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Local knowledge in the valuation of residential property

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Glamorgan**

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LOCAL KNOWLEDGE IN THE VALUATION OF RESIDENTIAL PROPERTY

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Abstract

Local knowledge is considered to be a key factor in the valuation of residential property, or for that matter in the valuation of real estate in general. Following the introduction of the new Red Book in January 1996, local knowledge became a mandatory requirement of valuers in performing their duty.

Despite its importance, little is known about local knowledge. No formal definition is provided, with literature in the field of real estate providing little else, beyond expressing its importance. Research at the University of Glamorgan is currently investigating this issue, drawing on literature in both real estate and other fields. The research is reinforced with empirical data obtained through mail questionnaires, semi-structured interviews and a valuation study.

This paper presents a critical overview of the literature relating to local knowledge, and that of professional knowledge in general, pulling together the research on this issue for the first time. The paper also highlights the research output to date relating to local knowledge. These being, what are the important factors, which make up this knowledge? What limits are there to the areas a valuer will work in? Would valuers work outside their area or not, and what is the justification for this? What are the limits to the transportability and dissemination of such knowledge?

1. INTRODUCTION

In determining the open market value of residential property much is made of local knowledge, which is seen as the prime requisite when valuing using the direct capital comparison (DCC) approach (Dennett, 1997). It is this knowledge, which enables the valuer in the presence of limited data, to formulate an accurate opinion of value.

The importance of local knowledge is not a recent issue. The Royal Institution of Chartered Surveyors (RICS), providing guidance to valuers in the White Book (RICS, 1992), stated that valuers, in performing their duty:

"... must have knowledge and experience in the valuation of residential property in the particular locality." (Valuation Guidance Note 2A).

Today, this guidance, now enshrined in the new Red Book (RICS, 1995) places a mandatory obligation upon valuers to demonstrate that they have:

"... in respect of the particular type of property, sufficient current local ... knowledge of the particular market and the skills and understanding necessary to undertake the valuation competently." Practice Statement 5.1.1(a).

Furthermore, where a valuer does not have sufficient knowledge, assistance must be provided from a person who has.

The significant difference, against the previous guidance, is the mandatory requirement. The change was perhaps inevitable. Prior to the Building Societies Act 1986, independent firms performed most valuation work. The new Act and the rising market changed matters. The larger lenders acquired estate agencies and created subsidiary surveying firms, who provided the majority of mortgage valuations. Following the market collapse in the late 1980's, and reduction in transactions, panel valuations were reduced, and independent firms complained that work they previously performed was now being managed by the in-house staff of banks and building societies and subsidiary firms with limited knowledge of the local markets (RICS, 1993a).

These criticisms were partly subject to the Monopolies and Mergers Commission (MMC) report into the supply of valuations (MMC, 1994). The report acknowledged the criticism of independent firms, but found that this was only a small number of cases, which did not materially affect the advice supplied. However, even today (with new guidance) criticism is still being levelled at mortgage valuers working "out of area" (McConnell, 1997).

Despite, this importance, no guidance or definition is provided in the Red Book as to what local knowledge is. Elsewhere the literature reiterates the importance of local knowledge to practice, but fails to go any deeper. Much of the literature that does exist is in the form of single sentences, or correspondence in the professional journals. So what is local knowledge?

2. LITERATURE REVIEW

The sparseness of literature relating to local knowledge makes forming an initial definition difficult. Given that no matter what area a valuer works in, they must have local knowledge, it could simply be knowledge of the area in which they work. However, there are no limits to the extent of that area.

The Oxford English Dictionary defines "local" as a "place or locality", and refers to this in relation to a particular event, or circumstance attached to it. Further clarification leads to the area itself, being a comparatively small district, as opposed to the country (or state) as a whole. Particular attention is given to Local Government, where local relates to the administrative area of a town or city; this might be a city or even county boundary.

With regard to the "knowledge" component, this is formed from the word know. It is the fact of recognising something; an acquaintance with a fact or certain information; knowing something to be true or not. The definition of knowledge does not limit facts to be written or codified. It could be a mental apprehension, a perception, intuition or other cognition.

2.1 THE LOCAL COMPONENT

Whilst we (the authors) have no problem concurring with the knowledge component, concern must be raised with regard to the word local. Geographers and economists alike have stuck to the use of the term region to describe an area, largely on the basis of "statistical convenience" (Curran and Blackburn, 1994). Both the Nationwide and Halifax house price indices are testament to this. Overall, Curran and Blackburn (ibid.) conclude that terms such as "local market", "local economy" and their variants have been poorly defined, and are difficult terms to form any agreed definition.

"Local" often relates to an administrative area, e.g. a district or county council. Following the reorganisation of local government in recent years, the UK is now divided into counties or unitary authorities. This adds to the confusion of local. Wales, for example, is divided into unitary authorities of varying sizes: the County of Cardiff falls mostly within a 5-mile radius of the City; the County of Swansea in a 10 mile radius of the City, whereas Pembrokeshire largely forms a 15 mile radius around Haverfordwest. A similar situation occurs in England where a 20-25 mile radius is more appropriate in some cases. For television, local relates to a regional level, whilst for radio it is more akin to county level. This shows that there is no uniformity in the application of the term "local", particularly in relation to the extent of an area.

Fesler (1968) drawing on the term "area" as a geographic and administrative concept is critical of the way there is no assumption as to the magnitude of an area. He states that the concept of an area could be further broken down into sub-regions and even sub-sub-regions.

The Appraisal Institute (1994) devotes two chapters to issues in the neighbourhood, district and market area. Whilst each of these are defined, there is an overlap. For example a market area could encompass part of a neighbourhood, or more than one. Miller and Gallagher (1998) refer to economic analysis in the appraisal process, and note the closer (geographically) one gets to the subject property, the more powerful the factors which influence value are.

Pearson (1995) places real estate and land uses on a long continuum, a cemetery lot the smallest, to the world as the largest. In this respect local is a relative term, as espoused by Geertz (1992) who states the earth is local relative to the universe. In the context of this research, local in residential valuation would relate to some area of mainland England or Wales.

In determining the limits to an area a valuer works with regards to local knowledge, valuers have often focussed upon the distance a valuer has travelled. Correspondence pages within many professional journals saw criticism of valuers travelling too far, ranging from over 100 miles (Rhodes, 1994) to as little as 15 miles (Herdson, 1994).

Whilst many valuers place limits, Treays (1994) believes a valuer could value anywhere. However, the authors are aware that in one case, a Building Society requires its panel valuers to be located no more than 25 miles from the subject property. Similarly, Rhodes (ibid.) feels 20-25 miles to be acceptable. This conflicts with the term local as applied for administrative purposes.

The RICS has partially addressed this issue with regard to the Red Book by stating that the emphasis is on meeting the requirements of the manual, which does not limit the geographical area in which a valuer can operate (Anon, 1996). This echoes the views of Grainger (1996), who considered that there is no reason why a valuer couldn't travel 100 miles to value a property if (s)he frequently valued in that area. However, whilst this clarifies the issue of distance, no further issues are clarified. Indeed, Crossley-Smith (1996) states that the onus is placed on individuals to assess whether they are capable of carrying out the instruction.

On the basis that there are no limits to the area in which a valuer works, and the difficulties surrounding the definition of local, the reliance on a spatial connotation in the definition seems somewhat inappropriate, and the need to review the term "local" in local knowledge is long overdue.

2.2 THE KNOWLEDGE COMPONENT

Section 3 discusses the issues regarding the acquisition and types of knowledge used by valuers. However, this section investigates those factors important to valuers in relation to their local knowledge.

Mackmin (1994) feels that valuers should have a broad knowledge of their area, which largely comes through previous valuations performed in that locality. For Mackmin, experience is a principal component in knowing an area; factors including radon gas, contamination and hazards such as flooding are things which only the experienced valuer will be aware. Experience is thus a key component.

In addressing the issue of valuers working out of area, Aimes (1997) feels that comparables are only part of the issue. In performing the valuation, valuers should have an awareness of the subject property and its pro's and cons; surrounding properties; the neighbourhood; demand for the particular type of property; national economic factors; and the local housing market, including employment levels.

The courts, in emphasising the importance of local knowledge, have shown that geological influences are important (see *Gibbs & another v Arnold Son & Hockley* [1989] 45 EG 156; *Cormack v Washbourne* [1996] EGCS 196). In *Birmingham Midshires Building Society v Richard Pamplin & Co* [1997] EGCS 3 the judge emphasised the need of a valuer lacking detailed knowledge of the area to make contact with the principle agents in the area. Other issues arising have related to the need to be

aware of the general market conditions (see *Bristol and West Building Society v Christie & others* [1996] EGCS 53; *Coventry Building Society v William Martin & Partners* [1997] EGCS 106).

In developing an integrated residential valuation for the Halifax Building Society, the collection of locational data was recorded at three levels, the neighbourhood, street and the actual plot itself (subject property). In doing so factors which affect a property on one side of a street, or even a particular property can be accounted for (Dennett, *ibid.*). Such information is rarely explicitly recorded as part of the mortgage valuation. If noted, it is done so in a subjective and intuitive process.

According to Jenkins (1992) valuers develop a "feel for the market", which provides an awareness of the structure of values in that market. This is coupled with knowledge of the market, and those factors, which impact on value. Knowledge of the market is important, including social and economic trends; Government policy and incentives; and demand for property (Clegg, 1988).

2.3 THE ISSUE OF COMPETENCE

Competence is an issue associated with knowledge, but is also one related to local knowledge and professional surveying practice in general. Competence is a difficult term to define, and one, which has been debated over the years (Weightman, 1995). For the professional valuer it is a matter of displaying the skill and care of a similar professional, and acting in accordance with professional guidance. Where this competence is in question, legal action often results.

Millington (1994) draws the distinction with regard to Old George in the local pub, who although extremely knowledgeable of the area, is unlikely to be accustomed to the important factors to which the trained valuer is aware. Waters (1996) is critical of those who, despite new guidance, are still providing advice where they have insufficient skills or experience. In this case he warns, a fee has been earned, but at what risk? Indeed, local knowledge is a significant issue with regard to professional indemnity insurance, although there is great difficulty in defining areas, and enforcing such policies (Falcon, 1992).

Few cases exist with regard to local knowledge, other than those noted earlier, where its importance cannot be overemphasised. It is therefore worth noting that the most significant case (see *Abbey National Mortgages plc v Key Surveyors Nationwide Ltd and Others* [1995] 40 EG 130; [1996] 33 EG 88) related to the appointment of an expert witness. On appeal, the judges stated that it was alright to appoint a single expert witness to value 51 properties located across the Midlands, East Anglia, the South, the West and Wales.

The decision caused hostility from some commentators. Murdoch (1996) stated "what price the Red Book now?". Of course, reading the case more closely reveals a different picture. The practice statements and guidance notes for the appointment of expert witnesses (RICS, 1997a) requires the expert witness to have the "*knowledge, experience, qualifications and training appropriate for the assignment*" (PS 3.1). So long as the expert has sufficient local knowledge, or is assisted by someone else who has, (in the absence of such knowledge), there is no reason why any rules have been breached. In any event, the case related to a situation where no expert witness had been appointed. The judge even stated that if the expert felt unable to do a valuation in each case, the decision would be reviewed.

Perhaps the main issue of concern, and one, which applies to practice in general, is what constitutes being assisted by a valuer with such (local) knowledge. Is the assistance someone in the same practice, or merely contacting the principle agents in the area? Furthermore, how much experience (in time) is required before a valuer is competent in an area to provide a valuation?

3. PROFESSIONAL KNOWLEDGE

3.1 THE PROBLEM OF PROFESSIONAL PRACTICE

Understanding professional practice is no easy task. In the valuation of residential property, the valuer's domain knowledge is wide and deep (Scott, 1988). Professionals also rely on tacit recognitions, judgements and skilful performances in the face of problems which are often complex, unique and messy (Schön, 1995).

This is the crux of the problem for Schön, who is critical of the model of technical rationality. According to this model problem solving is made rigorous through the application of scientific theory and technique. Schein (1973) believes the skills and techniques of problem solving come after the mastery of the "core" science.

This division of theory and practice does not travel well in professional domains, for example Surveying, but even more so in the case of residential appraisal (Almond et al, 1997). This division creates further problems; we know little beyond what is known of professional exams and literature on professional socialisation; even less is known about how professionals subsequently learn, and modify their initial training after qualification, including on, and off-the-job learning (Eraut, 1994). However, the reliance on this experience (so-called special knowledge) to justify the existence of the professions is increasingly coming under pressure (Hoyle, 1995).

However, addressing the issue by gaining a broader understanding of practice may be hindered for the following reasons:

- Professionals often do not know what it is they know.
- Professionals may say a factor is important because they believe it is so, yet in reality they give little weight to it (Scott, *ibid.*).
- Professionals may be prone to bias (Jenkins, *ibid.*; Gallimore, 1994).

3.2 KNOWLEDGE TYPES

From both a psychological and philosophical viewpoint knowledge is considered in terms of one of three different classes, i.e. "knowledge that", "knowledge how", and "knowledge of people places and things". *Knowledge that* is often referred to as *declarative knowledge*, i.e. knowledge of the world that can be represented as consciously known *factual knowledge*. This contrasts with *knowledge how* (*procedural knowledge*) which relates to how to do something, this is sometimes termed *practical or process knowledge*. The final term, *knowledge of people places and things* is more commonly referred to as *knowledge by acquaintance*, i.e. knowledge of which we are directly aware.

The distinction between *know-how* and *know-that* cannot be overemphasised with regard to local knowledge. These are in essence the essential components. Before even valuing, valuers need to *know-that* certain factors influence value; they also need to *know-how* to do a valuation. In the valuation itself, they need to *know-that* certain factors in the area impact on value; then there is the need to *know-how* they influence the valuation in that particular instance.

Eraut (*ibid.*) highlights the importance of *know-how* or process knowledge, considering it essential to professional practice, yet accorded a low priority in the education system. One such issue, and important to surveyors is the process of acquiring information, yet, this process is often neglected in higher education. It is also important in communicating with clients. However, Eraut is more radical in his views. Taking an holistic approach he suggests the content of learning, as a whole, should accord with the importance of when information is required for the situation in hand. In this respect he cites the situation in which knowledge learnt in a degree is often put into cold storage, and not used till later in the practice situation.

According to Dreyfus and Dreyfus (1986) a practitioner's knowledge is composed of domain knowledge (that which is written in texts) and heuristic knowledge which is more experimental, and relates to good practice and judgement. This accords to what Scott (*ibid.*) refers to respectively as consensus and non-consensus knowledge.

Research into knowledge types within surveying is limited. The most extensive was by Scott (*ibid.*) in the elicitation of knowledge for building an expert system. Work into the knowledge base of the quantity surveyor (RICS, 1993b) generalised the surveyor's knowledge base to consist of general knowledge and domain knowledge. Mole (1997) drawing on the work of Eraut expresses the knowledge and skill of a surveyor to be composed of propositional knowledge, personal knowledge, professional knowledge and moral principles.

However, this is to deny the complexity of the issue. Eraut (ibid.), taking professional knowledge in its broadest sense, highlights that there are a number of "specifically designed clusters" of the meaning knowledge, and provides numerous examples of these. These types cover a wide variety of practice domains, and may not be present in all.

Local knowledge on its own could be said to consist of several different knowledge types proposed by Eraut (ibid.), i.e. personal, public and experiential knowledge. Personal knowledge consists on previous cases encountered and reflected upon, and draws in part on experiential knowledge, that encompasses information gleaned from other sources, including colleagues and contacts. Public knowledge is that which is more generally available to the public at large, through the media for example.

Overtime, and with experience this local knowledge can be considered as action knowledge as it becomes integrated into the individuals practice, and used (or recalled) automatically into use. The problem faced by those trying to understand professional practice is that this important heuristic knowledge is difficult to articulate, to quote Polanyi, "people know more than they can say".

3.3 KNOWLEDGE DEVELOPMENT AND LEARNING

Professional learning is often associated with competence. Perhaps the most widely used model of learning is that of Dreyfus and Dreyfus (ibid.) who divide learning into a five-stage process (see Figure 1).

Stage		Description
1	Novice	Novice learns to recognise objective facts and features of relevance to the particular skill. Rules for determining actions based upon these facts and features are also acquired.
2	Advanced Beginner	With practical experience in concrete situations with meaningful elements (that the learner or instructor is unable to define) the advanced beginner learns to recognise those elements when they are present on basis of similarity with previous examples.
3	Competence	The number of recognisable context free and situational elements becomes overwhelming. Learner begins to adopt a hierarchical procedure of decision-making. Through examining a small set of factors (most important to the situation) the person simplifies and improves their performance.
4	Proficient	The proficient performer will be deeply involved in the practice situation, and experiencing it from some specific perspective based on recent events. Certain aspects will stand out as salient; others will recede to the background and be ignored. The proficient performer will still think analytically about what to do.
5	Expert	Experts generally know what to do, based on mature and practised understanding. The experts' skill is embraced so that they are not aware of it. Much of what an expert performs is continuous and non-reflective, though where situations dictate, deliberation may occur before any action takes place.

Figure 1. Model of Professional Learning

Applying the model to practice (for example general practice surveying), can be difficult in that a qualified practitioner might become proficient or expert in certain tasks, yet only at the stage of novice or advanced beginner in others. Local knowledge is a classic example of this. A valuer could be an expert in valuing property in London (their place of work), yet only a novice in Cardiff.

However, the model has its uses in the broadest sense of professional learning. An undergraduate, initially a novice, by the end of the course reaches the stage of advanced beginner, where working towards the APC begins. It is only once the stage of competence is reached and mastered that the para-professional finally becomes a professional associate. Gradually, through further learning on-the-job (and through CPD) proficiency occurs and finally expertise. The stage of mastering proficiency takes a number of years, and is best shown in adverts where a valuer is required with, for example, three years post-qualification experience in a certain area.

For Schön (ibid.) practitioners will bring all their previous knowledge and experience into the current situation, and through a process of reflection, both in and on action, new knowledge is created. The

process of reflection is one shared by Kolb (1984) who views learning as a four-stage process; a *concrete experience* is observed and *reflected* upon, and through a process of accommodation and assimilation, *abstract concepts* are made, which serve to create new concrete experiences through *active experimentation*.

Whilst knowledge is personal, it is also shared (James, 1997). This knowledge could be shared and developed within the firm as organisational knowledge (see RICS, 1997b), or through discussing cases and sharing information with friends and colleagues outside the firm. In this way knowledge, including local knowledge gets disseminated.

3.4 TRANSPORTABILITY AND DISSEMINATION OF KNOWLEDGE

Scott (ibid.) postulated the idea that valuation knowledge is transportable. The results of tests using an expert system showed a decrease in accuracy when valuing in Merthyr against Cardiff, suggesting the inclusion of locational data would improve the systems accuracy. Jenkins (ibid.) partially addressed this issue when developing an expert system for council house sales. Valuers were asked to heuristically assign base values to localities, although no local knowledge was incorporated into the system, which was not, by design locationally transportable.

Of course, "local knowledge" is region specific (Truttman et al, 1996), with learning a localised process (Hassink, 1997). Indeed, in the valuation process, what use is knowledge of mining works in the South Wales Valleys when valuing in London? In this sense, every area is *sui generis*.

In relation to the transportability of local knowledge, it is important to distinguish between the knowledge types discussed earlier in the valuation itself. All qualified valuers *know that* certain factors are important in the valuation process and *know how* to value property. This knowledge is transportable.

However, in any particular valuation, a valuer needs to *know that* a factor in that area impacts on the valuation decision (e.g. school catchment area), and then needs to *know how* it impacts in this particular case. This is not transportable, and may take time to acquire. According to Stephenson (1993) panel valuers should have at least three years practical experience in the area. Kelly (1995) suggests a valuer is only competent once (s)he has witnessed an entire real estate cycle, and cites seven years by way of example.

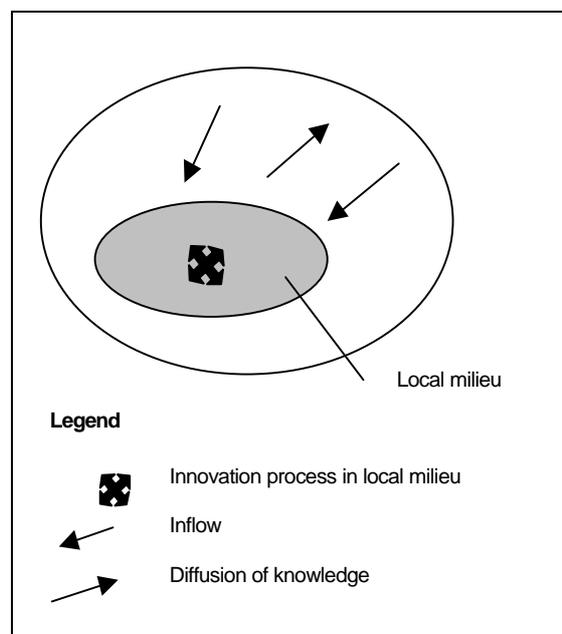


Figure 2. Accumulation and diffusion of knowledge in the local milieu.

Aside from the transportability issue, is that of dissemination (diffusion). If a valuer's knowledge is transportable, how easy is it to acquire this knowledge? Outside the field of real estate more has been

written about the accumulation and diffusion of knowledge. Malmberg et al (1996) investigated the reasoning behind the spatial agglomeration of firms within certain areas. Based on this research they built a conceptual model (see Figure 2).

According to their research, problem solving, the interaction of local firms, and exchange of knowledge through face-to-face contacts leads to innovation within the local milieu. This is reinforced by the barriers to the diffusion of knowledge, which is frequently traded within the local milieu, but rarely outside. Newcomers, with innovative ideas flow in to aid development of ideas; their knowledge from other areas can be applied, and adapted to the different local conditions (Alvarez, 1998). As a consequence there is a greater inflow, rather than outflow. Group networking is a major source of reinforcement (Parker and Handmer, 1998).

In terms of real estate, one of the major barriers to the diffusion of knowledge is its scarcity. Confidentiality clauses lead to evidence remaining within firms, this scarcity creates value. However, this knowledge does not always remain embedded within people or firms. Knowledge is traded as valuers discuss cases with colleagues (RICS, *ibid.*), though it is likely to remain within the local area.

Even within an area there can be problems with the diffusion of knowledge. Butler (1987) noted the inadequacies of communication by "word of mouth". This may change, as advances in the ways of communication could lead to a more rapid dissemination of knowledge over a greater space (Shefer and Frenkel, 1998).

4. EMPIRICAL RESEARCH

4.1 RESEARCH METHODS

The research (to date) has involved the use of semi-structured interviews with four (residential) valuers, one from the public sector, and three from the private sector. Semi-structured interviews were chosen as they provided the flexibility required in eliciting the issues key to the research, whilst also providing the ability to probe deeper into issues which arose during the interviews. Those interviewed also participated in a pilot valuation exercise, in which they were shown a video inspection of a property, and provided with identical sets of information. This includes details of the subject property, a map, photographs, comparable evidence, and details of properties currently available. On the basis of this information they were requested to provide an open market valuation for mortgage purposes.

This research is supplemented with the results of a questionnaire, which was sent to 102 (residential) surveying practices in England and Wales, identified in the 1997 Chartered Surveyors Directory, and from the RICS Residential Property Market Survey¹. The questionnaire was sent out on 21st April 1998. Reminders were sent out three weeks later to non-respondents, and after a further three-week wait, a total of 62 responses² had been gained, representing a 61% response rate.

The responses to this questionnaire were from a range of practices spread over England and Wales. The size of firm also varied; 27% were sole practitioners, with a further 44% representing firms with two or three practitioners. The remainder ranging up to 21 practitioners. Similarly the time the practitioners had been at their current practice varied from a couple of months to forty years.

4.2 KNOWLEDGE ACQUISITION

The literature review provided evidence of a limited body of literature on local knowledge. When questioned³ as to how much professional education (i.e. a degree or professional exams) contributed to their local knowledge, compared to professional practice as a whole, a mean of 1.71 is provided for local knowledge, and 2.565 for professional practice. This is reflected by the fact that 64.5% of responses felt education contributed to local knowledge in the 0-25% bracket, compared to 16.1% for practice as a whole. In two cases a response of "more towards zero" was provided for local knowledge.

¹ The questionnaire was developed from a pilot, which was mailed to 23 practices in Wales.

² Not all respondents answered all the questions; thus the number of responses (N) is given for each situation.

³ Responses were limited to either: 1=0-25%; 2= 25%-50%; 3=50%-75%; 4=75%-100%. N=62.

Testing for differences, the null hypothesis, H_0 = the mean scores are equal; the alternative hypothesis, H_1 = the scores are different (i.e. education provides little towards local knowledge compared to practice as a whole). A Wilcoxon sign ranked test was performed using SPSS v.7.5, which produced a Z value of -3.568, and a P value <0.1%. On this basis the null hypothesis is rejected, providing evidence that professional education contributes little towards local knowledge, compared to practice as a whole.

This tallies with the responses in the interviews where each valuer indicated that local knowledge is acquired on-the-job, with the degree providing a basic grounding, in what to look for. This perhaps accounts for the lack of literature, and highlights an area where the division of theory and practice is more acute; a greater understanding would be beneficial to the education of undergraduates.

Respondents were also asked how they acquired their professional knowledge from four sources, i.e. professional education (degree, professional exams), pre-qualification on-the-job experience, post-qualification on-the-job experience, and CPD. The results in Table 1 show that professional exams and post qualification on-the-job learning make a significant contribution to practice. However, the mean scores for professional education and post qualification learning mask the real divide. In both cases, few responses exist around the mean, but are largely grouped either under 25%, or 40% and above. The modal values partially reflect this.

N=58	Mean	Median	Mode
Prof. Education	35.9%	32.5%	50%
Pre-Qualification	15.7%	15.0%	0%
Post Qualification	37.5%	40.0%	40%, 50%
CPD	11.0%	10.0%	10%

Table 1. Sources of professional knowledge

There is therefore a divide; some practitioners feel education contributes more, whereas another group feels post qualification contributes more to practice. Comparing against the time qualified does not reveal any relationship, and thus tends to dispel the notion that those who qualified most recently (and more than likely undertook a degree) placed a greater emphasis on this education.

With the results showing that local knowledge is acquired largely on-the-job, the question remains how much of this on-the-job learning (pre and post) counts towards local knowledge as a whole. In getting to the nub of this question, it is likely to be only a small part of it. Taking the issue of education itself, the majority of respondents (80%)^(N=55) felt that a degree should focus on practice. Furthermore, some indicated that degrees applied theory, which in some cases does not relate to practice. There is therefore a need to consider the content of degrees and learning as a whole, in the holistic view suggested by Eraut (see section 3.2).

4.3 AREAS WORKED

An initial (tentative) definition suggested that local knowledge related to the area in which a valuer worked. Subsequent discussions showed how "local" is an ill-defined concept when related to an area. Furthermore, in terms of practice requirements, the size of area in which a valuer works is insignificant. Nevertheless, there must be limits to the size of area which a valuer or practice serves.

Respondents to the questionnaire revealed a diversity in the size of area which a practice covered, ranging from a small town or city e.g. Cardiff, extending to a much greater area e.g. South Wales and the English borders. A range of areas also exist in-between. Comparing the size of area against the number of practitioners (in each practice) does not reveal a significant visual correlation.

For all responses, where more than one valuer worked in a practice, the question was asked as to how work in that area is divided^(N=41). In 22% of cases work is specifically divided into different areas. In a further 10% of cases work is divided on the basis of the price of property, which may be considered as some form of division within an area. In the majority of cases (58%) each valuer would cover the whole area, with work divided, for example, as it came in.

However, limits do exist to the area covered. In Wales for example there appears a divide, with practices concentrated in either the South, North or Mid-Wales. This can be attributed to the relatively poor communications running between the North and South, but also the less densely populated areas of Mid-Wales. The results also showed a greater concentration of practices covering the south-eastern corner of Wales around Cardiff, where the population is greatest. The M4 corridor also appears to be an influencing factor.

The most common factor limiting the area covered by a practice is that of having sufficient knowledge (31% ^{N=57}). Cost, time and accessibility are also important issues. Obviously valuations are performed for a fee; the time taken to travel to and from the site, and that of conducting the valuation and producing the report has to be balanced against its profitability. Historical reasons were also cited as to why a practice only covered a certain area.

In some instances business reasons are an influencing factor. In the case of Building Societies, each valuer covers a certain area. The size of area covered may relate to the density of dwellings, and thus likely caseloads. In more densely populated areas such as South East Wales, a valuer may cover a smaller area compared to a valuer located in West Wales, which is less densely populated. Similarly the area covered by a building society valuer is likely to be greater than that of a private practitioner, on the basis that building society valuers specialise purely in mortgage valuations. This is not to say local knowledge is compromised, for building society valuers will frequently value in that area.

The size of area is thus not necessarily an overriding factor with regard to the ability to perform a valuation. Frequency is important, as is the type of market. For example, a valuer in the public sector (covering the whole of the local authority's area), may only be competent to value in particular areas where the council housing stock is located, and not in the areas dominated by private sector housing.

4.4 KNOWLEDGE - FACTORS OF IMPORTANCE

4.4.1 Influencing factors

Recipients of the questionnaire were asked to rate, in terms of importance (5=important, 1=not important) certain factors, which were considered as being influential in the provision of more accurate valuations and better advice, compared against valuers working outside the area.

All factors were rated as being indifferent or important on the basis of their mean score (3 or above). However certain factors are more salient than others, i.e. having a database of property values; awareness of demand for property; a knowledge of neighbourhoods and facilities; variations in prices between sub-areas; and local house price movements. The latter four standing out more, with mean scores greater than 4.5, and a range of 3-5 in each case except for knowledge of neighbourhoods with a range of just 4-5. The valuers interviewed also placed a high importance on their database, which not only had details of their own inspections and valuations, but also information gained from other sources.

In this respect, emphasis is placed upon knowing the level of values in an area, and the variations between areas. However, whilst any valuer may be able to pick-up the level of values from speaking to agents, they are unlikely to be able to know which areas to draw comparables from. The interviews revealed that valuers divide their areas up into a number of markets, and further sub-divide these into sub-markets or even micro markets, which may go down to street level. This was highlighted in the valuation study itself, where a valuer immediately disregarded one comparable, as it was not considered to be in a comparable area.

Other factors rated highly, though with a greater dispersion, were an awareness of current plans and developments, and established contacts with "local" agents and valuers. Again, contact with agents and valuer's is cited as important, and clearly a significant factor in gaining evidence, and discussing issues within the area.

The remaining factors all score lower with a wider range and a higher level of scores between 1 and 3 (of limited and no importance), i.e. geological factors; local schooling; poor users and contamination; anticipated closures and financial incentives. The low score for geological influences accords with the limited response of those who actually monitor geological influences in their area. Nevertheless,

geological influences have an impact, with a valuer criticised for not taking this factor into account (see *Cormack v Washbourne* [1996] EGCS 196).

Unlike the questionnaires, the interviews provided a better means of understanding the important components of valuers' local knowledge, i.e. those factors that influence value, which a valuer from outside the area may not be aware of. Examples include the following:

- A valuer new to an area made no distinction between Llandaff and Llandaff North in selecting evidence for a valuation. The River Taff divides the two areas, with the values in each area "poles apart".
- Joining a main road from a housing estate in the rush hour might take over half an hour. This has caused a variation in the values on this estate compared to a similar neighbouring estate, where values are notably higher.

Based on this evidence a model has been developed of the importance of local knowledge in the valuation process (see Appendix 1) highlighting the factors arising from the interviews, which valuers consider intrinsic to an area. This model has been developed from previous research, which classified valuation attributes (Almond et al, 1997).

However, despite having worked in an area for sometime, valuers still do not profess to know everything. Again, this was a factor evidenced in the valuation study, where only one (local) valuer made comment with regard to the suitability (as evidence) of a property which was currently on the market. Acquiring local knowledge is thus a continual learning process.

4.4.2 Information monitored

Consideration is also given to the information practitioners' monitor in their area. This is to ascertain information that is important in knowing, and keeping up-to-date with the state of affairs in a particular area. Respondents were asked firstly to indicate if they monitored that factor (see Table 2), and then to rate its importance.

Factor monitored		Score = Yes	Percentage = Yes
1	Own records	61	100
2	Others' records	34	57.6
3	House price indices	46	78
4	Local press	59	96.7
5	Other estate agents details	53	86.9
6	In-house market levels	57	93.4
7	External (sources) market levels	51	85
8	Economic data	29	49.2
9	Inward investment	21	36.8
10	Planning proposals	56	93.3
11	Demographic data	19	33.9
12	Geological data	25	43.1
13	Nuisances	39	69.6
14	Achieved prices	60	100
15	Professional journals	51	85

Table 2. Information monitored by valuers.

Care must be taken in the interpretation of the results. Where respondents indicated that a factor is not monitored so much (factors 2, 8, 9, 11, 12 and 13) a number of respondents did not answer the second part relating to importance; suggesting that if a factor is not monitored, it is of limited, or no importance. However, in a higher number of cases, a response was provided with regard to the factor's importance, though mostly a low score. This perhaps suggests some confusion in the question, which did not arise from the pilot study.

Of the factors monitored, the valuers' own records, in-house market levels and activity, and achieved prices stand out as the most important (mean >4). Other issues considered of some importance, and monitored highly were the local press, other (estate) agent's details, and planning proposals (mean 3.5 - 4). Other practitioner's records were also considered important. This is a factor, which although not monitored as much as others are, is still considered by practitioners to be important, and highlights the need for greater transparency with regard to valuation evidence.

House price indices (monitored in 78% of cases) were not actually considered to be too important (mean = 3.2). The frequency with which they are mentioned in the press, could well act as a reason for monitoring changes in the area, however, because such indices are wide in their scope, and relate to geographical regions, e.g. Wales; their importance become limited in applying such information in the valuation process. Indices in the past have been criticised in that they fail to reveal localised hot and cold spots. A similar situation occurs with regard to professional journals, which although seem to be read by most, are not considered to be of great importance with regard to providing knowledge of their particular area.

Factors considered unimportant, i.e. economic data, inward investment, demographic data and geological data, were also those which were monitored the least. These factors, which respondents placed values on, despite not monitoring, were largely considered not important to indifferent. However, when considering the scores provided in cases where the factor is not monitored, both inward investment and demographic data were rated as more important, with more considering the factor indifferent, and in some cases important. The same is also true for others' records and nuisances. These results suggest that practitioners feel that such factors should be monitored but do not actually do so themselves. Access to, and lack of transparency with data, could be the reasoning behind this.

The interviews reinforce this view. Besides sales information, the local press is considered a useful source of information. Property sections are useful sources of information, sometimes providing evidence of a property on the market where a "for sale" board is absent at street level. The paper may also be useful in identifying new housing estates on the market, or perhaps other factors, which may impact on certain sub-markets. Keeping abreast of town planning and proposed highways is also seen as important. The usefulness of property journals is not so apparent. Their content does not tend to help in the valuation itself. Similarly house price indices are reviewed, but their use in the valuation process is largely insignificant, again due to their more "global" coverage.

4.5 WORKING OUT OF AREA

Respondents were asked if they would value a property outside their area, if called to do so. Out of 60 responses, 45% indicated that they would. In either event, respondents were asked to state their reasons for the particular response.

The most important reason cited *for not valuing* ^(N=34) out of an area is the lack of knowledge of the area (19). Time (7) is also cited, i.e. that to acquire knowledge of an area and also any evidence such as comparables. Negligence and professional indemnity insurance is also mentioned. Only two respondents cited the mandatory requirements of the new Red Book, which one would have thought is a primary factor. The limited financial reward gained from such valuations is also highlighted, providing evidence that the valuers already work in an optimal area. Service to clients, the ability to obtain evidence and access to reliable information was also noted.

A variety of reasons were cited *for valuing* out of an area ^(N=25). Obtaining additional comparables (8), making contact with agents (6), and making further research (6) were considered as the most important factors in valuing out of an area; but does this justify seeking advice from others as allowed under the Red Book? Five responded by saying they would only do so if the area were close and comparable, suggesting that there is a boundary in which the valuer is less than proficient, but perhaps sufficiently proficient to undertake the work. Allocating additional time to conduct research is also a factor, so too is client pressure.

Whilst the nature of the question was suggestive of practice, rather than whether they had actually valued out of area, the responses do nevertheless provide some concern that valuers may provide a valuation where they do not have sufficient experience. The provision of the tentative sale price,

reliance on the margin of error principle, and practice of "down valuation" may provide sufficient comfort to valuers to undertake such practice. The ambiguity over the term being assisted by another valuer may also be a contributor factor, as too, the actual definition of local knowledge. Clearly the courts need to focus more on valuation methods. Similarly valuation forms should provide for comparables to be recorded, and room to comment on the property and its environs, as is practice in the US.

4.6 DISSEMINATION OF KNOWLEDGE

According to the work of Malmberg et al (ibid.) knowledge largely remains within the local milieu, and rarely gets diffused outside this area. Whilst the model largely relates to the competitiveness of firms, it also has application to the diffusion of valuation knowledge.

From the interviews it emerged that practitioners build up networks within the areas they work. It is this network of people who are contacted to gain information on an area or comparables. Therefore, there is no great difficulty in obtaining evidence from others in the area. These contacts are not just colleagues, but also friends. Of course, it is not just a one-way flow, there is a cross-fertilisation, with information supplied on a reciprocal basis. This strongly relates to the "face-to-face" contacts critical in the model.

The model also suggests that information is rarely diffused outside the local area. This is also evident, where one private practitioner remarked that he would give as little information as possible to someone whom he did not know. Similarly, another valuer stated a difficulty in accessing information when covering for a colleague in another area. Although they had worked in that area previously, the contacts had been lost.

The research did however highlight some problems to the dissemination of information even within an area. A situation may arise where a valuer from one firm has to provide a valuation on a property being offered for sale by a rival firm. In such cases it was remarked that the valuer might try to "down value" or stick a spanner in the works with regard to the sale. It was also noted that it is more difficult to obtain information working for a private firm than as an in-house building society valuer. Competition therefore creates a barrier to the transmission of knowledge, and distinguishes valuation practice from the agglomeration and competitiveness of firms to which Malmberg et al (ibid.) relate in their research.

Estate agents are a useful source of information with regard to movements in the local market. They can provide information, for example how long a property was on the market, the asking price, and invariably how much a property sold for. However, caution must be taken with regard to some agents, and all those interviewed stated that they would shy away from, or be cautious of information supplied by certain agents operating in their area. This is particularly important with regard to local knowledge; knowing who to contact, and how reliable the information supplied is could have implications on the resultant valuation. That said, agents contacted to provide information for the valuation study stated they were unable to provide details of completed sales due to client confidentiality. The same would also apply to valuers; which contradicts evidence from valuers. Greater transparency in data is therefore required to improve market efficiency and aid research. Beyond property professionals, local people may also be a useful source of information that saves time searching elsewhere.

4.7 TRANSPORTABILITY

It is not disputed that valuation knowledge is transportable. The research provides strong evidence to support this, with valuers in both the questionnaire and interviews stating that they had worked in other areas, some close by, others further apart, for example South Wales and London, or Yorkshire and Shropshire. But what are the limits (if any) to this?

The distinction has already been made between *know how* and *know that*, and the transportability of such knowledge (see section 3.2.). With certain information being unique to an area, it must take time to acquire, but how long? Furthermore, as such knowledge is acquired on-the-job, is there a period when a valuer is not competent to value in a particular area?

The questionnaire provided a varied response ^(N=59) to the length of time it takes to get to know an area. Times ranged from just a couple of weeks to 20 years. The most common response is 2 years (with 69.5% of responses indicating a value on or below this time). The average time is 31 months. Those interviewed also varied in their response, suggesting it might take from 3 months to two years. However, one common factor is that of frequency. If valuations are performed more frequently, then it will take a shorter time to get to know an area. Even after this "acclimatisation period", the learning never stops, it is a continuous process.

It is during this acclimatisation period that a valuer's competence may be under question. According to the model of learning (see Figure 1) a valuer new to an area would only be a novice with regard to local knowledge, competence would only come after time. This gap is highlighted more than anything else in the advertisements for building society staff valuers. In such cases competence is a key requirement, thus a valuer working in Wales would be unlikely to get a job in the Midlands, largely because (s)he would be working alone.

However, in other areas of practice the requirement might not be so strong. Whilst general knowledge of a particular market sector might be important, that of the area may be less so. Such knowledge could be acquired on-the-job through time; in the stage up to competence a senior partner will be able to provide suitable assistance, which would not breach the requirements of the Red Book. This is not dissimilar to a graduate working towards the APC. The problem occurs when such assistance is not provided.

5. SUMMARY AND CONCLUSIONS

The research has provided a comprehensive and critical review of literature relating to both local knowledge and professional knowledge. This review showed how very little is understood about local knowledge in the valuation process, primarily for residential property. Furthermore, despite its assumed importance in the valuation process, no formal definition is provided as to what local knowledge is.

Responses from the questionnaire as to what practitioners' thought local knowledge is, provided a variety of responses. However, they largely related to statements such as "good hands on working experience" or "good broad knowledge" which are largely meaningless in forming any definition. This is reinforced by the fact that 63% ^(N=57) of practitioners responding to the questionnaire felt that there was insufficient guidance as to what having "sufficient knowledge of an area" means, showing the need for improved guidance to be provided.

The particular issue of local knowledge, as evidenced in the literature available, was examined, from which concern was raised as to the use of the definition of "local". The word local assumes some spatial connotation, and whilst issues surrounding the subject property impact on the valuation decision, a valuer could work in any particular space. Indeed valuers work in disparate areas. Therefore the term local seems inappropriate in the context of the situation.

With regard to knowledge, whilst there is no disagreement with the meaning of the term, consideration must be given to what the knowledge component is. The research identifies that information, rather than knowledge is at the fore of the valuation decision. The distinction between valuers working in an area against those outside the area, are that they have the market intelligence. The local valuers know those factors in the area which impact on value. The knowledge therefore comes in *knowing that* a particular factor is important, where to obtain this information, and apply it to the case in question. It is this distinction which makes a valuer's knowledge transportable. Having the appropriate information is the key to providing an accurate valuation.

However, this information does come straight to hand, it takes time to acquire. The time may vary, but the research shows that 2-3 years is more the norm, this may be less, and certainly if valuations are performed more frequently in particular areas. Of course, after this period the learning continues, and never stops. It is this issue of time, which prevents any particular valuer from valuing in an unfamiliar area every so often, and is the major barrier to the transportability of such knowledge, but one which is not insurmountable.

It is in this period of learning that assistance is required from fellow valuers with regards to local knowledge, though the wording in the Red Book (PS 5.1.1(b)) is ambiguous on this issue, and further clarification is required. Certainly the assistance should come from within a firm, and perhaps limited to the initial period of learning to competence. It should not relate to situations where a professional valuer has to rely on contact with other agents, unless it can specifically be justified in the case, e.g. a building society valuer covering for a colleague where comparables are available internally, but calls made to add weight to the evidence.

Furthermore, with the research indicating that valuing "out of area" occurs in practice, greater attention should be placed on valuation methods. In this respect a greater understanding of local knowledge, and its components is required. The research suggests that unless a valuer has access to the required information, and knowledge of how to apply this in the particular case, then they should not carry out the instruction.

Anthropomorphic factors stood out, particularly from the interviews, as being salient in valuation process; this through obtaining information from others (either fellow professional valuers or members of the public), but also in potentially attempting to damage a sale.

Numerous factors come into play in the valuation decision. Some are more salient than others, but equally the set of factors varies with each decision; no two properties are the same. Given the limited processing capacity of the human brain, valuers create short cuts and even omit certain pieces of information. Local knowledge plays a part. Through this, a valuer can identify those factors of importance to the situation in hand, and disregard secondary evidence. Whilst the valuation may not be accurate, it is sufficiently correct in the context of the situation.

Having criticised the term local knowledge, an alternative term would be logical. Ideally any term should not be spatial, which creates problems. Possible alternatives, such as niche or specialist knowledge, could be deemed as spatial or sectoral, and thus too limiting. There is also a cultural issue. The term "local knowledge" is widely used and embedded in practice. Any alternative may not be accepted or cause confusion. However, this does not prevent further enquiry.

The research has also investigated the acquisition of knowledge. The conclusions drawn from this suggest the need to review the content of degrees, and continuing education throughout practice as a whole. For example, graduates should have the necessary skills to enter into practice, including communication, interpersonal and social skills. This would assist in the ability to contact others for information, and for building personal networks.

This paper provides a greater insight into the issues regarding the acquisition of local knowledge and its content. Further research is required to gain a fuller understanding, which is currently involving further interviews, and a larger valuation study to consider if any differences exist between local and visiting valuers when performing a valuation. Comparison will also be made to similar research in the US (see for example, Diaz, 1988), where differences exist in practice, particularly with regard to the availability of evidence.

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Appendix 1. Local Knowledge in the Valuation Process

