

CLIENT INFLUENCE ON PROPERTY VALUATION: A LITERATURE REVIEW

Kamalahasan Achu

*Department of Real Estate, Faculty of Geoinformation and Real Estate,
Universiti Teknologi Malaysia, 81310 UTM Johor Bahru, Malaysia
kamalahasan@utm.my*

Abstract

In recent years, client influence on property valuation has been an emerging theme of behavioural research in the real estate discipline. Studies on valuers' decision-making behaviour imply that client influence is an important source of judgemental bias. Academic interest in this area, however, has evolved from the task of identifying the existence of client pressure to studies that explain the mechanism of client influence in relation to specific valuation types. This paper offers a thorough review of the existing studies on client influence with the aim to underline future research areas. The existing literature is organised and discussed under three topics: (1) client pressure evidence; (2) influences related to client characteristics; and (3) influences related to specific valuation purposes. The need for better data and methodological solutions is a major constraint and it is expected that future studies in this area would utilise both quantitative and qualitative approaches in order to explain the extent and effect of this phenomenon on valuation. The fact remains that there is much more to discover about client-valuer relationship in the workplace and more importantly its role in the valuation accuracy and variation debate.

Keywords: *Real estate valuations, client influence, ethics, behavioural sciences.*

1.0 INTRODUCTION

Property valuations play an important role in many aspects of business and corporate decision-making. The role of valuations in the commercial and residential lending sector is self-explanatory in that they act as a risk control measure in the capital adequacy system maintained by financial institutions. Basel (1988) and the relevant EU Directives have further emphasised the significance of valuations in the secured lending sector. Valuations also facilitate transactions in the direct and indirect investment markets considering real estate's unique characteristics compared to other financial assets. Business entities need to value their properties regularly for bookkeeping whilst institutional investors seek valuations to assess the performance of their investment fund. Although valuations are required for other individual and statutory purposes, it is the estimation of market value which is highly relevant to the decision-making activities mentioned above.

Considering the underlying needs for valuation expertise and the judgemental character of property valuations, it is just natural that academics and practitioners in the field have immersed themselves in the debate of accuracy of these valuations. The benchmark for accuracy is the achieved sale prices in the market and evidences to date suggest that valuations are generally not accurate estimates of market values¹ (Hager and Lord 1985; Hutchinson *et al.*, 1996; Matysiak and Wang 1995). The possible explanations for this apparent inaccuracy and variations between valuations are the lagging effect (Webb, 1994), serial correlation (Ibbotson and Siegel, 1984; Geltner, 1993) and estimation errors (Geltner *et al.*, 1994; Zotzour, 1988). There is also a wealth of evidence on valuers' susceptibility to behavioural influences such as heuristics and

¹In Malaysia, Asmah (2006) compared government valuers' valuations and private valuers' valuations of commercial properties for insurance and stamp duty purposes and found out that the variation between these valuations is less than 5%. Moreover, seventy to seventy five percent of the variation between these valuations is less than 10%.

biases, which may have some impact on the outcome of a valuation (Diaz, 1990a, 1990b; Diaz, *et al.*, 2002; Gallimore, 1996; Gallimore, and Wolverton, 1997). The key issue here, however, is the inherent degree of uncertainty in valuation and the extent of variation between valuations.

Recent studies have also raised issues relating to principal-agent problems, especially the potential of individual motives and influences within the valuation process that could affect the quality of the valuation outcome. In fact, evidence suggests that there is a strong possibility that variances in value conclusions are possibly contributed by client influences (Roberts and Roberts, 1991). This has to be viewed in the context of client-valuer relationship where the competitiveness of the industry and the nature of professional service often make way for close interaction between valuers and their clients. Although such close interaction between valuers and their clients is part of the valuation process and may be necessary to improve the accuracy of valuation output, there are reasons to believe that client meetings and other forms of communication do provide opportunities for clients to influence values. Thus, it is not surprising to know that valuation process can be affected by clients and valuers need to be aware of moral hazard problems that may arise as a result of their continuous drive to serve their valued clients. Moreover, the client-valuer relationship may be far more complicated and subtle than one suggested by professional standards and codes of ethics. This situation in many ways resembles the issue of auditor independence which has generated a large body of empirical evidence in the accountancy literature (Beattie *et al.*, 1999; Lee and Gu, 1998; Iyer and Rama, 2004; Lu, 2006; Simunic, 1984; Ashbaugh *et al.*, 2003)².

² Similar evidence of client influence instances have been investigated in relation to securities analyst in the investment sector (see Siconolfi, 1992; Dugar and Nathan, 1995; Lin and McNichols, 1998; Carleton *et al.*, 1998; Michaely and Womack, 1999; O'Brien *et al.*, 2005)

Given the relevance of the issue to the ongoing valuation accuracy and variation debate, this paper reviews the literature on client influence in the valuation process. The review is organised into three themes: (1) client pressure and influence evidence; (2) influences related to client characteristics; and (3) influences related to specific valuation purposes. A summary table is provided at the end the review whilst section 3 concludes the paper with a brief discussion on avenues for further studies.

2.0 REVIEW OF THE LITERATURE

There are a number of studies which have investigated the nature of client influences in residential and commercial property valuations. The earlier studies revealed the existence of client pressure whilst recent studies focussed more on the ways in which this pressure may have been imposed on valuers and valuation. These are discussed under the following themes:

2.1 Evidence of client pressure and influence

It is common to find the term 'influence' is used interchangeably with terms such as 'pressure' (Smolen and Hambleton, 1997; Kinnard, Lenk, and Worzala, 1997; Worzala, Lenk and Kinnard, 1998) and 'feedback' (Wolverton and Gallimore, 1999; Gallimore and Wolverton, 2000; Crosby *et al.*, 2010) in the literature. These different terms, however, were intended to refer to the same issue; clients' specific actions to change property valuation outcomes. How this is actually accomplished by clients may have justified the use of different terms. For example, pressurising valuers may be just one of the ways clients use to try to influence a valuation. 'Pressure' may come in many forms, from withholding payment to the threat of not giving future instructions to the valuation firm. The same applies to client 'feedback', which can have indirect pressure on valuers' opinion. On the other hand, 'influence' appears to mean the end result or the actual effect; that is whether the valuation has actually been biased or diverged as a result of these pressures. Therefore, the expression 'influence' represents a broader and more appropriate concept than 'pressure'. The

use of the term 'influence' also broadens the focus of client influence on the valuation process rather than just the final outcome.

As one of the pioneering studies in the area of client pressure, Smolen and Hambleton (1997) conducted a questionnaire survey to gather empirical support on four interrelated client pressure issues: appraisers³ experience with client pressure, source of the pressure, type of threat or coercion received and awareness of fellow appraisers complying with client pressure. Their 292 valuer respondents were mainly involved in the preparation of residential appraisal for mortgage financing. Responding to one of the three questions regarding experience with client pressure, nearly 80% of respondents agreed that appraisers were pressured by clients specifically to alter market values. In addition, about 65% of respondents generally believed that clients in their market area are prone to impose pressure on or influence appraisers' market value estimates. Some 82% of the same respondents were also aware of the practice of their fellow appraisers complying with clients' demands to give revised valuations. Similar evidence of client pressure was also provided by Kinnard, Lenk, and Worzala, (1997) and Worzala, Lenk and Kinnard, (1998) in their respective survey with commercial and residential appraisers. In Kinnard, Lenk, and Worzala, (1997) for instance, over 90% of commercial appraiser respondents indicated that they had experienced such pressure, reiterating the view that client pressure is a serious threat to independent value judgement. Similar concerns were also revealed in a survey conducted with valuers in Singapore, Taiwan and Nigeria (Yu, 2002; Amidu and Aluko, 2007a; Chen and Yu, 2009).

In terms of type of threat or coercion imposed by clients, it is clear that reducing number of instructions and removal from the approved appraiser list are the obvious ones (Smolen and Hambleton, 1997). These direct threats are not negligible as failure to secure instructions may

³ Valuers in the United States are known as appraisers and hence the terms 'valuer' and 'appraiser' are used interchangeably in this paper.

undermine the financial viability of the appraisal firm. Nearly 14% of respondents from the study, however, indicated that "nothing would happen, I would still get business". Threats of physical harm were also a possibility as reported in Rushmore (1993:358) who himself had experienced such pressure during a hotel appraisal case. Two further studies, Wolverton and Gallimore (1999) and Gallimore and Wolverton (2000) suggest that client feedback during valuation may have a strong influence on how valuers view their role in the mortgage valuation task from one that provides independent value opinion to one that just validates pending sales price. The earlier study of the two, Wolverton and Gallimore (1999) was conducted in the U.S. whilst Gallimore and Wolverton (2000) surveyed the same issue in the context of valuers in the U.K. The first part of their study investigated valuers' self-assessment on their role in the mortgage valuation and this was contrasted with their view about their clients' requirement in the mortgage valuation. The respondents were asked to rate in Likert format from 1 (disagree) to 7 (agree) on the statement that the role of the appraiser "when doing mortgage appraisal work, (is) to validate pending sale price". In the second question, the respondents were instructed to rate their lender-clients' objective in the mortgage valuation from 1 (concerned about objectivity) to 7 (concerned about supporting the sale price). The mean scores for these measures indicated that appraisers were more in favour of providing an objective opinion of value whilst their clients were more interested in obtaining appraisals that support the sale price.

A significant behaviour modification was also noted among the UK valuers when one-third of the respondents agreed to the statement that their objective in mortgage valuation is to validate the pending sale price. This dilution from objective opinion of value to one that just conforms to pending sale price could be a direct result of client influence. These responses were also analysed to identify whether there was any significant relationship between valuers' perception and their exposure to different type of feedbacks. In order to ascertain any type of relationship, the authors developed ten variable

or feedback scenarios and grouped them into three types of feedback: environmental perception feedback, coercive feedback and positive reinforcement feedback. These feedbacks were tested in relation to a simulated lending case which reflected a situation where the market value is too low to support the loan amount. An example of feedbacks classified as environmental perception feedback was “client asks me if I am comfortable with the value”. The first two feedback types were expected to influence appraisers to become pending sale price validators whilst the positive reinforcement comments were meant to reflect non-pressure scenarios.

The most selected type of feedback among the UK valuers came from the positive enforcement category (“client does not contact me regarding the value”) whilst the US study revealed that the two most selected feedbacks were in the form of environmental perception feedback (“client asks me to consider other comparable sales” and “client asks me if I am comfortable with the value”). Although the underlying nature of feedbacks was mostly in the form of environmental or positive feedbacks, analysis revealed that coercive feedbacks cannot be ignored. In the Wolverton and Gallimore (1999), US study, for example, the third most prevalent type of feedback was “client pressures me to increase the appraised value”. The same feedback came sixth in the UK study.

More importantly, at least in the US context there was a strong positive relationship between feedback types and valuer perception about their role and their view about client objective in the lending valuation. This suggests appraisers in the US, in particular, commercial appraisers were more likely to confirm to pending sale price if subjected to constant environmental feedbacks and coercive feedbacks. On the other hand, UK valuers’ perception of the mortgage valuation objective appears to be only weakly correlated to their client feedback exposure. It was also worth noting that UK respondents specialised in residential valuation stand out from the rest of the sample in their view about mortgage valuation objective and their views were strongly positively correlated with their

perceptions about client objective. In other words, valuers specialised in residential property valuation were possibly more susceptible to validate pending sale price than the commercial property valuers. This may be due to the smaller profit margin and greater competition for valuation cases in residential property valuation compared to commercial property valuation. Moreover, the loan to value ratio (LTV) offered to residential properties is higher than to loans secured on commercial properties.

Wolverton (2000) incorporated these feedback constructs into a regression model and concluded that environmental and coercive feedbacks were indeed influential to price validation behaviour. The preliminary structural model of client influence from Wolverton (2000) also revealed the impact of two key factors on valuer role perception: client type (mortgage broker clients or relocation company clients) and valuation firm ownership. Client feedback pressure, however, has very little effect on valuers’ judgement in Nigeria (Amidu, Aluko and Hansz, 2008). This study extended the work of Wolverton and Gallimore (1999) and Gallimore and Wolverton (2000) on client feedback pressure to Nigerian estate surveyors and valuers. Data collection for the study was based on a similar questionnaire design used in the two preceding studies. The results of the study are comparable to the results of the UK study but differ with the US results which indicate a significant positive correlation between types of feedback and role perception of appraisers. It is not clear whether the similarities with the UK valuers were attributable to colonial legacy or other factors considering the limitation of the survey method.

2.2 Influences related to client characteristics

The current literature on client influence has helped to identify the types of client and their characteristics that lead to overt pressure on valuers. It is also understandable that the focus of the earlier studies was primarily on lending valuations considering the role of valuation as risk control measure in the mortgage lending sector. In Smolen and Hambleton (1997) survey,

three types of client were specifically identified as the main source of pressure for valuers. They were clients from mortgage banks, commercial banks and Savings and Loans. Clearly, lenders were identified as the main source of pressure in valuations for mortgage financing. This applies to both residential and commercial valuations (Kinnard, Lenk and Worzala, 1997; Worzala, Lenk and Kinnard, 1998). More significantly, in Levy and Schuck (1999), respondents indicated bankers as pessimistic whilst developer clients as the most difficult group of clients to manage, suggesting the former for being responsible for downward pressure on value and the latter for upward value requests understandably for funding purposes. However, fund managers were described as being conservative and measured in their influence on value.

Prior studies show that client size and the requested value adjustment are important in explaining client influence. For instance, Kinnard, Lenk and Worzala (1997) tested two scenarios which might put pressure on commercial appraisers to change their value judgement. The two scenarios were the fear of losing clients (client size) and the size of the value adjustment requested by clients. As such, this is one of the earliest works that utilised behavioural methodology in studying the effect of client pressure on commercial appraisal judgement. The purpose was primarily to gather evidence as to whether appraisers were influenced by the fear of losing clients as well as the size of the value adjustment requested by clients when making value judgement. These two factors were also tested jointly to find out the overall effect on value decisions. Their analysis indicates that only client size had significant relationship with appraisers' decision to revise their value. In other words, the bigger the client, the more likely are appraisers to modify their initial value. The largest number of respondents who chose to revise their value was from the large client/small adjustment scenario, suggesting this is an acceptable practice to safeguard business relationship as well as future instructions.

In contrast, another study with residential appraisers found that neither client size nor the level of value adjustment influenced the appraisers' decisions (Worzala, Lenk and Kinnard, 1998). The logistic regression model of this study indicates that neither the individual variables nor the combined variables actually influenced the decision of participating appraisers. In other words, for residential appraisers, client size and the magnitude of value change requested by the lender client do not have any significant effect or pressure in their decision to choose one of the options. One plausible explanation to this finding compared with commercial appraisals is that valuers may not differentiate clients according to size in residential property valuations. A significant 20% of respondents whose decisions were not included in the analysis commented that they would choose neither to revise nor to stick to their original value estimate in the given scenario. This can be considered more encouraging to the appraisal profession as respondents acknowledge the need to include up-to-date information in the value analysis as well to make sure the new information can be verified satisfactorily. The fact that a large number of respondents chose not to respond or suggested a third option that allowed the appraiser to wait and verify the data explains the possibility that there may be some other factors other than client size and value adjustment could have influenced the completed response. The outcome of the study was generally supportive of the client pressure claims in residential appraisals although the impact of this pressure on the actual valuation judgement needs further empirical testing.

A similar study by Amidu and Aluko (2007a) in Nigeria also shows that neither the size of client nor the amount of adjustment requested by clients affect valuers' decision to revise a valuation. The effect of client size, value adjustment requested by clients and the interaction of these two variables were tested in a logistic regression model using respondents' answers to a hypothetical valuation scenario. Although the alternative hypothesis was not supported in the study, about 60% of the surveyed respondents believe that valuers were

actually manipulating valuations to accommodate for client requests whereas 70% of the survey participants had experienced such pressure recently. It should be noted that the pressure of losing a big client may not be adequately represented in a questionnaire-based scenario compared with the real-world experience. In addition, “sophistication” of the client was also pointed out as another significant factor in the Levy and Schuck’s (1999) client influence model. “Sophistication” may arise either as a result of client size or type of valuation assignment.

Their findings were based on in-depth interviews with New Zealand registered valuers. One of the findings of this research was the way in which sophisticated clients manipulate information passed on to valuers during the valuation process. For instance, this can be noted when clients emphasising subject property’s positive attributes, withholding negative information as well as the provision of supplementary market information. Clearly, they tend to emphasise subject property’s positive attributes more than its negative elements and willing to supply confidential information in circumstances where they believe some of the information has not been given full consideration by valuers. In fact, sophisticated clients are more experienced in dealing with valuers and some are familiar with the valuation techniques themselves. This puts those clients in a better position to try to argue with valuers. Unsophisticated clients such as developers, on the other hand, were described as more direct in their approach as their most common threat was not paying the valuation fee (Levy and Schuck, 1999). Hence, valuers should be prepared to deal with different types of clients.

Levy and Schuck (1999) also highlighted some other client and valuer-related factors including the age and experience of valuers as well as the personality of valuers. It seems older and experienced valuers were subject to more influence, as they tended to provide more subjective judgement than less experienced valuers who are likely to search for more evidence to support their valuation. Further, valuer’s access to better and timely information

might avoid unnecessary pressure from clients as this gives more confidence on the reported value. Based on these findings and the first ten non-technical factors mentioned by the valuers, the authors have hypothesised a preliminary client influence model consisting of four contributing factors: valuer and valuation firm characteristics, client characteristics, external characteristics and valuation characteristics. The types of influence have also been incorporated into this model. Top of this themes are the client-specific characteristics, purpose of valuations and the defensible value mechanism.

Levy and Schuck’s recent interviews with “sophisticated” clients have further emphasised the ways in which clients could actually influence, not only the valuation outcome but also the whole valuation process itself (Levy and Schuck, 2005). The study was conducted primarily to provide more insights about client-valuer relationship from the perspective of the sophisticated clients. The selected respondents were mainly involved in managing large portfolios of property investment funds in New Zealand. A number of issues related to client incentives to influence valuations, types of power available to the client and opportunities clients have to use this power were gathered from the semi-structured interviews. For instance, the interviewed clients stated that their main incentives to influence valuation results were underlined by the needs for market credibility and accurate and realistic valuations. This suggests not all client influences are meant to bias reported values from market values. On hindsight, they also agreed that there were instances where the incentive to influence valuation may be based on personal gains especially with regards to performance-based remuneration. In terms of exerting power on valuers, “procedural power” also has the ability to create opportunities for the client to indirectly influence valuation outcomes. This refers to the choice of valuer, the terms of the contract and the instruction process. Another factor reiterated in the study was the definition of market value and the inherent subjectivity of valuations, which further created openings for clients to exert power over the valuer.

Figure 1 shows the updated client influence model, which incorporates all the factors and subfactors identified from client and valuer interviews. Amidu and Aluko (2007b) analysed the perception of Nigerian valuers on a number of client influence factors identified by Levy and Schuck (1998; 2005). Their mean analysis of five-point Likert scale shows that only integrity of valuer or valuation firm, importance of the valuation outcome to the client and client size were rated highly by respondents. Amidu and Aluko (2007b)'s further analysis to identify whether there is a relationship between size of valuation firm, the amount of experience and education of valuers and their perception of client influence factors revealed that there is no statistical association between these factors.

Chen and Yu (2009) compared client influence on valuation in Taiwan and Singapore. One of the main conclusions from their questionnaire survey shows that different market structures, development background and business practices may have an impact on the factors causing client influence. Chen and Yu (2009) argue that these differences appear to explain the degree and extent of client influence problem in both countries. For example, valuers in Taiwan tend to believe that the individual valuer characteristics are more important than the valuation firm whilst their counterparts in Singapore give more emphasis to firm related factors. It suggests that clients in Taiwan seem to appoint valuers based on their experience with the particular valuer whereas clients in Singapore tend to engage the firm rather than the individual. This could be due to the different development of valuation industry in both countries (Chen and Yu, 2009). Similarly, valuers in Singapore believe that firms offering valuation services as part of other multi-services are better equipped to resist client influence while their Taiwanese counterparts feel that the larger and more established valuation firms are better able to resist client influence.

2.3 Influences Related To Specific Valuation Purposes

Levy and Schuck (1999) also found that valuation for rent reviews, purchase/sale and matrimonial purposes were more vulnerable to client influence. However, it is still not clear as to the mechanism by which pressure is applied on valuers in these circumstances and valuers reaction to it. Therefore, understanding the valuation process from its instruction stage to final report may provide a better platform in explaining the influences from clients. Crosby, Hughes and Murdoch (2004) in a survey of commercial valuers and lenders, explained logically the involvement of stakeholders such as borrowers and brokers and how these stakeholders may possibly influence decisions on valuation for secured lending. The results were based on interviews with lender and valuer focus groups and further substantiated by questionnaire surveys with the same target groups. The lender and valuer respondents were mainly from the UK based banks and valuation firms respectively. Part of their research also included the analysis of past valuation negligence cases. It is clear that borrowers and brokers are involved in the selection of the valuer.

The analysis on negligence cases informed us that some only involved in recommending the valuer whilst there is also a case where the instruction to value was not received from the lender (*Alliance Trust Bank Ltd v Edward Symmons & Partners* 1994). The interview with valuers, however, showed that having a pre-existing relationship with either borrowers or brokers is part of the business practice and what is more important is being on the lender's list of approved valuers. According to the valuers interviewed this is what actually determines the valuer selection. It seems the valuers' focus group was less worried about the involvement of borrowers compared to the involvement of brokers in the selection process.

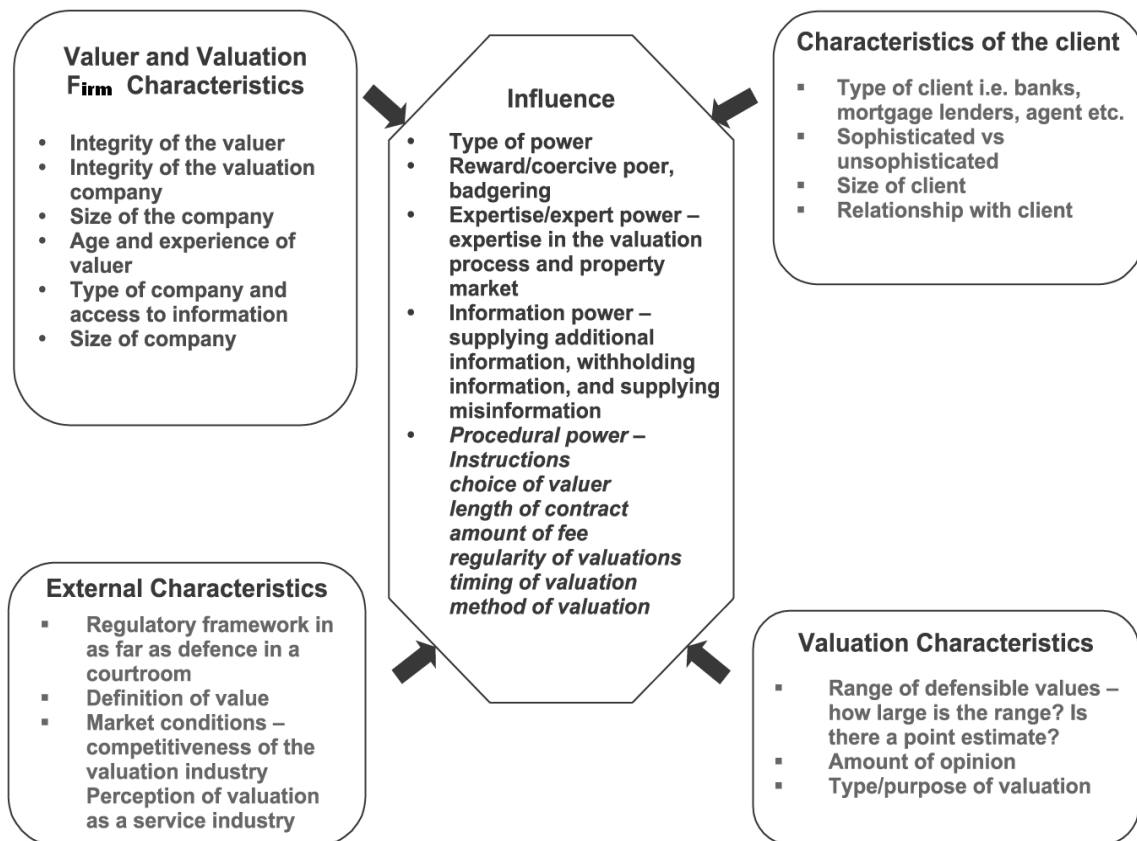


Figure 1: Client influence model
Source: Levy and Schuck (2005)

In particular, concerns were raised about influential brokers who were keen to use desktop valuations as a means to select the “right” valuer. As argued by Crosby, Hughes and Murdoch (2004, p4), if this was how instructions were being secured by valuers then there is strong pressure upon them to confirm the indicated value. Indeed, established relationship with clients and over-dependence on one particular type of client for instructions are the essential ingredients for overt pressure on valuers. When addressing the same issue with lenders, they suggested that they would always prefer to deal directly with the valuer, even one initially selected by the borrower. The fact that it was prepared for borrower or broker may not be significant during the consideration. This can be taken to mean that as long as the valuer recommended by broker or borrower is on the list, there is no reason for lenders not to consider the request or to reject a completed valuation report prepared by any of their panel valuers.

Research has also shown that the panel valuers are selected on various criteria, most notably on the basis of the reputation of the firm and the individual valuer (Crosby *et al.*, 1997).

On hindsight, this suggests the lender would always contact the panel valuer for clarifications if needed. It is not clear whether lenders are aware of the pre-existing relationship between valuers and borrowers/brokers when the instruction is sent out. It can be implied that knowing the respective bank’s panel valuers and their value opinion with regards to the same property will make life easier for borrowers and brokers in their attempt to make valuation reports accepted by banks. The analysis on questionnaire survey responses confirmed the interview findings. 46% of the respondents indicated that the valuer was seldom picked by the borrower or broker whilst 27% of the respondents said the valuer was never chosen by the borrower or broker. Only 14% said that the

valuer was selected by the borrower or broker half of the time (Crosby, Hughes and Murdoch, 2004). Although it is difficult to infer that the valuer selection and/or the eventual instruction by third parties would actually lead to a biased value opinion, this practice does ask questions about the impartiality of valuation as well as the legitimacy of this type of valuation instruction for secured lending. Nevertheless, it is worth pointing out that valuers in the study were more concerned about the involvement of borrowers and brokers in the valuer selection than the lenders (Crosby, Hughes and Murdoch, 2004, p8).

In addition, findings from the same research indicate that purchase price information had less influence on valuers' judgement. In fact, valuers were criticised for not giving adequate recognition to this information in a number of negligence cases (e.g. *Banque Bruxelles Lambert SA v Eagle Star Insurance Co Ltd* (1994); *Interallianz Finanz AG v Independent Insurance Co Ltd* (1997)). Therefore, in contrary to what has been suggested in behavioural studies (Gallimore and Wolverton, 1997; Diaz and Hansz, 2001), the problem was not over-reliance on the purchase price information but rather under-reliance on it during valuation. This conforms to valuers' view that they make use of purchase price information mainly to facilitate loan transaction and in capturing the price movements during the transaction period (Crosby, Hughes and Murdoch, 2004, p12). From the analysis of negligence cases, there are two particular cases in which a lender and a borrower were involved in influencing the final valuation outcome (Crosby, Hughes and Murdoch, 2004). The influence on the valuation figure understandably happened in the process of completing the valuation report and when the information about value is communicated to client before the final report. There is clear evidence from this study and prior work by Levy and Schuck (1999) that sending draft valuation report to client had been a common practice in the work environment.

Crosby, Hughes and Murdoch (2004) reported that there was a strong opinion among valuers interviewed that any discussion relating to draft valuation were not concerned about the value. The valuers (94%) and lenders (81%) also suggested that the valuation figure seldom or never changed during draft valuation meetings and therefore never a problem for them. It is debatable, however, whether the clients were more interested in improving the presentation of the report and whether this practice actually enhances the quality of the valuation as a whole. Having said that, the valuers agreed that using a range of values to justify their judgement in so far as to allow the borrower to obtain the amount required as an acceptable practice (Crosby, Hughes and Murdoch, 2004). But, how significant this adjustment of value to a particular loan transaction and as a result how this might change lenders' perception about valuers' degree of tolerance is subject to further investigation. More importantly, it can be seen that draft valuation meetings and the use of value distribution by valuers may facilitate client expectations to be incorporated into the valuation outcome.

The same concerns were also raised in relation to property portfolio valuations (Baum, *et al* 2000). Property portfolio valuations in the UK, for example, are mainly undertaken on the monthly and quarterly basis to determine the market value of property investments managed by property funds. These valuations at the individual portfolios are integral to the construction of Investment Property Databank (IPD) index, which is used to benchmark the performance of different property funds in the UK. Hence, fund managers have incentives to influence these periodic valuations in order to out-perform the market and their competitors. For instance, Baum *et al.* (2000) conducted semi-structured interviews with over 30 property owners, fund managers and investment valuers of major property funds in the UK and identified some evidence of influence of fund managers on investment property valuations. This research, in particular, further highlights how draft valuation meetings could be used to change the valuation outcome. The fund managers' opinion on this issue tend to suggest that these meetings are no

more than an opportunity for clients and valuers to exchange information, which will enable the valuer to derive a “fully informed valuation figure” (Baum *et al.*, 2000, p32). This refers to the fact that portfolio managers are in a better position to supply valuers with more up-to-date information on rent reviews and lease renewals (Baum *et al.*, 2000). The fund managers also revealed the need to inform valuers about the market sentiment together with other factual information and how this might help in their decision-making during the meeting. However, they conceded that the information sharing could be selective on the basis of purchase or sale decision to be taken by the management. Levy and Schuck (1999) also uncovered this practice in New Zealand.

The results overall indicate that there are elements of overt influence in the process in particular from fund managers considering their interest in the performance of portfolio assets. The intention is therefore to portray an upward trend in values and the draft valuation meetings may be used to impose this intention on the valuer. In contrast, the valuer interviewees insisted that they are well-equipped to deflect any pressure from their clients to increase the draft valuation unless their argument is evidence-based. There was also an indication from the interviews that the smaller and less-diversified firms because of their economic dependence on the specific client may put them in a weaker position to negotiate during draft valuation meetings. The research also suggests that about 20-50% of valuations would normally be challenged at the draft valuation meeting and a 50% out of this proportion are more likely to change in value (Baum *et al.*, 2000).

Moreover, it is also self-evident that performance-based bonuses and the use of December valuation by IPD in the UK may explain some of the efforts by fund managers to influence valuers. Again, this is debatable in the case of large firms. A closer look at the ways in which these monthly and end of year valuations are being produced also reveals that valuations are far from objective and independent. There is no doubt that this culture of discussing draft valuation reports could compromise an

independent valuation advice in return for an arguably accurate valuation judgement. This may mislead investors whose decision to enter into or withdraw from a particular real estate investment pool depends on the accuracy of the valuation figures. However, it is encouraging to note that most of the influence issues raised by the study have been reaffirmed by the Carsberg Working Party in their recommendations (Recommendations 3-12 and Recommendation 16) to the RICS (RICS, 2002) for which the later responded with new rules for the Red Book. Considering the wider application of Red Book throughout the world, perhaps it is time to measure valuers’ reaction to these new measures in the context of Malaysian valuation market.

In another related study, Crosby *et al.* (2010) show that client influence could be one possible explanation for the differences in the capital return falls among different type of funds in the UK during the second half of year 2007. In this research, it was found that open ended funds’ return fell far more than pension funds and insurance companies even after controlling for differences in portfolio structures. In this study, Crosby *et al.* (2010) compared the hypothetical return series of three types of funds and the actual capital values with the overall IPD capital growth between year 2004 and 2008. The hypothetical return series for funds were estimated using IPD Portfolio Analysis Service (PAS) quarterly returns and market capital weight in each fund type. The comparison between hypothetical and actual return series shows that open ended funds’ actual capital values fell 3.5% more than the benchmark capital values. Further exploratory statistical tests confirmed the significance of these higher capital value drops compared to pension funds and insurance companies even though the regression model does raise some specification issues. Crosby *et al.* (2010) suggest that the downward pressure on capital values by clients at the time might be related to the redemption obligation encountered by the open ended funds.

Table 1: Summary of Client Influence Articles

Article	Data/Sample	Research design	Summary of findings
Smolen and Hambleton (1997)	US licensed and certified appraisers n= 292 Response rate= 37%	Mail questionnaire- descriptive statistics	<p>i). Nearly 80% of the respondents claim that appraisers are pressured by clients specifically to alter their values</p> <p>ii) About one-third of the respondents revealed that their clients insisted them to modify values recently</p> <p>iii). About 65% of the respondents generally believe that clients in their market area are prone to impose pressure on or influence appraisers' market value estimates.</p> <p>vi). The type threats or coercion used by clients are in the form decreasing number of assignments and removal from approved appraiser list.</p> <p>viii). 81.5% of the respondents suspect their fellow appraisers in the market complying with clients' demands to give favourable valuations.</p> <p>vii). About 14% of the respondents indicated that they would still get business regardless of previous value.</p>
Kinnard, Lenk and Worzala (1997)	US commercial appraisers n= 666 Response rate= 32%	Case scenarios and mail questionnaire - logistic regression model	<p>i). Only client size factor actually had any significant relationship with appraisers' decision to revise their value.</p> <p>ii). The largest number of respondents who chose to revise their value judgement was from large client/small adjustment scenario.</p> <p>iii). Client requested value adjustment did not have any effect on valuer behaviour.</p>
Worzala, Lenk and Kinnard (1998)	US residential appraisers n= 482 Response rate= 31%	Case scenarios and mail questionnaire - logistic regression model	<p>i). Neither individual variables (client size and requested adjustment) nor the combined variables influenced the decision of participating appraisers.</p> <p>ii). Exit questionnaire analysis revealed that more than 80% of respondents perceive the fear of losing clients was either not important or having a neutral influence on their decision-making.</p>

Table 1 (continued)

Article	Data/Sample	Research design	Summary of findings
Yu, Shi-Ming (2002)	Singapore valuers n= 34 Response rate= 72%	Case scenarios and mail questionnaire - logistic regression model	<p>i). 85% of the respondents agreed with the statement that valuers are sometimes pressured by clients to modify their values.</p> <p>ii). Private individual category was identified as one of the main sources of client pressure.</p> <p>iii). Nearly all the respondents indicated their awareness of other valuers complying with clients' demands to modify values.</p> <p>iv). Neither client size nor the amount of adjustment has a significant effect on the decision to alter values.</p>
Wolverton and Gallimore (1999)	US general appraisers and certified residential appraisers n= 377 Response rate= 32%	Mail questionnaire- correlation-OLS regression, factor analysis	<p>i). Appraisers perceive clients are more concerned about obtaining an appraisal that supports the sale price.</p> <p>ii). In general, appraisers do not perceive their role as being to validate sale prices.</p> <p>iii). Change in role perception is evident when appraisers are exposed to above average levels of environmental perception feedback and coercive feedback from mortgage clients. This effect is greater for commercial appraisers.</p>
Gallimore and Wolverton (2000)	UK general practice Surveyors n= 511 Response rate= 25%	Mail questionnaire- correlation-OLS regression, factor analysis	<p>i). Results indicate a great deal of variance in how appraisers perceive their role in mortgage valuations.</p> <p>ii). Exposure to client feedback does not alter valuers' own principle on mortgage valuation objective although analysis indicates a strong link between feedback experienced from clients and valuers' self-perception on what they should be doing.</p> <p>iii). The underlying nature of feedbacks are mostly in the form of environmental or positive feedbacks rather than coercive.</p>

Table 1 (continued)

Article	Data/Sample	Research design	Summary of findings
Levy and Schuck (1999)	New Zealand Registered Valuers	In-depth interviews	<ul style="list-style-type: none"> i). Generally indicates client’s role in influencing reported values. ii). “Sophistication” of the client pointed out as having its own role in the influence process. iii). Sophisticated clients’ influences are in the form of emphasizing subject property’s positive attributes, withholding negative information as well as the provision of supplementary market information. iv). The practice of submitting a draft report as contributing to the unnecessary pressure to revise reported value or information. v). “Defensible value” criteria gives clients an opportunity to impose their preferred value either to the low end or to the high end of the range. vi). Respondents agreed that the practice of valuers revising his/her opinion within the range of defensible values as an acceptable practice. vii). Respondents also believe that an individual’s ethical decision is less dictated by the ethical culture of a firm. viii). Valuer and valuation firm characteristics, client characteristics, external characteristics and valuation characteristics are among the four main factors incorporated in the preliminary model. viv). Influences are grouped into client-specific characteristics, purpose of valuations and the defensible value mechanism.
Levy and Schuck (2005)	New Zealand Property executives	In-depth interviews	<ul style="list-style-type: none"> i). The main incentives for clients to influence valuation results are underlined by the needs for market credibility and accurate and realistic valuations. ii). “Procedural power” has the ability to create opportunities for clients to indirectly influence valuation outcomes. This refers to the choice of valuer, the terms of the contract and the instruction process.

Table 1 (continued)

Article	Data/Sample	Research design	Summary of findings
Crosby, Hughes and Murdoch (2004)	31 valuation negligence cases 6 UK commercial valuers 6 UK commercial lenders	Case analysis, Focus group interviews, Mail questionnaire	<ul style="list-style-type: none"> i). The involvement of brokers and borrowers in the valuer selection is a clear evidence of influence in the secured lending process. ii). Valuers are aware of the importance of maintaining professional integrity and at the same time admit they need the help of borrowers and brokers in completing loan deals. iii). There is also some evidence of influence during the draft valuation stage. iv) Lenders are flexible in terms of valuer selection and do not rigid on the idea of borrowers to dictate the selection. v) According to valuers, there are occasional attempts to influence them but that pressure has no effect on the outcome. vi) Lenders are comfortable with valuer panel system. vii). Only two negligence cases show evidence of borrower involvement in altering values before final report.
Baum, Crosby, Gallimore, McAllister and Gray (2000)	UK property owners, fund managers and investment Valuers n=30	In-depth interviews	<ul style="list-style-type: none"> i). Draft valuation meeting provides opportunities for clients to manipulate values. ii). There is evidence that the majority of changes made during the draft valuation stage were upwards. iii). End of year bonuses and other incentives may impose pressure on valuers to give favourable figures. iv). Change of valuers or the appointment of new fund managers has had an impact on portfolio value.

Table 1 (continued)

Article	Data/Sample	Research design	Summary of findings
Amidu and Aluko (2007a)	Estate surveying and Valuation firms in Nigeria n= 88	Mail questionnaire with experimental scenarios- descriptive statistics logistic regression model	<ul style="list-style-type: none"> i). Nearly 80% of the respondents indicated that clients seek to influence valuers to alter their valuation outcome. ii). 60% of the respondents have experience of some valuers in the local complying with clients' demand to modify valuation. iii). Nearly 70% of respondents have experience of clients insisting them to modify values recently. iv). The logistic regression model indicates that neither client size nor the amount of adjustment has a significant effect on the valuers' decision to alter the original value estimate.
Crosby <i>et al.</i> , (2010)	IPD performance data of funds from June 2007 to n = 45	IPD Portfolio Analysis Service - Hypothetical return series	<ul style="list-style-type: none"> i). Unlisted open-ended funds experienced sharper drops in capital values than other fund types in the last quarter of 2007. ii). Unlisted open-ended funds' capital values fell 3.5% more than the benchmark capital values compared to pension funds and insurance companies. iii). Redemption obligation of this type of funds might have resulted in high pressure from clients to undervalue property assets.
Amidu and Aluko (2007b)	Estate surveying and Valuation firms in Nigeria n= 88	Questionnaire survey- frequency analysis, cross tabulation, chi-square	<ul style="list-style-type: none"> i). Three client influencing factors ranked highly by respondents are the integrity of valuer or valuation firm, importance of valuation outcome to client and client size. ii). There was no statistical relationship between the size of the firm, the amount of experience and education of respondents and their perception on their client influencing factors.

Table 1 (continued)

Article	Data/Sample	Research design	Summary of findings
Chen and Yu (2009)	Licensed valuers in Singapore and Taiwan Singapore: n= 31 Taiwan: n= 32	Questionnaire survey-descriptive statistics, F-test	<ul style="list-style-type: none"> i). Valuers in Taiwan suggest that individual characteristics of valuers are more important than the firm's characteristics whilst Singapore clients tend to engage the firm rather than any particular valuer. ii). Valuers in Taiwan feel that larger and established firms are better able to resist client pressure but Singapore valuers suggest that multi-service firms which provide larger service consultancy are better at resisting client pressure. iii). Valuers in Singapore feel that long term clients and clients who are more familiar with the firms and more knowledgeable about a property market tend to exert stronger pressure compared to others. Taiwanese valuers think that clients with more information and client who are investors tend to exert most pressure. iv). Compared to Taiwanese valuers, Singaporean valuers do not think the promise of future jobs is a big source of pressure. v). Taiwanese valuers feel that valuation for mortgage purposes and properties with clear market information are the two factors that likely to have potential client influence rather than other valuation purposes and the amount of valuation fees whilst valuers in Singapore feel that clients who pay higher fees, including those for asset pricing purposes are also strong reasons for client influence. vi). It is interesting to note that the Taiwanese valuers do not think that rules and regulations would help to deter client pressure compared to their Singaporean counterparts. vii). More than 80% of the valuers surveyed in both countries agreed that with greater access to information valuers would have greater confidence in their valuation. Both samples also strongly agree that properties with clear market information have a smaller margin for value adjustment and that transparent transaction data decrease the chances of clients having an influence on value.

3.0 CONCLUSION

The existing research on client influence has clearly shown that pressures and influences from clients can indeed challenge the impartiality of the value opinion provided by valuers. Any attempt to compromise the requirement to produce an objective and independent value opinion can affect public trust in the profession. This is a worrying sign considering the effects of coercion and threats in the determination of the actual value in question. Research has revealed that the threats from clients are not only in the form of coercive verbal threats but also can be hidden and indirect during client-valuer communication. The effect on the valuer behaviour can also be subtle, which may have led to the reformulation of the valuation objective from an objective opinion to the one that validates sale price. At worse, values were adjusted to accommodate client needs. Client feedback has also been shown to have some effect on the valuer decision-making in the future unrelated assignments.

Apart from these client pressure means, studies did shed some light on the characteristics of clients and the nature of influences that they might bring into the valuation process. The size and sophistication of clients seem to be two crucial factors in determining the vulnerability of a valuer to client influence. There are instances where small adjustments to value were administered with regards to big clients. Figure 2 summarises these factors and illustrates the importance of understanding the issue in the context of valuer characteristics and different valuation purposes. Many of the factors presented in the model warrant further empirical testing and this has to be complemented by data and research expertise.

However, there is still much work to be done in the issue of identifying the actual clients or stakeholders relating to other purposes of valuation. In the context of valuation for secured lending, for instance, this may not be a problem as the client can be either a lender or a borrower. In some cases, the client could be a broker, who is acting on behalf of the borrower as shown in Figure 3. In periodic valuations for property performance measurement the instructing party can be the owner or the fund manager. However, the instructing party may not be too concerned about the objectivity of the reported value as compared to the lenders and shareholders who actually rely on these figures to make sound investment decisions. The conflicting interests between stakeholders and the role of valuer are shown in Figure 4. Therefore, future research needs to look into the involvement of various other clients, from individuals to large corporations with regards to the purpose of valuation and work environment. For instance, commercial appraisals for institutional clients can involve very complex situations and usually demand a different level of effort from the valuer (Miles, 1984).

It is also clear that the use of defensible value criteria by valuers and the culture of sending draft valuation allow more room for judgement as well as renegotiation with client. There is no doubt that the use of value range allows more room for client pressure. There is a need to understand the benefits of this meeting and the pressures that it brings to the valuation process. Also pertinent here is the negotiation skills when dealing with “sophisticated” and “unsophisticated” clients and the reaction of valuers to client feedbacks during this kind of meeting. Indeed, there is a need to study the minutes of draft valuation meetings and other informal ways by which value is actually being communicated to clients before the final report.

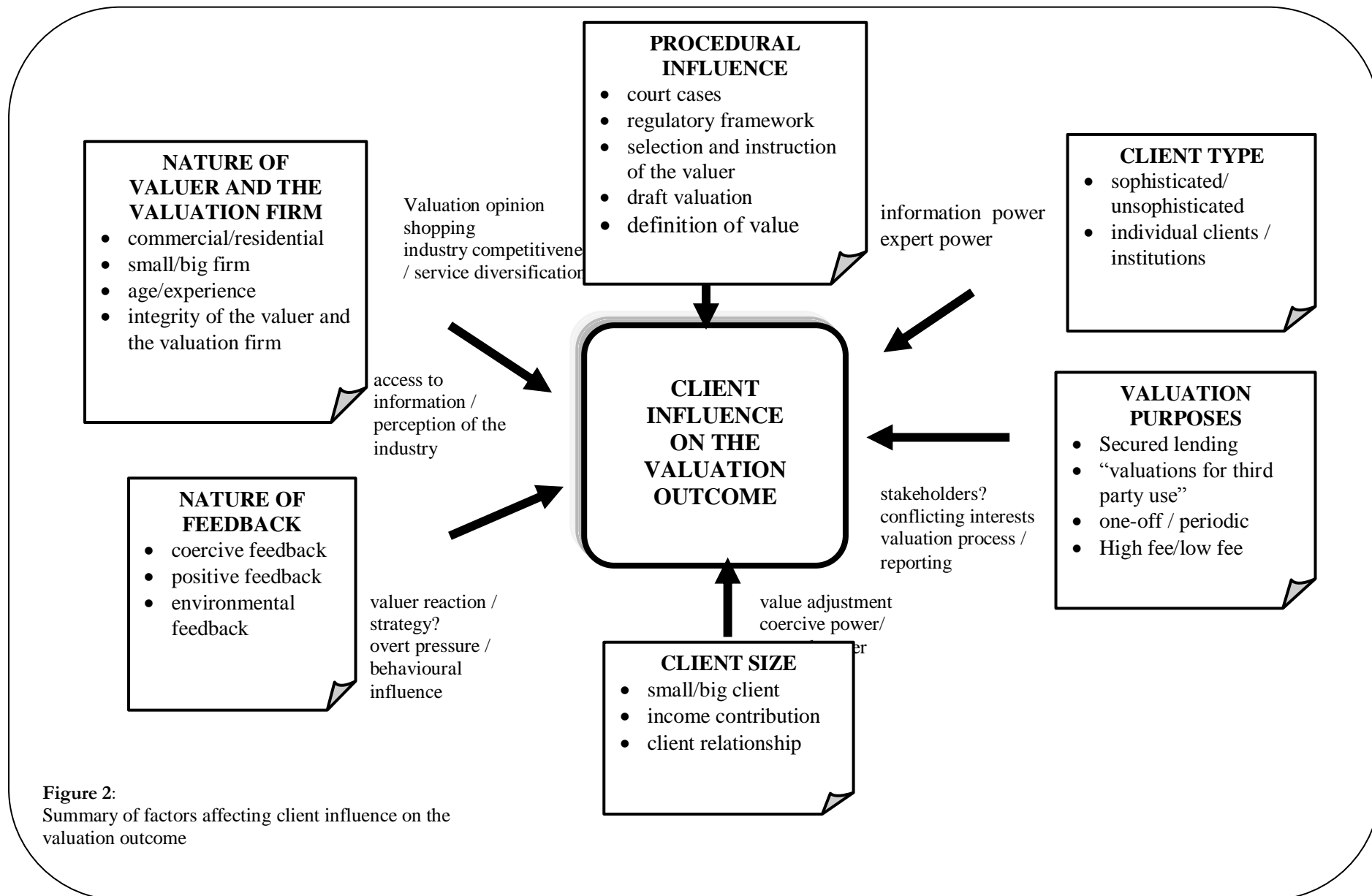


Figure 2:
Summary of factors affecting client influence on the valuation outcome

It can be generalised from the literature that there are possibly four stages at which pressure may be imposed on valuers: pre-instruction phase, instruction phase, valuation phase and draft valuation phase. The amount of interference may differ according to type of client, purpose of valuation and the value of the property. Logically, lenders are expected to have more authority at the pre-instruction and instruction phases. It is not overly surprising that much of the discussion at the earlier phases will be about the value of the property than the technicalities of the final report. This is mainly because the clients usually have the upper hand during initial stages of the instruction as compared to during the valuation or draft valuation phase. It is also understood that the practice of opinion shopping happens at the pre-instruction phase. Therefore, at least for valuations carried out for financing purpose, the initial stages warrant more scrutiny than the later stages. This is where the panel valuer list plays a defining role in the selection of the valuer and the valuation firm. Although empirical evidences are available as to how the panel selection is rationalised, more insights are needed in terms of who actually finalises the selection and on what basis. This issue has to be researched in the light of other purposes of valuation mainly to find out the mechanism by which valuers are selected for certain assignments. The outcome might clear any doubts about the use of opinion shopping or conflicts of interest in the selection and instruction of the valuer.

In view of portfolio valuations and other valuations prepared for in-house consultations client involvement could be more intense during the valuation phase and the draft valuation phase compared to during the initial stages. It is reasonable to believe that these clients are “big” clients and normally contribute a significant income to the valuation firm. As a result, the pre-existing relationship between the particular client and the valuer will be stronger than the lender-valuer relationship and puts more

pressure on the valuer to comply with client expectation. The type of coercion and influence may not be direct and at times done in a professional way as described in the literature. It will be more useful to know the methods and strategies used by clients to convince value change other than the direct threats to business and introducing new evidence in the last minute. In a survey involving pension fund managers in the U.S., for example, it was reported that not only were there major differences in valuations prepared for commingled real estate fund (CREF) asset managers but also evidence of manager influence on critical assumptions of the definition of value (Gibson, 1989). Asset valuations carried out for the purpose of REITs listing on the stock market were also subject to strong influence from clients (Chen and Yu, 2009).

More insights are necessary relating to what kind of information is supplied during the valuation and draft valuation stages and how this information is used to justify an increase or decrease in value prior to reporting. This will be important in explaining the role of client in the valuation process and the ‘black box’ of valuer’s decision-making. Moreover, the analysis of minutes of these meetings may help in discovering whether there is enough evidence of bias in the process that could impair the integrity of valuers and their professional judgement. This is possible considering the recent obligation on valuers to keep record of any discussions with clients during the course of undertaking valuation under the RICS Valuation Standard 6.11 (RICS, 2012). In short, there is still much more to discover about client influence on valuations and its success will depend on data availability and method of analysis.

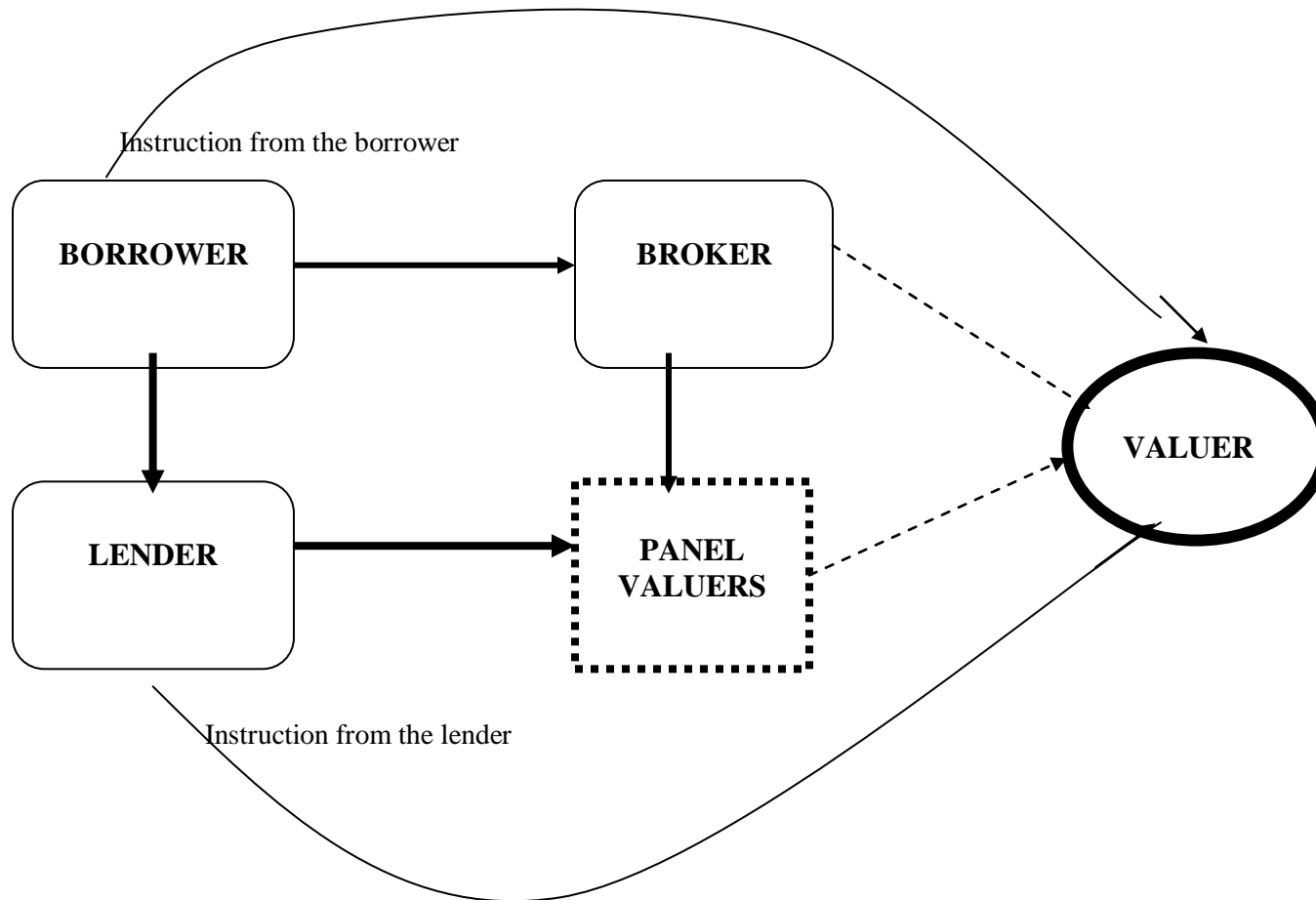


Figure 3: The relationship between stakeholders in a typical lending scenario

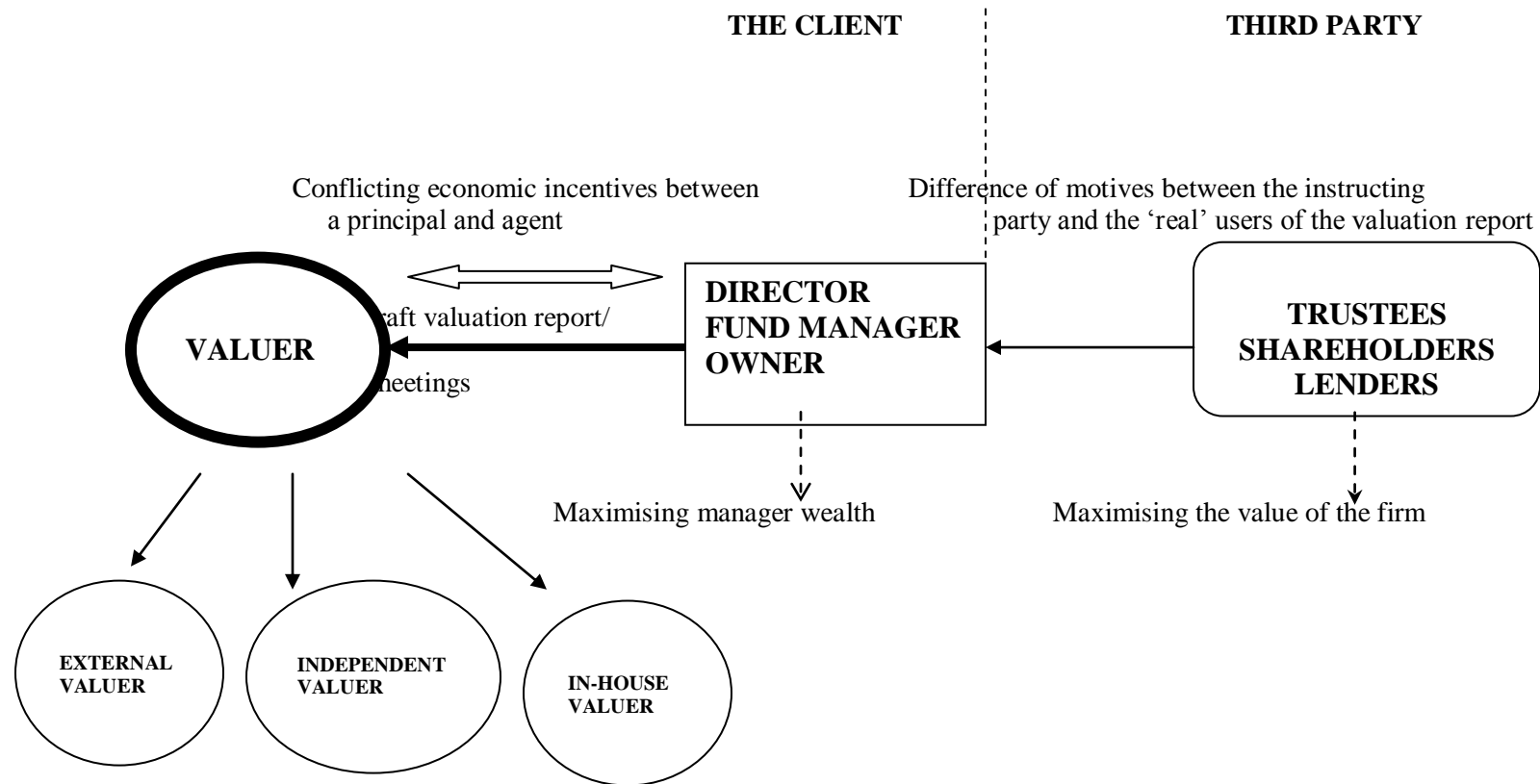


Figure 4: The conflicting interests of different set of stakeholders in property portfolio valuation

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