Lina Bellman & Peter Öhman

How authorized property appraisers perceive information for valuation of commercial properties: a repertory grid study

Presentation at the ERES 2015, Istanbul, Turkey
BACKGROUND

Behavioural research (Newell and Simon, 1972)

Behavioural property research such as:

- Anchoring in previous valuation statements (Diaz III & Hansz, 1997; Diaz III & Wolverton, 1998)
- Clients’ impact (Levy & Schuck, 1999, 2005)

How individuals make assessments and decisions may depend on how they perceive reality and how their thought patterns are constructed.
PURPOSE

This study describe and analyze authorized property appraisers’ thought patterns when commercial properties are valued, and compare and draw conclusions about their thinking in terms of complexity, content and homogeneity.

To map the thought patterns we used:
• the repertory grid technique (Kelly, 1955)
  - a standard set of value-adding-factors and constructs was included in the grid form, used for data collection by face-to-face interviews.

For analyse we mainly used:
• principal component analysis (Gains & Shaw, 2010)
VALUE ADDING FACTORS

Income related
• Rental income
• Contractual terms of leases
• Vacancy rate

Method related
• Discount rate
• Residual value

Cost related
• Management and administration
• Operating and heating economy
• Maintenance
• Investment need
• Environmental pollution

Physical related
• Geographical location
• Neighborhood
• Condition and standard
CONSTRUCTS

• The assessment is to a small (1) – large (7) extent based on my own previous valuation statements

• The assessment is little (1) – highly (7) affected by property owner

• The information has little (1) – major (7) impact on the property’s estimated market value
FINDINGS
FINDINGS

1. Different types of information and assessment got different focus:

   micro       macro level

2. Different types of information are more or less:

   uncertain    verifiable

3. The assessment of different types of information are more or less:

   simple       complicated
FINDINGS AND CONCLUSIONS

The authorized appraisers thought patterns

- relatively high complexity
- 3 central dimensions
  - micro vs. macro level
  - uncertain vs. verifiable information
  - simple vs. complicated assessment
- relatively homogeneous
Thank You for Your Attention!

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Component 1

1. **Info. is predominantly future-oriented**
   - Requires lot of second opinion
   - Requires lot of time
   - Requires little of second opinion
   - Requires little time
   - Requires lot of local knowledge
   - Large extent based on fair values
   - Large extent on my previous valuation statements
   - Requires little of second opinion
   - Difficult to assess
   - Requires little local knowledge
   - Requires lot of time

2. **Info. is highly reliable**
   - Info. is of little importance for annual accounts valuation
   - Info. is highly affected by property owner
   - Info. is of little importance of granting credit
   - Info. has little impact on MV
   - Info. is of little importance for tax assessment value
   - Small extent on market-specific info.
   - Requires lot of local knowledge
   - Requires lot of second opinion
   - Requires little local knowledge

3. **Info. is little reliable**
   - Info. is of little importance of granting credit
   - Info. has little impact on MV
   - Info. is highly affected by property owner
   - Info. is of little importance for tax assessment value
   - Small extent on market-specific info.
   - Requires little local knowledge
   - Requires lot of local knowledge
   - Requires lot of second opinion
   - Requires little of second opinion

4. **Info. has little impact on MV**
   - Info. is of little importance of granting credit
   - Info. has little impact on MV
   - Info. is highly affected by property owner
   - Info. is of little importance for tax assessment value
   - Small extent on market-specific info.
   - Requires little local knowledge
   - Requires lot of local knowledge
   - Requires lot of second opinion
   - Requires little of second opinion

5. **Difficult to assess**
   - Info. is of little importance for annual accounts valuation
   - Info. is highly affected by property owner
   - Info. is of little importance of granting credit
   - Info. has little impact on MV
   - Info. is highly affected by property owner
   - Info. is of little importance for tax assessment value
   - Small extent on market-specific info.
   - Requires little local knowledge
   - Requires lot of local knowledge
   - Requires lot of second opinion

6. **Requires lot of local knowledge**
   - Large extent on market-specific info.
   - Info. is of great importance for tax assessment value
   - Large extent based on fair values
   - Large extent on my previous valuation statements
   - Large extent on others previous valuation statements
   - Requires lot of local knowledge
   - Requires lot of second opinion
   - Requires little local knowledge

7. **Large extent on property-specific info.**
   - Large extent on my previous valuation statements
   - Large extent on property-specific info.
   - Requires lot of second opinion
   - Requires little local knowledge
   - Requires lot of local knowledge
   - Requires lot of second opinion
   - Requires little local knowledge

8. **Small extent on my previous valuation statements**
   - Large extent on property-specific info.
   - Requires lot of second opinion
   - Requires little local knowledge
   - Requires lot of local knowledge
   - Requires lot of second opinion
   - Requires little local knowledge

9. **Requires little time**
   - Large extent based on fair values
   - Large extent on my previous valuation statements
   - Requires little of second opinion
   - Requires little time
   - Requires lot of local knowledge
   - Requires lot of second opinion
   - Requires little local knowledge

10. **Large extent based on standard values**
    - Large extent on property-specific info.
    - Requires little of second opinion
    - Requires little time
    - Requires lot of local knowledge
    - Requires lot of second opinion
    - Requires little local knowledge

11. **Large extent on others previous valuation statements**
    - Large extent on property-specific info.
    - Requires lot of second opinion
    - Requires little local knowledge
    - Requires lot of local knowledge
    - Requires lot of second opinion
    - Requires little local knowledge

12. **Requires little of second opinion**
    - Large extent on property-specific info.
    - Requires little of second opinion
    - Requires little time
    - Requires lot of local knowledge
    - Requires lot of second opinion
    - Requires little local knowledge

13. **Large extent on market-specific info.**
    - Large extent on property-specific info.
    - Requires little of second opinion
    - Requires little time
    - Requires lot of local knowledge
    - Requires lot of second opinion
    - Requires little local knowledge

14. **Ass. is highly affected by property owner**
    - Info. is highly affected by property owner
    - Info. is of little importance of granting credit
    - Info. has little impact on MV
    - Info. is highly affected by property owner
    - Info. is of little importance for tax assessment value
    - Small extent on market-specific info.
    - Requires little local knowledge
    - Requires lot of local knowledge
    - Requires lot of second opinion

15. **Info. is of little importance for annual accounts valuation**
    - Info. is highly affected by property owner
    - Info. is of little importance of granting credit
    - Info. has little impact on MV
    - Info. is highly affected by property owner
    - Info. is of little importance for tax assessment value
    - Small extent on market-specific info.
    - Requires little local knowledge
    - Requires lot of local knowledge
    - Requires lot of second opinion

16. **Info. is of great importance for annual accounts valuation**
    - Info. is highly affected by property owner
    - Info. is of little importance of granting credit
    - Info. has little impact on MV
    - Info. is highly affected by property owner
    - Info. is of little importance for tax assessment value
    - Small extent on market-specific info.
    - Requires little local knowledge
    - Requires lot of local knowledge
    - Requires lot of second opinion

17. **Info. is of great importance for tax assessment value**
    - Info. is highly affected by property owner
    - Info. is of little importance of granting credit
    - Info. has little impact on MV
    - Info. is highly affected by property owner
    - Info. is of little importance for tax assessment value
    - Small extent on market-specific info.
    - Requires little local knowledge
    - Requires lot of local knowledge
    - Requires lot of second opinion

**Part II**

- **Contractual terms of leases (E)**
- **Residual value (H)**
- **Environmental pollution (F)**
- **Condition & standard (B)**
- **Investment need (J)**
- **Maintenance (D)**
- **Operating & heating economy (L)**
- **Vacancy rate (A)**
- **Rental income (M)**
- **Neighborhood (I)**
- **Discount rate (K)**
- **Administration & Management (G)**
Component 2

6. Requires lot of local knowledge
8. Large extent on my previous valuation statements
11. Large extent on others previous valuation statements
15. Info. is of little importance for annual accounts valuation
9. Requires little time
1. Info. is predominantly future-oriented
13. Large extent on market-specific info.
12. Requires lot of second opinion
14. Ass. is little affected by property owner
16. Info. is of little importance of granting credit
5. Difficult to assess
7. Small extent on property-specific info.
4. Info. has little impact on MV
17. Info. is of little importance for tax assessment value
10. Large extent based on standard values
2. Info. small extent from prop. owner
3. Info. is little reliable

17. Info. is of great importance for tax assessment value
4. Info. has major impact on MV
7. Large extent on property-specific info.
5. Easy to assess
16. Info. is of great importance of granting credit
14. Ass. is highly affected by property owner
12. Requires little of second opinion
13. Small extent on market-specific info.
1. Info. is predominantly historical
9. Requires lot of time
15. Info. is of great importance for annual accounts valuation
11. Small extent on others previous valuation statements
8. Small extent on my previous valuation statements
6. Requires little local knowledge

[VERIFIABLE INFORMATION]

(E) Contractual terms of leases
(M) Rental income

(I) Neighborhood
(II) Operating & heating economy
(I) Location
(L) Condition & standard

[UNCERTAIN INFORMATION]
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<tr>
<th>Component 3</th>
<th>Explanation</th>
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<tbody>
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**[SIMPEL ASSESSMENT]**
- Location (C)
- Neighborhood (I)
- Administration & Management (G)
- Condition & standard (B)
- Contractual terms of leases (E)
- Maintenance (D)
- Operating & heating economy (L)
- Environmental pollution (F)
- Residual value (H)
- Vacancy rate (A)
- Discount rate (K)
- Investment need (J)
- Rental income (M)

**[COMPLICATED ASSESSMENT]**