COMPARATIVE METHOD OF VALUATION

BSc Property Studies Year 1

5\textsuperscript{th} October 2013
Comparative method of Valuation

- Comparative method is used as a basis in all methods of valuation and compares like with like.
- Works on the basic assumption that the price paid for a property at a given point in time is evidence of the market value of that property and all other factors being equal is a good indicator of the market value of a similar property.
- Information holds the key to better decision-making via more reliable analysis.
- Reliable information is the foundation for good decision-making, but does not come easily.
- Information is based on an assimilation of data - things known or granted as a basis for inference.
- Accurate data provide both the foundations and the building blocks for good property advice.
Application of the method

- Involves carrying out a valuation by directly comparing the property with similar properties which have sold in the past and using evidence of those transactions to assess the value of the property.
- Analysis should encompass every attribute of a transaction that was different from every other attribute in selected comparable transactions.
- The more comparables that are available to the valuer, the easier it is to derive an estimate of value with substantive evidence.
- Most suitable for residential property where there is a freehold interest or a long leasehold interest.
- Units of comparison can include per sqm, per hectare, per unit, per room. Several should be used as a cross check.
- A competent valuer will be able to quantify the differences between properties and those at more distant locations.
Application of the method

- When using the method for the valuation of commercial property, the following elements are some that can be compared and analysed
- Yield
- Rental income
- Capital value
- Quality of covenant
- User restrictions
- Lease terms
- Condition of building
- Car parking provision
Steps to comparative method

1. Select suitable comparables (comparable set)
2. Extract relevant information
3. Analyse information including comparable sale prices, rental values, yields etc.
4. Adjust sale prices for noted differences.
5. Formulate an opinion of market value for subject property.
Elements of comparison

- Price
- Age of building
- Location
- Type of construction
- Use of building
- Structural condition
- Decorative condition
- Position of property
- Size
- Floor area
- Layout
- Condition of fixtures and fittings
- Date of sale

This non-exhaustive list can be set out in a table format and adjustments made for each element accordingly.
Criteria

- Transactions must be recent – the period of time applicable will be dependant on market conditions at the time of the transaction and current market conditions. This can dramatically change in a short period of time. Macro –economic conditions at the time of each comparable transaction.
- Any special considerations of the transaction should be taken into account
- It should be ascertained if there was a special purchaser involved
- The property must be a similar property with similar qualities.
- The comparables must be in close proximity
- The more evidence available the better the valuation.
- A thorough inspection of all underlying factors in the market must be made
- Trends in market values should be observed.
- Determine likely purchasers in the market place, their requirements and purchasing power.
- Valuer must be extremely familiar with the market within which the valuation is being carried out and also with the area within which the property is located.
Advantages

- Office records or research facilities within firms are invaluable for this exercise.
- It is an excellent reliable method when the market is stable and active.
- Can be used as a basis for all other methods of valuation.
- Can you used as a cross check when other valuation methods are employed.
Disadvantages

- Not always possible to find good comparables or enough comparables.
- Property is a heterogeneous product and each piece of land is unique and therefore there will always be differences even between what appear to be identical properties.
- It is of little use in a poor market with few transactions and relatively little activity.
- Too much emphasis can be placed on past evidence and may not reflect what current market values are.
- A comparable used may have had a special purchaser who was willing to pay over the market value for the property in order to acquire the property.
- The elements for comparison can be many and different valuers may place different weightings against these elements.
- The method does not take factors into account that are beyond the property attributes such as the economic, socio or political environment and does not deal with supply and demand factors.
Disadvantages

- The time factor in comparative analysis is critical as the more time that has elapsed between the transactions and the valuation date, the less reliable the evidence will be. While there is no ideal length of time or maximum amount of time recommended, the skilled valuer will be able to know what time intervals are appropriate by the level of activity in the market and the market conditions and market cycles.

- There should be recognition of submarkets where they exist which may display independent cyclical movements based on local economics.

- The quantum of adjustment to be made for the attributes can be difficult. It is difficult process for a valuer to be objective when quantifying adjustments that he is not placing his or her own opinion of importance on an attribute.
MEASUREMENT PRACTICE

- Gross External Area (GEA) is the area of a building measured externally at each floor.
- Gross Internal Area (GIA) is the area of a building measure to the internal face of the perimeter walls at each floor level.
- Net Internal Area (NIA) is the usable area within a building measured to the internal face of the perimeter walls at each floor level.
- I refer you to the IAVI / SCS Measuring Practice Guidance Notes for the application of these measurement techniques.
References

