Comparable evidence in property valuation
1st edition, information paper

Covering most types of real estate asset, this information paper discusses the use of comparable evidence in property valuation and aims to:

- outline the principles of comparable evidence use
- encourage consistency in its application worldwide
- address issues of availability and the use of comparable evidence under challenging market conditions
- consider the potential sources of comparable evidence.

This information paper also discusses the use of comparable evidence in different circumstances and markets, whether volatile or inactive, as well as in developing markets, where comparable evidence is often more difficult to obtain and less familiar to valuers.

Although applicable to land and buildings used for commercial, industrial, residential, agricultural and associated purposes, this publication does not cover the use of comparable evidence in the valuation of plant and equipment. Business assets or personal property are also outside the scope of this information paper; however, many of the principles described may be relevant to these types of asset.
Comparable evidence in property valuation

RICS information paper

1st edition (IP 26/2012)
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Acknowledgments

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The function of this paper is not to recommend or advise on professional procedure to be followed by members. It is, however, relevant to professional competence to the extent that members should be up to date and have knowledge of information papers within a reasonable time of their coming into effect.

Members should note that when an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of any relevant Information Papers published by RICS in deciding whether or not the member has acted with reasonable competence.

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1 Purpose and scope

Comparable evidence is at the heart of virtually all real estate valuations. The process of identifying, analysing and applying comparable evidence to the property to be valued is therefore fundamental to producing a sound valuation that can stand scrutiny from the client, the market and, where necessary, the courts.

Although many valuers are experienced in handling and analysing comparable data, approaches may vary.

In developing markets, comparable evidence is often more difficult to obtain and valuers may be less familiar with its use. At the same time the valuation process is becoming increasingly regulated worldwide, and valuers may be requested or required to provide information on the nature of the evidence supporting a reported figure.

This information paper discusses the use of comparable evidence and, in particular, considers its application in circumstances and markets – from volatile to inactive – where close comparisons may be unavailable. It therefore has four main purposes:

- to outline the principles of the use of comparable evidence
- to encourage consistency in its use worldwide
- to address issues of availability and use of comparable evidence in challenging market conditions
- to consider potential sources of comparable evidence and the relative weight that may be given to them.

The use of comparable evidence in the valuation of almost all types of real estate asset is discussed. It is therefore applicable to land and buildings used for commercial, industrial, residential, agricultural and associated purposes – referred to as ‘property’ throughout this paper. It does not cover the use of comparable evidence in the valuation of, for example, plant and equipment and other business assets or personal property, though many of the principles described are also relevant to these types of asset.

It is important to emphasise that this information paper is not prescriptive and covers a very broad area of practice. Its application therefore needs to take account of a wide variety of market conditions and circumstances. Valuers should be aware of its contents and use them to guide their general approach to the use of comparable evidence while making due allowance for particular circumstances affecting the property being valued. In particular, reference should be made to RICS Valuation – Professional Standards (the ‘Red Book’, 2012) VS 6, Valuation reports, for standards and guidance on valuation reporting.

Property markets are not perfect and are generally characterised by a lack of comprehensive information. Thus, while the theory of property valuation and the use of comparable evidence can be explained, there is no substitute for detailed, in-depth market understanding and valuation experience. The competence requirements for RICS valuers are set out in more detail in Red Book VS 1, Compliance and ethical requirements.
## 2 Comparable evidence – the principles

A comparable can be broadly defined as an item used during the valuation process as evidence in support of the valuation of a different item of the same general type. Comparable evidence comprises a set of comparables used in support of a valuation.

Whatever the nature of the asset being valued, a valuation relies on the well-established economic principle of substitution. This states that the buyer of an item would not pay more for it than the cost of acquiring a satisfactory substitute.

A person assessing the price to pay for a particular item will therefore normally look to the price achieved for similar items in the market (the comparable evidence) and make a bid accordingly. When identifying, analysing and applying the comparable evidence, the potential purchaser and/or valuer should seek to ensure that it is:

- comprehensive – ideally a number of comparables rather than a single transaction or event
- very similar – ideally identical to the item being valued
- recent – i.e. representative of the current market
- the result of an arm’s length transaction in the open market
- verifiable, so far as practicable
- consistent with local market practice.

Comparable evidence underpins the valuation of almost all openly traded goods. Provided the above criteria are met, it can provide an accurate indication of value for many widely traded assets. Challenges arise, however, when considering assets that are less widely traded or that are rarely identical, which is often the case for real estate. In such circumstances the skills of the valuer assume a much greater importance.
Comparable evidence in property valuation

3.1 Applying the principles

Comparable evidence is widely used in the valuation of property despite the fact that, by their nature, property transactions frequently do not fully meet the criteria set out in section 2.

In contrast with, for example, the market for publicly quoted shares, the number of transactions for any category of property will often be very low. The volume of comparable evidence will be further reduced because it is relatively rare for two properties to be identical. Even houses of identical design on a single estate, or two apartments in a block of similar units, may have differences of aspect, condition or fit-out that can make a material difference to their value.

The complex nature of most property assets is another factor that affects the use of comparable evidence. An individual property’s value is a reflection of the collective impact of numerous factors, ranging from location and aspect to use, size, construction and efficiency of buildings, as well as matters of tenure and occupation. In an ideal world, each of these elements should be common between subject property and comparable, but this is an unlikely occurrence in practice. A summary of the principal elements of comparability is provided in Appendix 1, Elements of comparison.

A further significant factor affecting the use of comparable evidence in property valuation is that, in varying degrees, real estate markets lack transparency. Information on transactions is often not publicly available, and even when it is published it may not be current and may lack detail. This situation is encountered worldwide, and transactional evidence is particularly difficult to obtain in countries where markets are at a relatively early stage of development.

For all these reasons, it is unlikely that comparable evidence will be readily available or a ‘perfect match’ for the property subject to valuation. The valuer will need to analyse and interpret available data and use it to provide guidance towards, rather than direct evidence of, the valuation figure to be reported.

In weak or rapidly moving markets, or for certain types of property, good evidence may be very limited and, despite the skills and experience of the valuer, a note of caution when reporting the figure may be required. Further guidance can be found in Red Book GN 1, Valuation certainty. There is also a RICS user guide, Reflecting uncertainty in valuations for investment purposes (2011), which may be useful.

3.2 Use of comparison in valuation approaches

Three main approaches to real estate valuation are recognised globally. Each includes the use of comparison to a greater or lesser extent.

3.2.1 Market approach (or market sales comparison approach)

This approach adopts the principle that the value of one property may be derived by comparing it with prices achieved from market transactions in similar properties. It is widely used in the valuation of straightforward residential, rural and commercial property assets.

3.2.2 Income approach

The income approach is used to value properties that are let to produce an income for the investor. There are two principal methods that fall within the income approach: the investment method and the profits method.

In the conventional investment method, the value is the product of net rental income and a capitalisation factor, usually yield. Both of these elements are normally derived using comparison techniques.

The profits method is used for a property whose value is derived from the trading potential of the business for which the building is expressly designed – hotels and cinemas being two typical examples. Comparison is used in assessing a fair
maintainable level of trade (see Red Book GN 2, Valuation of individual trade related properties).

Comparison is also used to derive values for the key inputs in a discounted cash flow (DCF) valuation including not only net rent and yield but also the growth rate, discount rate, costs and disposal price at the end of the investment period.

3.2.3 Cost approach

There are two methods that fall within the cost approach: the replacement cost (contractor’s) method and the residual method.

The replacement cost method is used to value properties that do not usually exchange on the open market (for example, public buildings) and for which direct comparable evidence does not exist. The valuations are based on two components: the depreciated cost of the building element and the value of the land. Current build costs and often the land value will be established by comparison.

The residual method, used to assess the value of a development site, combines elements of the income and cost approaches. It requires calculation of the value of the completed development that will be reached by comparison with market transactions, while the assessment of development costs will also require comparison to be made with build costs, fees, finance costs and many other elements in similar projects.

3.3 Statutory valuations

Statutory valuations are usually required for the purposes of taxation or compulsory purchase and are undertaken in accordance with the specific requirements of the relevant statutes. This frequently means that the approach to the valuation, and hence the result, may differ from a conventional market valuation. An example would be a valuation for a taxing jurisdiction that requires the valuer to follow a specific approach or to use a defined methodology.

However, although the rules of valuation may be different, the principles of the application of comparable evidence, as set out in this section, will remain the same. The valuer will need to search for and analyse evidence on the same basis, but should do so within the limitations imposed by the relevant statute.

3.4 Comparable evidence in the real estate sectors

The key principles concerning the use of comparable evidence across the main property sectors are summarised in Appendix 1, Elements of comparison. Issues specific to particular sectors are summarised in Appendix 2, Use of comparable evidence in individual property sectors.
4 Sources of comparable evidence

Finding good comparable evidence in property markets is often not easy. Where details of sufficient directly comparable sales or letting transactions are not available, the valuer will have to seek and rely upon a range of other sources of evidence or relevant information. They will require careful interpretation and exercise of judgment, but should be of use in supporting an opinion of value.

Valuers should not be afraid to use an extensive range of sources, if necessary. It is possible to construct a hierarchy of various types of evidence, as discussed in section 5.4. In some countries, valuation cases that have been subject to litigation have resulted in the courts adopting this approach and, where this has occurred, valuers should be aware of any relevant court decisions. The best evidence available should always be sought, and it is important to be fully aware of the strengths and limitations of the different types of evidence available.

4.1 Market transactions

Information derived from relevant comparable market transactions will normally provide the best evidence of value. Such evidence should be recent, relevant and comprehensive. It may come from a variety of sources, which are summarised in the following subsections. It should be noted that the quality of evidence is likely to be determined by its source.

4.1.1 Direct transactional evidence

Direct transactional evidence will almost invariably be the best and most reliable source of evidence, whether or not already within the valuer’s personal knowledge through direct involvement in the relevant transaction.

It is important that the valuer has experience in the type of property being valued and its location wherever possible. Where this is not the case, the valuer will need to be satisfied, either by direct enquiry of those involved or by other appropriate means, that full details of the transactions and their circumstances can be established. Published data should be confirmed, where appropriate, and other details sought where needed.

Valuers should ensure that full details of any incentives forming part of a comparable transaction are known and incorporated, as appropriate, into the analysis of the evidence. Particular care should be taken where the market is one in which incentives are commonly used, for instance in new residential property sales or in retail premises.

Questions of commercial confidentiality or statutory data protection may arise when seeking such data. This may mean that sources and figures cannot be expressly confirmed, but would not invalidate the use of such data in arriving at an opinion of value, provided appropriate caution is exercised.

4.1.2 Publicly available information

Some information may be publicly available, but should be used with appropriate caution and with an understanding of how and from where it has been derived. It may lack the detail required by the valuer and may therefore be insufficient by itself.

For example, while published data may include details of the tenure, contract sum and title it may not refer to other relevant aspects of the transaction, such as the condition of the building, or its floor area or specification. Other special factors that may not be reported, but which may have had a material impact on the transaction concerned include incentives, the existence of a special purchaser or circumstances resulting in a forced sale.

It should also be noted that this type of information is not usually available until some time after the transaction occurred. In times of rapid market movements or instability, values may move significantly over such a period and result in the data being out of date.

4.1.3 Databases

Commercial databases of transactions have become widely available in many countries and can provide useful supplementary information to that available from public sources and the market. Like publicly available information though, the data provided can frequently lack the detail required by the valuer. Where information is derived from market transactions, the time taken in analysing and producing it can sometimes
mean that it is no longer current by the time it is published.

The providers of automated valuation models (AVM) may offer access to their data as a separate service from the production of AVMs. Some of this data may be detailed and rapidly available, though care in verifying it will still be required.

Databases can provide a general background to values and market trends. It is likely, however, that the information available from these sources will need to be supplemented by the valuer’s personal experience and by further enquiries in order to provide sufficient evidence, particularly as the level of aggregation in databases may mask local variations.

4.1.4 The press

The local, national and professional property press can provide further information of potential use to the valuer. While this information will usually be more recent than that from databases, once again transactions are often not reported in sufficient detail for the valuer’s needs, and the reliability of reported details can vary widely.

Information from the press should therefore be verified by appropriate enquiries and further detail should be sought as necessary. For example, a reported investment sale will typically refer to investment yields and headline rental figures. However, the former are often based on an initial yield figure with no allowance being made for reversionary income. In addition, the latter may not incorporate matters such as incentives, rent-free period or lease length. These can have a significant bearing on the net rental figure.

4.1.5 Asking prices

Asking prices cannot by themselves provide reliable evidence of value and should be treated with some caution. They will usually vary from the price achieved on exchange in the open market, but when interpreted with care by an experienced valuer they can provide some guidance as to current market sentiment and trends in value. Such data can also be useful when coupled with information on the level of demand and offers received, though the valuer will have to verify that the properties are being properly marketed. To obtain information on asking prices the valuer will normally need to have reliable contacts with letting or selling agents.

4.1.6 Sale price

If the valuer is aware of a recent transaction concerning the property being valued, this can provide good evidence, assuming that the transaction has been undertaken in the open market and that details of any incentives are known.

4.1.7 Historic evidence

Evidence of transactions that have taken place too long ago to provide direct comparable evidence can sometimes still be useful if combined with knowledge of market trends between the date of the comparable transaction and the valuation date. The evidence that this approach produces will not be definitive, but it can be weighed as part of the overall process of valuation.

A valuer specialising in a particular area may be asked to value the same property on more than one occasion, for example, when a house is sold several times over a number of years. While not producing direct evidence, knowledge of a previous sale and the price achieved in the general market at the time can provide background information to support a judgment on the valuation at a later date, assuming the circumstances of the property have not changed significantly since a previous sale.

4.1.8 Market transactions – some conclusions

Market evidence is generally essential if a valuation is to be soundly based. In recent years, information on property transactions has become more readily available via the internet. However, by itself this information may not be sufficient and verification may not always be straightforward. Because property markets worldwide vary in their degree of transparency, it is important that the valuer should have relevant skills and appropriate personal knowledge and experience of the markets. While there can be a reluctance to share information in some markets, valuers should make every effort to develop an informal network of agents and others active in their market. They should also be willing to share data, wherever possible, without breaching confidentiality or data protection requirements.

4.2 Indices

Property market indices, derived from aggregated information about market values or transactions, exist in most mature property markets worldwide.
They can again be a source of useful information, provided the valuer takes due account of the sources and reliability of the data, and the level of aggregation.

For commercial investment property, the longest-established and best-known indices are provided by the Investment Property Databank (IPD). Founded in the UK in 1985 but now operating in most of the major world markets, these indices are derived from valuation data for larger property portfolios. IPD produces indices covering capital and rental value movements, yields and investment returns. These may be disaggregated by, for example, region, town and property type or investor category. Investors are therefore able to compare the performance of a particular property or portfolio against a relevant market benchmark.

Many of the larger firms of property advisers also provide indices for markets worldwide and across most property sectors. In many cases these have been produced over a number of years and can therefore show trends in market and sector performance. Indices of building cost data are also available, which can be of use in residual valuations or in the cost approach to valuation.

Indices can be a guide to general trends in the market against which the performance of the property being valued can be judged. As such they are a potentially useful reference point when forming a judgment, though they cannot necessarily assist when markets are inactive or transactions are scarce.

Thus indices should be treated with caution, and valuers should have a clear understanding of the sources and reliability of the data from which the index has been derived. It should also be noted that some indices, particularly those produced by commercial property advisers, are based on the performance of prime property. The performance of secondary property, or that in provincial locations, may differ significantly.

4.3 Automated valuation models

Output from an AVM can be utilised as part of the evidence in support of a valuation. The valuer may consider such AVM outputs to have lesser or greater weight than other evidence that may be available. The validity of this, however, will depend greatly on the individual valuer’s personal knowledge and experience of AVMs.

4.4 A hierarchy of evidence

It is clear that the valuer will need to use a wide variety of sources of comparable evidence and will require a high degree of skill and experience to analyse and apply this information. The ability to weigh (or rank) evidence collected according to its relevance to the particular property being valued is an essential part of the valuation process.

While considerable caution needs to be exercised when adopting a set hierarchy, generally speaking the relative weight of evidence will decrease when progressing through the following list:

- where the subject property, or one very similar to it, has been marketed and, although offers may have been made, a binding contract has not been entered; this assumes that full and accurate information is available concerning the offers received
- recently completed transactions of identical property for which full and accurate information is available; occasionally, this may include the subject property itself
- recently completed transactions of other, similar property for which full data may not be available, but for which sufficient reliable data can be obtained
- information from published sources or commercial databases; its weighting will depend on extent and its authority or verifiability
- historic evidence of the same or similar properties
- other indirect evidence (e.g. indices)
- transactional evidence from other property types and locations and other background data (e.g. interest rates, stock market movements and returns)
- asking prices (though the weighting would be higher where markets are active and transparent).
5 Recording comparable evidence

Evidence used to arrive at an opinion of value should be recorded clearly and kept on file. It should be presented in a form that can be used by both the valuer and others who may need to review the file and understand the approach adopted in the valuation at a later date.

While the exact form in which such information is held is a matter for the valuer or the firm, it is good practice to ensure that such documents as sales particulars, correspondence and records of discussions are kept. It may be appropriate to download or print web-based material if it is not likely to be permanently maintained online.

Information should be summarised in a format that is easily comprehensible and that aids analysis. A tabular or spreadsheet layout is often appropriate for this type of process, but other formats are possible. Comparable evidence can, for example, be entered and ranked in terms of relevance and importance, allowing efficient analysis of what is often a large and complex body of data. An example of this process is provided later in Table 1 in section 6, though caution needs to be exercised about seeing this as a purely mathematical approach.

The precise nature of the information to be recorded will depend on the type of property asset being valued. The following list provides a summary of likely generic headings, though these will vary depending on the context of the valuation and should be adapted to take account of particular types of property and individual circumstances:

1. **Address**
2. **Property type** – e.g. office, shop, industrial, residential, agricultural
3. **Exact nature of the asset being valued or compared** – e.g. a freehold or leasehold interest
4. **Location details**
5. **Legal** – e.g. lease details
6. **Property details** – brief description, specification, condition and any other relevant attributes (e.g. energy efficiency may be a material issue in some sectors or markets)
7. **Accommodation/area** – including method of measurement
8. **Type of transaction** – e.g. sale, letting
9. **Date of transaction**
10. **Financial information** – e.g. rent or sale price and details of any incentives
11. **Analysis per unit area** (where appropriate)
12. **Parties involved** – e.g. owner, tenant, agents
13. **Source of information** – e.g. name, organisation, contact details and any comments on the reliability of data employed

In addition to this basic information, a record should be kept of the valuer’s assessment of the ranking of evidence to be used, making clear the contribution the evidence has made to the reported valuation figure.
6 Analysis of comparable evidence

The diverse nature of the property market and the relatively small number of transactions normally available to provide evidence mean that comparable information needs to be carefully scrutinised, assessed and analysed in detail before it can be used as evidence in a valuation. The process of analysis converts raw data into supporting evidence.

Typically, two stages of analysis will be necessary: establishing a common measurement or other comparison standard; and adjusting comparable evidence.

6.1 Establishing a common measurement or other comparison standard

Establishing a common measurement standard is required to allow for size differences between properties, assuming that comparable properties lie within broadly the same size range as the subject property.

Commercial property rents (and sometimes capital values) are usually expressed in terms of local currency per square metre or square foot of floor area. For agricultural land, prices are usually expressed per hectare, acre or other local unit of measurement. For residential property, floor area measurements are used in some markets, while others use alternative indicators such as the number of bedrooms or habitable rooms.

Whatever the property type and the basis of measurement, it is essential to ensure that the valuer applies the same method of measurement to the property being valued as is used in analysing the comparable evidence.

Differences are most likely to be found when analysing commercial property, because variations in measuring practice occur from one country to another. The valuer should be aware of and adopt relevant local practice for the type of property being analysed. Where no local specification exists, the RICS Code of Measuring Practice (2007) should be employed.

6.2 Adjusting comparable evidence

It is relatively rare to find two identical comparables, so adjustments to the evidence will be needed to make allowance for differences in the various factors that may affect value. These include location, building specification, condition, legal situation, timing of the transaction, incentives and other factors such as efficiency and adaptability.

Some adjustments may be assessed quantitatively, though considerable caution is needed about following a purely mechanical approach, which may not be reflected in the market. An example of a straightforward quantitative adjustment would be where the property to be valued is let on terms which make the tenant responsible for the costs of insurance. If this is compared with another for which such costs are borne by the landlord, figures for the typical cost difference might be easily incorporated in the valuation.

A direct adjustment might also be made for the costs of works required to bring two otherwise similar properties into comparable condition and specification. However, care is needed in this approach because in practice a purchaser might not make an allowance for the simple cost of works, but might, for example, make a further reduction in the price paid to reflect uncertainties over the costs and the time taken to remedy deficiencies. The valuer should therefore be aware of how a purchaser in the market would respond to differences between the property being valued and comparable evidence; a simple cost adjustment may not be sufficient.

Other adjustments may be more difficult to assess quantitatively. Instead, the valuer may, and often will, need to make a qualitative judgment based on experience and a broad knowledge of the local market. The effects of small but significant differences in location, aspect or outlook are examples of this type of adjustment. Such effects may be judged as having a positive or negative influence on value, but it may be difficult to justify the exact degree of adjustment that each element may have. Similarly, issues of energy efficiency
degrees of quality and applicability, much of which cannot be precisely quantified in relation to the property being valued. This will require not only technical ability but also, and more importantly, experience of the relevant market and judgment developed from that experience. The process can lead to a ranking of the comparable evidence and an assessment of where the subject property fits into that ranking. Adjustment of comparable evidence is therefore a complex and, to a large extent, an unquantifiable skill, acquired largely through experience.

6.3 Lotting

Larger properties comprising a number of discrete elements that can be individually valued may be divided into separate lots for the purposes of analysis and valuation.

This process is commonly required when valuing larger rural estates or urban land holdings containing several different types of property. A rural estate, for example, may comprise farmland of varying quality, woodland, sporting rights, farm

Figure 1: Simplified comparable analysis matrix (office rental)

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<td>84 Bridge Street</td>
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<tr>
<td>Agreed rent</td>
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<td>38,500</td>
</tr>
<tr>
<td>(in local currency</td>
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</tr>
<tr>
<td>unit)</td>
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<td></td>
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<tr>
<td>Net internal area</td>
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<tr>
<td>(NIA) (m²)</td>
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<tr>
<td>Rent per m²</td>
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</tr>
<tr>
<td>Condition</td>
<td>Better</td>
<td>Better</td>
</tr>
<tr>
<td>Location</td>
<td>Better</td>
<td>Better</td>
</tr>
<tr>
<td>Layout</td>
<td>Similar</td>
<td>Worse</td>
</tr>
<tr>
<td>Net qualitative</td>
<td>Better</td>
<td>Similar</td>
</tr>
<tr>
<td>adjustment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(compared with subject)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Specification abbreviations: AC: air-conditioned; CH: central heating; L: lift; RF: raised access floors. Considerable expansion of these terms may be needed for individual cases, and valuers may also need to consider such matters as energy efficiency that are directed to use as well as to specification.
and industrial buildings, and let or vacant houses, as well as entitlements to support payments. Assuming individual lots are capable of being sold separately, the valuer will need to assess whether there would be a difference between the value of the estate sold as a whole and the sum that would be realised if it were sold in individual lots.

The number of potential purchasers for large property holdings is usually lower than that for smaller units. This might mean that the value of the estate if it is to be sold as a whole will be lower than the sum of its parts, although in some cases there may be a price premium for a complete estate.

The use of comparable evidence must reflect the assumed circumstances of sale, and distinction may therefore need to be drawn between the lotting of an estate for analysis and subsequent valuation purposes. In other words, it is still likely to be helpful to analyse comparables of complete estates and farms by reference to their components. The assumptions made, together with any implications these may have on value, should be clearly stated in the valuation report.

The Red Book GN 3 provides further advice on the valuation of portfolios and groups of properties.
Dealing with a shortage of evidence

It is not uncommon for there to be a shortage of comparable evidence available to the valuer, even when dealing with a type of property that would normally trade freely in the open market. A lack of evidence can arise for a variety of reasons, for example:

- The market may be inactive, with few transactions occurring to provide evidence.
- By contrast, the market may be changing rapidly, leading to a situation where comparable evidence quickly becomes out of date.
- The property asset may be unusual in terms of its use, construction, location or other factors. An owner-occupier, for example, may have constructed an office building in a location that suits its own purposes but that would not appeal to the market as a whole.
- The local market may lack transparency, with little information on prices being freely or readily available. This is particularly common in markets that are in a relatively early stage of development.

It is important to emphasise that a lack of evidence should not prevent a valuation from being undertaken, but the skills, expertise and judgment of the valuer become especially important in difficult market conditions. It will probably be necessary for the valuer to look further afield and across a wider range of indicators to find possible evidence.

The Red Book GN 1. Valuation certainty, is particularly relevant in these circumstances. Valuers should be aware of its content and in particular where it states:

VS 6.1 requires that the valuation report must not be misleading or create a false impression. The valuer should draw attention to, and comment on, any issues affecting the certainty of the valuation. The extent of that commentary will vary, depending on the purpose of the valuation and the format of the report agreed with the client.

A valuation undertaken in circumstances where there is a shortage of evidence should therefore include, where possible, an explanation of the approach taken and of all factors that materially affect the valuation. The client commissioning the valuation should have a true impression of the degree of certainty behind the reported figure so that it may be used appropriately.
Appendix 1: Elements of comparison

Some of the most important elements of comparison, applying to virtually all sectors of property, are summarised in the following table.

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building age and condition</td>
<td>This will have a clear impact on value, which will reflect the cost and time in bringing a building of poor condition up to an acceptable level.</td>
</tr>
<tr>
<td>Building specification and layout</td>
<td>Specification and layout will have an impact on the usability of a building and therefore on the price that an occupier will be prepared to pay to rent or buy.</td>
</tr>
<tr>
<td>Efficiency and adaptability</td>
<td>Energy efficiency and the flexibility and adaptability of a building as technology and user requirements continue to evolve may increasingly have a material effect on value.</td>
</tr>
<tr>
<td>Legal</td>
<td>A variety of different types of tenure is found in all countries. Unencumbered freehold tenure (or local equivalent) will normally have the highest value. Limitations on ownership or use, for example in the form of restrictive covenants or leasehold tenure, will usually reduce value. For properties that are for let, the terms of any lease will have a direct effect on the value of both the landlord’s and tenant’s interests. Important lease terms include rent payable, lease length, rent review clauses, repair obligations, insurance obligations and permitted use.</td>
</tr>
<tr>
<td>Limitations on use</td>
<td>These may occur in the form of restrictive covenants affecting such issues as freehold title, user limitations in leases, restrictions on use and size imposed by local planning authorities, and are likely to have an impact on value.</td>
</tr>
<tr>
<td>Location</td>
<td>Location affects the value of almost all types of property. A new office building in New York City, for example, will have a higher value than a similar building in Albany, New York, despite the latter being the state capital. Location can also be crucial on a much smaller scale: in the retail market a difference in location of just a few metres can make a major difference to the value of a shop.</td>
</tr>
<tr>
<td>Size</td>
<td>Comparable properties should be of similar size. In the residential sector different sizes of property will appeal to different market sectors with varying criteria, for example, expensive properties can sell more readily than smaller, cheaper housing units. In the commercial and agricultural sectors small units are likely to command a higher rate per unit area than large buildings or blocks of land.</td>
</tr>
<tr>
<td>Transaction date</td>
<td>Most markets are subject to price fluctuations, which can be extremely rapid. In Dubai, for example, apartment prices fell by up to 60 per cent over the year from the market peak in mid-2008. London office rents have shown similar volatility historically. Comparable evidence should therefore be as up to date as possible. However, even in conditions of active trading, relatively few property transactions occur so it can be difficult to obtain up-to-date evidence in volatile conditions.</td>
</tr>
</tbody>
</table>
Appendix 2: Use of comparable evidence in individual property sectors

The following table lists some of the key factors affecting comparability in various property sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Property type</th>
<th>Key factors affecting comparability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>Agricultural land</td>
<td>Land use mix; soil type; capability; aspect; layout; accessibility; drainage; irrigation; proximity to markets; size; suitability and layout of buildings; eligibility for support payments; environmental or other statutory designations/schemes; tenure; planning opportunities; use of machinery; size; water distribution and availability; sporting rights; riparian ownerships; minerals; public development/compulsory purchase proposals. See the RICS guidance note, <em>Valuation of rural property</em> (2011) for information on the categorisation of rural property.</td>
</tr>
<tr>
<td></td>
<td>Farm buildings</td>
<td>Age; construction type; layout; adaptability; access; compliance with Farm Quality Assurance requirements; pollution hazards; electricity supply and other mains/private services; redevelopment/conversion opportunities</td>
</tr>
<tr>
<td></td>
<td>Farmhouse</td>
<td>Ability to sell separately; access; size; demand for specialist housing type; other factors as for residential property generally.</td>
</tr>
<tr>
<td>Residential</td>
<td>Houses and apartments – sale</td>
<td>Style (house, apartment, detached, terrace, purpose built or converted, etc.); site; aspect; detailed location; size; number of rooms and bedrooms; car parking; fixtures and fittings; specification; local amenities; transport links; age and condition. Additional factors for apartments include length of unexpired lease; other lease terms; service charges.</td>
</tr>
<tr>
<td></td>
<td>Houses and apartments – rent</td>
<td>As above, plus lease terms</td>
</tr>
<tr>
<td>Commercial</td>
<td>Owner-occupied</td>
<td>Layout; flexibility; floor area (quantum); building services; specification (including air conditioning); service charge level; transport facilities</td>
</tr>
<tr>
<td></td>
<td>Rental</td>
<td>As above, plus key lease terms: unexpired term; provision for rent increase; responsibility for repairs; maintenance and insurance; any restrictive covenants</td>
</tr>
<tr>
<td></td>
<td>Investment</td>
<td>Yield – rent factors as above, plus tenant covenant strength</td>
</tr>
<tr>
<td>Commercial</td>
<td>Rental</td>
<td>Site and precise location; shop frontage and display windows; shop layout; loading facilities; pedestrian flow</td>
</tr>
<tr>
<td></td>
<td>Investment</td>
<td>Location and layout; tenant covenant strength; lease length – in shopping centres, the quality of centre management may also be relevant</td>
</tr>
<tr>
<td>Commercial</td>
<td>Rental</td>
<td>Building layout; size; height; loading; access; car parking; other retail units adjacent; visibility and key lease terms: unexpired term; provision for rent increase; responsibility for repairs; maintenance and insurance; any restrictive covenants</td>
</tr>
<tr>
<td></td>
<td>Investment</td>
<td>Yield – rent factors above, plus tenant covenant strength</td>
</tr>
<tr>
<td>Sector</td>
<td>Property type</td>
<td>Key factors affecting comparability</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>---------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Industrial/warehousing and distribution</td>
<td>Rental</td>
<td>Accessibility to major road network; site access and loading; building layout and height; floor loading; layout offering clear space</td>
</tr>
<tr>
<td></td>
<td>Investment</td>
<td>Yield – rent factors as above plus tenant covenant strength</td>
</tr>
<tr>
<td>Trade-related property (hotels, petrol filling stations, bars, etc.)</td>
<td>All types</td>
<td>Rent or capital value derives from trading potential in the hands of a hypothetical reasonably efficient operator, so use of actual trading accounts and strength of the occupying business is not always relevant. The valuer seeks to stand in the shoes of a prospective competent new bidder, assessing the efficient but not exceptional operating plan for a business using the property in accordance with planning, licensing and (if relevant) lease user constraints. Use of comparison in trade-related properties requires specialised knowledge. See Red Book GN 2 (Valuation of individual trade related properties)</td>
</tr>
<tr>
<td>Development sites</td>
<td>All types</td>
<td>Permitted use and density; developable area; access; adjoining developments; ground conditions; market demand for completed development; building and other costs. See RICS Valuation Information Paper 12, <em>Valuation of development land</em> (2008)</td>
</tr>
<tr>
<td>Assets having value as resources</td>
<td>Water and materials</td>
<td>Volume and quality of resource; accessibility; regulatory environment</td>
</tr>
</tbody>
</table>
Comparable evidence in property valuation
1st edition, information paper

Covering most types of real estate asset, this information paper discusses the use of comparable evidence in property valuation and aims to:

- outline the principles of comparable evidence use
- encourage consistency in its application worldwide
- address issues of availability and the use of comparable evidence under challenging market conditions
- consider the potential sources of comparable evidence.

This information paper also discusses the use of comparable evidence in different circumstances and markets, whether volatile or inactive, as well as in developing markets, where comparable evidence is often more difficult to obtain and less familiar to valuers.

Although applicable to land and buildings used for commercial, industrial, residential, agricultural and associated purposes, this publication does not cover the use of comparable evidence in the valuation of plant and equipment. Business assets or personal property are also outside the scope of this information paper, however, many of the principles described may be relevant to these types of asset.