Session 9

Sales Comparable Approach

Principle of Sales Comparison Approach

- The principle of comparison is based on the economic concept of substitution that a knowledgeable and prudent person would not pay more for a property than the cost of acquiring an equally satisfactory substitute.
- In the sales comparison approach transaction prices of highly comparable and recently sold properties are used to estimate the market value of the subject property being valued.
- The comparative analysis performed in the approach focuses on similarities and differences among properties and transactions that affect value.

- These may include differences in the property rights appraised, the motivations of buyers and sellers, financing terms, market conditions at the time of sale, size, location, physical features, and, if the properties produce income, economic characteristics.

- Required Data and sources
  - Required Data
    - Property right conveyed, financial term, offers (prices), condition of sale, date of sale, location attributes, physical traits (size, shape, condition etc), construction material quality, utility, etc of properties considered competitive with, and comparable to, the subject property.

- First, the appraiser thoroughly researches the prices, real property rights conveyed, financing terms, motivations of buyers and sellers, and dates of the property transactions.
- Then details on each property's location, physical and functional condition, and economic characteristics must be examined.
- **Source of data**
  - Appraiser's own files
  - Public records
  - Property listing offices,
  - property managers (owner)
  - Real Estate Developers etc

Steps for sales comparable approach:

- the comparison method involves the following steps:
  - Inspecting, measuring and collecting data for the subject property.
  - Research the market to obtain information on sales transactions, listings, and offers to purchase or sell properties that are similar to the subject property in terms of characteristics such as property type, date of sale, size, location, and zoning.

- Verify the information by confirming that the data obtained are factually accurate and that the transactions reflect **arm’s –length market** considerations. Verification may also elicit additional information about the market.
- Convert the price into relevant **units of comparison** (e.g., income per square meter). Comparison is made on the basis of the sale price per unit, e.g. price per square metre, price per hectare, price per room, etc.

- Compare comparable sales properties with the subject property using the elements of comparison and adjust the sale price of each comparable appropriately to the subject property or eliminate the sale property as a comparable.
- Reconcile the various value indications produced from the analysis of comparables into a single value indications or a range of values.
- In an imprecise market subject to varying occupancies and economies, a range of values may be a better conclusion than a single value estimate.

- Elements of Comparison: In most cases the following are major comparison elements
  - Real property rights conveyed
  - Financing terms
  - Conditions of sale
  - Market conditions
  - Location
  - Physical characteristics
  - Non-realty components of value