

Pricing to Market

An Investigation
into the use of
Comparable Evidence
in Property Valuation

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ABOUT THE AUTHOR



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Nick French is a recognised expert in the area of property valuation and appraisal. Previously, he has worked as a professor in various universities in the UK, Europe and the USA teaching extensively in the areas of valuation, investment and corporate real estate on BSc, MSc and MBA programmes.

In 2018, he set up **Real Estate Valuation Theurgy**, a vehicle that allows him to continue writing papers, presenting conference papers and undertaking in-house training for the real estate profession at home and abroad. His research interests concentrate upon the interface of property legislation and regulation and its impact on value and valuation models. In recent years, he has won the RICS Prize for the Best Paper in Valuation and the Appraisal Journal Prize for the Best Paper in Appraisal at European Real Estate Society Conferences. In 2018, he was awarded a "Lifetime Achievement Award" by the International Real Estate Society.

Nick French is the Editor of the Journal of Property Investment & Finance, the award winning academic international journal of the real estate industry. He also writes regularly for the Journal of Property Investment & Finance, the Property Chronicle, the European Journal of Real Estate Research, the Journal of Corporate Real Estate and other professional and academic journals.

Currently, he is working closely with TEGoVA on a number of professional matters and he is also a member of the Royal Institution of Chartered Surveyors (RICS) where he has regularly served on various committees such as the UK Valuation Board and the Corporate Real Estate Strategy Group. He was also a member of the Professional Board of the International Valuation Standards Council (IVSC).

Covid 19 – Editor's Note

This study was undertaken prior to the global downturn triggered by the Covid 19 pandemic on the world economy. It is appreciated that the resulting impact on property markets in all countries has had a significant effect on the number of transactions taking place and thus the availability to valuers of comparable transactional evidence.

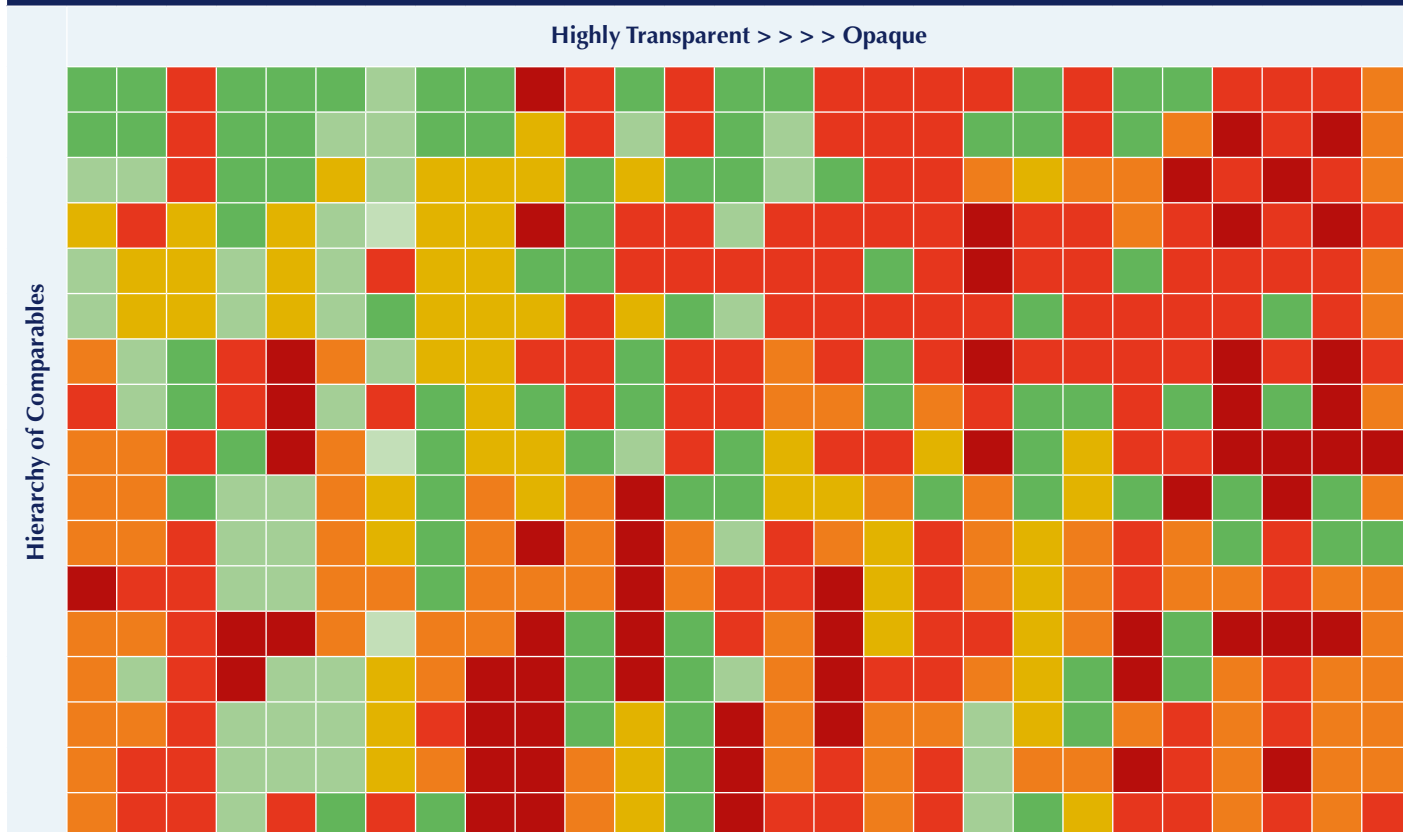
This report is written based on the situation prior to Covid 19 although it is appreciated that the results would likely be very different were the same study undertaken today (May 2020). It is also appreciated that the availability of data between transparent and less transparent markets would be less diverse in the current market and that the importance of comparable data within a hierarchy will be more uniform between countries.

SUMMARY

An Investigation into the use of Comparable Evidence in Property Valuation By Nick French

- The brief for this report was to identify the role that comparable evidence plays in property valuation and how the availability and use of comparable evidence varies between different countries and jurisdictions across Europe. And how this, in turn, should inform TEGoVA when setting the European Valuation Standards (EVS).
- Comparison plays a part in all valuations by all approaches (Market, Income and Cost) and is the lynchpin for determining market value. In property, in all languages, the term "comparable" is often used restrictively, both colloquially and within professional standards, to only refer to evidence of a sale or letting of a similar property in a similar location on similar terms in a recent timeframe. But, strictly, this is transactional evidence only and valuers rely upon many other forms of comparable data to come to a professional opinion of value. In this report, the broader definition of comparable data is adopted.
- Comparable data may include transactional evidence, asking price information, enquiry details of potential purchasers, market listings, market commentaries, market indices, government cadastres and the professional opinions of colleagues and other valuers. Each of these forms of data acts as "signposts" to gauge the market to determine market value.
- This study concentrated on comparable data used in the Market Approach (direct capital comparison) and the Income Approach (comparable rental and yield information).
- It has been suggested that there is a preferred hierarchy of comparable data as not all comparison is equal and the valuation profession recognises that some evidence is more useful than other information. Indeed, some commentators categorise the veracity and reliability of comparison data by referring to it in grades of "hard" and "soft" information. In a perfect market, hard information is considered to be the best comparable data available whereas soft information may be less used. But this presupposes that all countries have the same access to all forms of comparison. This is not the case.
- Not all countries are the same, both in terms of their culture for business and their commercial development. This is recognised in the professional and academic literature as "degrees of transparency". A highly transparent market would have access to all forms of comparable data and, thus, the valuer has the luxury of using hard transactional evidence as a principal signpost for determining the market value of the subject property. However, in more opaque markets, such data may not be available and the valuer has to rely upon softer sources of comparables.
- This means that a valuer in an opaque market may consider their best information available is something that a valuer in a more transparent market would rank much lower. But this is not a reflection upon the ability and professionalism of the valuer concerned as it is a natural restriction of the market within which they practise.
- This study looked at the availability and ranking of comparable data across all the European countries represented within TEGoVA. It was a short survey sent to all the professional organisations in each country and it provides an indicative assessment of the use and veracity of different data sources across a range of transparent and less transparent markets.
- The purpose of the survey was to determine the availability of comparable evidence in different countries and how they are used by professional valuers in each jurisdiction.
- The results give a broad indication that there is a correlation between the ranking of data sources and the transparency of the market in question. This means that information that one country may consider should not be used as a significant signpost for value is, in another country, considered to be the principal signpost. Again, this is a reflection of the restrictions within the market.
- Although the nature of the survey meant that the results are not statistically robust, they do give a considered view of how valuers chose which comparable data to use in their particular market. Using a standard "traffic light analysis" based on the ranking of comparable data within each country shows that as the markets become less transparent the choices of comparables that can be used become less available. This can be shown in the table below.

Use of Comparable Data vs Transparency of Market



- This graphic illustrates that as markets become more opaque not only does the lack of comparable data increase (more reds) but the data which is considered the most useful in the transparent markets (more greens and ambers) become less available and hardly used.
- Conversely, some data, for example asking price information, becomes more important and more frequently used as a principal signpost toward market value.
- Each market has to deal with the data availability within their specific country. This means that valuers rely upon different data sources depending upon where they practise. The application, veracity and appropriateness of comparable data is not universal.
- This implies that international valuation standards should not be over-prescriptive in codifying the appropriate use of comparable evidence as each data source could play a lesser or greater role depending upon the transparency of the market in question.

PREAMBLE

Extracts from European Valuation Standards 2016

The definition of "comparable evidence" is very pertinent when looking at its role in property valuation process. The European Valuation Standards (2016) (EVS) and other international valuation standards tend to use a narrow definition of "comparables" to refer to transactional evidence only. Yet, in practice, valuers use a wide range of comparable evidence (including asking prices, bid information, market indices etc) to help them determine the market value of the subject property. This is a much broader definition.

That said, in places within the standards, there is some ambiguity of which definition is to be considered. For example, EVS 1 (Market Value) refers to "comparable evidence" but isn't clear if this refers to transactional evidence only, or the broader definition including all useful market evidence. It does, however, acknowledge that there can be difficulty in obtaining the said evidence.

- 1.2. *The ultimate test for market value, however determined, is whether parties in the market place could really be expected in practice to pay a price at the level of the value that has been assessed. That emphasises the importance of soundly analysing good quality comparable evidence where it can be obtained.*

However, in EVS 5 (Reporting the Valuation) it is clear that the narrow transactional definition is to be used:

- 4.2.6. *A full Valuation Report will generally cover the following topics,...*
 - (e) *The market:*
 - *Identification of the market within which the property falls;*
 - *Sufficient information about the market to allow the client to understand how the property relates to it;*
 - *Comparables – information on transactions involving comparable properties would normally be provided as part of a full Valuation Report.*

And in the Information Paper, EVIP 2 (Valuation Certainty and Market Risk) the transactional definition is reiterated where it says:

- 4.5. *Ultimately, all valuation is comparative – that is the nature of the trade that creates the market that expresses values. Actors in the market compare the asset with the other assets they possess or want and also with the resources they have or could obtain. That comparison is most reliable when the comparables used are closest to the subject property. They should be of a similar physical and legal nature. They should be in the same marketplace. The transactions concerned should be as close as possible to the valuation date. There should be as many comparables as possible.*

It is appreciated that looking at selective extracts out of context can be misleading and no censure or criticism is implied. The extracts are shown to illustrate the need for precise definitions when looking at the valuation process.

For the purposes of this report, the broader definition of "Comparable Evidence" that includes all market evidence and data that can help the valuer determine market value is used.

INTRODUCTION

An Investigation into the use of Comparable Evidence in Property Valuation

Comparable evidence is the bedrock of all valuations whether looking at direct capital comparison or determining the appropriate market rent and yield in an investment valuation. The role of the valuer is to read the market and assess any appropriate and available comparable evidence to determine the market value of the subject property. All approaches use comparable evidence in some form. The overriding requirement of any market valuation is to "price to market". That is to estimate the price that would be achieved for the property were it to be sold on the open market on the date of the valuation.

Valuation Approaches

There are three recognised approaches to valuation; The Market Approach, the Income Approach and the Cost Approach.

The Market Approach provides an indication of value by comparing the property with identical or comparable property assets for which price information is available. As noted above, this comparable evidence may be in the form of previous sales only but, in the broader definition used in this study, would also include any market data that is useful to the valuer when determining market value. The market approach uses market comparison.

The Income Approach is used where the property's market value is determined by reference to the discounted capital value of an expected income flow that can be derived from the ownership of the asset. This may be income in the form of rent or income generated by the business run from the property. In some countries, the income approach is treated as a sub-division of the market approach. But in all cases, the income approach relies upon the valuer determining comparable rents and yields for capitalisation from market information. The income approach uses market comparison.

The third approach is the Cost Approach. Here the market value of the subject property is determined by reference to an equivalent land value and the cost of building an equivalent new property suitably depreciated to allow for the age of the subject property. To do this the valuer will need to look at comparable land values and comparable cost figures but the approach is less market based and this it is out of the scope of this study.

Each of these principal valuation approaches includes different detailed methods of application and within these methods, there are different models. However, this report is not looking at how comparable evidence is used with the appropriate methods and models but, instead, it is investigating which market data valuers consider useful when undertaking a valuation by either the market or income approach.

Comparables are the building blocks of all property valuations but it is the analysis and understanding of the market that is the mortar that allows the valuer to determine market value. This requires the valuer to gather information to use within the chosen valuation method and model. The choice of the appropriate approach, method and model is within the professional judgement of the valuer but this should be reported to the client in a clear and comprehensible manner within the valuation report.

Market Value

Valuation is, normally, the process of determining market value. This is an estimation of the price of exchange in the market place.

Market Value is defined in European Valuation Standard 1 as:

"Market value is the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion."

This is a "price" definition and can easily be modified to read as "price" [changes in bold]

"Price is the estimated amount for which the property did exchange on the date of sale between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion."

Thus market value is an estimation of the price that would be achieved if the property were to be sold in the market on the date of the valuation. The apposite word in the concept is not "value", it is "market". It is the estimate of price in the current market and to provide that valuation, the valuer needs to know and understand the market.

Value is the end result. It is the quantification of an understanding of the market; the legal impact; the physical constraints; the planning regime; the availability of finance; the demand for product and the general economy. All of these factors influence the value of property. This needs a range of comparable evidence from transactional data, through asking price indicators and market commentaries to gauge the impact of current market sentiment. Valuation is a process.

The Valuation Process

The whole valuation process is a heuristic procedure of rigor that is not easily replicated by computer or any mathematical model. The balance of reliability of all the data sources is not something that can be done by any set algorithm; it relies upon experience, expertise and intuition. A valuer may be fortunate to have comparable price information on which to anchor and then adjusts this transactional evidence by looking at other market information to estimate the price in the market today. Conversely, the valuer may be in a market where transactional evidence is either not available or not reliable. In those cases, the importance of other market data and an understanding of market sentiment are increased. It is this comparable data that provides the valuer with the framework from which to estimate market value.

Valuer Judgement

No good valuer would simply replicate the numbers from comparable sales and other data without further analysis. It may be that the market is static and thus prices will not have changed, or the market may be falling or rising. In all cases, the valuer assesses what data is available to make a professional judgement as to price in the market today. All valuations need to be placed in an economic context. Comparable evidence is the start of the valuation process and not the sole contribution.

The judgement of the valuer is at the centre of the valuation process. As noted above, it is a heuristic process and it relies upon the expertise and experience of the valuer to provide a sound estimate of the price of a property in the market. There may be systems and models that are there to aid the valuer in this process but the crux of the process is interpretation and understanding of the market inputs that, ultimately, provide valuers with their opinion of market value. Comparable evidence is part of this process but without the expert judgement of the valuer, someone who understands the nuances of the data, a valuation based solely on raw numbers could be erroneous.

Valuation Uncertainty

A valuation is, therefore, a best estimate of the price in the market at the date of the valuation. It is not a fact. In a strong market with comprehensive and detailed comparable evidence, the valuer will be more certain that their opinion of market value would coincide exactly with the price achieved were there an actual sale at the valuation date. Conversely, in a less active or less transparent market, there will be less available comparable evidence and the valuer will be less certain of their market valuation figure. This is not a reflection upon the judgement or professionalism of the valuer but an acknowledgement that uncertainty is a universal and unsurprising fact of property valuation. This is acknowledged in the European Valuation Standards 2016 in various sections. In the Information Paper, EVIP 2 (Valuation Certainty and Market Risk), TEGoVA define valuation uncertainty as:

- 3.2. *Valuation Uncertainty – The extent to which an assessment of the value of an asset as at the valuation date might not be exact. That uncertainty might arise from market circumstances, lack of evidence, deficiencies in the valuation or differences in professional opinion.*

It also says:

- 1.3. *As with all exercises in judgment, the value of a property is subject to uncertainty, both as to the valuation and as to the value that may actually be realised, either on the valuation date or at any later date. Such uncertainty may arise from:*
 - *The facts on which a valuation is based, whether at property itself or the market and any limitations on their volume, quantity or certainty; and*
 - *The judgment applied to those facts.*

Here, the term "facts" and "evidence" can be seen to equate with the broader definition of comparable evidence. The availability of comparable evidence is a central requirement for reaching an opinion of market value. Even in a market with lots of transactional evidence and lots of other evidence about market sentiment, the estimated figure will have a degree of uncertainty. As the comparable evidence used moves away from the relative veracity of transactional evidence toward other data sources including an assessment of market sentiment, so the certainty of the valuation will become less. This is to be expected.

However, there will be times when the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted, this is often referred to as material uncertainty or abnormal uncertainty or unusual uncertainty. And whilst a full discussion of this phenomenon is outside the ambit of this report, it is relevant as it highlights the link between available comparable evidence and the estimate of market value. In EVS 5 (Reporting the Valuation) it says:

4.2.8... any unusual market conditions at the specified date of valuation and whether any valuation uncertainty relating to low volumes of reliable comparable evidence, marked volatility or other specified factors had been taken into account or ignored in reaching an opinion of value.

This also introduces the importance of the reliability and veracity of the comparable evidence (see on).

The Valuation Report

The valuation report is the comprehensive communication of the valuer's professional judgement of market value to the client. A valuation without context is just a number. The valuation report conveys to the client all the information that is important to them to allow them to use the valuation appropriately. As discussed, the valuer needs to interpret the prevailing market conditions and report the same to the client as part of the process of determining the market value of the subject property. Reporting comparable evidence within the report is a requirement of the EVS. EVS 4 (The Valuation Process) says:

1. *Introduction – A valuation must be professionally prepared with the property appraised and all available evidence considered so that the result can be sustained under challenge.*

Comparable Evidence, and the valuer's judgement of the same, is central to the process and the reporting of the valuation.

COMPARABLE EVIDENCE

An Investigation into the use of Comparable Evidence in Property Valuation

Valuers are often criticised by those outside the profession for not using complex mathematical modelling to value, but the reality is that the interpretation and intuitive analysis of comparable evidence is a complex process. Its apparent simplicity belies the real complexity involved. A valuer is an applied economist who is estimating price today from a raft of market data. It is ironic that in a time when the internet has increased the ease of access to information either from indices, public and commercial databases and transaction reports, the need to understand comparison has increased.

Whether the valuer is in a transparent market with relatively easy access to information or whether the valuer works in an opaque market where all information is closely guarded and rarely shared, the nature of comparison has become harder and requires more expertise and experience than ever to interpret correctly. The reason for this is that the nature of leases and contract agreements worldwide has changed and become much more bespoke to each deal or potential sale. This means that comparable evidence can be subtly different to the subject property and often the available comparable evidence may be "apples" to the valuation of a "pear". The skill of the valuer is to analyse and adjust appropriately.

The Complexity of Simple Comparison

Comparable evidence, as discussed can be a range of different sources and data categories. And within that range, the usefulness and reliability of the information has a hierarchy. That hierarchy, in a perfect world, may be one definitive list but it will differ from country to country and market to market depending upon the culture and availability of data.

All comparable evidence acts as a "signpost" to direct the valuer to their assessment of market value but not all comparable evidence is equal and valuers recognise that some evidence is more useful than other information. In a normal transparent market, market transactional evidence is always preferred as the principal signpost but in more opaque markets, there will be a need to give greater emphasis to these other market signposts.

Similarly, there will be times when market conditions, in any market, dictate that there are fewer (or no) comparable transactions to act as the principal signposts to help determine the market value of the subject property. Instead, the valuer needs to rely upon, and look at, any other signposts in the market that may provide an indication of where market prices may be at that point in time. These could be other forms of market data such as asking price information of similar assets or enquiry details of potential purchasers or a host of other indicators within a hierarchy.

The Relationship between the Valuer and Broker/Agent

As with the evolution of any profession, the role of the valuer varies according to the country in which they practice. In each country, the independence and professionalism of the qualified valuer is not questioned but the culture and business environment within which they work can and does vary, and this influences the way in which they undertake their work and the availability of comparable evidence within their jurisdiction.

There can be numerous nuances of difference between each country but one overriding distinction is the way in which the relationship between the valuer and agent is seen. In some countries, the two activities are considered to be good bedfellows and valuers will work closely with colleagues in agency or, indeed, the valuer may also be a broker themselves. In such cases, quite naturally, the valuer has direct access to recent transactional evidence and thus this is highly ranked as a source of comparable evidence. Conversely, in other countries, the two activities are considered to be completely separate and valuers do not have direct relationships with agents; to do so, in their business environment, would be considered to be a conflict of interest. In such case, the valuer doesn't have access to direct transactional evidence and, indeed, that source of comparable evidence would be considered out of bounds. And, thus, other comparable evidence becomes the principal signpost.

This distinction is mentioned without any judgement on the advantages and disadvantages of each system. Instead, that split in practice just reinforces the importance of understanding the market of practice in relation to available data. Valuation practice is not a one size fits all in all aspects but, that said, each valuer strives to access the best comparable evidence available in each country. In each country, case law will have developed to provide a broad indication of what comparable evidence is considered to be the best for that country.

The Use of Actual Sale Price as Comparable Evidence

One interesting aspect of direct transactional evidence is that, sometimes, the details of the recent sale price of the subject property are discounted as a valid comparison. In fairness, valuations are normally carried out in the absence of an actual sale of the subject property, so this situation won't often arise but, where it does, it could be considered that the sale price is the best comparable evidence of price in the market and should be used. In some cases, it will be. However in many cases, particularly if the valuation is needed for lending purposes, it is likely that the client is already aware of the sale price and wants an independent valuation to corroborate that the sale price was appropriate.

The Hierarchy of Comparable Evidence

Indeed, some commentators categorise the veracity and reliability of comparison data by referring to it in grades of "hard" and "soft" information.

- **Hard information** is the data on the comparable sale of a similar property where all information is available to the valuer. In certain jurisdictions, this could be a previous deal that the valuer themselves had negotiated or, more likely, file information from a colleague in the investment team or at another company. The important factor is that every aspect of the deal (lease length, lease incentives, side-deals, rent-free periods, etc) is available and trusted by the valuer. This may be direct private transactional evidence or, in some countries, it may be a well administered public cadastre or system of retrieving information on recent transactions. As noted above, each country will determine what it considers to be hard or soft evidence.
- **Soft information**, on the other hand, is where the valuer needs to rely more upon the reports and commentary of a third party without being able to verify the facts. This could be directly from a conversation with a colleague from another firm or even reported information in the public domain from a database, an index or cadastre (governmental or private where the information is not considered to be complete or current) or published magazine.
- The point is that soft information is one-step removed from the valuer and, no matter how good the source has been at ensuring that all the salient details are correct, the valuer cannot check those facts directly. Soft information can also include market information such as listings and asking prices. This type of information can be verified by the valuer but, depending upon the market, may not directly correspond to the final sale price.

And within each category, the usefulness and reliability of the information has a hierarchy. And that hierarchy will vary by country to country. This has long been recognised within the property literature but, surprisingly, was not codified in any form until the publication of the Royal Institution of Chartered Surveyors (RICS) Information paper "Comparable evidence in property valuation" in 2012 (RICS, 2012).

This has now been updated, in October 2019, with the publication of a new Guidance Note called "Comparable evidence in real estate valuation". In this document, where they also adopt the broader definition of Comparable Evidence used in this report, they recognise the importance of explaining the role of comparison and comparables in the valuation process. They also discuss the way in which valuers rank comparable evidence:

- 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.*

Taking the RICS document as a template for this study, the hierarchy as illustrated in Table 1 is suggested. This uses the RICS headings with the addition of categorising each data source as hard or soft information. But, again, it should be stressed that such a list reflects the historic position of the RICS in the UK as a professional body representing valuers working in a transparent market. This has been reinforced with well-developed case law on what evidence is best.

Thus, this hierarchy should not be viewed as a definitive list and, indeed, some valuers may disagree on the importance of each heading. But it does represent an ideal ranking of available data for the valuation of a hypothetical sale. It is appreciated that, in reality, not all data is available in all countries or jurisdictions and, indeed, even where two markets might share the same headings, the veracity or reliability of that type of data may differ between the two jurisdictions. The chosen hierarchy for each country will differ. Thus the existing list in Table 1, whilst useful to provide context to the study, should not be seen to be a rigid framework. What is important is the recognition that there is a range of data that valuers use and that range will differ between countries according to their market transparency and within countries according to the state of the market. A transparent market is considered to be one where there are very few restrictions on availability of data; a market with opaqueness or low transparency is the reverse and data is either difficult to access or its veracity is not high. In all markets, when there is a lot of activity, the market data from any of the stated sources will improve; the valuer will have more data, more up to date data and, possibly, more reliable data. Conversely, if there is a global downturn, then market activity will lessen or stall and the availability and veracity of the data will also fall. Information from lower down the hierarchy may become more important as previously preferred data becomes unavailable.

The purpose of this study is to try to determine how valuers from different countries view different sources of comparable evidence and how they rank the usefulness and availability of each within the markets where they practice. Thus, although, it is accepted that the hierarchy of comparable evidence noted in Table 1 is listed based on only one set of possible preferences, it was felt that the responses from each country would, themselves, provide an indication of that country's preferred hierarchy. It will be for each country's professional valuer organisation(s) to decide if they wish to quantify their own hierarchies in their own regulations. The intent of this study is to determine the range of practices and variations in using comparable evidence and, subject to the results, highlight the distinction between countries. The important factor is to recognise such differences and dispel the idea that the hierarchy of evidence should be viewed as a rigid framework to be applied universally. Different countries will have different hierarchies. Valuers will always seek out the "best" information in each respective market.

Valuation Culture

Although it can be argued that the availability of data, or lack of it, is part of the market transparency of each market, it is worth noting some general differences between the cultures of valuation between countries.

There are many countries where the role of recording land and property transactions lies with the state and a cadastre or records of notary deeds may be the only way in which the valuer can access such information. Sometimes this may be available online for free, sometimes online for a fee but often it is only available by inspecting a physical register administered by the central or local government. The nature of these sources will determine if the information is considered to be hard or soft information.

There is also a lag in many of these systems and it could be that the relevant register is a few months out of date. In other countries, whilst there will be a central governmental depository of this information, the same information may be available more readily and more speedily by market driven data sources. This may be in the form of informal "hearsay" from agents and other players in the market, a subscription based database provided by the private sector or published information online or in print. In all cases, the completeness of information recorded can vary significantly from just a note of the price declared to full details of the property and all lease terms (if appropriate) and notes upon licences and energy efficiency.

As noted above, the other aspect of valuation culture is the relationship between valuation and agency. In some countries, the two services are often hand in hand; with valuers regularly speaking to their agency colleagues both within and without their own companies. In other countries, the valuation profession is completely separate to the agency role and never the two will meet. This obviously influences the availability of transactional data. In the case of the former arrangement, the valuer is embedded within the market. In the case of the latter, they are removed from the same. Both have advantages and disadvantages in terms of perceived remoteness, market understanding and independence and it is not part of this report to comment on those differences but the culture of the valuation profession will certainly have an impact on the availability and use of comparable evidence.

TABLE 1 – A Hierarchy of Comparable Evidence

Direct transactional evidence – Hard information	
1.	Recent Sales/lettings where the valuer was party to the transaction and had access to all relevant information
2.	Recent Sales/lettings where a colleague in the same company was party to the transaction and the valuer has access to all relevant information
3.	Recent Sales/lettings where a colleague in a different company was party to the transaction and they provide the valuer with details of the transaction
Public Information – Soft information	
4.	Publically available information of recent transactions listed in a professional magazine
5.	Publically available information of recent transactions listed for free on the internet
Database – Soft information	
6.	Private Subscription Service – Information of recent transactions listed on the internet
7.	Government Listing or Cadastre – information of transactions listed for free on the internet
8.	Government Listing or Cadastre – information of transactions listed for a fee on the internet
Sale Price – Soft information	
9.	Market information on the reported sale/letting price of the property being valued
Asking Price – Soft information	
10.	Details of sales particulars with asking prices of similar properties in the same location
11.	Purchase enquiries, either directly to the valuer or their company colleagues, for similar properties in the same location
12.	Purchase enquiries, to colleagues at other companies, for similar properties in the same location
Historic Evidence – Soft information	
13.	Evidence of previous transactions for sale or letting that is considered too historic to be direct comparison but may be used to extrapolate today's market value
Market Sentiment – Soft information	
14.	General market discussions/commentaries with colleagues on the general trends in the market
15.	Published market commentaries in magazines or on the internet on the general trends in the market
Indices – Soft information	
16.	Property market indices, derived from aggregated information about market values or transactions, provided in the press or on the internet for free
17.	Private Subscription Service – Property market indices from aggregated information for a fee
AVMs – Soft information	
18.	Private Subscription Service – Property pricing provided online where the property value is calculated by an Automated Valuation Model
19.	Publically available property pricing provided online where the property value is calculated by an Automated Valuation Model

Asking Prices

Another issue of contention between markets of different transparency is the use of asking price information. Transparent markets, because they have access to what some consider to be better signposts such as direct or indirect transactional evidence, tend to dismiss asking price information as too remote. However, in countries where the access to such signposts is not possible, then asking price information becomes more important. Of course there are issues with asking prices, as there is with any data source, and it is possible that asking prices are not in line with actual sale prices. But this, again, is cultural. In some countries, depending on the state of the market, asking prices are lower than sale prices. In others, the reverse is true. The point is that a good valuer in a specific market will know the relationship, at any point in time, between the asking price information and the likely market sales and thus, in the absence of other data further up the hierarchy (Table 1), the use of such information is valid.

In other words, the sources of data can be very different in different countries. Highly transparent markets generally have access to prompt and relatively full transactional evidence, whilst other countries simply don't have that luxury. It is therefore to be expected that the valuation process and use of comparable evidence will be dictated by the culture of the country in question.

THE STUDY

An Investigation into the use of Comparable Evidence in Property Valuation

The purpose of the study was to determine the range of practices, and variations thereof, in using comparable evidence within the Market and Income Approaches to determine market value.

The hypothesis of study was that the use of comparable evidence varies in different countries according to the transparency of the market. The terms transparency and opaqueness may be used in common parlance but in the property world, this has been codified in the academic and professional literature for many years. The academic literature has been broad in its discussions of the maturity of markets worldwide and how markets develop to become more transparent. This has been expanded and further classified through the Global Real Estate Transparency Index; this has become the industry benchmark for assessing transparency.

JLL Global Real Estate Transparency Index

JLL and LaSalle have been tracking real estate transparency since 2000. The latest available edition of this biennial publication is the 10th edition published in 2018. The survey looks at 186 separate elements of transparency and classifies over 100 countries into the following categories.

1. **Highly Transparent** – Key Characteristics – The world’s leading investment destinations, pushing the boundaries of transparency.
2. **Transparent – Key Characteristics** – European and, increasingly, Asian markets which have strong regulation and good governance. Market fundamentals data and performance measurement are areas for improvement.
3. **Semi-Transparent** – Key Characteristics – Dominated by large emerging markets, including the BRIC economies. These markets have made steady advancements in recent years, but need to address issues of corporate governance and regulatory enforcement if they are to progress.
4. **Low Transparency** – Key Characteristics – Emerging destinations in Africa, the Middle East and Latin America, where market tracking and real estate regulation are still nascent.
5. **Opaque** – Key Characteristics – Emerging markets, often hampered by geopolitical and economic challenges. With limited regulatory frameworks, these markets are vulnerable to regression.

Full details of the construction and findings of the JLL Global Real Estate Transparency Index can be found on the JLL website (JLL, 2018)

By linking the survey to the JLL transparency index it is hoped that it reinforces the hypothesis that the hierarchy of evidence, noted above, should not be seen to be absolute. For example, in less transparent markets the best comparable evidence available might be, say, asking prices whereas in a more transparent market transactional evidence is available and preferred. The valuation rigour in each respective market is the same; it is the availability of comparable evidence that is different. What one valuer, in a transparent market, may rank highly is simply not available or appropriate in another market. The JLL transparency index acts as a neutral benchmark for the responses from each country and will, hopefully, show the correlation between transparency and availability of comparable evidence in each country.

The Questionnaire

It should be stressed from the onset that the intent of the survey was not to return numerous responses that could be tested for statistical significance but, instead, the intention was to gain an indicative understanding of how valuers in each country viewed the availability and veracity of the data. It was a qualitative study and not quantitative. The results are therefore to be seen as indicators of how each country ranked the hierarchy of comparable evidence noted in Table 1 above and not to suggest that these rankings are absolute. The question-

naire was sent out in January 2020¹. TEGoVA represents the interests of qualified valuers of 72 professional bodies from 38 countries. Of these, 34 are European countries and the main analysis is restricted to responses from those countries.

The questionnaire was sent to all TEGoVA representatives, members of the European Valuation Standards Board, European Valuation Practice and Methodology Board, European Valuation Qualifications Board and Recognition Committee. Some countries chose to provide an aggregated response after the questionnaire had been discussed at a special meeting within the respective professional organisation. Other countries forwarded the questionnaire to a select number of their board members and returned multiple responses, whilst other countries just returned the questionnaire completed by one nominated member of their organisation. In all cases, the responses were analysed and combined, as appropriate, to provide one ranking for each jurisdiction.

Also, as with any qualitative analysis, it was appreciated that respondents may have data sources that are available to other respondents and vice versa or indeed, that different respondents would simply allocate rank numbers differently to others. For example, one respondent might allocate a 3 (out of their ranking of, say, 8) whereas another respondent might rank it as a 2 (out of their ranking of, say, 6). In reality, their relative rankings will be different but their absolute rankings may be the same. In both cases, this was "corrected" in the analysis to provide a reasonable comparison between countries.

The Questions

Although the main requirement of the survey was to look at the ranking of the hierarchy of comparable evidence in each country, it was important to confirm the context for the responses so questions were also asked about the respondent's professional status; the type of work that they undertook; the method of valuation adopted for different property sectors; the information conveyed to the client about the approach and method adopted and the disclosure of comparable evidence.

That said, the number of questions was kept to a minimum to encourage a comprehensive response rate. It was important that the majority of countries responded. The full questionnaire is shown in Appendix 1.

Respondents were asked to add comments and notes as required as well as offering an opinion on why there might be a lack of information in their country. Was this because:

1. It is difficult to access such information?
2. Actually recorded sale prices do not represent the full market value?
3. The culture of the country does not encourage sharing information?

Again, it is appreciated that the results from such questions can only be considered to be indicative, nonetheless, it was felt important to try to determine if there was a general consensus on why the rankings differed from country to country (if they did).

The Hypothesis

To reiterate, the purpose of the survey was to determine the availability of comparable data in different countries and how that comparable evidence was used and ranked by professional valuers in each jurisdiction.

There was often a disagreement between TEGoVA representatives from highly transparent markets and less transparent markets on what evidence could be considered within a professional valuation. Those from countries with access to all forms of data, including transactional evidence, tended to view the use of lesser ranked information, for example asking prices, as not appropriate. It was therefore important to try to determine the availability of all data sources in each country so that debate could be placed in a better context.

¹ This is before the declaration of the Coronavirus pandemic and at a time when markets were still functioning as normal before the impact of governmental restrictions with lockdown and the forced closure of many businesses.

THE RESULTS

An Investigation into the use of Comparable Evidence in Property Valuation

The questionnaire was distributed by TEGoVA at the end of January 2020 with a request for responses by mid-February. It was resent after this date and the final response was received in mid-March 2020. A full breakdown of the aggregated responses is shown in Appendix 2.

The Response Rate

Although the questionnaire was sent to multiple recipients as TEGoVA represents 72 professional bodies from 38 countries, the response rate was referenced by country. For some countries, only one professional body responded, for others, replies were received from more than one professional body.

On a European country basis, of the 34 countries, replies were received from 27 of the countries, representing an 79% response rate by country. The questionnaire was also sent to non-European countries and 4 additional replies were received. It was originally considered that they would be analysed to provide comparison to the European responses but once analysed, it was felt that the non-European replies didn't contrast sufficiently with the European results to enable a fruitful comparison and these are not reproduced in the main body of the report. However, for completeness, the non-European responses are included at Appendix 3.

Type of Work

All of the European Respondents were qualified valuers with academic qualifications ranging from professional exams to property specific MScs. As was expected, the nature of their academic studies varied according to the country in question with many of the respondents having trained as architects or engineers as well as having economic and real estate degrees.

All respondents undertook valuation work but only very few also undertook agency work. 19% were involved with investment sales and just 11% with lettings. This reflects the split between these roles as noted above.

Property Sectors

Nearly all the respondents undertook valuation work across all sectors. 93% undertook residential valuations, 96% undertook general commercial valuation of offices, industrial and retail and 93% valued other commercial property such as hotels, restaurants and leisure.

Valuation Approaches, Methods and Comparable Information

Respondents were asked if, in their valuation reports, they made mention of all three valuation approaches (Cost, Market and Income) and if they conveyed to the client as to why you have chosen a particular approach. Interestingly, 81% of respondents mentioned all three approaches whereas everyone, 100%, informed the client of why they had chosen the approach used in their valuation. This was nearly the same when talking about the method chosen with 96% informing the client of the same. The only point where there was a divergence away from a unanimous response was when they were asked if they provided clients with details of the comparables where only 74% did so. Many of those, who didn't provide that information, citing confidentiality and data protection as a restriction on so doing. This is very much in keeping with the requirements of the European Valuation Standards on report writing and disclosure.

Use of the Investment Method and Comparable Method

As noted above in the introduction, both the investment method and comparable method use comparable evidence as part of their modelling inputs. In the case of the investment method, the valuer needs to determine an appropriate market rent and the corresponding investment yield to capitalise the rent. The comparable method uses direct capital comparison (by unit of measurement or overall) to determine the market value of the subject property. In some cases, the cost approach would also be used but, for reasons noted in the introduction, this approach was excluded from the survey.

To get an understanding of the type of comparable evidence that a valuer would need for valuing different types of property, the respondents were asked about the method or methods that they used when valuing specific property types. The results were:

Methods of Valuation – Percentages			
Type of Property	Investment Method (Rent x Yield)	Capital Comparison	Investment Method & Capital Comparison
% based on type of work	ONLY		BOTH
Single Occupancy Offices	35%	38%	27%
Multiple Occupancy Offices	65%	15%	27%
Single Occupancy Retail	38%	35%	27%
Shopping Centres	73%	0%	27%
Single Occupancy Industrial	50%	19%	31%
Industrial Estates	68%	12%	20%
Leisure	73%	18%	9%
Student Housing	55%	23%	23%
Single unit Residential – Rented	38%	38%	25%
Single unit Residential – Owner Occupied	21%	67%	13%
Residential Blocks – Rented	50%	30%	20%
Land	0%	60%	40%
Farms	0%	100%	0%
Medical	0%	0%	100%
Plant & Machinery	100%	0%	0%

The results are interesting as they show that there isn't one significant preferred method for any of the specific property types with the exception of Plant & Machinery and Farms. This is partly the result of the relatively small survey size although, from a more detailed analysis of each country, it may be reflecting different practices in different countries. Although it isn't statistically significant, countries that were less transparent tended to use both the investment method and capital comparison for more property types than markets where there was more transparency. This may be that the greater availability of data in those transparent markets allows the valuer to feel confident in the use of one method, whereas the less transparent markets need to look at more than one method to get a "feel" of the market value.






Further work may reveal more about the reasons for the differences between choices of method by country but that is outside the scope of this report. That said, indicatively, it does suggest a link between choice of method and market transparency.

Type of Comparable Evidence – Ranking

The crux of the study was to get an idea of the ranking of comparable evidence, as detailed in Table 1 above, in each country. It was expected that each country would rank the list differently. The respondents were asked to indicate whether the type of evidence was available in their market and, once those headings were discounted from the replies, to rank the remaining headings in terms of availability and usefulness.

Each respondent therefore had a different list of active comparable evidence to rank. Some also ranked by unique numbers whilst others chose to allocate the same number to a few different headings. Thus, each response was consistent within itself but couldn't be analysed by comparison of ranking number with other responses. This was expected and the analysis went through each country response in turn (aggregating the responses where a country had multiple replies) and converted the ranking numbers to a colour system based on traffic lights. A traffic light analysis is an exercise which represents and organises a large amount of data so that presentation of the data becomes easy and coherent.

The system, obviously, used the colours of green, amber and red as indicators of the ranking of each heading of comparable evidence. And within each colour, there was a gradient of shade depending upon ranking of use. Darker Shades reflect greater emphasis within each category of colour. Lastly, if the data was unavailable, then a "x" was added to the box. The legend was therefore:

Strong Use

Medium Use

Limited Use

NOT Used

NOT Available


Within the analysis the ranking numbers by country were noted but the results, shown in Table 2, only show the traffic light shading. By so doing, it is easy to see which countries consider which data to be most useful and conversely which is least used.

Ranking linked to The Global Real Estate Transparency Index 2018

A further layer to the analysis was to group the country responses by transparency as indicated by the JLL Global Real Estate Transparency Index as noted above. Not all the countries that responded to the TEGoVA questionnaire were covered by the JLL index but this was only a few and, given the key characteristics noted in the JLL index, it was possible to allocate a transparency category to each country's response. This is again shown in Table 2.

The transparency categories applying to the European countries that responded were highly transparent, transparent and semi-transparent. Within these categories the respondent countries are shown alphabetically and not by JLL ranking. This is because not all the countries were included in the JLL index and, whilst it was possible to allocate a broad category to those countries it wasn't possible to determine their individual transparency ranking.

TABLE 2 – Ranking of Comparable Evidence linked to The Global Real Estate Transparency Index 2018

Type of Comparable Evidence		Highly Transparent					Transparent										Semi-Transparent											
Traffic Light Ranking of Comparable Data		France	Germany	Ireland	Sweden	United Kingdom	Austria	Belgium	Czech Republic	Denmark	Italy	Poland	Portugal	Romania	Spain	Bosnia & Herzegovina	Bulgaria	Croatia	Georgia	Greece	Latvia	Lithuania	Montenegro	North Macedonia	Russia	Serbia	Slovenia	Ukraine
Direct transactional evidence – Hard information	Recent Sales/lettings where you were party to the transaction and you have access to all relevant information		X														X	X	X	X		X			X	X	X	
	Recent Sales/lettings where your colleague in your company was party to the transaction and you have access to his/her file and all relevant information		X														X	X	X			X				X		
	Recent Sales/lettings where your colleague in a different company was party to the transaction and he/she will provide you with details of the transaction		X															X	X							X	X	
Public Information – Soft information	Publicly available information of recent transactions listed in a professional magazine												X	X		X	X	X	X		X	X		X		X		X
	Publicly available information of recent transactions listed for free on the internet							X				X	X	X	X	X	X		X		X	X		X	X	X	X	
Database – Soft information	Private Subscription Service – Information of recent transactions listed on the internet										X					X	X	X	X	X		X	X	X	X	X	X	
	Government Listing or Cadastre – information of transactions listed for FREE on the internet			X						X	X		X	X		X		X	X		X	X	X	X	X	X	X	X
	Government Listing or Cadastre – PAID information of transactions listed on the internet			X		X		X			X		X	X				X		X			X					
Sale Price – Soft information	Market information on the reported sale/letting price of the property being valued		X											X			X	X					X	X				
Asking Price – Soft information	Details of sales particulars with asking prices of similar properties in the same location																											
	Purchase enquiries, either directly to you or your company colleagues, for similar properties in the same location		X													X		X					X		X			
	Purchase enquiries, to colleagues at other companies, for similar properties in the same location	X	X													X		X					X		X			
[Historic Evidence – Soft information]	Evidence of previous transactions for sale or letting that is considered too historic to be direct comparison but may be used to extrapolate today's Market Value		X															X	X									
[Market Sentiment – Soft information]	General market discussions/commentaries with colleagues within and outwith your firm on the general trends in the market																	X							X			
	Published market commentaries in magazines or on the internet on the general trends in the market																							X	X			
[Indices – Soft information]	Property market indices, derived from aggregated information about market values or transactions, provided in the press or on the internet for free	X															X		X					X				
	Private Subscription Service – Property market indices from aggregated information	X						X								X		X					X	X	X	X	X	
[AVMs – Soft information]	Private Subscription Service – Property pricing provided online where the property value is calculated by an Automated Valuation Model	X	X			X				X		X	X			X		X	X				X	X	X	X	X	
	Publicly available property pricing provided online where the property value is calculated by an Automated Valuation Model	X	X			X				X		X	X	X	X	X		X	X				X	X	X	X	X	

It is appreciated that showing all 27 countries on one table makes it difficult to read all the text but the nature of traffic light analysis is to show all responses on one table so a feel for the colours can be gained. These results are also shown in Appendix 2 where the table is split by transparency category so the text is larger. Each heading is also discussed below.

TABLE 3 – Commentary on responses by category of Comparable Evidence

Direct transactional evidence – Hard information	Recent Sales/lettings where you were party to the transaction and you have access to all relevant information	With the notable exception of Germany, all the highly transparent and transparent markets ranked transactional evidence as the most important. Conversely nearly all the semi-transparent or opaque markets either said that the category was not available or not used
	Recent Sales/lettings where your colleague in your company was party to the transaction and you have access to his/her file and all relevant information	
	Recent Sales/lettings where your colleague in a different company was party to the transaction and he/she will provide you with details of the transaction	Although slightly lower ranked by highly transparent and transparent markets, this was considered to be a useful comparable source. The less transparent markets said the reverse
Public Information – Soft information	Publically available information of recent transactions listed in a professional magazine	This was considered a medium use by the transparent markets and not used at all by the less transparent markets
	Publically available information of recent transactions listed for free on the internet	
Database – Soft information <i>[NB: In some countries, this would be considered Hard information]</i>	Private Subscription Service – Information of recent transactions listed on the internet	There was a mixed response to this category by the transparent markets but again the general trend of finding such information less useful as transparency decreases prevailed
	Government Listing or Cadastre – information of transactions listed for FREE on the internet	
	Government Listing or Cadastre – PAID information of transactions listed on the internet	
Sale Price – Soft information	Market information on the reported sale/letting price of the property being valued	Interestingly, a few of the transparent markets dismissed this as a possible source of evidence whereas the mid-transparency markets tended to consider it as a medium use
Asking Price – Soft information	Details of sales particulars with asking prices of similar properties in the same location	This is the first category where there is a definite reversing of usefulness/use. Transparent markets tended to dismiss asking prices as good comparable evidence where the less transparent markets often ranked it as No.1 relative to the other categories
	Purchase enquiries, either directly to you or your company colleagues, for similar properties in the same location	
	Purchase enquiries, to colleagues at other companies, for similar properties in the same location	
[Historic Evidence – Soft information]	Evidence of previous transactions for sale or letting that is considered too historic to be direct comparison but may be used to extrapolate today's market value	This was a mixed response with no definite pattern. A few responses in the mid transparency markets marked it as useful but most said it was unavailable or not used

[Market Sentiment – Soft information]	General market discussions/commentaries with colleagues within and outwith your firm on the general trends in the market	This was mainly light greens or ambers; a second tier ranking for most markets
	Published market commentaries in magazines or on the internet on the general trends in the market	
[Indices – Soft information]	Property market indices, derived from aggregated information about market values or transactions, provided in the press or on the internet for free	Less used in the highly transparent markets but well used in the transparent markets. Limited use or not used at all in the less transparent markets
	Private Subscription Services – Property market indices from aggregated information	
[AVMs – Soft information]	Private Subscription Service – Property pricing provided online where the property value is calculated by an Automated Valuation Model	Interestingly, this was rarely used by respondents. A few residential valuers said they might look at free AVMs to double check their values but most markets didn't use AVMs as a means of comparison
	Publically available property pricing provided online where the property value is calculated by an Automated Valuation Model	

Interpretation of Traffic Light Analysis

It can be clearly seen that the colours of rankings of the use of comparable evidence changes from left to right. The more transparent markets have more greens and light ambers (strong and medium use) whereas, as you move to the right, the less transparent markets have more deep ambers and reds (limited use and not used) and "X"s as comparable evidence becomes less available.

Each heading was considered in a different way by each respondent but the general trend is that comparable evidence become less and less available and used as the transparency of the market decreases. Highly transparent markets consider transactional evidence to be the most useful comparable evidence whereas the less transparent markets either don't have access to such information (the majority) or discount its usefulness for other reasons (maybe relating to the demarcation of roles between agency and valuation).

Interestingly, the first category to show a distinct reversing of use was asking price information in any of its various forms. Transparent markets don't use it or lowly rank its usefulness. Less transparent markets often rank it as their most important evidence. This may be directly related to transparency but it could also be a reflection of the culture of valuation in different countries. As discussed above, in the more transparent markets valuation work is often closely linked to agency work so it would make sense that direct transactional evidence would be highly ranked. Yet, in countries where this is not their culture and where valuation and agency are quite separate, even if the transactional evidence is available, this category is very lowly rated.

Other notable observations are the fact that very few professional valuers make use of publically available automated valuation models. This may be because they perceive that there are limitations with such AVMs or it could be that they see AVMs as competition and they are more confident in their own analysis and valuation models.

The purpose of the study was to determine the availability of comparable data in different countries and how that comparable evidence was used and ranked by professional valuers in each jurisdiction. The study was qualitative in nature and it is appreciated that this approach has its limitations and that any result cannot be considered to be absolute but only indicative. On that basis, the simple traffic light analysis does reveal a correlation between the degree of transparency in a specific market and their ranking of comparable evidence sources. This emphasises that proposition that a "one size fits all" understanding of comparable evidence fails to appreciate that different countries/markets have different restrictions and cultures and, as such, a broader view of the definition of acceptable comparable evidence is both needed and appropriate.

Valuation Culture

Prior to undertaking the survey, it was noted that there were various differences between the valuation cultures of the countries within the survey. Some of those differences were linked to the transparency of the market but others are more historic and embedded in the way in which the valuation profession evolved in each jurisdiction. Obviously there is an element of "chicken and egg" in that previous statement and the access, or lack of it, to comparable evidence may be determined by the nature of the valuation profession within the country, legal restrictions at a local/country level or a host of other reasons. But the survey tried to get a view on why the valuers in countries where there was a lack of comparable evidence, and particularly transactional evidence, felt that was the case.

They were asked: Thinking about your negative (X) responses in the availability of data, why is there a lack of information in your country? Is it because ... (a) It is difficult to access such information? (b) Actually recorded sale prices do not represent the full market value? Or (c) The culture of the country does not encourage sharing information?

The aggregated responses to those questions (shown in Appendix 2) are not that revealing with a rough 50/50 split in the responses. However when the analysis is split by transparency the results are more revealing. This is shown in Table 4:

Table 4 – Access to comparable evidence

Why is there a lack of information in your country?	It is difficult to access such information?			Actually recorded sale prices do not represent the full market value?			The culture of the country does not encourage sharing information?		
	HT	T	ST	HT	T	ST	HT	T	ST
No	80%	45%	20%	60%	66%	20%	80%	50%	27%
Yes	20%	55%	80%	40%	34%	80%	20%	50%	73%

HT = Highly Transparent T = Transparent ST = Semi-Transparent

Now that the results are shown by transparency, it can be seen that as the transparency of the markets decreases there is an increase in the percentage who feel that culture and veracity of data impacts on the use of certain comparable evidence. This may be a self-fulfilling observation but, again indicatively, it does reinforce the correlation between the ranking of comparable evidence and the market's transparency.

Where there is greater transparency in a country, valuers rely more on the higher ranked categories of comparable evidence in Table 1. And as transparency decreases, the categories lower in the same list become more important as comparable evidence.

CONCLUSIONS AND RECOMMENDATIONS

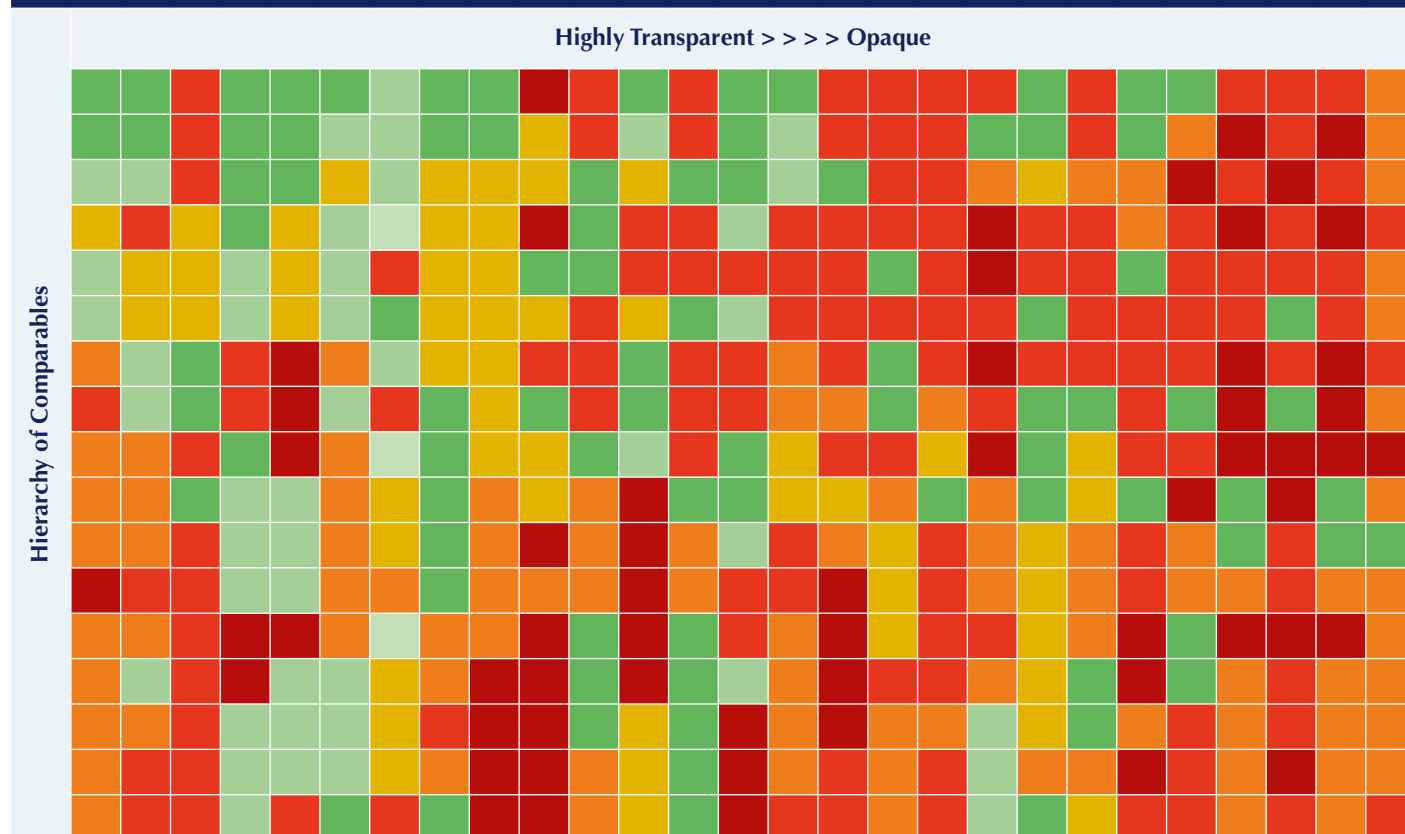
An Investigation into the use of Comparable Evidence in Property Valuation

Commentary

The purpose of the study was to try to determine the availability of comparable evidence in different countries and how that data is used by professional valuers in each jurisdiction. The hypothesis was that there was a link between the market transparency of the country and the ranking of comparable evidence based on access and usability.

The nature of the study was a qualitative analysis of questionnaires sent to all the professional organisations members of TEGoVA. The results of such research would not be statistically robust but its intent was not to test for statistical significance but rather to get a "feel" of how valuers within each country viewed the use of different comparable evidence. Given the indicative nature of the result covering 27 countries, a traffic light analysis was used to assess the link or correlation between the market's transparency and its access to and reliance upon certain data sources. The advantage of this type of analysis is that the results can be presented relative to just two criteria. In this case, the hierarchy of comparables against the market transparency of each market. Table 5 shows the results stripped down to these two variables.

Table 5 – Use of Comparable Data vs Transparency of Market



Just by a simple observation of the change in colours across the table, it can be seen that the ranking of comparables changes dramatically as the markets become less transparent with greens and light ambers giving way to deep ambers and reds from the left to the right. This suggests that as a market becomes less transparent then the access to and the use of comparable evidence changes.

It should be stressed that this change in data availability and use should not imply that one market's valuations are better than another's. Valuers must value within the jurisdiction where the property sits with all the restrictions on the availability of comparable evidence that apply to that country. Valuers will always seek out the "best" signposts within their market to support their assessment of market value.

Just because a valuer in a highly transparent market may not choose to rely upon the same information source as an equivalently qualified valuer in a more opaque market doesn't negate the veracity of the valuation in either market. The hierarchy of evidence in Table 1 suggests that the "best" evidence in a perfect hypothetical market is transactional evidence but if this is not, in reality, available to a valuer in a less transparent market, does that mean the valuer cannot value the property? Of course not. A good valuer values with all the information they have to hand. It may be argued that as market evidence availability gets less, then the valuation uncertainty pertaining to that valuation increases but that is not the same as suggesting that some data sources should not be used. For example, asking price information may not be used extensively, or at all, in a highly transparent market but that does not mean that it isn't a valid signpost in other less transparent markets.

In the European Valuation Standards (TEGoVA 2016), as with other international valuation standards, there is an ambiguity on what constitutes comparable evidence or a "comparable". In some sections, it clearly refers to transactional evidence only whilst in other parts, the definition is apparently much broader and includes all forms of comparable information. From the comments and conversations resulting from this survey, it is clear that, in practice, the broader definition of "comparables" and "comparable evidence" is widely used. It may be conjecture, but in highly transparent markets where they have relatively easy access to transactional evidence it is understandable why the term "comparable" has become synonymous with transactional evidence. But this is certainly not the case in less transparent markets as the ranking survey has revealed.

To summarise, there are two principal findings from this report and study. One is that there is a relationship between the ranking of comparable evidence and the transparency of the market in question and that ranking will vary between countries. The second is that the definition of comparables or comparable evidence is not absolute and valuers in different markets use the term differently. This should be recognised and care should be taken not to view the ranking of comparable evidence as a rigid universal framework. Each country will have a different hierarchy of comparable evidence and the fact that different countries use different sources of comparison as their principal signpost for determining market value is a natural consequence of varied market practices. Difference does not equate with less rigour. Ultimately, a property valuer will seek out the best comparable evidence available within their market and provide a rigorous and professional judgement of the market value of the subject property.

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Postscript – Covid 19

As previously noted, this study was undertaken prior to the global downturn triggered by the Covid 19 pandemic and the results are presented on the basis of the "normal" markets as they operated in January/February 2020.

However, it is suggested that one of the unintended consequences of the global downturn is that the availability of data in all markets has decreased with a particular impact on the availability of transactional evidence. This is certainly the case in the more transparent markets. All valuers in all of Europe are now valuing properties without the luxury of sales comparables. The likely consequence of this change in data availability is that there will be less divergence now between the ranking of comparable evidence between highly transparent and opaque markets.

APPENDIX 1

THE QUESTIONNAIRE

Pricing to Market TEGoVA Market Approach and Income Approach Survey 2020

QUESTIONNAIRE – January 2020

SURVEY

Question 1 – ABOUT YOU

Please TICK to confirm that you are a valuer and your qualifications and professional affiliation.

Valuer

Qualifications

Professional Affiliation

Country of Practice

If you undertake work in Different countries, please confine your Comments to the country where you work.]

Question 2 – ABOUT YOUR WORK

In your workplace, do you work with investment and letting team colleagues or, indeed, undertake such work yourself? Please indicate your work practice below as it will help to determine the source of your comparable data. If you work alone, please leave the "Colleagues" column blank.

Type of Work	You	Colleagues
Valuation Work		
Investment Agency (Sales)		
Estate Agency (Lettings)		

Question 3 – ABOUT YOUR WORK

What type of properties do you value? *(Please tick all that apply)*

Residential (single units and blocks of apartments)

Commercial (Offices/Industrial/Retail)

Commercial (Hotels/Restaurants/Leisure/other)

Question 4 – APPROACHES

In your Valuation Reports for MARKET VALUE, do you refer to the three APPROACHES?

Yes or No

Question 5 – APPROACHES

In your Valuation Reports for MARKET VALUE, do you inform the reader why you have chosen to use a particular APPROACH?

Type of Client	Yes	No
Lay Client		
Professional Client		
Internal Colleague		

Question 6 – MARKET APPROACH and INCOME APPROACH

Concentrating upon the approaches where you refer to comparable evidence, in your valuation reports for MARKET VALUE, do you inform the reader of the METHOD that you have chosen for the valuation?

Yes or No

Question 7 – INVESTMENT METHOD and COMPARABLE METHOD

In your Valuation Reports for MARKET VALUE, when undertaking valuations that refer to comparable information, do you provide the client with full disclosure of the comparable evidence used?

Yes or No

Question 8 – INVESTMENT METHOD and COMPARABLE METHOD

In your Valuation Reports for MARKET VALUE, when valuing the following asset classes, please indicate which method you use as the primary valuation method?

Type of Property	Investment Method (Rent x Yield) <i>[Please tick all that apply]</i>	Direct Capital Comparison <i>[Please tick all that apply]</i>
Multiple Occupancy Offices		
Single Occupancy Retail		
Shopping Centres		
Single Occupancy Industrial		
Industrial Estates		
Leisure		
Student Housing		
Single unit Residential – Rented		
Single unit Residential – Owner Occupied		
Residential Blocks – Rented		
Other <i>[insert]</i>		
Other <i>[insert]</i>		

Question 9 – INVESTMENT METHOD and COMPARABLE METHOD

In your Valuation Reports for MARKET VALUE, please rank the ease of access to the comparable information. If such information is NOT available in your jurisdiction, please indicate this with a "X". **Please comment fully on the problems that you have accessing any of the ranked information sources.**

For the ranking, start with a ranking of [1] to indicate that this is **your** preferred data source for comparison and then, within your jurisdiction, a ranking of [2] will be the next best, ranking [3] the next and so on. As some respondents may have data sources not available to other respondents and vice versa, the number of rankings will differ between respondents but this can be aggregated in the analysis.

Type of Comparable Evidence <i>(If the comparable source is not available in your country, please put a "X" and comment fully in the box adjacent)</i>	Rank <i>(1,2,3 etc)</i>	Comment <i>(Please comment as fully as possible in the relevant box below. The boxes will expand to accommodate your full comment)</i>
Recent Sales/lettings where you were party to the transaction and you have access to all relevant information <i>[Direct transactional evidence – Hard information]</i>		
Recent Sales/lettings where your colleague in your company was party to the transaction and you have access to his/her file and all relevant information <i>[Direct transactional evidence – Hard information]</i>		
Recent Sales/lettings where your colleague in a different company was party to the transaction and he/she will provide you with details of the transaction <i>[Direct transactional evidence – Soft information] [revised to Direct transactional evidence – Hard information]</i>		
Publically available information of recent transactions listed in a professional magazine <i>[Public Information – Soft information]</i>		
Publically available information of recent transactions listed for free on the internet <i>[Public Information – Soft information]</i>		
Private Subscription Service – Information of recent transactions listed on the internet <i>[Database – Soft information]</i>		
Government Listing or Cadastre – Information of transactions listed for free on the internet <i>[Database – Soft information]</i>		
Government Listing or Cadastre – Information of transactions listed for a fee on the internet <i>[Database – Soft information]</i>		
Market information on the reported sale/letting price of the property being valued <i>[Sale Price – Soft information]</i>		
Details of sales particulars with asking prices of similar properties in the same location <i>[Asking Price – Soft information]</i>		

Purchase enquiries, either directly to you or your company colleagues, for similar properties in the same location <i>[Asking Price – Soft information]</i>		
Purchase enquiries, to colleagues at other companies, for similar properties in the same location <i>[Asking Price – Soft information]</i>		
Purchase enquiries, to colleagues at other companies, for similar properties in the same location <i>[Asking Price – Soft information]</i>		
Evidence of previous transactions for sale or letting that is considered too historic to be direct comparison but may be used to extrapolate today's market value <i>[Historic Evidence – Soft information]</i>		
General market discussions/ commentaries with colleagues within and outwith your firm on the general trends in the market <i>[Market Sentiment – Soft information]</i>		
Published market commentaries in magazines or on the internet on the general trends in the market <i>[Market Sentiment – Soft information]</i>		
Property market indices, derived from aggregated information about market values or transactions, provided in the press or on the internet for free <i>[Indices – Soft information]</i>		
Private Subscription Service – Property market indices from aggregated information <i>[Indices – Soft information]</i>		
Private Subscription Service – Property pricing provided online where the property value is calculated by an Automated Valuation Model <i>[AVMs – Soft information]</i>		
Publically available property pricing provided online where the property value is calculated by an Automated Valuation Model <i>[AVMs – Soft information]</i>		
Other <i>[please indicate]</i>		

Question 10 – Access to comparable information

Thinking about your negative (X) responses to the above, why is there a lack of information in your country? Is it because ...

[Please tick all that apply]

It is difficult to access such information?

Actually recorded sale prices do not represent the full market value?

The culture of the country does not encourage sharing information?

Please feel free to add any additional comments on a separate sheet.

THIS COMPLETES THE SURVEY. THANK YOU

APPENDIX 2

THE ANALYSIS OF THE QUESTIONNAIRE RESULTS

Pricing to Market

TEGoVA Market Approach Survey 2020

OVERALL ANALYSIS

Response Rates		
N° of European Countries to respond	27	79% response rates
N° of European Countries in TEGoVA	34	
N° of Non-European Countries to respond	4	
N° of Non-European Countries in TEGoVA	4	

Question 1 – About You & Question 2 – About Your Work

Type of Work						
European Respondents – All are qualified Valuers	Valuation Work		Investment Agency (Sales)		Estate Agency (Lettings)	
	27	100%	5	19%	3	11%

Question 3 – About Your Work

Property Sectors Valued						
What type of properties do you value?	Residential		Commercial			
	Single units and blocks of apartments		Offices/Industrial/Retail		Hotels/Restaurants/Leisure/Other	
	25	93%	26	96%	25	93%

Question 4 & 5, 6 & 7 – Approaches & Methods

Valuation Approaches, Methods and Comparable Information								
In your Valuation Reports for MARKET VALUE, do you?	Refer to the three APPROACHES		Say why you have chosen a particular APPROACH?		Say the METHOD that you have chosen?		Disclose of the comparable evidence used?	
	22	81%	27	100%	26	96%	20	74%

Question 8 – Investment Method and Comparable Method

Methods of Valuation – Percentages			
Type of Property	Investment Method (Rent x Yield)	Capital Comparison	Investment Method & Capital Comparison
% based on undertaking type of work	ONLY		BOTH
Single Occupancy Offices	35%	38%	27%
Multiple Occupancy Offices	65%	15%	27%
Single Occupancy Retail	38%	35%	27%
Shopping Centres	73%	0%	27%
Single Occupancy Industrial	50%	19%	31%
Industrial Estates	68%	12%	20%
Leisure	73%	18%	9%
Student Housing	55%	23%	23%
Single unit Residential – Rented	38%	38%	25%
Single unit Residential – Owner Occupied	21%	67%	13%
Residential Blocks – Rented	50%	30%	20%
Land	0%	60%	40%
Farms	0%	100%	0%
Medical	0%	0%	100%
Plant & Machinery	100%	0%	0%

Question 10 – Access to comparable information

Access to comparable information						
Why is there a lack of information in your country?	It is difficult to access such information?		Actually recorded sale prices do not represent the full market value?		The culture of the country does not encourage sharing information?	
No	13	50%	14	54%	10	38%
Yes	13	50%	12	46%	16	62%

Question 10 – Access to comparable evidence – LEGEND

Strong Use
Medium Use
Limited Use
NOT Used
NOT Available

*The colours have gradients of shade depending upon ranking of use.
Darker Shades reflect greater emphasis within each category of colour.*

Question 10 – Access to comparable evidence – Highly Transparent Markets – Traffic Light Analysis

	Type of Comparable Evidence
Direct transactional evidence – Hard information	Recent Sales/lettings where you were party to the transaction and you have access to all relevant information
	Recent Sales/lettings where your colleague in your company was party to the transaction and you have access to his/her file and all relevant information
	Recent Sales/lettings where your colleague in a different company was party to the transaction and he/she will provide you with details of the transaction
Public Information – Soft information	Publically available information of recent transactions listed in a professional magazine
	Publically available information of recent transactions listed for free on the internet
Database – Soft information	Private Subscription Service – Information of recent transactions listed on the internet
	Government Listing or Cadastre – information of transactions listed for FREE on the internet
	Government Listing or Cadastre – PAID information of transactions listed on the internet
Sale Price – Soft information	Market information on the reported sale/letting price of the property being valued

Asking Price – Soft information	Details of sales particulars with asking prices of similar properties in the same location
	Purchase enquiries, either directly to you or your company colleagues, for similar properties in the same location
	Purchase enquiries, to colleagues at other companies, for similar properties in the same location
[Historic Evidence – Soft information]	Evidence of previous transactions for sale or letting that is considered too historic to be direct comparison but may be used to extrapolate today's Market Value
[Market Sentiment – Soft information]	General market discussions/commentaries with colleagues within and outwith your firm on the general trends in the market
	Published market commentaries in magazines or on the internet on the general trends in the market
[Indices – Soft information]	Property market indices, derives from aggregated information about market values or transactions, provided in the press or on the internet for free
	Private Subscription Services – Property market indices from aggregated information
[AVMs – Soft information]	Private Subscription Service – Property pricing provided online where the property value is calculated by an Automated Valuation Model
	Publically available property pricing provided online where the property value is calculated by an Automated Valuation Model

Question 10 – Access to comparable evidence – Highly Transparent Markets – Traffic Light Analysis

Type of Comparable Evidence	Highly Transparent				
	France	Germany	Ireland	Sweden	UK
Direct transactional evidence – Hard information		x			
		x			
		x			
Public information – Soft information					
Database – Soft information					
			x		
			x		x
Sale Price – Soft information		x			
Asking Price – Soft information					
		x			
	x	x			
[Historic Evidence – Soft information]		x			
[Market Sentiment – Soft information]					
[Indices – Soft information]	x				
	x				
[AVMs – Soft information]	x	x			x
	x	x			x

Question 10 – Access to comparable evidence – Transparent Markets – Traffic Light Analysis

Type of Comparable Evidence	Transparent								
	Austria	Belgium	Czech Republic	Denmark	Italy	Poland	Portugal	Romania	Spain
Direct transactional evidence – Hard information	Green	Light Green	Green	Green	Red	Red X	Green	Red X	Green
	Light Green	Light Green	Green	Green	Yellow	Red X	Light Green	Red X	Green
Direct transactional evidence – Soft information	Yellow	Light Green	Yellow	Yellow	Yellow	Green	Yellow	Green	Green
	Light Green	Light Green	Yellow	Yellow	Red	Green	Red X	Red X	Light Green
Public information – Soft information	Light Green	Light Green	Yellow	Yellow	Green	Green	Red X	Red X	Light Green
	Light Green	Red X	Yellow	Yellow	Green	Green	Red X	Red X	Red X
Database – Soft information	Light Green	Green	Yellow	Yellow	Yellow	Red X	Yellow	Green	Light Green
	Orange	Light Green	Yellow	Yellow	Red X	Red X	Green	Red X	Red X
	Light Green	Red X	Green	Yellow	Green	Red X	Green	Red X	Red X
Sale Price – Soft information	Orange	Light Green	Green	Yellow	Yellow	Green	Light Green	Red X	Green
Asking Price – Soft information	Orange	Yellow	Green	Orange	Yellow	Orange	Red	Green	Green
	Orange	Yellow	Green	Orange	Red	Orange	Red	Orange	Light Green
	Orange	Orange	Green	Orange	Orange	Orange	Red	Orange	Red
[Historic Evidence – Soft information]	Orange	Light Green	Orange	Orange	Red	Green	Red	Green	Red
[Market Sentiment – Soft information]	Light Green	Yellow	Orange	Red	Red	Green	Red	Green	Light Green
	Light Green	Yellow	Red	Red	Red	Green	Yellow	Green	Red
[Indices – Soft information]	Light Green	Yellow	Orange	Red	Red	Orange	Yellow	Green	Red
	Green	Red X	Green	Red	Red	Orange	Yellow	Green	Red
[AVMs – Soft information]	Green	Orange	Red	Red X	Red	Red X	Red X	Green	Red
	Orange	Orange	Red	Red X	Red	Red X	Red X	Red X	Red X

Question 10 – Access to comparable evidence – Semi-Transparent Markets – Traffic Light Analysis

	Semi-Transparent												
Type of Comparable Evidence	Bosnia & Herzegovina	Bulgaria	Croatia	Georgia	Greece	Latvia	Lithuania	Montenegro	North Macedonia	Russia	Serbia	Slovenia	Ukraine
Direct transactional evidence – Hard information	Green	Red	Red	Red	Red	Green	Red	Green	Green	Red	Red	Red	Orange
	Light Green	Red	Red	Red	Green	Green	Red	Green	Orange	Red	Red	Red	Orange
Direct transactional evidence – Soft information	Light Green	Green	Red	Red	Orange	Yellow	Orange	Orange	Red	Red	Red	Red	Orange
Public information – Soft information	Red	Red	Red	Red	Red	Red	Red	Orange	Red	Red	Red	Red	Red
	Red	Red	Green	Red	Red	Red	Red	Green	Red	Red	Red	Red	Orange
Database – Soft information	Red	Red	Red	Red	Red	Green	Red	Red	Red	Red	Green	Red	Orange
	Orange	Red	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	Orange	Orange	Green	Orange	Red	Green	Green	Red	Green	Red	Green	Red	Orange
Sale Price – Soft information	Yellow	Red	Red	Yellow	Red	Green	Yellow	Red	Red	Red	Red	Red	Red
Asking Price – Soft information	Yellow	Yellow	Orange	Green	Orange	Green	Yellow	Green	Red	Green	Red	Green	Orange
	Red	Orange	Yellow	Red	Orange	Yellow	Orange	Red	Orange	Green	Red	Green	Green
	Red	Red	Yellow	Red	Orange	Yellow	Orange	Red	Orange	Orange	Red	Orange	Orange
[Historic Evidence – Soft information]	Orange	Red	Yellow	Red	Red	Yellow	Orange	Red	Green	Red	Red	Red	Orange
[Market Sentiment – Soft information]	Orange	Red	Red	Red	Orange	Yellow	Green	Red	Green	Orange	Red	Orange	Orange
	Orange	Red	Orange	Orange	Light Green	Yellow	Green	Orange	Red	Orange	Red	Orange	Orange
[Indices – Soft information]	Orange	Red	Orange	Red	Light Green	Orange	Orange	Red	Red	Orange	Red	Orange	Orange
	Red	Red	Orange	Red	Light Green	Green	Yellow	Red	Red	Orange	Red	Orange	Red
[AVMs – Soft information]	Red	Red	Orange	Red	Red	Green	Orange	Red	Red	Red	Red	Red	Red
	Red	Red	Orange	Red	Red	Green	Orange	Red	Red	Red	Red	Red	Red

APPENDIX 3

NON EUROPEAN RESPONSES

Pricing to Market

TEGoVA Market Approach Survey 2020

Question 10 – Access to comparable evidence – Highly Transparent Markets – Traffic Light Analysis

Type of Comparable Evidence	Highly Transparent			
	Australia	Canada	New Zealand	USA
Direct transactional evidence – Hard information			x	
			x	
Public information – Soft information				
Database – Soft information				
			x	
			x	
Sale Price – Soft information				
Asking Price – Soft information				
			x	
			x	
[Historic Evidence – Soft information]				
[Market Sentiment – Soft information]				
[Indices – Soft information]				
[AVMs – Soft information]				

