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That Makes Cents: Valuing Property from the Perspective of the Consumer

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ABSTRACT
When evaluating and estimating the value of real estate, the focus of value has always been in the application of product settings. This conceptualisation usually adopts an economic approach where a property’s value is notably determined by its utilitarian attributes such as age, land size, location and number of bedrooms. This paper examines the value of residential property from the perspective of consumer behaviour and argues that human emotion can significantly disrupt the many long-established models of property value assessments commonly used in today’s market.

Introduction
Valuation of residential properties is important to real estate market participants and has therefore attracted much attention from researchers. In the interest of brevity, our paper does not digress into a detailed discussion of works on valuation but for interested readers, we wish to point out that the literature is replete with studies that examine the physical attributes of a property to ascertain its value. See [17, 26] for a review of the literature.

In short, academic and professional studies in property valuation have focussed primarily on finance, with theories and models derived from economics. Conclusive though they might be, these studies have limitations that deserve further research. For one, when real estate problems are seen only from a finance point of view, researchers will miss the prospect of using ideas and resources from other disciplines – consumer behaviour in particular [5]. Like valuation, theoretical models of how consumers make purchase decisions have evolved from the economic paradigm. The early models were developed to explain consumer choice in terms of economic calculations such as demand theory and utility theory. Over the years, scholars in consumer behaviour have been able to refine, develop and reinvent new models and theories from the richness of knowledge in other disciplines. We aim to emulate past scholars by bringing together the research strands of emotion and property valuation because we believe this relationship is central to explaining the missing link – that people can and do value certain properties for reasons other than physical features.

In this paper, we demonstrate how one consumer would value a certain housing attribute higher than another and explain why they do so by conceptualising theories from consumer behaviour. The paper begins by reviewing existing literature on the concept of value, first in real estate followed by consumer behaviour, then linking the dimensions of emotional value to applications in residential real estate. A discussion on emotion follows before concluding that emotion does have its place in valuation. We take the assumption that property investors are not as influenced by emotional factors as are home purchasers [25] their choices and purchases are precluded from the discussion in this paper.

What is Value?
In regards to the property industry, valuation is essentially a matter of economics as valuation models are underpinned by the theory of supply and demand. Even so, debates have arisen in the field of valuation concerning the coherence of existing theories [21]. The International Valuation Standards has defined value as “the price most likely to be concluded by the buyers and sellers of a good or service that is available for purchase. Value establishes the hypothetical or notional price that buyers and sellers are most likely to conclude for the good or service. Value is not a fact, but an estimate of the likely price to be paid for a good or service at a given time in accordance with a particular definition of value” [1, p. 465]. This definition has not explicitly limited property valuation to physical attributes like location and external factors like interest rates yet extant valuation literature and practices advocate exactly these. Furthermore, we find that this definition is surprisingly fluid and can accommodate the definition of instrumental value from consumer behaviour although in valuation, this is not yet in practice.

Further definition for the concept of value in the same document highlights the calculative and financial aspects of valuation. According to the document, “the economic concept of value reflects a market’s view of the benefits that accrue to one who owns the goods or receives the services as of the effective date of the valuation” [1, p36]. This definition is clearly grounded in the economic theory of supply and demand where decisions are made based on a problem-based, trade-off approach. However, what we find interesting is that “a market’s view of the benefits” could easily be interpreted in many ways. For one consumer, a house may bring economic benefit of capital gains or convenience of location. For another, it may be a hedonic benefit of stylish luxury and yet for some, it could mean psychological benefits such as a sense of...
achieved. Thus, we argue that residential property valuation should take into account non-economic benefits from the consumer’s perception.

Another definition that stresses the systematic, economic approach of valuation can be found in the same document on non-market based valuation. It states that non-market valuation is when “an investor may apply a rate of return that in non-market and particular only to that investor. In applying an income capitalisation approach to determine the price that investor is willing to pay for particular investment based on the investor’s anticipated rate of return, a Valuer arrives at an estimate of Investment Value or Worth rather than market Value”[1, p. 46]. Under this definition, we argue that the home buyer is inappropriately classified as an “investor” when not all buyers are necessarily investors in the economic sense. Many people buy houses for homes, for security and for family continuity [10]. Furthermore, applying income capitalisation to determine property price presumes that market participants will demonstrate rational behaviour although it has already been long established in marketing that this is impossible - that consumers can be irrational and impulsive. Despite their income and affordability levels, consumers can act inconsistently and influencing factors can be attributed to emotions and moods, personality, lifestyles, attitudes, reference groups, household decision-making and this list is not an exhaustive one.

Valuation studies in real estate have taken on the assumption that housing choices and hence prices are always based on economic theory of utility and preceded by lengthy rational decision making. There is a long held belief among academics and practicing valuers that ceteris paribus, property prices should be determined by “sequential and analytic processing of information based on appraisal of the environment”[6]. In property valuation, it is assumed that people value property for its extrinsic monetary rewards such as return of investment based on size, location and potential of rental income. This view is in line with the definition of utilitarian or functional value outlined in consumer behaviour. Utilitarian has been described as ergic, task-related and rational [4, 11] and a utilitarian-based purchase is said to be one made in a careful, deliberant manner [2]. However, [13] have already warned of the inadequacy of valuation models which have too long relied on comparison of price as a tool of analysis and ignored the viewpoint of the valuation user. We are in accord with their reflection and in support that the purpose of any method of valuation is to model the thought process of the players in the market. We extend this thought further by drawing upon consumer behaviour.

Like valuation, the notion of value in consumer behaviour has a long history in economics and therefore its utilitarian value is acknowledged in consumer behaviour. However, researchers in consumer behaviour have also noted emotional value - the less tangible value of certain products because of their facility to arouse emotion. A house is the best example, considering the large financial undertaking, the infrequency of the purchase, the responsibility and commitment associated with the purchase and the attached symbolic meanings to the purchase[9, 18]. When people attach their own meanings to a home, they naturally attach feelings and emotions to it. The home as a product class then becomes important due to its intrinsic needs and values. While the property valuation literature emphasizes utilitarian value, our take from the perspective of consumer behaviour offers additional insights by suggesting that property valuation should not be all that objective because consumers do place value on products based on emotions and “how-do-I-feel-about-it?” heuristics [22]. Value’s subjective nature should be recognised and equated with the overall assessment of worth considering all relevant evaluative criteria [2, 16]. In Table 1, we illustrate the clear distinction between utilitarian and non-utilitarian value in the two disciplines of property valuation and consumer behaviour. From this table, it is apparent that the much needed conceptual bridge between the cold aspects of residential property valuation and the hot aspects of consumer behaviour is the idea of emotion.

| Table 1: Differences between “value” in Consumer Behaviour & Property Valuation |
|-----------------------------------------------|----------------------|
| **CONSUMER BEHAVIOUR**                       | **PROPERTY VALUATION** |
| Emotional                                     | Rational             |
| Hedonic, instrumental                         | Utilitarian          |
| Heuristic                                     | Systematic           |
| If-feels-right                                | Informative          |
| Knowledge by acquaintance                    | Knowledge by description |
| Right brain oriented                          | Left brain oriented   |
| Feeling-focused                              | Problem-focused      |
| Affective                                     | Cognitive            |
| Subjective                                   | Calculative          |
| Feeling                                       | Thinking             |
| Intrinsic rewards                             | Extrinsic rewards    |
| Buyer as consumer                             | Buyer as investor    |
| Holistic and synthetic                        | Sequential & analytic |
| An immediate & subjective experience          | Involves judgements about phenomena. |

In the section that follows, we outline precedents of emotion and emotional value with applications to real estate valuation.

**Beyond Reason: Emotion**

Emotion and the role it plays in marketing has only recently become a subject for consumer behaviour researchers [20, 23]. It has long been noticed however that people did not always react logically or rationally as economic theory would predict – marketing has begun to accept this in the 1980s but the same has not yet been observed in property valuation. This section will present a framework for considering emotions in property valuation. We begin by specifying the characteristics of emotion with regards to its relevance and application to property valuation.

One of the most widely agreed characteristics of emotion is that it is a mental state of readiness that arises in response to negative or positive appraisals of events or thoughts that are relevant[20]. Appraisals are defined as “evaluative judgment and interpretation” and relevance as having “personal meaning” [3,p.85]. Appraisals in valuation are
generally accepted to be thought-generated and cognitive but it is established in the emotion literature that what concerns us is subconsciously processed in the mind and this results in a reflex, impulsive emotion [7]. For example, when buying a home for our own residence, one of the things to decide on is the location (whether or not it is in a desirable location). This immediate appraisal automatically gives rise to emotion (whether or not we like this house). The process is of consumer perception leading to emotional experience with no conscious cognition between them. Secondly, emotion has an object so we speak of being proud of our house or falling in love with the view. The object of the emotion need not be tangible because consumers can get emotional about things they imagine to be true [20]. This is common in home purchase as we often hear remarks like “When we walked into the house, it just felt right!” referred to home choices. This in consumer behaviour, is known as emotional value, defined as monetary worth of feelings when consumers experience a product positively [24]. Finally, emotion provokes a tendency to action [3, 27]. The feelings of anger and frustration at being outbid at a home auction may provoke the tendency to aggressive counter bidding, long past the maximum bid limit.

In exploring the housing choice and property valuation literature, we have been struck by the apparent lack of consideration of the fact that home choice may not necessarily implicate complex decision making processes. This despite the fact that mainstream literature and the business press have published extensive examples that suggest this phenomenon and point to the role of emotions as a significant influencing factor in consumer home choice [8, 12, 14, 19]. The implications of emotion and its values are important and should be considered by researchers in valuation because if the business press is right, then many of the theories applied in housing valuation models would now be less applicable than has been assumed.

Some After-Thoughts and Future Research

The purpose of this paper is to illustrate the two sources of value (rational and emotional) that consumers can have with their property. We think emotion has been excluded from property valuation on the general assumption that they are irrational as the concept of emotion is commonly associated with being out of control, inaction and irresponsibility. This assumption is however invalid as many studies on emotion have proven otherwise. For example, one study concluded that emotion is a necessary tool for decision-making because it supplements our limited computational abilities [15]. This is proven when patients with brain damage in some specific spots in the prefrontal cortex areas experience a decrease in emotional feelings thus leading to severe impairment in decision-making even though they continue to have intellectual abilities and general knowledge [7]).

In this paper, we have stressed the impact of human and emotional factors in residential real estate valuation. Hence, we suggest that a significant connection exists between emotion and property prices – the most valued property may not always have the most number of bedrooms, generate the most rent nor be centrally located in the city. We thus make our first suggestion - that real estate and valuation researchers should embrace the study of consumer behaviour to better understand the reasons behind consumer home choices and property valuation. This could lead to improved valuation models that will more accurately reflect house prices. In respect of this, we propose the incorporation of e-value-ation – residential property valuation that takes emotional value into account. We believe consideration for e-value-ation will lead to a more realistic representation of property prices. Feelings toward a purchase should be perceived as more relevant when the purchase is evaluated for consummatory reasons than when it is evaluated for instrumental reasons [22].

Conclusion

Given the common belief that emotions serve as primary motivators of home purchasing behaviour, the absence of emotion in property valuation research and the scarcity of it in real estate literature does raise concern. The discipline of property valuation has evolved from early economic theory, which incorporated the view of the consumer as a model of rationality and logic. Hence, when valuation theory began to emerge, it had no place for emotions in its reasoning. We have attempted to address this issue by initiating an investigation into consumer behaviour and emphasizing the need for outcome measures to capture the basic value distinction in property valuation.

An appreciation of how and what home buyers come to view as valuable is advantageous to practitioners in predicting accurate property value. This understanding will lead to better explanations and predictions in real estate valuation and, subsequently, greater success in real estate markets. We believe it to be crucial for property valuation practitioners and researchers to be aware that what resonates with the consumer at an emotional level will play a major role in any purchasing decisions the consumer makes.

REFERENCES

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REFERENCES