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ANCHORING THE EFFECTS IN PROPERTY VALUATION: A BEHAVIOURAL PERSPECTIVE IN REAL ESTATE MARKETS IN ENUGU METROPOLIS, NIGERIA

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Abstract
Property valuation plays a central role in real estate markets, influencing investment decisions, mortgage financing, taxation, and market stability. However, valuation is not purely objective; it is often affected by behavioural biases, particularly anchoring. The aim of this study is to examine the influence of the Anchoring Effect on Property Valuation and its implications for valuation accuracy and market efficiency. To achieve this goal, four objectives were stated; to examine the concept of anchoring in property valuation, to identify sources of anchoring in valuation practice, to assess the impact of anchoring on valuation outcomes and to evaluate the implications for valuation accuracy and reliability. Also, four research questions were developed. Data were gathered from 78 respondents using a mixed-methods approach that included field observations, interviews, and structured questionnaires. Data collected was analyzed using, descriptive statistics (mean, frequency, percentages) and inferential statistics. Drawing from behavioural economics and empirical real estate studies, the study highlights how anchoring contributes to valuation variance, pricing inefficiencies, and decision distortions among valuers, buyers, and investors. The paper concludes by recommending institutional and methodological reforms to improve valuation accuracy and reliability.

Keywords: Property valuation, Anchoring bias, Behavioural economics, Real estate market, Valuation accuracy.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Anchoring is a psychological heuristic identified by Tversky and Kahneman (1974), where individuals rely on an initial value (anchor) and make insufficient adjustments from it. In property markets, anchors may include: asking price, previous transaction price, valuer's prior estimate and client expectations. Anchoring operates through "anchoring and adjustment," where adjustments are often inadequate, leading to biased outcomes. Anchoring in property valuation significantly influences valuation decisions. For instance, appraisers tend to rely on previous valuation figures, resulting in appraisal smoothing, where values adjust slowly to market changes. In all appraisals, as Amidu (2011) demonstrate, it is the judgement of the individual appraiser that set the level of quality. Appraisal Institute (2001) constitute that the quality of a valuation report depends on good and sound judgement in the application of basic valuation theory.

Real estate appraisal use available data make an assessment of an object and its market value. It is generally considered as a process where the goals is to appraise a value rather than calculate a value. As Appraisal Institute (2001) state: The final value opinion does not simply represent the average of the different value indications derived. No mechanical formula is used to select one indication over

the others, rather, final reconciliation relies on the proper application of appraisal techniques and the appraiser´s judgement. (Appraisal Institute, 2001, p.)

Besides, Property valuation refers to the process of estimating the monetary worth of a real estate asset based on its physical, economic, and legal characteristics. It typically employs three major approaches; comparative (market) approach, income capitalization approach and cost approach.

Property valuation plays a critical role in real estate markets by providing objective estimates of value for decision-making in investment, lending, taxation, compensation, and development. Traditionally, valuation practice has been grounded in the assumption of rationality, where valuers are expected to rely on market evidence, professional standards, and analytical techniques to arrive at unbiased estimates of value. However, recent developments in behavioral research challenge this assumption by demonstrating that human judgment is often influenced by cognitive biases.

One of the most prominent biases affecting decision-making is the Anchoring Effect, which refers to the tendency of individuals to rely heavily on an initial piece of information (the "anchor") when making judgments. Once an anchor is introduced, subsequent decisions are typically made by adjusting away from that reference point, often insufficiently. In the context of property valuation, anchors may take the form of previous valuation figures, listing prices, client expectations, or recent transaction values. The relevance of anchoring in valuation has gained increasing attention globally, particularly in developed markets where empirical studies have shown that even experienced valuers are not immune to such bias. These findings suggest that valuation outcomes may not be purely objective but can be systematically influenced by external reference points. This has significant implications for the reliability of valuation reports and the efficiency of property markets.

In emerging economies such as Nigeria, and particularly in Enugu, the issue may be more pronounced due to limited market transparency, inadequate data availability, and varying levels of professional practice. The property market in Enugu is characterized by rapid growth, high demand, and significant variability in property prices, making valuation both essential and challenging. In such an environment, valuers may be more susceptible to relying on heuristics and informal benchmarks, thereby increasing the likelihood of anchoring bias.

Despite the importance of this issue, there is a relative scarcity of empirical research examining the behavioral dimensions of property valuation in developing countries. Most existing studies are concentrated in advanced economies, leaving a gap in understanding how cognitive biases influence valuation practices in contexts like Nigeria. Furthermore, while traditional valuation theory emphasizes technical competence and adherence to standards, it often overlooks the psychological processes underlying valuation decisions. This study, therefore, seeks to bridge this gap by examining the influence of anchoring on property valuation practice, with a focus on Enugu metropolis. By integrating insights from behavioral economics and real estate valuation, the study aims to provide a more comprehensive understanding of how valuation judgments are formed and the extent to which they are affected by cognitive biases. The study focuses on practicing valuers for both residential and commercial properties in Enugu Metropolis.

1.2 Statement of the Problem

Property valuation is expected to produce accurate and unbiased estimates of value; however, in practice, valuation outcomes often vary significantly among professionals assessing the same property. Such variations raise concerns about the objectivity and reliability of valuation reports.

One possible explanation for these inconsistencies is the influence of the Anchoring Effect. Valuers may be influenced by initial reference points such as client-provided figures, prior valuations, or

market listings, leading to systematic deviations from true market value. This problem is particularly critical in markets like Lagos, where data constraints and market imperfections may amplify reliance on such anchors.

The persistence of anchoring bias in valuation practice has several implications. It can lead to overvaluation or undervaluation of properties, misinform investment decisions, distort market signals, and undermine confidence in the valuation profession. Moreover, since valuation reports are often used for high-stakes decisions such as mortgage lending and investment analysis, any bias in valuation can have far-reaching economic consequences.

Despite these concerns, there is limited empirical evidence quantifying the extent of anchoring bias in property valuation within Nigeria. Additionally, there is a lack of structured frameworks and practical guidelines for mitigating such bias in professional practice.

This study addresses these gaps by investigating the presence, sources, and effects of anchoring in property valuation and by proposing strategies to enhance the objectivity and reliability of valuation outcomes.

1.3 Aim of the Study

The aim of this study is to examine the influence of the Anchoring Effect on property valuation and its implications for valuation accuracy and market efficiency.

1.4 Objectives of the Study

1. To examine the concept of anchoring in property valuation
2. To identify sources of anchoring in valuation practice
3. To assess the impact of anchoring on valuation outcomes
4. To evaluate the implications for valuation accuracy and reliability

1.5 Research Questions

1. What is the nature of anchoring in property valuation?
2. What are the major sources of anchoring among valuers?
3. To what extent does anchoring affect valuation outcomes?
4. How does anchoring influence valuation accuracy and reliability?

2.1 Literature Review

This section reviews relevant literature on the Anchoring Effect and its application in property valuation. It examines conceptual framework, empirical studies, and gaps in existing research, with emphasis on both international and Nigerian perspectives.

2.2 Conceptual Review of Anchoring in Valuation

The concept of anchoring originates from behavioral decision theory developed by Tversky, A., & Kahneman, D. (1974) who established that individuals rely on initial reference points when making judgments under uncertainty. This phenomenon, known as anchoring and adjustment, implies that decision-makers start from an initial value (anchor) and make adjustments that are often insufficient. In property valuation, anchoring occurs when valuers rely on: previous valuation figures, asking prices, client expectations and comparable sales.

According to Paul.G.(1994), valuation is not purely analytical but involves information processing influenced by heuristics, including anchoring. Similarly, James. D & Joseph .H (2001) found that valuers often depend on reference points, especially under uncertain conditions.

Heuristic theory suggests that individuals use mental shortcuts to simplify complex decisions. Anchoring is one of the most prominent heuristics. Herbert Simon introduced bounded rationality, arguing that decision-makers operate under limited information. Kahneman. D & Tversky. A (1974) demonstrated that heuristics can lead to systematic biases. This theory explains that individuals start with an initial anchor and adjust based on additional information. In valuation, this results in biased property estimates**,** especially when initial values are misleading.

2.3 Empirical Review

James. D. (1990) developed one of the earliest models explaining how valuers make judgments, emphasizing reliance on heuristics. James. D & Michael. W (1998) found that valuers tend to anchor on previous valuation figures, leading to what is known as appraisal smoothing a tendency to avoid large deviations from prior values. Similarly, Paul. G (1994) confirmed that valuers rely on heuristic processing, which affects valuation outcomes. According to Oluwasegun . A & Babatunde . A (2007) found that valuers in Lagos rely on anchoring when forming initial judgments. Similarly, Chukwuemeka . I, Olusegun. O, & Samuel. O (2014) confirmed that anchoring contributes to valuation inaccuracy. Empirical studies show that anchoring significantly influences valuation decisions. For instance, appraisers tend to rely on previous valuation figures, resulting in appraisal smoothing, where values adjust slowly to market changes. Similarly, experimental studies demonstrate that even irrelevant numerical cues can influence price estimation by up to 10% or more, confirming the strength of anchoring in real estate contexts.

Evidence from previous studies such as Berthet (2022) and Sattar et al. (2020) exhibit that anchoring and herding effects are among the most extensive cognitive structures within the real estate investment region. Anchoring is a phenomenon first noted by Tversky and Kahneman (1974), where people make other judgments influenced by an initial piece of information. Existing evidence further shows that anchoring may manifest fixation at some historical price and fixation at the recent similar sales, as is evident from the following arguments. On the other hand, there is herding behavior, defined by Banerjee (1992) and extended by Bikhchandani et al. (1998), that individuals make decisions not based on private information but based on what others they observe are doing. In the framework of real estate, it is the formation of speculative bubbles or their unequal price fluctuations owing to the imitation of actions of other members of the market.

Although these biases have received attention in the literature, it is difficult to find papers examining their impact on real estate investment decisions with quantitative analysis. Some studies focusing on the real estate market include the paper by Pradhan (2021), who explored the anchoring effects on commercial real estate and Huang et al. (2020), who studied herding in REITs. However, these works must still incorporate the interdependencies between anchoring and herding phenomena in evaluating RE investments or adequately controlling for numerous factors that impact property markets.

However, because real estate information systems have evolved and more and more investors become knowledgeable in the market, these are considered unreasonable biases in today's markets.

3.1 Methodology

This study adopts a quantitative research design complemented with elements of qualitative analysis. The quantitative aspect enables the measurement of the extent to which the Anchoring Effect influences valuation outcomes, while the qualitative component helps explain valuers' behavioral tendencies and professional judgments. An experimental and survey-based approach is employed. The study was conducted in Enugu metropolis, Nigeria's commercial hub and most active real estate market. Enugu is selected due to high volume of property transactions, presence of numerous professional valuers and diverse property market characteristics.

The target population comprises; Registered Estate Surveyors and Valuers, Valuation firms and Real estate professionals involved in appraisal practice. A sample size of 78 respondents is typically adopted depending on accessibility. Sampling technique was used purposive sampling in order to select practicing valuers with relevant experience as well as random sampling for fairness in respondent selection. The sources of data are primary and secondary source. Primary data was collected through structures questionnaires and experimental valuation scenarios but secondary data was obtained from academic journal, textbooks on valuation, professional guidelines and previous empirical studies.

Data collected was analyzed using, descriptive statistics such as mean, frequency, percentages.

3.2 Results and Discussion

This chapter presents the analysis and discussion of data collected from practicing valuers in Enugu. The objective is to evaluate how the Anchoring Effect influences valuation outcomes.

TABLE 1. RESPONSES FROM THE DISTRIBUTION OF QESTIONNAIRES

VARIABLES	FREQUENCY	PACENTAGE (%)
Questionnaires distributed	100	-
Questionnaires returned	78	78
Questionnaires not returned	22	22
Total		**100**

Source: Field Survey 2026

Table 1 shows that out of 100 questionnaires distributed, 22 questionnaires were not returned but 78 questionnaires were duly filled, returned and was used for the study.

TABLE 2: EDUCATIONAL QUALIFICATION OF THE RESPONDENTS

CATEGORY	FREQUENCY	PERCENTAGE (%)
B.Sc/HND	35	44.9
M.Sc	25	35.9
Others	15	19.2
Total		**100**

Source: Field Survey 2026

In terms of education qualifications as shown in the table above, most respondents has B.Sc/HND with (44.9%) or M.Sc with (35,9%), while (19.2%) were Others .

TABLE 3: RESPONDENTS EXPERIENCE

CATEGORY	FREQUENCY	PERCENTAGE (%)
0-5years	18	23
6-10years	30	35.8
11years and above	30	35,8
Total		**100**

Source: Field Survey 2026

Table 3 indicates that most respondents are experienced professionals, enhancing the reliability of findings. This aligns with standards of the Nigerian Institution of Estate Surveyors and Valuers.

TABLE 4: AWARENESS OF ANCHORING EFFECT

RESPONSE	FREQUENCY	PERCENTAGE (%)
Aware	60	76.9
Not Aware	18	23.1
Total		**100**

Source: Field Survey 2026

Table 4 indicate that there is a high level of awareness suggests that valuers recognize cognitive bias; however, awareness does not necessarily eliminate its influence in practice.

Table 5: Influence of Anchor Values on Property Valuation

Variables	Mean	Standard Deviation	Decision
Initial listing price influences valuation	4.25	0.72	Agreed
Previous valuation reports affect judgment	4.10	0.81	Agreed
Client-provided value influences outcome	3.95	0.88	Agreed
Market comparables reduce anchoring bias	3.20	0.90	Neutral

Source: Field Survey 2026

In table 5, high mean values (>3.5) indicate that valuers are significantly influenced by anchor values. That means that the strongest anchor is the initial listing price, suggesting early information heavily biases valuation outcomes. Also market comparable show weaker influence, indicating they do not fully eliminate anchoring bias.

Table 5: Sources of Anchoring in Property Valuation

Source of Anchor	Mean Score	Mean Score
Valuation figures	4.32	1st
Client-provided price	4.10	2nd
Market comparables	3.95	3rd
Listing price	3.80	4th

Source: Field Survey 2026

This table 5 indicate that valuation figures and client expectations are the strongest anchors. This suggests that valuers may unconsciously adjust around pre-existing figures rather than independently determining value.

Table 6: Effects on Valuation Accuracy

Effect	Mean Score
Overvaluation	4.20
Undervaluation	3.85
Reduced objectivity	4.10

Source: Field Survey 2026

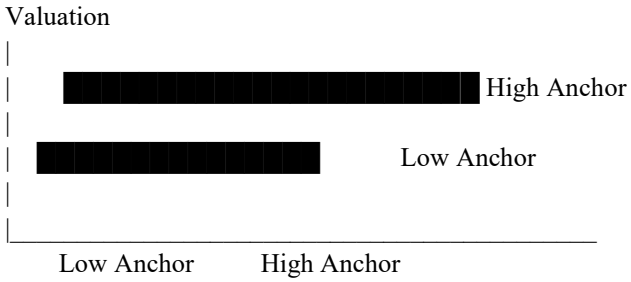
Table 6 above indicate that anchoring leads to systematic distortions where overvaluation is recording the mean score of 4.20, undervaluation as well have the mean score of 3.85 but reduced objectivity has 4.10. This implies that:

High anchors → overvaluation

Low anchors → undervaluation

This reduces the reliability of valuation reports.

Diagram: Anchoring Effect on Valuation



Conclusion

Anchoring is a powerful cognitive bias that significantly affects property valuation. It influences valuers, buyers, and investors, leading to valuation inaccuracies, market inefficiencies, and distorted investment decisions. While traditional valuation methods emphasize objectivity, behavioural factors cannot be ignored. The study demonstrates that anchoring is particularly prevalent in environments with high uncertainty and limited data, such as developing real estate markets. Addressing this bias requires a combination of professional discipline, regulatory oversight, and technological innovation. Future research should focus on empirical analysis in emerging markets, including Nigeria, to better understand the magnitude and context-specific dynamics of anchoring in property valuation.

Recommendations

Based on the findings that anchoring significantly influences property valuation outcomes, the following recommendations are proposed:

1. Valuation firms and professionals should adopt structured and standardized valuation frameworks that emphasize objective data analysis, reduce reliance on subjective judgment and ensure consistency across valuation assignments.
2. Valuers should, where possible, conduct blind valuations by avoid exposure to listing prices, previous valuations, or client-suggested figures at the initial stage.
3. Valuers should place greater emphasis on verified comparable sales, market trends, rental and income data.

4. Regulatory bodies and professional institutions should organize continuous professional development (CPD) programs educate valuers on cognitive biases such as anchoring, availability bias, and confirmation bias.
5. Clients should not be allowed to influence valuation outcomes through suggested values and pressure valuers to align with predetermined figures.

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