



The Comparative Method of Valuation

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The Comparative Method of Valuation

the Comparative Method assesses Market Value through an analysis of prices obtained from sales or lettings of properties similar to the subject property followed by adjustment of the unit values to take account of differences between the comparable properties and the subject property.

- Valuation Methodology - Page 154 of the European Valuation Standards (Blue Book)
- Full version available on ipav.ie

The Comparative Method of Valuation

- Comparative method is used as a basis in all methods of valuation and compares like with like.
- Based on the well-established economic principle of substitution.
- 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

There are several factors to be considered when examining and confirming the reliability of the evidence obtained in respect of comparable properties:

- 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
- Building Energy Rating
- Transaction Stage – Sale agreed or sold with contracts signed

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

What is comparable evidence

When assessing the comparable evidence, the valuer will need to ensure that it is:

Comprehensive – a sufficient number of transactions is needed to confirm;

- Price - A single transaction is unlikely to be sufficient
- Identical, or at least very similar, to the item being valued
- Date of transaction - recent
- Arm's-length transactions in the open market
- Verifiable
- Consistent with local market practice.

What is comparable evidence

- Description of each comparable (photographs may be included) with adjustments to the values of comparable properties with accompanying commentary is needed in all reports !
- The valuer must provide appropriate comment reflecting the logic and reasoning for the adjustments provided.

Valuation Approach & Comparable Analysis - Sample Commentary

To ensure the appropriate value was ascertained we considered the use of the property that is physically possible, reasonably probable, legal or likely to become so and that would result in the highest value of the subject property at the date of valuation. To achieve this, we undertook both the comparative method of valuation, and we outline hereunder a summary of our analyses.

In Q4 2021 the sales of acre and half acre sites in Newcastle West, Crecora and Adare took place selling between €70,000 - €190,000 per acre. When comparing same to the subject property the site sizes, locations, conditions of sale and the subject lands position outside of the zoning map were taking into consideration. Following said analysis a rate of €70,000 was applied to the 6 acre lands.....

Steps to comparative method

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

Hierarchy of Evidence - Residential

1. Closed Sales from your own or another office
2. Recent sales from PPR
3. Older sales from PPR
4. Recent sale agreed.
5. Recent valuation thinking of selling.
6. Recent Valuations from your own or other valuers office.

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.



Thank You