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Valuers are good at tracking the market, but they are constrained by the flow of information
Valuers do a good job even though they use a difficult methodology
The use of discounted cash flow analysis may be over done as the purchaser may be looking at the property from a different angle
Generally industrial premises are relatively easy to value, but at the moment it is difficult to find transactional evidence
If we changed valuers then there would be suspicion in the market as to why
We would only change if there was a major error; we and the market are looking for consistency
If we are using the same valuer and he is coming up with consistent and credible valuations then we are happy
We have to be seen as transparent and if we change valuers we have to have a good reason to do so
We have chosen the valuer because we believe he is proficient and accurate and unless something has changed, why would we change?
I decide which valuers we instruct and I keep it the same every year
I keep the same valuer on the same property, although I do mix different properties in the same area between the two valuers then compare their evidence
We all have to stand up to what we think and you've got to put a number on it and I think it is realistic to do that, but there is no absolute value for a property
The whole portfolio is valued every six months
I instruct the valuer, I sit down and meet them, we talk about the properties, I make up a list of information that relates specifically to the property, I then forward that information in the form of instructions, then there is a fee negotiation and final instruction
We negotiate the fees every two years; fees have not really mattered much, there is more competition now
The choice of valuer is an historic thing, there has been no reason to change
You have got to have confidence in what the valuers are doing
I ring our valuers up regularly and just talk about what is going on in the market
Rent review negotiations get a bit hairy with certain rent review clauses, at the end of the day it is the valuer that has to work within the interpretation of the lease documentation
If a valuer changes firms I would not necessarily move with them it would depend which company they move to, I would however tend to stay with the firm as there would always be someone there who was as competent and if I was seen to move with the valuer, the market might react negatively; the main thing though is consistency
The personal relationship with an individual valuer is one of confidence in what they're doing, but not necessarily in terms of who gets the instruction
We provide the valuer with basic schedules, they already hold lease documentation, we will provide any updated documentation or a summary of it
We will provide information about work we are doing on projects and anything that will help a valuer with a valuation
We provide information relating to physical evidence and any changes in rental or physical changes
They already have a good set of data on the property, property plans, leases photos; over the years they have accumulated a comprehensive set of records about the property, so it is making sure that this information is updated
Our valuers ring us up for evidence over the year, so we keep them up to date; we provide information relating to changes, information on specific transactions that we are involved with and any market type of information we can assist them with, valuers do not tend to rely on us regarding market information
After being instructed to carry out a valuation, the valuer then goes away and produces the valuation and come back to us with a draft report
We check the draft report for accuracy and assumptions and make sure that we feel comfortable with it
I have a gut feeling as to what the valuation figure for a property should be, but then there may be adjustments after that
The annual valuation is an independent report to our shareholders on the values of our properties, so to some extent my opinion as to the values is irrelevant, unless there is a huge discrepancy, but within a range it is not relevant, unless there is a huge problem
There was situation with another property trust in New Zealand where someone should have picked the valuer's mistakes up, the manager should have had a gut feeling that the valuation was wrong
I won't influence the outcome of a valuation, but discuss with the valuer the assessed level of market rental, and then we might talk about whether it was over or under rented and the factors that might influence the yield
We don't stipulate what methodology the valuer should use, we want to see their opinion on market rent, capitalisation rate, passing yield and replacement cost
Valuers are the professionals, they are the ones giving their independent opinion, it is really their call as to what methodology they use
The primary purpose of the valuations are for financial reporting purposes, they are used as a guide to investment
We do some in-house modelling on historical and future performance of our properties
The company and employees are remunerated on annual returns
"X" management is not owned by the shareholders, but the management is contracted to Company "X"
We do our own in-house modelling, but we don't rely on it, as a starting point we use the independent valuations
I don't think that it is necessary to have full in-house valuations
Conceptualising the Influence of Clients on Valuations

- We wouldn't instruct a valuer that is not experienced
- One company in New Zealand went through a big valuation exercise because they had a big credibility problem; they ran a review process and the outcome at the bottom of the page is OK although a number of their properties are over and under valued. They have a far more complex portfolio than us. The y had a big credibility problem with the share market
- In our annual reports we report property by property; we show a value, a passing yield and the area, it feels right
- Most property companies are fairly transparent
- If a valuer raised their fees we may go elsewhere
- If you negotiate the valuer's fees too far down it affects their attitude as to how much effort they put into it, so we do not press too hard
- We will put pressure on them just to keep them honest, but I am not a big one for pressuring fees for the sake of it, it's a fair fee for a job well done
- Valuers are the professionals; you're asking them to take some risk and exercise some judgment, put their name on it, so you have to respect that
- I receive criticisms from the investment market, brokers, analysts; however, they need to be aware of a valuer's brief which includes a willing buyer and willing seller concept of market value
- You give a valuer an impossible brief to value a property assuming a willing buyer and willing seller and you know as of the date of the valuation there were no willing buyers and the only people willing to sell were only doing it on instruction from the bank, so the market value doesn't actually exist
- Real estate agents are not always a reliable source of information, it depends on individual relationships, there are some that I do rely upon and others that I do not
- There are valuers that are known to act unprofessionally
- The current arbitration process of negotiation and haggling is unsatisfactory and we prefer to go directly to the tenants when it is a rent review valuation and we would rather not include a valuer

Appendix 7A4 Summary of interview with Client 4

- The client valuer relationship can be described as a client with a need, finding someone who can fulfil that need to the best advantage
- We undertake annual asset valuations
- We are obliged to rotate valuers every three years under the Trust Deed
- When you are undertaking a revaluation you are very conscious if the value goes down how will the market react to it; if it drops it can affect compliance with gearing ratios
- The public perception of the valuation is an important factor
- A valuation can be perceived by the Board as a performance measure of the Chief Executive
- There is a difference in getting a valuation done on a property where there is a conscious plan to sell and another where there is no such plan
- We have had some disappointments with valuers that have valued way above what the market will pay
- In the present environment, it is difficult to find comparable evidence, this is particularly so with specific buildings
- We have experienced situations where the valuer has just got it wrong; it was a dropping market which made it even harder
- It is difficult valuing in the New Zealand market as it is unusual to get long stretches of stability
- There can be large differences between valuers at rent review depending if they are instructed by the landlord or tenant
- I do not believe that analysts understand the real estate market
- I am not convinced that the market really looks at asset values; I do not believe that the investor looks at net asset backing
- One investment company for 2 or 3 years had properties that were overvalued and they were trading at the biggest discount to net assets. Other companies have tended to perform and hold their unit price pretty close to assets
- If I was an investor I would want to know what was happening to the underlying value
- The Board assesses my performance on a month by month basis; it is measured on such things as how many shops are let and are we getting rent reviews to the levels we thought rather than on the annual valuation.
- The directors really don't understand the mechanics of a valuation
- If the valuation goes down they look at it as being a result of the market
- This is not the case in all companies, in some companies; if the assets are not adding value them you are not doing your job
- I have had a lot of bad experiences with valuers and so there are some I just couldn't face working with and I just strike them out
- In my view some valuers are just totally incompetent
- There are some valuers that are too easily influenced and thus their valuations are unreliable
- There are firms that have reputations of keeping the client happy, key individuals in particular tend to have such reputations
I've used valuers whose rent review valuations have looked plausible, but when we have gone to arbitration they haven't been prepared and have been "outgunned". There was an instance when I was so impressed by the valuer acting for the tenant that I am now using him for all my valuations.

You have to choose a valuer that has market credibility, you have to look 'lily white'

There are some valuers that people go to for a high valuation and others you go to for a low valuation, I try to go to one that is accurate.

There are some valuers that are conservative and if you are looking to purchase a property then you will go to them.

There are some unreliable valuers that can be talked to go to wherever you want them.

Even without the most optimistic or most pessimistic valuers there can still be a large range of values maybe up to 30%

The differences between valuation outcomes stem from the difficulty in establishing cap rates; this is also a problem in establishing discount rates when undertaking a DCF valuation.

Some valuers still do not believe in undertaking a DCF as they still see it as a "finger in the air" valuation.

There are analysts that say discount rates should be derived from a Capital Asset Pricing Model.

There are valuers that try to distort the real facts to suit their particular perception; for example, discounting a 'deal' because they consider it an 'above market transaction'. This is particularly the case when valuers are working for parties in a rent review situation.

I look for valuers with specific skills.

I do not want to instruct valuers that are easily persuaded.

For small transactional one-off valuations I look for a fixed fee.

I might get a couple of quotes before I make a final decision.

I look for a valuer with no conflict of interest and who is available to undertake the work.

Valuers rarely quote a valuation fee that is outrageous.

Not many valuers have a letter of engagement; I normally spend some time clarifying my requirements.

I require a full DCF and I want them to give me their comparables so I can read behind the figures.

On anything of significance I would expect a valuation report to be produced in draft for review before it is finalised; I think most valuers expect that.

The draft report allows for an accuracy check and a quantum check.

I have a look at the draft report and I will say 'look I don't think this is right, you're too low or you are too high', there is a dialogue that goes on.

Inaccuracies get sorted out after we have viewed the draft report.

If there is a severe reduction in a valuation then it is kept in draft until the timing suits.

Valuations are undertaken annually on the 1st June.

If a valuer is paid too little in fees this will affect the quality of the valuation.

There is often quite a discrepancy between a DCF valuation and a capitalization approach.

An analyst may wish to see a certain approach to valuation.

Different types of purchaser may analyse a property in different ways; for example a local purchaser may calculate value by using a DCF whereas an overseas investor may be looking purely at the cap rate as at today's date.

There are times when pinpointing a value is very difficult especially if there is a large gap between the different approaches to valuations; there was one valuation where this created such an issue that the advice of an additional valuer was sought.

I define for the property manager and valuer what information should be delivered to the valuer; for example, the latest tenancy schedules, copy of standard leases, the latest opex reconciliation, booklet of BOMA measurements, whatever else I think is relevant.

Valuers do come to us for comparables.

Valuers consider comparables as their own information and part of their competitive advantage; they do not want other valuers to see this information; because of this, comparable information is often inaccurate.

There should be a record of accurate comparable information available, but even then valuers may not come up with exactly the same valuations; the differences between them would however be drastically reduced.

Valuers live in a protected environment, under statute and stated in certain leases they are the only people that can undertake valuations; in a different environment a number of people would go to other professionals who are capable of acting as an advocate and advising. This would mean that people wanting to know the real value of their property would have a larger choice of advisors.

By introducing a new valuer via valuer rotation there is more of a chance in breaking the chain if a valuer has made a mistake in a previous valuation. This is especially the case where a previous valuer was not being paid enough and was just adjusting a couple of figures each year to update a valuation figure.

There is the chance that a new valuer may want to change a valuation just to prove the previous valuation wrong and this could lead to an inaccurate valuation.

A change of valuers may cause a large shift up or down in a valuation outcome and the value of the property may not necessarily have changed.

Rotating valuers carries with it some risks.
Keeping the same valuer does result in more consistency, so for some investors it may be better to have valuations checked and leave valuers to come up with an agreed valuation figure, rather than to change valuers on a rotational basis. An alternative is to have valuer A undertaking the valuation and the year before rotation valuer B comes and checks the valuation and they form an agreement before he/she takes over the next year; this is less risky for the investor.

Appendix 7A5 Summary of interview with Client 5

- Our valuations are for unit trust purposes and have to reflect an independent audit of property values
- We have a panel of 4 valuers
- The valuers we instruct have a specialist knowledge of healthcare properties
- The relationship is definitely independent
- We instruct every 12 months, verbally and in writing
- The valuer we instruct undertakes a valuation with no input from us other than descriptions as to the leasing of the property, the nature of the property and construction costs and the like.
- Once completed we get a draft valuation to review in terms of accuracy
- We then have a meeting to go over the valuation with them
- We aim for consistency between the panel of valuers over the portfolio
- We cannot dictate value but we like to have a smooth transition between valuers
- We rotate valuers every 3 years, we can only have the same valuer two years in a row as specified in the trust deed
- The process of valuer rotation is designed to getting consistency and genuine market valuations
- Valuers tend to be pretty consistent in terms of their views, valuation principles, methodologies and yields; there haven’t been many major discrepancies
- We do rolling valuations on a 6 monthly basis, half the portfolio in June and half in December
- Want to spread valuations out over time so you don’t get the unit price being affected dramatically in any one month
- There is also a cost factor and economies of scale issue
- We’ve generally used 2 valuers; we were looking for people with experience and expertise in this specialised area. We do use other valuers for other parts of the portfolio
- We prefer to use where possible the larger firms that have research capabilities
- We have to value on the basis of accounting standards SSAP 17, and within that there are a set of rules as to what a valuers must provide in their reports
- We include an instruction letter setting out what we want, what needs to be covered, the experience of the valuers and then we ask for quotes
- If the quotes are acceptable then we will go ahead with the valuation
- The purpose of the valuation is to value the portfolio and the unit price; unit holders get the benefit of capital growth
- Disposal costs are built into the valuations
- In the trust deed we have an obligation to value every 18 months; we have however made a decision to value annually
- The key reason for obtaining valuations is to establish unit prices; we do instruct valuers when we are considering acquiring a property and then we have to have a valuation carried out for the trustees and the board, there are also some valuations undertaken for insurance purposes
- It is part of due diligence to get a valuation carried out when we purchase a property
- The valuer has to be approved by the trustees
- We get a valuation on disposal for the purpose of providing due diligence information
- We work out which properties have to be valued
- We will send an instruction letter out to the valuers; they confirm whether they are to follow up with a quote; if we are happy with the quote we will appoint them
- We will provide information including for development projects, the construction budget, plans and specifications, location information, agreement to lease, agreed rentals
- They then carry out the valuation for a current market valuation
- We will ask for current market rentals; they will do an investment valuation assuming market rent and contract rent; they will also do a replacement cost approach and a DCF depending on the nature of the property
- They provide us with a draft and we will check the report for accuracy, we will review the historic valuation to make sure there is a consistency; if there are any discrepancies and errors then we arrange a meeting to discuss the valuation further with them
- There have been errors in numbers, zeros missing etc but nothing major, there might be misunderstandings as to how budgets are structured. We haven’t really had a lot of major discrepancies between valuations
- If things have been done differently we will question the valuer as to why; the main reason for this is for us to find out what is going on with our properties
- At the end of the day we have a board to report to
On acquisitions we have to understand how the valuation is made up and what is driving the market, so if we have to go and negotiate we've got to be aware of what is happening and where the pricing is; with portfolio valuations we have to be up with the play

- For acquisitions a valuation will be part of the due diligence process and we would only give the valuer a budget, agreed rentals, it depends on the nature of the property
- Valuations for acquisitions will assist in the negotiations to purchase
- For portfolio valuations we will just advise the valuer of agreed rentals, we will query with the valuer if the portfolio valuations have moved up or down or whether there is anything that stands out from the rest.
- At the end of the day all we can do is question the valuer; the valuers we deal with tend to stick to their guns
- Obviously if there is an error they have to fix it
- Our valuers place a pinpoint value on a property, but for acquisitions they may supply a range of values, but these have to be quite tight
- There is generally a consistency as we are forming the market
- There are properties we have owned and valued for a number of years and others that we have only just completed
- We have got to take responsibility in terms of being a manager of the fund in looking for consistency and what we put through in terms of SSAP
- The information we give them tends to be property specific, we expect them to visit the property so we don't give them locational information
- We give them information on agreed contract rents, budgets, occupancy levels, the tenant, the covenant etc
- We get a lot of proposals and we use valuers to assess these by asking about yields, market conditions, so we use them for initial information and to assist in forming our view
- We are in a unique and specialised sector; there are about six firms of valuers that we could use; they need to have an understanding of the mechanics and an expertise in the sector; I think that the pool is big enough
- We have got to use the large firms from a public perception point of view
- It is important that the firm we instruct to carry out our valuations has the ability to undertake research and it is only the larger firms that have the capacity to do that
- A valuation is the disposal value of the property now, for future benefits; over time the value is going to change as rental flows change
- Current market value builds in disposal costs but is not necessarily a disposal value; we do not look for a disposal value as we are a long term holder; it is just a willing buyer and willing seller valuation
- I am confident that valuers are conservatively accurate in their valuations
- For us it is important to maintain the valuation at a middle range and not expect to see huge valuation gains or losses
- Valuers do a relatively good job at assessing market value
- I sometimes question the cost estimates, the amount of time gone into the report and the amount of background research
- The nature of the valuation is to know the market and put in the information that is required to support that value
- The difference between a client and valuer may be as little as ¼% on yield
- We have a meeting with the valuer and it is give and take
- The valuers we deal with are pretty conservative, some are more conservative than others
- The most conservative valuers come from the larger firms who are dealing with the larger properties
- The larger the property the more of a conservative view they need to take as they are more at risk and are going to be in the public eye more of the time
- The bigger the deal the more the potential for mistakes
- Larger valuation firms will be more conservative on development projects than on existing properties as they can't see the property and the way it operates
- It is difficult to know what the property will look like on completion, up and running; one side is the development and the other an operational company
- Valuers tend to be backward looking
- Valuation is not an exact science and it is going to have its imperfections; the key is to have systems in place to minimise the risks
- Valuations are not perfect, but is as perfect as we can make it and it serves a purpose
- There is protection from an investor's point of view; valuations are carried out regularly using different valuers; the valuers themselves are knowledgeable and they carry out research
- At the end of the day valuations are driven by the valuers that do them
- It is important for a valuer to have good information, a valuation is only as good as the valuer and the information they have
- The process of valuer rotation should encourage valuers to share information which should benefit the end result
- This should lead to a certain amount of consistency
- The process also allows us to pick up errors
You are always going to have valuation ups and downs and changes depending what the market is doing and the individual properties so the valuation protocol helps to protect against flaws or inconsistencies; it should not drive the value or the market

I will not give another valuer's valuation to the next valuer

I may supply a valuer with the report with financial information blanked out; I will provide the description if it is an asset or an insurance valuation

The amount of information shared between valuers is up to them; they are generally very protective of things confidential or conflicts of interest

Some valuers are good mates and share information and network

When we get a valuation from a valuer that we do not agree with we let them know and discuss it

We are not valuers but investment analysts

We generally know the market and how it works but valuers know it better than us in terms of yields and rentals

Valuers should look at their previous valuation of a property; it is information and research; it illustrates where the property has come from in relation to value and where it is going

Valuers can make different assumptions especially for development projects

I am sure that valuers deal with each other and share information

Certain issues come up in a more upward mobile full market

The volatility of the healthcare market is not there when compared to the commercial property market

Appendix 7A6 Summary of interview with Client 6

The client valuer relationship needs to be close insofar as we need to understand the methodology, approach and styles of the valuer so we can address investors' questions and information requirements

We commission valuers for statutory purposes and we have a statutory obligation to report our annual valuations at the end of the financial year

The valuations we commission are used by our auditors, accountants and investors

We commission valuations annually for the 30th June

We also commission valuers to undertake valuations for the purposes of acquisitions and divestment

We select our valuers by their level of competency

The choice of valuers is restricted by banking covenants

There are certain valuers that have specific skills for certain types of property

There are not many valuers that are competent at valuing our type of assets

Our banking covenant only recognises two specific valuers and the expectation is that we would have a quality job done by them

We have a valuer rotation policy once every two or three years

This ensures that valuation methodology and data is routinely reviewed and verified by different people

We don't want to fall in the same trap as other funds where they have had the same valuer for many years and fundamental mistakes failed to be picked up

Mistakes can happen if there is not a regular review or peer review of a valuation

Valuer rotation helps to maintain the integrity of the valuer and valuation process

People do have different views of the market, if a valuer has done his/her research correctly then there shouldn't be a big difference between valuations

Valuer rotation does ensure the integrity of the data and valuation process

We saw a difference in the style and methodology when we rotated the valuers

We supply to the valuer all data regarding tenancy details, operating expenses and building information

We review the draft valuation for information accuracy, methodological accuracy, information gathering and to understand how the valuer has approached the problem

By reviewing the valuation we can understand the process more fully; if we need to justify anything to anyone or defend a number to investors or analysts we can

The draft review is a very useful process as it can uncover any mistakes including number transposition and it makes a difference in looking at inconsistencies from a portfolio basis

Three or four people from our company get involved in the process

Each person in our company has a reason to get involved in assessing the draft valuation

I am involved to understand the business risk, the methodology, the valuation style and so forth; the asset manager would look for data verification to ensure that all current expenses have been captured by the valuation process; and the property analyst who is a resident expert valuer checks for much of the same thing

Our buildings are very complex and an average valuer would not know how to deal with some of them

We do not instruct anyone to use a specific methodology as our valuations are independent

Our involvement is to never influence the outcome of the valuation

We do talk about different valuation approaches an the different merits of each
Conceptualising the Influence of Clients on Valuations

- We may think that a valuer has taken the wrong approach for a particular asset; you could call our discussions with them influence but we see it as a kind of machination of valuation ideas, approaches and styles
- We discuss with the valuer our market outlook, their view on why they are using this and why they are doing that and we challenge them. We say why would you do that when it is like this? It could be interpreted as influencing, but we regard it as a process of checking that these guys put in the required rigour for these complex assets
- We want to make sure that the valuations are carried out in a very rigorous way reflecting the fees that are being charged and also the value implications of not doing a very professional job or a very accurate job
- We see the discussions over the valuation report like a check process to keep people in line.
- Each year we go to our nominated valuer and arrange a pre valuation meeting and ask them what is their view of the market and talk a bit about the valuation
- We get them to talk to us about how they see the valuation having changed since the previous year; this is not related to the valuer's appointment, but purely an information gathering exercise so we are aware of the views of a couple of valuers and what the market is thinking
- We would then discuss fees and formally appoint the valuer; we will appoint the Director of Valuation or the Chief of the Valuation Department as being responsible for the valuation programme and signing off the valuations
- The chief valuer has to sign off and explain the valuation and supply commentary so we know there has been a consistent view throughout the valuations
- The only information we supply is the tenancy schedule and operating expenses information; they make all other assumptions including capex, leasing up and market rentals
- It would take them about 3 weeks then to complete a draft which they would send to us for review, verification and data accuracy
- We would return the draft valuation within about one week; they would then tidy up the work, finalise it and in a week to ten days we would have the final report
- If we understand the valuation position of our assets then we are able to make better decisions about strategic direction of the portfolio including as to whether a building has a future in the portfolio
- Our balance sheet and bank covenants providing security to the loans made to the Trust are basically supported by the values of our buildings
- Our internal valuation targets do not affect external valuation outcomes, because their purpose is to get an independent valuation
- Our internal valuations do differ from our external ones, but there is not much we can do about that, they are independent and we have to have them carried out each year. We therefore have to understand how the valuer has come up with their figure and why their figure is different
- The differences between internal and external valuations tend to come from a difference in assumptions, including assumptions on market conditions, growth rates, market rents, vacancy allowances, refurbishment costs and even methodology. While we can tell them what we think they are, they make their own assumptions as to how they treat them
- Valuers tend to be more general when they deal with items such as refurbishment costs whereas we will look for a rate per square metre for each individual building
- We will sit down three months prior to the financial year end and talk about market conditions and the property assets and we gain a very sharp understanding as to what is happening in all the buildings; we focus on every tenant, every expiry, every rent review and forecast what is going to happen 1, 2 and 10 years in the future
- We intend next year to have a half day workshop about the market and challenge ideas, market trends, views on growth; this is partly as we see we have a responsibility to make sure that everyone is lifting their game
- We see if the banks can only accept two valuers in New Zealand then we can assist in getting valuers to increase their level of sophistication
- We rationalise the difference between an external and in-house valuations; they may have a different view of the market, a different set of assumptions and opinions on market data
- We can talk at length with the valuer but at the end of the day we can't make them adopt our market view as that would not be an independent valuation and it is not our role to change their market story for statutory valuations
- We do have internal valuations that will reflect our view and we will use these to make any divestment or acquisition decisions as we consider ourselves as property experts and we will not make these kind of decisions on someone else's view
- If you do not have property expertise then you rely on their advice
- Some of our in-house valuations come out higher and some lower than the external valuations, it depends on the reason for the valuation; if we sell an asset we may, for Board requirements we commission a valuation which may come out higher than what we think the market value should be so we may challenge such a valuation, and we would also challenge lower ones if we have a chance to purchase a property
- We will challenge higher and lower valuations especially as we have to explain any discrepancies to our Board
- We will go to the Board with an external valuation so that they can say that they have been advised on the situation and context

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Conceptualising the Influence of Clients on Valuations

- For one building we did an internal feasibility assessment it would have cost $30,000 to carry out a valuation so we just brought in an external valuer to sign off that all our assumptions were fair and reasonable
- We report external valuations in our Annual Report, they get audited by auditors and that is the value of our buildings
- We do not challenge external valuations even if we don’t agree with them, we don’t always believe that the external valuer has got it right, but we cannot change it
- We do challenge valuers’ thinking so they can go away and make sure that they have really thought it through; at the end of the day we do not have the ability to demand a change otherwise it would not be an independent valuation
- I think that the valuations on the whole that we have received have been about right, although the first drafts have tended to be undervalued
- Valuers have listened to us or have seen reason to change their valuations once having reviewed it
- Valuers don’t always review their position
- In the review session it is always useful to have a dialogue with the valuer as they may find reason to change their figure
- We would say that we think that values have been fair that have finally been booked.
- There are some at first draft that haven’t focused on the right things

(Other information was contained in the second half of the interview but this related to a specific case study which will be discussed later in …)

An in-depth analysis of each interview transcript was undertaken this analysis was compared to the factors outlined in chapter 6.

Appendix 7A7 Summary of interview with Client 7

- Valuers we instruct have to have an understanding as to what we do
- They have to balance impartiality and be sufficiently arms length, but balancing that with an understanding of what we do and how we do it
- The funds that we supervise that have real estate holdings are revalued on a quarterly basis in order to get a balance between up to date assessments and trying to keep the costs under control
- This valuation pattern avoids the bias where you pick a date in the year to value
- We have a panel of 3 or 4 valuation firms
- By and large any property will get valued no more than 2 years in a row by one firm
- Property is a subjective thing
- Tend to get a bias if a valuer values the same building for too many years in a row which could end in either over valuing or undervaluing a building
- We try and get a reasonable spread of valuers so we are not getting one firm being dominant in one particular area
- The fund is divided into four and then valued once a year on a different date by a different firm of valuers on a rotational basis
- One portfolio we took over had the same valuer valuing it for 26 years I believe that resulted in biased valuation outcomes
- Values that were pinned on properties valued by the same valuer over a sustained time period were held artificially high
- If you have over valued in past years and the market has improved it is difficult to tell your client that the property is now worth less than last year
- The only way to reduce this type of bias is to introduce a new valuer even though some may argue that valuers may be too anxious to critique each others work
- Generally the most a fund can comfortable take is a -9% depreciation where they may have in reality depreciated by 20%
- There may be some rearrangement of properties in our portfolios that gets valued at specific times of the year depending on circumstances that that may have dramatically affected their value we therefore try and catch as soon as possible so the book value and the valuation lines up
- The primary purpose for the valuations are for unit price
- The primary purpose of a valuation is external in order for the unit holders to get a true perception of what their investments are worth
- We wouldn’t commission a valuation at a point of sale as we have sufficient in house information
- For new acquisitions the valuation would be a part of the due diligence process
- We provide valuers with a sale and purchase agreement but they are also expected to provide an independent assessment of the worth of the property
- A strategic plan for a property is updated every 3 or 4 months
- Some properties are earmarked for sale and for others circumstances may change
- Even if a property has not been identified for sale we will always consider a very high offer as the money paid could be used more effectively
- Rental clauses in our leases call for recourse to arbitration using valuers if an agreement can’t be reached
Things are less adversarial if the landlord has a decent relationship with the tenant rather than bringing in a 3rd party
When we have to bring in valuers it might be done in a formal of less formal basis; we try and get the valuers to come up with a mutual recommendation
I am pretty explicit about what I want from the valuers we instruct in a rent review situation; I normally request two figures, one reflecting the figure that they believe will be agreed under arbitration, and one reflecting the highest figure that can be supported from these figures; I am then in a position to negotiate effectively
It's a case of having to come up with a pinpoint value for setting unit prices
Valuers are not always clear on a normal or realistic marketing period or including a realistic marketing budget
A normal marketing period will depend on the type and value of property and the market conditions including market demand
Valuers do not always spell out their assumptions relating to their marketing period; it is probably an area which we should ask them to spell out more definitively
We would assume that it takes on average 6 months to sell a property
There was one firm that we were not happy with their valuation format so we gave them one from another valuation practice and told them this is the format we want you to follow
We do not want to see only metric calculations
We want a break up of contract rent and market rent
I know we have to indicate a pinpoint value for particular valuation purposes, but if you look at the definition of value there almost has to be a range
Buyers are individual people who have a subjective view on what the property is worth and it is highly unlikely that 3 or 4 of them are going to come up with the same figure even under the same terms and conditions
In the situation of an identical brief for an identical property and a common understanding of marketing period and sale term you would expect valuers to be within a reasonable tight range, but not necessarily to have the same pinpoint value
Valuers might come up with the same value in some circumstances, for example if surrounding evidence was compelling this could happen in a situation where there are a number of identical apartment sales, but commercial or industrial does not tend to be like that
Valuers on the whole do make a good job of estimating market value
Valuation accuracy will be affected by the input of the client and the sharing of information, market knowledge and specific knowledge of transactions
When we employed one of our valuers to become General Manager of Properties he immediately disassociated himself from the valuation process he was formerly involved with
We send valuers a list of properties that we want valued
We advise them of book values, the last valuation and projections of roughly where the value should be; that is contentious as it could be perceived as leading
We then ask for a fee quotation, if its in the ball park of what we are looking for then we will ask them to proceed
They then come on a data gathering exercise; they normally send a junior member of staff whereas we think they should send someone more senior and we make ourselves available for any explanations they may want
Valuers have access to all our files and information
We discuss capex from a tax perspective
They come up here and look through the files
We put together a brief series of notes on any significant changes that have taken place on the property since the last valuation, they get full access to the last valuation
They speak to the portfolio managers to find out about transactions, they go and inspect the properties and then let us have a draft valuation to have a look at
The valuer will produce a list of draft figures; we would then have some round table discussions and kick around any thoughts or ideas
We will contest any major aberrations we see
There are sometimes some factual errors that we will highlight; some of them are things that the valuers have missed or where they have misread the market or where they are not aware of latest sales.
We also discuss differences in opinion and viewpoint typically on yield rate
There are also 101 other things such as deferred maintenance
As a rule valuers are not aware of landlord's capital expenditure including deferred maintenance
Leases have grey areas in them
Valuers are a little light on vacancy and letting up periods, and more bearish on market rentals
Out of 25 to 30 properties being valued we would expect to adjust the valuation from the initial draft of approximately between a quarter to half of them
I try to be careful not influence valuations because of ulterior motives for example the intentions to sell a property in the following year
The same should be the case whether you are selling or retaining a property or if you are in the process of a lease negotiation or rent review

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It is important not to artificially prop a building up because you will have to bite the bullet sooner or later and be realistic as to what it is worth
We try and not tell the valuer our game plan for a property unless it is something very relevant
We do not want to pressure our valuers into a particular perspective
The valuation should be an accurate estimate at that point of time
In the past we inherited manipulated values which made it difficult for us downstream especially if there is a change of strategy for a property
It is important to value a property at it's actual value; if it is worth $2.5m and the market softens then we have a case for selling it under market value
There have been suggestions from valuers that clients have suggested strongly as to what the valuations should be
This happens not only with institutional clients but also residential mortgage valuations
There is an argument for not disclosing to a valuer the purpose of a valuation
In small sense we are paid based on performance but most people are on a standard based salary
There is less likely to be a divergence in the opinion of value in a straightforward investment property
Something that is grossly over rented is likely to be debated between the client and valuer
Properties with redevelopment potential are difficult to value and mainstream valuers struggle with these as they have never worked closely with developers
Different purchasers may assess the value of a property very differently; some people buy on yield rates, some are conscious of market rents, some people simply capitalize the rent, others discount; there is a range of views
There are times by virtue of our land holdings that we are conscious of things happening in the market and we will ask a valuer if they are aware of it and if not to go and do some research
Two or more valuers or other property people will have different views on what the market rent for a property is; for example traditionally it was thought that rental rates go up in 25% leaps as you go up a tower block, but others believe that it is more variable than that; higher levels might even attract a discount
When you are down to issues of quality, it is difficult to calculate the price that should be placed on it
It is the interpretation of the market to issues of quality, that is where the subjectivity comes in, how much should be adjusted for certain features
Valuations are only valid if they reflect the way that the market behaves
If the market buys on yield rates and doesn't do a DCF, there's little point in a valuer carrying out a DCF
You don't need to go to the effort of discounted cash flow analysis on a simple industrial building
If there are buildings with complications we may specifically request certain valuation methods are utilised by the valuers
On the valuer's draft report we would look at the methodology and comment on things such as double discounting, where they take a very conservative view on market rent and then use a very soft cap rate and then discount for the vacancy and letting up incentives etc
The only flaw I tend to notice in the valuations I've read is that something happens at the 6 year mark when it earns its full cap rate, and then the cap rate comes off a little bit and lower and lower and when there are 2 or 3 years to run and they then introduce some real costs of dressing the building up and finding another tenant; it is not a very precise way of doing it
I suppose we do not pay the valuer enough to read the lease from cover to cover
If we see an aberration in the lease that the valuer has not taken into account we will point it out to the valuer
In appointing a company to undertake our valuations we are looking for a firm that has a range of good valuers; there needs to be a group of people that have knowledge of a good cross section of the market, access to market information and a track record
We would only wish to appoint valuers that have the right experience of institutional work
Valuers that have only undertaken tenant advocacy work have a negative view of the market
It is important to form a good working relationship with a valuation firm especially if they are doing other work for you, for example property marketing, leasing and management
Each of the divisions of a multidisciplinary company tend to work quite separately and separate their respective interests; we don't tend to get any better deal when we use more services
Valuers in multidisciplinary practices tend to receive information more quickly and accurately from real estate agents
Some valuation firms do not seem to have the right people with the right expertise
We had an experience where a valuer did not want to change his reporting patterns
We have recently asked a firm of valuers to conduct a peer review as part of their valuation process
When we request a peer-review process we expect that before the valuations come to us a number of valuers within a firm will have had a round the table discussion and have formed a collective view as to where the value sits
We tend also discuss the value of our properties with each other internally
I don't believe in grinding a valuer down excessively on fees
If a valuer has supplied us with a steady flow of information and advice then we have more tolerance and are less likely to be picky about dollars and cents
Valuers are going to want repeat business, so making their client unhappy is not going to work
If valuers are asked to come up with a figure that is clearly untrue then it places them in a difficult situation.

The test ultimately is if anyone is disadvantaged at the end of the day.

In mortgage valuations, provided that the house buyer pays his mortgage and the bank gets their interest, at the end of the day nobody's been hurt.

If the buyer falls over and the bank has to sell and they don't meet the funds outstanding this is unacceptable so the test is what the outcome is.

I've tried to discourage client influence here because you have got to live with those values year in and year out and whatever you do with the property subsequently is based on that.

Once you have gone beyond those initial years then the age and experience seems to be secondary to people's ability.
### Conceptualising the Influence of Clients on Valuations

#### Appendix 7B

**SAMPLE OF CLIENT RESPONSES TO INDIVIDUAL FACTORS – CROSS CASE ANALYSIS**

#### Appendix 7B 1

Illustrative sample of responses to individual factors relating to market credibility

<table>
<thead>
<tr>
<th>MARKET CREDIBILITY</th>
<th>Example Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consistency in valuations</strong></td>
<td>&quot;...if you think the value of a property is coming back you've got to be reasonable consistent...&quot;</td>
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<td>&quot;...You can't be going it might be 35 or might be 33, I mean it takes a consistent yield where you get a point in time where there's no more value slide or there's no more value change, 'cos the market isn't really that dynamic ... there's no sales evidence because the market is so small&quot;</td>
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<td>&quot;...the big thing for us in terms of what we represent to the market and the shareholders is consistency, they want to see consistency in everything, consistency in dividend payment ... roughly in the value of the portfolio, they probably the flavour we go for...&quot;</td>
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<td>&quot;...Company X went through a big exercise because they had a big credibility problem with their book values...&quot;</td>
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<td>&quot;...if you get a 10% shift up or down in your values because you've changed valuers, what does that tell the market, it tells you that your values have gone up suddenly or its gone down suddenly, and that's not necessarily the case, so it carries some pretty major risks rotation, really I think...&quot;</td>
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<td>&quot;...It is mainly to do with getting consistency, and making sure that they are genuine market valuations ...&quot;,</td>
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<td>&quot;...you want to spread your valuations on a portfolio out over time, so you don't get a situation where the unit price can be affected dramatically in one month...&quot;</td>
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<td>&quot;...you have got to take responsibility yourself as well, in terms of being ... a manager of a fund looking for consistency with your valuations ...&quot;</td>
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<td>&quot;... We'll review the historic valuations that have been done on the properties to look for you know, a valuer may value it for two years, to make sure it is reflected, that there is consistency there in terms of what they are saying now and that there are no discrepancies from one valuer to another...&quot;</td>
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<td>&quot;...we were consistently getting figures that were out here, there wasn't even any pattern to it really, and again they didn't seem to have the right people, the right expertise...&quot;</td>
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| **Reporting consistent and attractive dividends /returns to unit holders** | "...if a valuer sort of one year goes ... you know I was forecasting 20% growth and then 10% after that and this year I am saying that there is going to be no growth and the market rents have come back ... you know I think it is worth $5 million less than last year, I mean you just can't do that... I mean you just can't do that in an environment where you sort of being relied upon to set asset values..." |
|                      | "Company X for 2 or 3 years, everyone in the market knew their properties were grossly over valued and they hadn't taken a hit on them .... It's no coincidence that they were trading at the biggest discount to net assets..." |
|                      | "...you've got a very high consciousness that if your value goes down, how is the market going to respond to that... it's going to drop your net asset backing, in some cases that can even affect compliance with gearing ratios..." |
|                      | "...you're sort of sitting around thinking, well, I'm going to produce this valuation, what are the board members going to say when I report to them the property has dropped by $10 million...?" |
|                      | "We have a reputation in the market .... And we believe we are the best fund managers ... and we have a certain level of professional credibility which we have got to maintain and therefore we want to deliver performance, as fund managers if we don't perform we don't have a business and so performance is critical for us to build a client base or to have a top performing fund and so there is a lot at stake ... particularly when our assets are getting devalued 'cos we obviously are seen as..." |
negative performers..."
"... they were held at an artificially high level, now if you've reported a property as being worth a certain amount for three or four successive years and then the market's improving how on earth do you tell your client that it's now worth less than what it was worth last year..."
".... I don't think anyone wants to report a negative return to the unit holders."

Perceived market transparency
"...we actually undertake a peer review process, which basically means that we instruct the valuers to go away and value our assets, then we appoint a second valuer to review those valuations and what we say to them is that – here's the valuation that have been completed, here's all their workings, we want you to look at it, come up with what you think the value is and then basically if there's a differential we want you two valuers to talk and agree..."
"...the market is sophisticated these days and there's a lot of information, you've got to be transparent and you know we've worked really hard to make sure we are transparent..."
"...we do... the second valuation (because) ... we're told the market ignores the one we're obliged to do, once a year..."
"...transparency is a big issue, keep it very transparent. People just want to see consistency, so we wouldn't change (valuers)...
"...If I was a big investor with a portfolio of listed property stocks, I'd definitely want to know what was happening to it and the underlying value..."
"...there's an issue of how will the market regard the fact that we're using ABC Ltd as valuers and certainly our Board sort of talk quite a bit about that..."
"...in a public listed environment you're very conscious that you've got to be sort of 100% lily white...
"...we have got to use large scale firms anyway from a public perception point of view..
"...if we are undertaking a new development or there is an acquisition to the portfolio which might be at any time of the year or a divestment to substantiate an acquisition or divestment decision to the Board..."
"...We will go (to the Board) regardless with an external valuation just as verification ... so that the Board can say that they have been fully appraised of all situations and context..."

Appendix 7B2 Illustrative sample of responses to individual factors relating to the need for accurate and realistic valuations

| Accurate and realistic | ...
|------------------------| --- |
| Manage future liability | "...the last thing a valuer wants to do is put a value of $35 million on a building and then next year it's worth $28, he's not going to be looked upon very well...
"...it's better to have it early (bad news), it's better to have it in small chunks you know, rather than someone ...just holding it at the same level and then eventually there's one big hit and...the Board of Directors, everyone says ... how did that ... happen?..
"(the primary purpose of these valuations is for financial reporting purposes), they are used as a guide to investment...."
"...we've had some pretty severe disappointments about saying to valuers, look we want real genuine, I can sell this tomorrow valuations, then you go to the market and find you know, the real price is 20-30% below those figures...
"... really the important thing for us ...is maintaining the valuation in the middle of the range not expecting to see huge valuation gains or losses...
"... if we understand the valuation position of our assets, we make better decisions about the strategic direction of the portfolio, and from an asset specific perspective, also whether or not that building has a future in the portfolio or not so it is very important to understand its valuation direction whether or
### Conceptualising the Influence of Clients on Valuations

<table>
<thead>
<tr>
<th>Commercial rather than evidential approach</th>
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<tbody>
<tr>
<td>&quot;...there are valuers who are very technically based ... they don't necessarily have a really good appreciation of how property functions and the rationale for people investing in property...&quot;</td>
</tr>
<tr>
<td>&quot;...the more commercial they are, the more they understand transactional behaviour, the more they're able to take a view on valuations that I believe are more accurate than someone who is probably really technical...&quot;</td>
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<tr>
<td>&quot;... it's very important that you look at the future value, the on-going future value of a property, ... and the assessment of its value in 5 or 10 years time to me is really a very important, it's the most important issue, and that would be true if you were a security lender anyway, I mean the issue is not what it's worth today, the issue is, if you are trying to, is what, where, what's the trend of the market, is that property going to be progressively falling in value ...&quot;</td>
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<tr>
<td>&quot;...if we don't feel that they have a good understanding of where the market is going, rather than has been, then they won't generate our respect and won't certainly be providing the skills we are looking for...&quot;</td>
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<tr>
<td>&quot;I really strongly think that (evidence based valuations are) absolutely inappropriate.&quot; (client 2)</td>
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<tr>
<td>&quot;...you should be taking a view of the dynamics, ... is that market going up or down, you know, and certainly the banks are taking a view and not wanting to lend into it ...&quot;</td>
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<tr>
<td>&quot;...he just got it wrong and it was in a dropping market to which was even harder, so he may say, well two months later when you try to sell them, the market had dropped even further...&quot;</td>
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<tr>
<td>&quot;... I think they (valuers) are ...backward looking as opposed to forward looking, and I don't know why, I think that it may be to do with the volatility of he New Zealand economy, things change there so quickly, I don't know I'd say they definitely look more backward and what is happening at the present time in the market...&quot;</td>
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<tr>
<td>&quot;...it is actually a freehold site that we own, the ground lease is to the government ... there are no improvements on the site ... it is heavily over rented so it is effectively like a bond cash flow ... we asked the valuers &quot;how do you value that?&quot; And then ... we look at recent leasehold sales and apply a cap rate ... I personally have a problem with that because I think it is undervaluing the asset. The best way to look at it is to defer to the capital markets and say ... &quot;What is the risk-free government bond selling for??&quot;</td>
</tr>
<tr>
<td>&quot;...when you are down to issues of quality, what price do you put on it, he's done a sort of averaging affect...you'll find that the bad property not only takes longer to lease, but it leases for a lower square footage rental ... so its interpretation of the market...&quot;</td>
</tr>
<tr>
<td>&quot;... If the market buys on yield rate on small industrial units and doesn't do discounted cash flow then there's little point the valuer doing discounted cash flow...&quot;</td>
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<table>
<thead>
<tr>
<th>Instructing competent valuers</th>
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<tbody>
<tr>
<td>&quot;... we've tended to use all the major ... internationally recognised practices...&quot;</td>
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<tr>
<td>&quot;...and some (valuers) we just think are a joke quite candidly and so we don't use them, and others we feel...have got a really good understanding of the dynamics of the market and so naturally we gravitate towards them...&quot;</td>
</tr>
<tr>
<td>&quot;...I'd just try and pick the valuer that I sort of think is best for the market and that, that means for me genuinely understanding the market and giving me you know the highest level of accuracy ...&quot;</td>
</tr>
<tr>
<td>&quot;We won't use somebody that is not experienced...&quot;</td>
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Conceptualising the Influence of Clients on Valuations

"...I guess one of the problems of being around as long as I have is...you've had bad experiences with virtually everyone in the market and every field, so you sit down with a list and say ... there's some that I just strike out and say; well I wouldn't have a bar of them..."

"...but I think it is important to have that research background...and you are not going to get it with just a one or two man show for this kind of property..."

"... if I went to a valuer to get something done in Takapuna and he says, oh well I'm gonna have to start going around and finding comparables, I'd say, oh forget it, you know if you don't know the market then I don't want you to value it..."

"...(We select valuers by their) level of competency, and this can be restricted to banking covenants i.e. a recognised valuer by a bank, if you have to raise finance against those properties. There is ... recognition in the market that ... certain valuers have skills for certain types of property and depending on the complexity, .. or the asset, you need to employ a valuer that is appropriately skilled ...

"... we're looking for a firm that has a range of good valuers, ... it's important that they've got more than one good valuer, just one good valuer is not really enough, I think it needs to be a group of people that have got a good cross section of the market, access to market information and ... a track record of doing this type of work and having access to the information needed ... is important..."

**Appendix 7B3 Illustrative sample of responses to individual factors relating to the purpose of the valuations affecting the preferred outcome**

<table>
<thead>
<tr>
<th>Purpose of valuation affecting the preferred outcome</th>
<th>Response</th>
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</thead>
<tbody>
<tr>
<td>&quot;... it's like a rent review, you know if you're acting for the tenant, you're going to be different to when your acting for a landlord, there's no necessary reason why you should be, but it's like you have to be ... you have to take a position and try to get to a point where you agree, so why, was it not that in valuation for asset purposes you didn't apply the same approach which is in a rent review, you have two valuers, they're opposite ends of the scale and eventually there's an agreement somewhere in the middle and that's more or less what the rent is, and that's the market rent...&quot;</td>
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<tr>
<td>&quot;... You know the review valuer will... in some cases, with some of the valuers who I would call less commercial, they take the stance that their valuing it for a purchaser and they feel that, they feel compelled to disagree with the principal valuer...&quot;</td>
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<tr>
<td>&quot;... you (a valuer) ... expected to have a different view to another valuer 'cos you were acting for, on different sides of the fence. Typically in a rent review scenario, you know but I guess that's, that is just a negotiation thing...&quot;</td>
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<tr>
<td>&quot;... I mean it could be a banking requirement that they keep their values up as high as possible they don't want to be in breech of banking covenants or things like that, so you know they'll put huge amount of pressure on the valuer.. to be ... as bullish as possible..&quot;</td>
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<tr>
<td>&quot;... you know there is pressure ... say you're doing a trade, trading a property and they're saying ... I want to trade those three properties for my one, I want my value to be as high as possible, and I'll put pressure on the valuer to do that, and the guy on the other side would be putting pressure on his valuer to get his three properties' values up as well...&quot;</td>
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<tr>
<td>&quot;I guess that, you know if you're a lessee why brief a valuer ... if he's not going to give a low figure, so that you can use it in your negotiations ...&quot;</td>
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<tr>
<td>&quot;...If I want a low value, especially if I'm buying a property and I need it and I want to use a valuation as evidence to pass it across the other side ... then I know exactly who I will go to... I think they're (corrupt valuers) from smaller firms ... yes they are in small firms and they get work simply because ...people who want figures for particular reasons...&quot;</td>
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<tr>
<td>&quot;...There's a lot of scepticism of tenants, that valuers basically acting as advocates for the landlord and for the tenant ... and that's very obvious they are paid to do it...&quot;</td>
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<tr>
<td>&quot;...particularly the rent review ones, they're pretty subjective exercises and they're pretty aware of who's paying them...&quot;</td>
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<tr>
<td>&quot;There's definitely some valuers around Auckland and New Zealand that are you know, are so conservative, but if you end up ... wanting a conservative valuation and if you're buying a property...&quot;</td>
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</table>
and you want a valuation to match against the vendor's valuation then you'll grab it...

"... valuations are basically critical to us, our balance sheet is basically supported by the values of those buildings and so are the bank covenants providing security to the loans that are being made to the Trust..."

"... Now when it comes to the actual instruction of the valuers, I'm normally pretty explicit what I want from the valuers either for that initial advice or... when it's starting to look acrimonious and I normally want two figures out of them which is, one is what the figure is going to settle at under arbitration circumstances and two, what's the absolutely highest figure you can reasonably support..."

Appendix 7B4 Illustrative sample of responses to individual factors relating to the performance measurement of the client affecting the preferred outcome

PERFORMANCE MEASUREMENT OF CLIENT

| Performance measurement | "... I think that property executives frequently are trying to defend their book values, you know they're judged on personal performance ..." |
| Performance-based compensation | "... this morning we've just changed our management contract and we get 10% of shareholder returns over a certain threshold, so that ... the national company is remunerated on annual returns. It's very common.... The comments and feedback we've had on this... I think it's the right thing to do, time will tell...." |
| | "... in a very small sense (we are performance-based), ... in our unit I think most people are on a standard base salary, there are some people in the unit who have a slice on the top, you get a slice if the company does well, if the division does well, if the individual does well, it doesn't matter how well you've done if the company doesn't make budget for the year, there are no bonuses ..."

Appendix 7B5 Illustrative sample of responses to individual factors relating to the influence of in-house valuations or book validations

| In-house valuation/book values validation | "Analysts ... certainly say they know how to value properties ... they'll look at ... valuations and just say, no it's wrong ... so as far as they're concerned, valuations, they just never believe it because they ... there's just so many conflicting views on what the value of a property is, as far as they're concerned they do their own in-house."
| Book value or in-house valuation validation | "... I think property executives frequently are trying to defend their book values, you know they're judged on personal performance..."
| | "... we will look at the portfolio valuations and find out where the portfolios have moved up or down ..."
| | "... Some (of our in-house valuations) are lower and some are higher (than the valuers), it depends on the reason for the valuation, if it is to sell an asset we might challenge as part of the process, we may for Board requirements get an external valuation which is higher than what we think it is, we would be challenging and saying why do you think there is going to be so much growth in the asset, etc."
why do you think it is going to perform so well? 'Cos we don't think that it is...

"...what we tend to do internally here when you're forming a view on a major transaction, you know if we're looking to sell a building or looking to settle a rent review, you know they're ...

".... generally two or three of us at least that will offer opinions on each others' work ...

".... We normally send them (valuers) a list of properties we want valued, the information we disclose at that point is normally the book values, the last valuation and our projections on roughly where we think they're gonna be, now that's a contentious one because you've got the issue on whether you think that's leading or not...

"....Any ones that we've seen a change of circumstances that's dramatically affected its value for better or for worse, we'll tend to try and catch those up as soon as possible so that at a given point in time what we've got in the books and we've got in the valuation is, lines up reasonably well...

| Client opinion of value | "...we do not do any internal valuations ... not formally, but we have an internal opinion on values ...

"... I have a gut feeling (of value), but then there may be adjustments after that, .... But obviously I will have an opinion on the value of things ... I mean in terms of the annual valuation ...

"...when we get a valuation from a valuer that we disagree with we will let them know and discuss it, if that is the state of it that is the state of it, we are not valuers and we are not in the market...

"...we basically have a meeting with the valuer and we go over it (the valuation) and if they are adamant we will go back, if they are not adamant if they think ... it is give and take and they will change the yield ...

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