their valuations
- Usually they already have all the information and just have to include the new information and what they think market rents are
- The valuer will supply us with a draft valuation, we will check it for consistency purposes, we might have to then give them some additional information such as current deals to help them form views on market rents
- They then finalise their numbers
- I hear about all sorts of deals that are going on and I can put the valuer right on evidence they have produced
- It depends on the circumstances, but I think as a client I require a pinpoint number that I am happy with
- We did have a rare situation when the principal valuer and the peer review valuer did not agree and we then brought in a 3rd valuer to assist and a final figure was then agreed
- There are circumstances where the client can influence valuation outcomes and that is why we introduced the peer review process to reduce that risk
- A client that needs a bullish valuation may place a valuer under a lot of pressure
- A client may be influenced to change a valuation in order to satisfy a client
- A client may place pressure on a valuer for funding purposes
- I think client pressure is more prevalent in the development market
- From our point of view we have no desire to push values up, it is more important that we are totally transparent
We have a statutory obligation to undertake valuations when we buy or sell.

We also have a statutory obligation to confirm the value of the portfolio on an annual basis.

If I am to manage our portfolio actively and effectively I need to look at the future value of the properties.

I believe that evidence-based valuations are inappropriate.

Banks look at their exposure on a long-term basis therefore valuations are useless if they only look at the value today.

A property owner needs to have information on the market dynamics and how it will affect the value of the property in the future.

When instructing valuers we do not have a piece of paper, it is very informal.

Most valuers work with us on a regular basis.

We identify the property, we look at its potential and growth, we share with the valuer the whole situation, and we try and tell them everything about it.

We will review the valuation and have a debate with the valuer if we can’t understand their approach or if we think it is flawed.

We give the valuer all the information we can.

We limit the number of valuers we have to 2 or 3 preferred valuers who know our portfolio.

We select the valuers on their knowledge of the market, they know more about the market than we do.

We would not resist giving them any information about our properties.

I’m in the market all the time, I have an understanding of the market and dynamics.

I know when valuations have been pumped up, you lose respect for the valuer if they do inflate values.

Property executives and valuers can end up trying to defend their position particularly in a falling market.

We make a point of limiting a valuer, an individual firm to an asset for a maximum of two years otherwise they lose their objectivity.

We may be increasing valuations to twice a year because of the increasing need to inform the public.

Valuers are more inclined to respond to a rising market rather than a falling market.

Valuers feel a moral obligation to support a previous valuation.

The client can influence the valuer because valuations are subjective.

A valuer wants to get ongoing work so they want to please the client, especially if the client is big.

Valuers may stretch themselves to address what they perceive to be the client’s needs.

Valuer need to have experience and a strength of character to deal with clients.

There are some valuers that have a strong character and are prepared to stand up and tell a client what they think.

You have got to have valuers working for you that have experienced downward property cycles.

Valuers are always looking to justify and because of that they become backward looking.

Valuers need to look at wider market information including interest rates and how that will affect market behaviour.

A valuer needs to undertake economic research.

Even though everyone likes to hear good news, if there is evidence of a falling market a valuer has to be prepared to value an asset accordingly.

Property executives are frequently trying to defend their book values; they are judged on their performance, they want to feel that everything is going up because that is why they bought the property in the first place.

Clients do not want to be told bad news.

It is better for the client to have the bad news early, to take it in chunks and not one big hit.

If there are signs that the market is softening a valuer should indicate this and not rely solely on comparables that might not reflect this softening.

We try to tell our employers not to be too precious about valuations.

You have got to encourage valuers to undertake a high degree of research, so they have a real understanding of the dynamics of the market.

We do not carry out formal internal valuations but we do have internal opinions of value.

External valuers have a much more broad experience of the market; in-house valuers do collect information, but it is not as good as being at the sharp end of the market.

The client may have more experience, so it is important to advise the valuer how you see the property, how you see the future potential, response to capex requirements, technology issues, leasing profile, retention.

We review a draft report which is quite subjective and we give our views and in some cases debate.

You talk through the pluses and minuses.

I think everyone gains from sharing their views, experiences and information.

Valuers are always ringing me asking my thoughts on what is happening.

It is not a single figure, but how else do you do it, a range is probably more appropriate.

The time frame of the sale is also important, different valuers may perceive this time frame different from another.

If you want to realise a property very quickly you may get quite a different price than if you took a much longer time.

Not enough emphasis is given by valuers to the to the differentiation of quality between properties.

Tenants have strong views on the technical performance of properties.

I think rent reviews are handled very badly in the New Zealand Valuation community.
Valuers believe that every office building is exactly the same at rent review and they want to use comparable evidence on buildings of very different quality.

A tenant moves to a high quality building because he wants all the services.

I have never seen a valuer acting for a lessee come in with a rental which is higher than the valuer acting for the lessor.

Valuers are supposed to act as experts and not advocates.

Valuers, rather than act as an independent professional will act for their client in a rent review.

Why would a tenant instruct a valuer if he's not going to give a low figure that you can use in your negotiations?

We've got the wrong methodology for trying to settle rent reviews; in other countries they have got a different approach.

In England the valuer for the lessee and the valuer for the lessor nominate a valuation figure for the building. A third party (arbiter) is also brought in to value the building and the valuation by the lessee or lessor that is closest to the arbiter. This means that valuations are more realistic as they do not want their valuations dismissed.

Publishing a range of values does not work. everyone needs a single figure.

I think the range of values is larger than anticipated by valuers.

Valuers struggle to get within a + or - 10% range of the transaction value.

The larger the property the greater the degree of variance.

It is easier for a standard industrial premises to pinpoint than for a complex commercial property.

If you were trying to sell a large commercial property in Wellington today, you wouldn't because there would be no funds looking at it.

The demand for individual properties would depend on the type of investors ready to buy in the market.

There are some buildings where there have been no comparable sales.

Valuers need to understand the dynamics of the market and the motivation of individual investors with regards to yields etc.

The type of property will determine the range of values.

There is a great degree of subjectivity.

Different valuers will have different opinions; there are 2 or 3 that end up getting the right balance.

We would try much harder to buy an A grade building than we would a C grade building.

A valuer needs to be aware of the motivation of potential purchasers, which may be subjective.

Valuers do not have a deep understanding of the dynamics of the market and they do not place enough weight on quality.

It's the valuers with experience that network with the key players in the industry.

The more experienced guys are the ones that industry people will speak to, so they get to know what is happening in the market.

When you have people who are strong willed then you will be bound to have conflict.

The client has to be big enough, if they respect what the valuer is saying, they must ride with it, otherwise the process has no validity.

It is important that a client, if a valuer is giving them bad news, sits there and listens rather than jumps in and say I am going somewhere else.

If I want a low value because I want to buy a property then I know exactly which valuer to go to.

I would not want to deal with unethical or flexible valuers.

Unethical valuers get work because people want valuations for particular reasons.

They are not in the mainstream and generally not the type of people we would associate with.

Most people know who the unethical valuers are.

The unethical firms don't tend to be on bank panels they tend to work more in the bottom end of the market with inexperienced players.

You are always going to get valuers who lack professionalism.

We generally brief our valuers on a portfolio basis.

We do get a quote, but we don't make a choice simply because of the quote, the valuers we approach know, however, that they've got to keep their quote reasonably competitive.

For an existing portfolio we would pay our valuers a per annum fee; we tend to work on an hourly basis.

If you want quality then you have to have good research, it's got to have time spent on it, and the only income they get is if they get a commission; they have to work on getting an understanding of the market and getting around, and they have got to live.

Need more help from them if it is a new property.

On an existing asset then the client probably knows more about the lease structure and other details relating to the property than the valuer; for a new acquisition, I would want the valuer to double check the details of the property and the leases as an independent view.

I may know more about the property than the valuers do, but valuers may still know more about what's happening in the market than I do.

Valuers have comparable evidence that we do not have.

There is a rapport going between ourselves and valuers about our properties.

We do speak to people in the market.
Conceptualising the Influence of Clients on Valuations

- We chat to other property investors and real estate agents
- Real estate agents do have a better feel for what is happening in the market than valuers
- We were initially a bit concerned about using multidisciplinary firms, but real estate agents do add information and market knowledge
- We are moving away from instructing independent firms to multidisciplinary practices
- Valuers are supposed to be experts not advocates
- Why degrade valuers by asking them to be advocates; you might as well get a couple of lawyers to haggle it out
- We would rather negotiate directly with the tenant

Appendix 7A3 Summary of interview with Client 3

- The relationship between the client and the valuer is a professional advisor relationship
- We use valuers for a number of reasons; for ad hoc advice, annual valuations, six monthly valuations for shareholders, to support rent review negotiations or acquisitions of leases; basically we use them when we don't feel that our knowledge is sufficient
- We use valuers when we require an independent assessment that is credible in the marketplace, this may be for annual valuations or for rent review purposes
- We instruct them for their expert knowledge where we feel deficient and more for independence and market credibility
- We believe we have a greater ability to assess the value of our portfolio than a valuer does
- Share market prices and valuations rarely line up; this is because they are both valuing different things
- Analysts are not interested in the market value of individual properties
- The values we publish are treated sceptically by analysts but I believe they are useful no matter who you are
- Valuers have more knowledge of market transactions than we have and they quite often are able to research transactions to find out what exactly went on, so they are experts in that field; we are usually satisfied with that type of information
- There is scepticism that many valuers basically act as advocates for the landlord or for the tenant; that should be obvious as they are paid by them
- At the end of the day there has to be professionalism and the valuation has to come out within an acceptable range of values even if they are at the top or the bottom
- Valuers will tend to value at the top or bottom end of the acceptable range of values depending on their client's requirements particularly in the case of rent reviews
- Valuations tend to be pretty subjective
- A 10% difference in range is acceptable and what you would expect at a rent review; this puts you in a range where negotiating a compromise is possible
- If a figure within rent review negotiations comes outside what we consider the range of defensible values then you have a problem and there is client advocacy going on
- Valuers can come out with quite different figures depending on the evidence they are utilising
- Rent review negotiations are affected by our relationship with the tenant
- I will not deal with the tenant or the valuer until I consider that they are being sensible
- I will be prepared to switch valuers
- We will propose a range of rentals; if a tenant comes back supported by a valuer and it's outside that range it is not good for our credibility
- We value our relationship with our tenants, so we don't take a valuation and then add 20% as might have been done in the past
- The valuation has got to be defensible, you need to keep a tenant's trust as you might want to work with them in the future
- An advocate valuer working for a tenant will be undermining the trust that the tenant has with you as a landlord
- Ten years ago the landlord tenant relationship was different and I would just get the rental figure and add 20% for negotiation purposes
- I think roughly the range of defensible values should be around 10%, but it really depends on the individual property for example there may be unique properties with no evidence.
- I think that valuers do a good job
- We sold a number of properties in the last month and they have been sold at or above valuation
- For some properties in a hard market the value range could be as high as 20%
- The choice of valuer was an historical thing, we work with people we are comfortable with; most people we use we have worked with before and we respect their work; the firms we use have credibility
- We undertake six-monthly valuations and we tend to use the same guy that is doing the annual valuation as they are familiar with the property
- The market tends to ignore the annual valuation
- There are benefits in undertaking six monthly valuations as it allows us to see how we are tracking and how things have changed