The commercial valuation process in the UK: A preliminary Process Map

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Abstract

The recent scrutiny of the valuation profession in the UK evidenced by the Carsberg report and the Nottingham Trent / Reading study suggests that the process that produces a commercial valuation is flawed and requires deeper scrutiny. The research reported here produces a process map of the commercial valuation process in the UK. A process map is a managerial tool used as an aid towards improving and redesigning business processes and thus seems to be a valuable tool in the analysis of the process. The process map produced is presented and discussed.

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1. Background to the Research

A recent RICS research paper (Baum, Crosby, Gallimore, McAllister and Gray, 2000) has highlighted some of the potential for client influence to affect the independence of commercial valuations. This work compliments a growing body of work related with human cognition and decision making that examines areas where human behaviour can lead to bias in the outcome of valuation process (Diaz III, 1997, Gallimore and Wolverton, 2000, Havard, 2002). The common theme to this body of research is that the behaviour of individuals has been shown to result in biased or sub optimal valuations. The valuation profession in the UK has moved towards taking these concerns on-board evidenced by the Carsberg report (2002).

Newell and Simon (1972), working in the field of human cognition and decision-making, observed that decision making tasks were a connected process of information processing, task environment comprehension and problem space definition. The actual task is thus not the only consideration in behavioural studies but the process as a whole and the environment in which the task takes place must also be considered. An important element of analysing a valuation as a decision making process must include a comprehensive understanding of how the process is actually undertaken.

Although the residential appraisal process has been examined in the US (Diaz, (1990)) and the UK (Diaz and Gallimore (2000)) the commercial valuation process remains largely undescribed. In the USA the principle text books, for example the Appraisal Manual (9th Edition) does lay down the major steps in the valuation process that an appraiser should follow. Similarly UK valuation texts such as the Income Approach to Property Valuation (Baum, Mackmin and Nunnington (1998)) describe the components of the process. The Valuation and Appraisal Manual of the RICS in the UK provides considerable guidance to the valuer as to the conduct of the valuation and lays down a number of mandatory requirements and considerations that a competent valuer must take but it is not prescriptive as to the actual form of the valuation.

There are no empirical studies in the commercial valuation field as to how the process is actually undertaken in the UK. Information on this is vital to the production of meaningful behavioural studies. This study attempts to redress this gap in the knowledge by providing a process map of the commercial valuation process in the UK.

2. Aims and objectives

The research reported here concentrates on components of the actual conduct of commercial valuation in the UK with the aim of producing a process map.

Process mapping is widely used in management consultancy during the diagnostic and redesign phase. Biazzo (2002) notes that process mapping is an aid towards improving and redesigning business processes. Anjard (1998) sees process mapping as a way of evaluating a process for its effectiveness. Process mapping is a visual tool that highlights the major steps to produce an output and identifies the parties who perform the steps. It is used as a tool to identify where there are areas of potential weakness in the system. Given the background to the scrutiny of the behaviour of valuers that has taken place over recent years, a map of the valuation process seems to be an important first step in improving the process and, in turn, improving the quality of the output of the process.

Establishing the task order is very important in understanding how valuers arrive at their opinion of value. The task order illustrates how valuers receive information. In other

research the sequence of information has been shown to influence opinion forming in uncertain situations (for example, Assere (1992), Ashton and Ashton (1988, 1987), Messier (1992), Chan,(1995), Hogarth and Einhorn (1992), Pei et al (1992), Krull et al (1993), and Tubbs (1990)). Establishing task order from a sample of valuers will also provide information about the degree of variations in behaviour across commercial valuation practice, giving some understanding of the rigour of the process.

An investigation of the personnel involved in a commercial valuation is very important in a behavioural study. One of the main problems in undertaking behavioural analysis in commercial valuation is that all the tasks are rarely conducted by a single individual, although a single individual is usually responsible for the overall conduct of the valuation. This greatly increases the complexity of analysis required to understand the behavioural influences on the process. The majority of behavioural studies examine the behaviour of the individual in decision making and not the complex interaction of many personnel with different levels of seniority and influence. Mapping of the personnel involved in the task activity is an essential step to understanding the behavioural influences on the outcome of the valuation process.

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3. Methodology

The research that led to the process map took the form of a structured interview utilising a questionnaire.

The questionnaire was structured to enable both the maximising of data collection from the interviewees and simplifying the later analysis. The questionnaire consisted of a range of open and closed questions, with some of the latter allowing boxes to be ticked to indicate the appropriate response, either by the interviewer or the interviewee. The latter occurred where the question dealt with the more complex areas of procedure. The interviewees received an extract from the questionnaire that contained these particular questions and the appropriate answer sheet. These were collected at the end of the interview. The interviews were taped with the permission of the interviewees for later transcription.

The interviews took place at the office of the interviewees. No fee was paid to the participants.

4. Sampling Strategy

The sample selected were chartered surveyors working for private practice chartered surveying firms in the north-west of England. The sample size was not specifically defined other than it was to represent more than half of the firms carrying out valuation work within the region (by number of firms not instructions). A non-probability sampling approach was selected as being most appropriate, i.e. the interviewees were selected according to the frequency in which their firms carried out commercial valuation work (see Kidder (1981) for a discussion on purposive sampling). The justification of the above is that this research was largely qualitative rather than quantitative. "Qualitative researchers usually work with small samples of people, nested in their context and studied in depth – unlike quantitative researchers who aim for large numbers of context stripped cases and seek statistical significance" (Miles and Huberman (1994), p27.

Notwithstanding this there were a number of factors to consider in the selection of the sample. These will be discussed in the section below. Defining the sample was relatively simple in terms of the personnel, but less straightforward for other aspects. As noted, the sampling concentrated on obtaining responses from the most senior members of the profession. Although valuations are carried out by chartered surveyors within a range of organisations,

the majority are carried out within private practice surveying firms. It was decided to draw the sample only from this group.

The choice of the geographical location of this sample created some practical difficulties in drawing interviewees from a sample of the larger individual offices. The original intention of the sampling strategy was to obtain as full coverage as possible of all the firms carrying out regular commercial valuation work within a single region, in this case the north west of England. The rationale behind this was that this would allow observation to be made regarding all types and sizes of firms carrying out valuation work. Clearly the structure and procedure in a small firm was likely to be different from that that existed in a larger firm where specialist valuers might exist. Similarly the practice and procedure in a regional firm might differ from that adopted from a national or international practice.

Within the north west region, Manchester is the largest commercial centre, indeed it is the largest commercial centre outside London[1]. The second major commercial centre in the region is Liverpool, whilst there are also substantial commercial property markets in Warrington, Preston and Chester. Commercial surveying practices were identified using the RICS directory for the north west. The firms were contacted by telephone to establish whether they undertook a substantial amount of commercial valuation work[2]. The firms were then contacted by letter which explained the purpose of the research, the type of assistance required and a request that an interview with the head of commercial valuation or senior valuation surveyor be arranged. 40 firms were approached in Manchester and 21 interviews resulted. 21 firms in Liverpool were contacted which resulted in six interviews whilst 35 firms in the smaller centres of Chester, Warrington, Preston, Blackburn, Bolton, and Lancaster were approached. These resulted in only five interviews, of which two were not included in the final analysis because it was felt that the interviews were working in too specialised an area or else carrying out insufficient commercial valuation work.

Location	Number of Surveying Firms in Estates Gazette Directory	Number Contacted	Percentage of Total Firms Listed in Directory	Number Interviewed	Percentage of Total Firms Listed in Directory
Manchester	93	40	43.01%	21	22.58%
Liverpool	25	21	84.00%	6	24.00%
Chester, Warrington, Preston, Blackburn, Bolton and Lancaster	52	35	67.31%	53	9.62%
TOTAL	170	96	56.47%	32	18.82%

Table 1: Details of the original sample selection

Two factors became clear from the initial sampling. The first was that there was a concentration of valuation being undertaken in the large metropolitan cities with relatively little substantial capital valuation work being done outside of Manchester and Liverpool. A common response to the initial approach from a number of the smaller practices in the region was that they had ceased to do valuation work because they did not find it to be cost effective. This observation is anecdotal as no formal data was collected on this area.

An implication of this is that although the interview sample represents only around 19% of the total population of commercial surveyors operating within the study area, it is a

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[1] In terms of the number of commercial firms with registered addresses in the city
[2] This was defined for the purpose of sampling as "regularly carrying out capital valuations of freehold or long leasehold retail, office or industrial buildings for any purpose"
[3] See comment in text

substantial sample of the firms doing a significant amount of commercial valuation work in the region. It is impossible to accurately determine what percentage of commercial valuations carried out in the north west are carried out by the firms interviewed. The preliminary telephone contact mentioned above suggested that there were around 45-50 firms regularly carrying out commercial valuations in the areas sampled. The interview population of 30 (i.e. excluding the two firms mentioned above) may, therefore, represent 60-70% of the total population.

A second factor that became clear was that the strategy of collecting data from within the region alone meant that very little data was to be collected from the very largest of practices where the office structures allowed even more specialisation. Because of this second factor it was decided to obtain a sample from the larger London practices to fill the gap in the data. 30 firms in London were contacted in the same way as has been described above with a target of obtaining 10 interviews, which was achieved.

That the sample was not drawn from a single geographical region was not felt to be significant for the majority of the study. One of the main purposes of the study was to establish practice and procedure in commercial valuation in the UK. As noted, it was anticipated that there were some variations according to the size, structure and character of the firms carrying out the valuation work. It was these variations that the study set out to capture, hence it was felt to be more important to draw a range of responses from a range of organisations than to continue to draw the sample from a single region.

Location	Total	UK National	UK Regional
Manchester	21	16	5
North West Region[4]	9	0	9
London	10	9	1
TOTALS	40	25	15

Table 2: Geographical breakdown of interview sample

It was anticipated that the structure of the office was likely to be dependent on the office size. With smaller offices with less than 10 professional staff no specialisation into departments would occur. In these firms it was anticipated that a person doing valuations would also carry out other work, including agency work that gave direct exposure to the market. There would, however be less opportunity to consult with others during the valuation and access to data may be reduced. At the other end of the scale, in the very large offices with more than 40 staff it was likely that much more specialisation occurred. A valuer here would probably only do valuation work and have no direct exposure to the actual market. Clearly the consultation and information flow structure would be rather different. In between these extremes there are a large number of medium sized firms that may show attributes of each.

Because of these expectations about organisation, it was important to obtain a balanced sample of firm size as noted above. A break down of the sample of office sizes against the type of firm (national or regional) is illustrated below in table 2.

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[4] Note that the original intention was to classify the data by Manchester and Liverpool and the rest of the North west. It became clear that the number of firms surveyed in rest of the North west and Liverpool was very small and that the firms in Liverpool had more of the characteristics of the region as a whole than those of Manchester. The latter was the favoured location of regional offices of national firms whose headquarters were in London. Because of these two factors it was decided to include the Liverpool sample within that of the North west region.

Office Size (number of Staff)	Occurrence	National Firms	Regional Firms
<10	11	3	8
10-40	19	14	5
>40	10	8	2
TOTALS	40	25	15

Table 3: Analysis of office size in which the interviewees worked against the type of firm

The interview research was targeted at senior members of the profession. Senior professionals would be expected to have a greater experience of valuation practice and procedure. They would also have a greater knowledge base regarding observation of valuation variance of errors in valuation in practice. In particular they would be able to provide a strategic overview of the organisation of their firm and office.

This target was generally achieved. Of the Interviewees, 39 were male and 1 was female. The mean age was 42.875 (SD 8.468 years). The type of position held by the interviewees is illustrated in table 4. Some 70% of the interviewees were at salaried partner or director level or above[5].

Position Held	No
Professional Staff	3
Associate	9
Salaried Partner/Director	16
Equity Partner	10
Senior Partner	0
Sole Trader	2
	40

Table 4: Position in firm held by interviewee

A final requirement of the sample was that it should be drawn from a population who frequently carried out commercial valuation work. Between the group, the sample was responsible for carrying out around 4300 capital valuations per annum.

As can be observed from table 5, the sample population were almost exclusively undertaking commercial valuation work, with the highest percentage of non-commercial work being reported by any of the respondents being 10%. The interviewees were mainly carrying out new rather than update valuations. The respondents dealt with a fairly balanced range of property types.

Commercial Valuations %	% of work reported by interviewees	Desk Valuations %	% of work reported by interviewees	Types of Property Valued	Mean % of work reported by interviewees

[5] A number of firms interviewed had incorporated whilst the remainder retained the traditional partnership structure. The decision to incorporate does not seem to make a material difference to the operational structure of the firms and no distinction is made between companies and partnerships in the analysis.

Mean	97.525	Mean	28.5	Retail	33.237
Min	90	Min	0	Office	30
Max	100	Max	80	Industrial	35.816
Median	100	Median	17.5		

Table 5: Analysis of the type of work carried out by the interviewees

In conclusion, the interviewee programme aimed to gather data from a representative sample of senior commercial valuers drawn from a variety of types and size of firms operating within the north west of England.   In general this was achieved with the exception that firms with larger offices and thus more complex internal structures were not represented in the initial sample. With the addition of a sample of larger firms drawn from London a more balanced sample was achieved.   The 40 interviewees represent approximately 780 man-years of experience. The data obtained should be representative of practice in the UK today due to the quality of this sample.

5.   Research Findings and conclusions

The outcome of the research is a process map. This visual representation of a typical single property valuation is included as appendix 1.

Only a limited amount of analysis has been undertaken into the interactions and sequencing evidenced in the process map, though some initial observations can be made. As can be observed the process falls into four distinct phases: Appointment and Instruction, Data Collection and Assimilation, the Valuation Phase and the Reporting Phase. An obvious process that seems to be lacking in the process is a regular formal feedback mechanism. A second observation is the apparent distance between the lead valuer and large parts of the process that results in the valuation. Finally, the process has clear points where there is a risk that the client could influence the outcome of the valuation.

These findings are, however, preliminary. The process map requires further validation but it appears to be a useful tool that can be used to analyse the behaviour and outcome of the valuation process in a more structured manner.

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Appendix 1 PROCESS MAP: CAPITAL VALUATION OF SINGLE COMMERCIAL INVESTMENT PROPERTY in the UK

APPOINTMENT AND INSTRUCTION PHASE

Time Context

Client identification requirement for Valuation

Client provides brief detail of property (area/ lease/ location etc)

Selection of firm to carry out valuation work. Rings around firms to obtain quote for work

Contact with partner / director / senior valuer

Feedback

Other directors / partners / agents / department heads

Check for any conflict of interest / prior work client / property

Any prior information on the property extracted

Firm Instructed

Client

Meeting between client / firm

Partner / principle / lead valuer

Information on property from client

Instruction confirmed by partner / principle / lead valuer including terms of appointment and fees

To valuation team

To data collection and assimilation phase

APPOINTMENT AND INSTRUCTION PHASE

Delegated Instruction passes to

DATA COLLECTION AND ASSIMILIATION PHASE

Principle	P
Lead Valuer	L
Senior valuer	SV
Surveyors	S
Graduates	G
Admin	A

Time Context

Client arranges access to property

VALUATION TEAM

ASSESSMENT OF LOCATION AND THE SUBJECTS PROPERIES PLACING WITHIN MARKET CONTEXT
L/SV/S/G

INSPECTION AND MEASUREMENT
L/SV/S/G

STATUTORY ENQUIRIES
G/S/A

Document bundle supplied by client

COLLECTION and COLLATION OF COMPARABLE EVIDENCE

G/S

ASSIMILIATION AND ANALYSIS OF DATA COLLECTED ON PROPERTY (DOCUMENTS, LEASES, INSPECTION NOTES, MEASUREMENT, DATA ON LOCATION, STATUTORY INFORMATION)
L/SV/S/G

INITIAL DRAFTING OF VALUATION REPORT

TO VALUATION PHASE

DATA COLLECTION AND ASSIMILIATION PHASE

VALUATION PHASE

Time Context

INITIAL
DRAFTING OF
VALUATION
REPORT

VALUATION TEAM

INITIAL
ASSESSMENT
OF RENTAL
VALUE
G/S/A

CONSULTATION
WITH AGENCY
TEAM

FINAL ASSESMENT
OF RENTAL VALUE
G/S/A

INITIAL
ASSESSMENT OF
CAPITALISATION
RATE
SV/S

CONSULTATION
WITH
INVESTMENT
TEAM

FINALASSESSMENT
OF
CAPITALISATION
RATE
L/SV/S

PRELIMINARY CALCULATION OF VALUE
L/SV/S

INTERNAL REPORTING
AND SCRUTINY

FINAL
DRAFTING OF
VALUATION
REPORT

FINAL INTERNAL VALUATION
L/SV/S

TO REPORTING STAGE

VALUATION PHASE

REPORTING STAGE

Time Context

| FINAL DRAFTING OF VALUATION REPORT **SV/S/G** |

| VERBAL REPORT TO CLIENT **L/SV** |

| REVISIONS IF REQUIRED |

| FINAL REPORT TO CLIENT AND BILLING PROCESS **L/SV** |