

# Real Estate Valuation

## Market Approach



Aalto University  
School of Engineering

Eero Valtonen

02/05/2019

# Principal Valuation Approaches

**1. Market Approach**

**2. Income Approach**

**3. Cost Approach**

# Market Approach

Compares the asset to comparable assets for which price information is available

Should be applied and afforded significant weight

- Subject asset has recently been sold (**basis of value!**)
- Subject asset or substantially similar assets publicly traded
- Frequent and/or recent observable transactions in substantially similar assets



# Market Approach

## May be applied and afforded significant weight

- Transactions involving the subject asset or substantially similar assets are old
- Subject asset or substantially similar assets are publicly traded but not actively
- Information on market transactions is available, but the comparable assets have significant differences to the subject asset, potentially requiring subjective adjustments.
- Information on recent transactions is not reliable
- The critical element affecting the value of the asset is the price it would achieve in the market rather than the cost of reproduction or its income-producing ability



# Market Approach Methods

1. **Comparable Transactions Method**
2. **Guideline publicly-traded comparable method**

# Comparable Transactions Method

1. Identify the units of comparison that **are used by participants** in the relevant market
2. Identify the **relevant** comparable transactions and calculate the key valuation metrics for those transactions
3. Perform a **consistent** comparative analysis of **qualitative and quantitative** similarities and differences between the comparable assets and the subject asset
4. Make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the comparable assets
5. Apply the adjusted valuation metrics to the subject asset
6. If multiple valuation metrics were used, reconcile the indications of value

# Units of comparison

## Buildings

- Price per m<sup>2</sup>
- Price per room

## Land

- Price per ha
- Price per unit of output

# Selection of comparable transactions

A valuer should choose comparable transactions within the following context

- Several transactions generally better than single one
- More similar the comparable transactions to the asset the better
- Closer the transactions are to the valuation date the better
- In most cases, should be arm's length
- Sufficient information should be available
- Source of information should be reliable and trusted
- Actual transactions better than intended transactions





# Comparative analysis

Specific differences that **should** be considered in valuing real property interests include, but **are not limited to**

- Type of interest
- **Respective locations**
- Respective quality of the land or the age and specification of the buildings
- Permitted use or zoning at each property
- Circumstances under which the price was determined and the basis of value required
- Effective date of the price evidence and the valuation date
- Market conditions at the time of the relevant transactions and how they differ from conditions at the valuation date



# Comparative analysis

## Example apartment:

- Type: apartment in a multi-storey apartment building
- Address: Puolikkotie 1, 02230 Matinkylä, Espoo
- Size: 53 m<sup>2</sup> (2 living/bedrooms)
- Year of construction: 2005
- Floor: 5
- Total floors in the building: 6
- Condition: good
- Elevator: yes
- Sauna: yes
- Balcony: yes (glassed, towards South)
- Maintenance costs: 196.10 €/month
- Plot: own
- Energy class: D(2013)

