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A Preview of Non-Client Influence in Property Valuation in Nigeria

IROHAM, C. O.[1], AYEDUN, C. A.[2] and OLOYEDE, S. A.[3]

Abstract

The existence of clients' influence on values reported by Estate Surveyors and Valuers has been confirmed particularly in the US, UK, New Zealand, Asia and Nigeria. In a bid to discover ways of impeding the continuance of such influence, this work aimed at ascertaining the role non-client standing as third parties to contracting of valuation jobs will play. The research entailed the study of 162 Estate Surveying firms in Lagos Metropolis. A simulated mortgage valuation was carried out by the researchers with 24 final year students in a valuation course. The students who were placed in groups were required to influence Estate Surveyors and Valuers to tilt the calculated value upwards. Result derived from the use of 95% confidence interval on the t distribution table reveals that Estate Surveyors and Valuers were influenced upwards to an average of about 16% of the actual force sale value. From findings it is evident that influence in valuation might not necessary be due to inherent stakes attached to the task. While a lasting solution to the scourge is being sought, the researchers call for its eradication so as to safe guards the integrity of the Estate Surveyor and Valuer.

Key words: Clients', Non-Client, Influence, Valuations, Estate Surveyor and Valuer, Nigeria.

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INTRODUCTION

The term client in valuation parlance refers to individuals or corporate bodies who use the rental, market or investment value estimates/advice of a valuer/appraiser for a fee. Invariably, non-clients are actually those who have no need for such professional advice as given by the valuer. Normally, it is expected that such advice from the Estate Surveyor and valuer is derived from an independent interpretation of property demand/supply and price relationship. However, there are indications that clients sometimes influence the outcome of the valuation process, a situation that perhaps professionals saddled with the responsibility of proffering professional judgment are faced with. The influence of clients' on valuers manifests itself in the latter adjusting their opinion of values or reported figures to suit client desires for high or low estimates. To this end, there are perhaps subtle allegations from bank executives and other financial institutions that issue mortgage loans, on reports of clients' deliberately inflating mortgage valuation upwards for greater facilities.

Allegations on clients' influence are indeed worldwide. For instance, Kinnard, Lenk and Worzala (1997), discovered that some appraisers (valuers) in the US are willing to change valuation conclusions under client pressure. Baum et. al. (2000) and Crosby et al (2004) also confirmed the existence of client evidence on valuations in the UK. Similarly, in New Zealand and Singapore, surveys of registered appraisals reveal considerable levels of clients' influence (Levy and Schuck, 1999 and Shi-Ming Yu, 2002 respectively). The studies demonstrate a variety of dimensions that such influence/intimidation takes. At times, higher fees are offered, or offers are made of continuation of future engagement. At other times, professional fees are denied - a phenomenon described by Kohli (1989) as the reward and coercive power of clients. Moreover, clients at times offer prejudiced valuation information to their valuers particularly in markets unfamiliar to the valuers (what Levy and Schuck, 1998 described as information power). In Nigeria, it is even suggested that some clients insist that valuers adopt the cost approach to value to secure higher estimates, even where the properties to be valued are investment properties and the market evidence is available (Ogunba, 1997)

[1] *Department of Estate Management, School of Environmental Sciences College of Science and Technology, Covenant University, Ota, Ogun State, Nigeria. E-mail: emeka_iroham@yahoo.co.uk, osmond.iroham@covenantuniversity.edu.ng*

[2] *Department of Estate Management, School of Environmental Sciences College of Science and Technology, Covenant University, Ota, Ogun State, Nigeria*

[3] *Department of Estate Management, School of Environmental Sciences College of Science and Technology, Covenant University, Ota, Ogun State, Nigeria*

In Nigeria, though such research is still embryonic, the story is not different as earlier research has ascertained the existence of this phenomenon (Amidu and Aluko, 2007; Iroham, 2007; Ogunba, 1997). Even in this country just like any other African Commonwealth countries where the valuation profession is newly emerging and the role of the Estate Surveyor and valuer is yet to be fully appreciated, this scourge does exist. Perhaps, the reason adduced for such influence could be direct linkage between the professionals and those that release jobs to them. In cases where a third party (non-client) comes in play, the question then is would the professionals still give room for such influence particularly when fully assured that their interest would in no way be jeopardized? It is in light of the aforementioned that this research intends to discover the influence a non-client would have so as to seek for ways to ameliorate this glitch. Perhaps however, the need for this study is more compelling in a country like Nigeria because it is in such developing societies where investigation and elimination of all forms of client influence and other potentially damaging circumstances is apt so as to prevent the dent on integrity of the young profession trying to justify her relevance to largely unimpressed clientele and competing professionals.
The study focuses on mortgage valuation being the most frequent and influenced by Clients' (Iroham, 2007). One probable outcome client influence eventually leads to is the distortion of values which is usually upwards, as clients will always want to inflate the values of their security so as to attract more facility, thereby not giving the true depiction of values that represents outcomes in the property market. This explains why bank managers and disbursers of loans in Nigeria would prefer valuation reports to be more explicit particularly in terms of valuation calculations carried out (Oluwunmi, et. al., 2011).
This paper intends to seek if third-party(s) could front valuation jobs instead of clients' with assurance to valuers of no consequences even when their judgment is as objective as possible.
The paper is arranged into five sections, the first which is introductory. While section two examines research papers on client influence in various countries across the world; section three examines aspects of the research method. In section four, the research findings are presented while section five provides a summary, suggestions and conclusions.

RESEARCH ON CLIENTS' INFLUENCE ON VALUE ESTIMATES
Research into the nature and causes of influence exerted by clients on valuers to modify capital/rental values is relatively recent. Nevertheless, professional bodies across the world have for long observed the occurrence of such influence and even frequently legislated against it. For example, the Code of Ethics of the New Zealand Institute of Valuers (1996) and other Ethical codes around the world recognize the likelihood of clients' influence and seek to prevent it. Article 1.7b & c of the New Zealand Institute of Valuers specifies that:

A. " *A member must maintain the strictest independence and impartiality in the performance in the members' professional duties. To this end no member shall*
B. *allow the performance of that members' professional duties to be <u>improperly</u> influenced by the preferences of clients and others as to the result of their professional work*
C. *rely <u>improperly</u> on information supplied by clients or others in the performance of their professional duties"*

In the UK, there is also increasing recognition that clients influence valuation estimates. An RICS commissioned report (Carsberg, 2002) recommended changes to the manner the RICS guided valuers to ensure transparency in the interaction between clients and valuers when the former are providing information crucial to the valuation.
Early studies into the influence of clients on valuers were conducted by Kohli (1989) and Pasewark and Wilkerson (1989) who identified factors (powers) employed by clients to influence valuers. Client powers identified include reward/coercive power, expert power/expertise and information power. Reward power was described as the ability to provide material or non-material benefits to those to be influenced, while coercive power is the ability to provide material punishment to such individuals. Expert power/expertise was described as the power that comes with having necessary and relevant knowledge in certain issues. Information power is defined as an individual's access to and control of information.
These powers in the hand of clients are believed to be fully employed in influencing the valuation of property. However, research on clients' influence on property values has only recently found its way in contemporary real estate literature. Notable researches carried out in line with these influence on

property value estimates are principally evident in countries such as the UK, US, New Zealand and the emerging property markets of Southeast Asia.

In Asia, Cho and Megbolugbe (1996) and Chinloy, Cho and Megbolugbe (1997) were interested in appraisers' moral hazards and the asymmetric cost to appraisals when appraised values are lower than sale prices expected by clients as compared with the scenario of appraised values being equal to or above sale prices expected. Their study involved the examination of 600,000 residential mortgages purchased in the secondary mortgage market. The authors discovered that 95% of the appraised values were greater than or equal to the pending sale price, and the remaining (5%) lower-than-sale price values were rejected by clients. The study suggested that clients reject most appraisal values that are less than expected transaction price or at best such deals were renegotiated.

In the US, Kinnard, Lenk and Worzala (1997) carried out a survey on appraisals to investigate the effects of clients' feedback on valuation estimates in the appraisal process. Members of the Appraisal Institute were surveyed to measure the amount (nature and frequency) of client pressure they perceive in their task environment. The methodology involved developing a hypothetical scenario where a client (lender) was to request for an adjustment in property values. The results showed that forty-one percent of the subjects revised their value conclusions. The appraisals' decision to readjust was directly related to the client size but not related to the magnitude of adjustment requested. The findings suggest that appraisers are pressured to support a pending sales price as opposed to the placing of an unbiased opinion of market values.

A further study in the US by Wolverton and Gallimore (1999) identified three possible forms by which client-to-valuer feedback influence valuers: environmental perception feedback, coercive feedback and positive reinforcement of the normative appraisal methods. From a survey of appraisers, the authors discovered that clients (lenders) viewed the appraisers' role in the lending process as that of validating the pending sale price. This was invariably contrary to the appraisers' perception of their role. Nevertheless the survey showed that appraisers influenced by high levels of environmental perception and coercive feedback actually saw their role as loan validators, which is a departure from their normative training. On the other hand, positive reinforcement feedback had a constructive impact on the appraiser's role perception; Appraisers who received high levels of positive reinforcement were attached to their normative approach. This study strongly suggested that some kinds of clients' feedback did influence appraisers' role perceptions while others reinforced normative behaviour.

Another research into clients influence on reported values carried out in New Zealand by Levy and Schuck (1998). Drawing from interviews of five registered valuers, this study revealed the existence of sophisticated and unsophisticated clients. Sophisticated clients adopted information power in their client-to-valuer influence, unlike unsophisticated clients that were apt to employ reward or coercive and badgering techniques. The authors also examined client influence under themes such as the range of defensible values and the definition of value; the integrity of the valuer and valuation firm, the purpose of the valuation and clients' instruction; and the regulatory framework. Apart from the regulatory framework every other factor was liable to clients influence. In the same country, Levy and Schuck (1999, 2005) undertook further work on clients' influence on valuations, examining senior New Zealand property executives responsible for the management of large portfolios of institutional grade property assets. Property management executives of six institutional property investors were interviewed. Questions centred on the nature of clients' incentives to influence valuations; the powers available to clients to use such incentives; and the opportunities available to clients to influence valuation outcomes. The findings suggested that clients with expertise and knowledge of the property market are able to influence valuers through their expert/information power. Opportunities and incentives for such influence existed due to the fact that clients could review draft valuations prior to their formalization.

In Singapore, Shi-Ming Yu (2002) undertook a research to examine clients' pressure in residential valuation for mortgage loan purposes. His survey of 47 selected valuers (which recorded a 72% response rate) was aimed at ascertaining the existence of clients' pressure, the source of such pressure and the type of threats and coercion used by clients. He employed a behaviourial experiment to reveal whether respondents would modify figures due to information supplied at a later date by clients. The discovery was that there was a pervasiveness of clients' influence on Singapore's valuers, which was primarily from private individuals. Although majority of the respondents claimed a lack of influence by clients, it was obvious that valuers were aware of their colleagues bowing to clients' pressure. In the analysis of the factors contributing to clients' pressure based on clients' size and size of adjustment, the use of a logistic regression model revealed that neither clients' size nor amount of adjustment had any significant effect on the valuers' decision.

Chen and Yu (2009) analyzed issues of client influence on valuation beyond the shores of Singapore but also had Taiwan inclusive in their study. The choice of both countries was due to their similar level of economic development as well as professionalism amongst valuers practicing in the countries. However, although both are Chinese-dominated by population, the culture and language used are substantially different. The study used a survey questionnaire to sample valuers' response to client influence in both Taiwan and Singapore. The questionnaire was organized into five parts: social economic data, client influence situation, potential factors, influence method, and influence abilities. The survey findings were analyzed using SPSS and subjected to a number of standard procedures to check for missing values and multivariate normality. Mean difference and F-test were used to judge whether the valuers in the two countries have significantly different views on client influence. The researchers' discovered that client influence on valuation practices does exist in both Taiwan and Singapore. This is despite the differences in the market structures, development background and modes of doing business. Furthermore, the study found out that the degree and extent of the problem are different. These differences, as reflected in the differing views and opinions on the causes and factors leading to client pressure, were largely due to the systemic differences in the two countries, particularly, in the way businesses are conducted as well as the medium of communication being used.

In the UK, Baum et. al (2000) examined the influence of valuers and valuations on the workings of the commercial property investment market and found that clients influence valuation estimates and influenced valuations in turn influence realized prices. In the same country, Crosby et al (2004) examined the objectivity and transparency in the valuation process for bank lending for the purpose of identifying any influences, which could undermine the process. The authors undertook an in-depth study of 31 valuation negligence cases, constituted two focus group discussions (comprising six valuers and six lenders) and also undertook a questionnaire survey of commercial lenders and valuers. The results demonstrated that lenders, borrowers and brokers exact influence on the valuation process, with an emphasis on borrowers and brokers due to their involvement in valuers' selection.

In Nigeria, research on client influence has been sparse. Ogunba (1997) examined thirty surveyors to ascertain the existence of client influence among valuers in Lagos metropolis. The results showed that 80% of valuers agreed that clients habitually influence valuers. Amidu and Aluko, (2007) carried out a more elaborate study based on behavioural real estate research which attributes bias in valuation judgement as an aftermath from client influence. The authors considered the theoretical potentials for client influence to bias valuations, and empirically analysed the factors impacting on the extent of influence client may exert on estate surveyors and valuers. Questionnaires were randomly administered to samples of estate surveyors and valuers in Lagos Metropolis. Using mean rating point, the survey ranked three factors; integrity of valuer or valuation firm, importance of the valuation outcome to the client and client size, as the most significant clients' influencing factors. The results of the Chi-square test did not, however, provide any statistical relationship between the size of firm, amount of experience and education of estate surveyors and valuers and their perception on the comparative importance of the identified clients' influencing factors. A more detailed study on the subject matter was carried out by the authors in the same year. Amidu and Aluko, (2007), using questionnaire survey being administered to estate surveyors and valuers in a bid to gauging their professional opinion with regard to client influence, sources of such influence and types of threats used by clients, indicates that such influence does exist particularly among individual clients which is being exhibited by disengaging such estate surveying firms in favour of other firms ready to tilt towards the whims of such clients. A behavioural experiment, incorporating two non-valuation factors, was also included for the respondents to role-play the decision of an estate surveyor and valuer subject to an ethical dilemma. The result from an analysis using the logistic regression model indicated that the decisions of estate surveyors and valuers as to whether to

alter valuation outcome upon clients' request are not affected by either of the two non-valuation factors (client size and value adjustment).
The present study carries the level of research in this area much further by investigating the existence of non-client influence in property valuations carried out in Nigeria (if any) in a bid to eliminating the scourge of client influence.

RESEARCH METHOD

The study focused on Lagos metropolis due to its vibrant property market (being the undisputed commercial capital of the country). Besides, the Directory of the Nigerian Institution of Estate Surveyors and Valuers, (NIESV, 2009) reveals that about 50% of the head offices of all of Nigeria's Valuation firms are located in that metropolis.
The study investigated non-client influence by focusing on Estate Surveyors and Valuers in private practice in the study area. The comprehensive list of registered estate surveying firms in Lagos State was secured from the most recent Directory of the Nigerian Institution of Estate Surveyors and Valuers (NIESV, 2009) which indicates that there are Two Hundred and Seventy (270) practicing Estate Surveying firms in Lagos Metropolis out of which, a minimum sample size was derived using a demographic formula by (Otte, 2006) resulting to a total of 158, which was approximated to 162 for convenience of study. This gives a 60% of total population as the sample size in the study area. This figure is not at variance with Nwana's (1981) recommendation of a minimum of 40% when a population is in its few hundreds.
The research entailed a simulated mortgage valuation of a hypothetical 7 Bedroom Detached House on a 2000M^2 land in GRA Ikeja, carried out with the 24 final year estate management students in an advance valuation. The normative traditional model of 'term and reversion' was adopted, coupled with the provisions of the prevalent market forces, and a force sale value of 60% on the calculated value was derived to represent the maximum value of loan disbursable. The students were distributed into six groups of 4 students per group. Each group was given a task to make sure they convince Estate Surveyors and valuers in practice, to tilt upwards the force sale valuation figure derived in class on a hypothetic property being valued. The practitioners were made to understand that they were not under compulsion to tilt the valuation figure upwards within the stipulated range; as such gesture did not make any difference in their performance in the course. The six groups of students (for convenience sake, grouped between A and F) had ranges of values of which they were to return back to school with within which must have been signed and stamped signifying the confirmation of such value by the various respondents met.
Group A was to convince the practitioners, who should also be aware of the methodological approach in deriving the normative figure, to ascertain that values between +1-5% of the derived value can also represent the force sale value. The practitioners were to also place a particular value within the given range of which they are comfortable with. Group B was given a range of +6-10%; Group C, +11-15%, Group D, +16-20%, Group E, +21-25%; Group F above +25%.
The research adopted stratified random sampling as its sampling method. Lagos metropolis was stratified into six zones, namely, Lagos Island, Victoria Island, Ikoyi Island, Apapa Island, Surulere and Ikeja business district. Thereafter, there was random selection of subjects in each stratum**.** The six groups of students were to randomly select estate surveying firms from the recent NIESV Directory (2009) cutting across the six strata. The number of firms in each stratum was in proportion to the number in the total population (about 60% in each stratum). Hence each group was to study 27 estate surveying firms cutting across the six strata.

THE RESULT

Insert table 1-3 here

Respondents were found to be mostly between the ages of 31-35 years. The average respondent had practical experience spanning about 5 years. The most typical academic qualification of respondents was a B.Sc degree (about 67% of respondents). Majority of the respondents were eager to respond to the questions presented to them by the students as a high response rate was recorded in most groups.

Generally the research recorded a high response of about 83%. Table 1 gives the Group by Group response rate that was recorded.
The open market value of the hypothetical property was calculated to be ₦200 Million Naira, applying the principle of force sale for a mortgage loan, it was agreed that the maximum force sale value of the property is 120 Million Naira. In Group A, of the 24 respondents that responded, 21 of them were willing to tilt the force sale value between +1-5% so as to please the students. Likewise, the other groups recorded willing respondents ready to tilt the normative value to suits the whims of the students. Table 2 gives vivid illustration on the outcome of responses from all the groups.
Observation revealed that some respondents decided to be reticent on the subject matter, which could be attributed to the fact that they were shrewd in their professional judgment. Also, information gotten from Table 2 reveals that respondents were not susceptible to influence on their professional judgment as the range of values increased. However; the respondents could tilt their professional judgment to as much as +35% of the open market value of the property.
Table 3 gives a more descriptive and inferential judgment on the various influenced values gotten by the various Groups.
At a 95% confidence interval adopted by the researchers, it is envisaged that influenced values will come within the below calculated values:

$$CL_{95\%} = \hat{u} \pm t_{0.05}\frac{sd}{n}$$

Where û represents the average mean value; df, the degree of freedom; sd, the average standard deviation; the 0.05 in $t_{0.05}$ is due to the 95% in 95% confidence interval on the t distribution table; n representing number of outcomes

$$CL_{95\%} = 1.3966 \pm 2.45 \times \frac{0.000695}{6}$$

$$= 1.3966 \pm 0.0002838$$

Thus, an exact figure of ₦120M of a mortgage force sale value resulted to values between ₦139.63 and ₦139.69M when influenced by these non-clients'. Hence, it can be deduced that even when valuers' do not have interest in mortgage valuation an average increase of 16% of the actual value of collaterals' resulted.

SUMMARY, SUGGESTIONS AND CONCLUSIONS

It is obvious that even non-clients' influence in valuation and the very extent of its application is obvious in the Nigerian context. This has revealed that the scourge of influence on Estate Surveyors and valuers' values is even evident when there are no stakes attached and as such the role of a third party in contracting valuation jobs to valuers might not necessary solve the issue of influence. There are credible implications of the spate of client influence on valuations in Nigeria. If the influence continues, there is the danger that all professionally determined estimates might come to be regarded with great suspicion of being inflated or deflated in line with the interests of clients.
However, as advocates against such scourge, the way forward requires a collective effort on the part of the Nigerian Institution of Estate Surveyors and Valuers, the regulatory body- Estate Surveyors and Valuers Registration Board of Nigeria-, Valuation Firms and Surveyors in the academia. Client influence borders on corruption and must be addressed with stern and perceptive measures. A carrot and stick strategy been found useful in this kind of situation and might be considered for adoption in Nigeria. First, an attitude of zero tolerance should be adopted by the professional Institution to valuers discovered to permit client Influence. In this regard, the Disciplinary Committee in the Nigerian Institution of Estate Surveyors and Valuers (NIESV) should be strengthened to checkmate activities of its members particularly as it regards issues on clients' influence, permitting no sacred cows. At the same time rewards can somehow be devised and offered for any evident case of resistance to client influence. Perhaps in addition, the academia in tertiary institutions offering Estate Management could introduce practical courses into their curriculum which would counter negative behavioural traits (such as client influence), instilling values into students at their formative stages before they become practitioners. Such courses need not be restricted to students. The instrument of Continuing Professional Development could

also be employed to encourage valuers to resist behavioral habits that encourage such influence. In fact, the topic client influence on valuation' deserves to become a standard research topic. We suggest that one of the annual conferences of the Nigerian Institution of Estate Surveyors and Valuers (NIESV) in partnership with members in the academia should focus on client influence in valuation. This Conference can be done with contributions from experts in the field of psychology and financial management, called to shore up resistance to client influence. It is of the view that thought provoking topics as this can begin to sensitize Estate Surveyors and valuers on the jeopardy they are subjecting their statutorily preserve of valuation exercise to, when such acts are allowed to continue.

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Appendix

Table 1: response rate of various groups

S/N	GROUPS	RESPONSE	PERCENTAGE RESPONSE
1	A	24	88.9%
2	B	26	96.3%
3	C	21	77.8
4	D	19	70.4%
5	E	23	85.2%
6	F	21	77.8%

Source: Authors’ field survey 2012

Table 2: Influenced Respondents on simulated valuation

S/N	groups	Range	No of influenced respondents	% of respondents influenced	Lowest Value (₦’00M)	Highest Value (₦’00M)
1	A	+1-5%	18	70.83	1.212	1.26
2	B	+6-10%	16	61.54	1.272	1.32
3	C	+11-15%	12	57.14	1.344	1.38
4	D	+16-20%	9	47.37	1.392	1.44
5	E	+21-25%	9	39.13	1.452	1.5
6	F	Above +25%	6	28.57	1.512	1.62

Source: Authors’ field survey 2012

Table 3: descriptive and inferential influenced values

S/N	groups	Range	No of outcomes	Lowest Value (₦’00M)	Highest Value (₦’00M)	Mean of influenced values (₦’00M)	Standard Deviation (₦’00M)
1	A	+1-5%	18	1.212	1.26	1.243	0.0379
2	B	+6-10%	16	1.272	1.32	1.2975	0.000358
3	C	+11-15%	12	1.344	1.38	1.364	0.000176
4	D	+16-20%	9	1.392	1.44	1.42	0.000352
5	E	+21-25%	9	1.452	1.5	1.475	0.000585
6	F	Above +25%	6	1.56	1.62	1.58	0.0008
	Average Values					**1.3966**	**0.000695**

Source: Authors’ field survey 2012