

***Appraising in Challenging Markets:
Methodology and Procedures
To Use Offer Prices in the
Direct Comparison Approach***

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Discussion Points

1. Identify, compile, analyze and reliably use offer price data to conduct market analysis
2. Adjust offer prices to reflect potential sales prices
3. Calculate adjustments to comparables
4. Provide valuation examples

Offer Price Data

- IVS 102 (2) Valuation using the direct comparison approach may rely upon similar properties

“that have been transacted in the market or that are offered or listed for sale”

- In many countries market listings (Offer Price data) are an abundant source of information
- The question is not whether to use these data but how to do so in ways that are reasonable and defensible and compliant with IVS

Sales Price Data

- May be so limited that meaningful statistics cannot be calculated
- Limited data cannot support meaningful market analysis
- Limited data reduces usefulness in comparable analysis
- Reasons for lack of publicly available sales price data include
 - High taxes on real estate transactions
 - High prevalence of unrecorded cash transactions
 - Poor or non-existent information infrastructure
 - Distrust of government, desire to conceal ownership

Sales and Offer Price Data may be Misleading

- Sales transacted or Offers made in a national currency but priced in an international currency
- Implicit exchange rate is not obvious
 - May reflect the seller's desired rate of exchange (perhaps to include local currency taxes)
 - May reflect rate in the informal currency market rather than the official exchange rate (which may be artificially high)
- Rising Sales or Offer prices local currency may reflect devaluation as readily as an increase in demand

Compilation and Analysis

- Array by specific source, e.g. developers, agents, owners
- Cross-reference to identify duplicate listings or different offer prices for the same or similar listing.
- Further disaggregate *within* each source
 - Residential
 - Commercial
 - Retail
 - Primary versus secondary
 - Finished versus unfinished
 - Small versus large
 - Quality, age, etc

Working with Offer Price Data

2. Transaction Adjustments

- Cannot be Made
 - Financing Terms
 - Conditions of Sale
 - Expenditures Immediately After Purchase
- Can be Made
 - Real Property Rights
 - Market Conditions

Working with Offer Price Data

3. Inspect and Photograph as many Comparable Properties and Property Types as Possible to
 - Compensate for Inaccuracies in List Prices and Related Information
 - Determine Adjustment Factors

Working with Offer Price Data

4. Offer Price Adjustment (Marketing Adjustment)

- Difference Between Offer Price and Potential Sales Price based on analysis of
 - Specific Real Estate Market Conditions
 - General Economic Environment
 - Offer Price Change Over Time

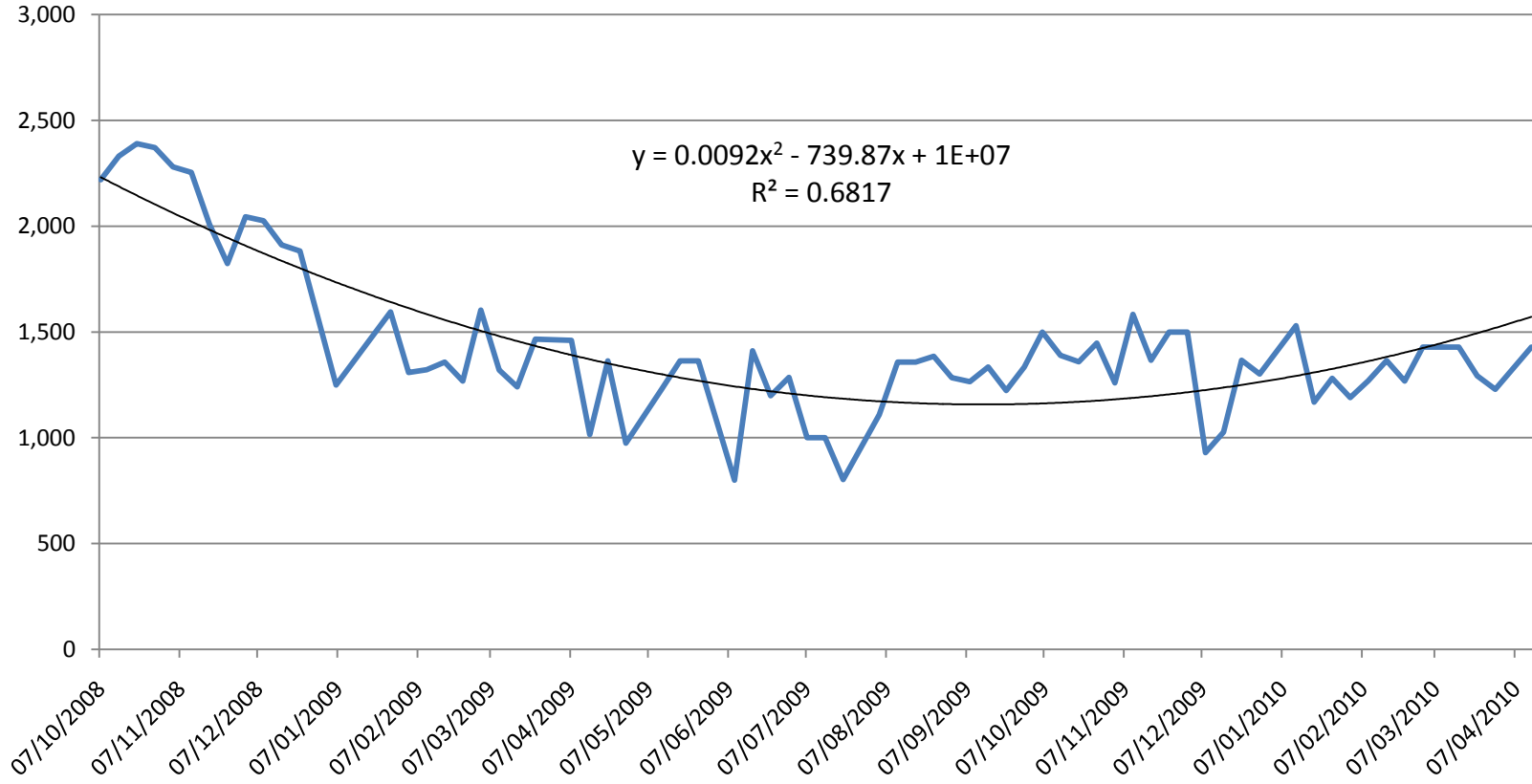
Marketing Adjustment

- Reflects the relative supply/demand balance in the market at any given time
- Recognizes that similar properties can be offered for different prices and to clear the market some offers will have to adjust to the competitive price level set by other similar offers
- In a relatively active market
 - A large number of sales (high demand)
 - A wide range of property types on offer (large supply)
 - Marketing adjustment is small and time frame for calculation is short.
- In a relatively inactive market
 - Small number of sales (low demand relative to offers)
 - Marketing adjustment is larger, time frame longer

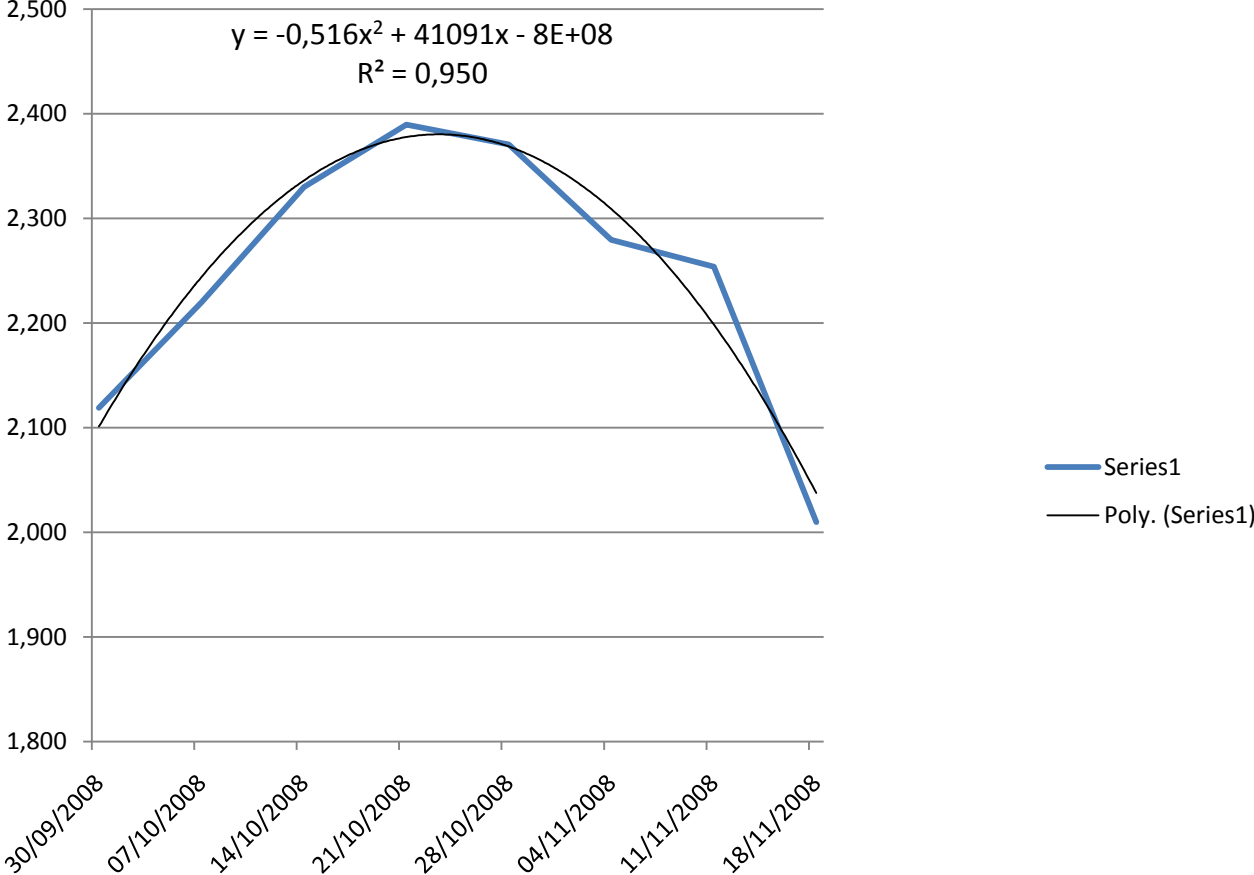
Residential Property Data Base

- Representative mid-sized industrial city
- Over 50,000 entries
 - Every date and price offer
 - Exact information as listed in source
 - Address or location information
 - Number of rooms
 - Sq m total and by room
 - Type of building, floor number
 - Written description (design, quality, special features)

Average Monthly USD Offer Prices for Selected Residential Real Estate



Average Weekly USD Offer Prices for Selected Residential Real Estate



Calculating Marketing Adjustments

Measure	30 Sept	% Change	28 Oct
Average \$US/Sq M	2 244	6%	2 371
Number of Observations	8		10
1 Standard Deviation	316		237
Adjusted Average	2 287	8%	2 474
Number of Observations	5		9
Ratio of Standard Deviation to Adjusted Average Offer Price	14%		10%
Minimum Offer Price	1 971		2 237

Adjustments Based on Paired Data Analysis

Street or District	Condition of Apartment	Type of Building and Age in Years	Date	Number of Observations +/- 1 wk	Average Price \$/Sq m	Difference in Price \$/Sq m	Adjustment %
Adjustment: Apartment Quality							
Karl Marx Street	Good	Stalinka, 50-60	21.10.2008	12	2,487	144	-6%
Karl Marx Street	Standard	Stalinka, 50-60	22.10.2008	25	2,343		6%
Adjustment: Apartment Location Within District							
Karl Marx Street	Good	Stalinka, 50-60	21.10.2008	12	2,487	52	-2%
Komsomol Street	Good	Stalinka, 50-60	21.10.2008	6	2,435		2%
Adjustment: Building Type, City Center							
City Center District	Good	New Building ≤ 10	21.10.2008	9	3,205	770	-24%
Komsomol Street	Good	Stalinka, 50-60	21.10.2008	6	2,435		32%
Adjustment: Building Type, Left Bank							
Left Bank District	Standard	Brezhnevka, 20-40	21.10.2008	8	1,386	185	-13%
Left Bank District	Standard	New Building, 10-20	21.10.2008	17	1,571		12%

Valuation in challenging markets is where the art and science of appraisal and experience of the appraiser are called upon to do the most with the least; to craft the approach to fit the available data; and to do so in ways that reliably determine value within an uncertain environment.

Using Offer Prices in the Direct Comparison Approach to Value Commercial Real Estate

- Size 7 050 sq m, 5 floors
- Quality Class A remodeling, full technical renovation
- Location City center of a large urban area
- Market High growth, strong demand

Adjusting Offer Prices for Comparable Commercial Property

	Subject of Valuation	Comparable Asking Prices*				
Location	Street XXXX,5	Shevchenko District, Example Street #1	Shevchenko District, Example Street #2	Shevchenko District, Example Street #3	Golosievsky District, Example Street #4	Shevchenko District, Example Street #5
Total Area sq m	7 050	1 647	3 500	5 180	600	500
Analogue (comparable) Number		1	2	3	4	5
Existing Quality and Technical Condition		Excellent	Satisfactory	Good	Good	Satisfactory
Offering Price of Building in USD		10 000 000	28 000 000	25 900 000	3 000 000	3 500 000
Offer Price in USD/sq m**		6 072	8 000	5 000	5 000	7 000
Offer Price in UAH/sq m		48 452	63 840	39 900	39 900	55 860
Marketing (terms of sale) Adjustment		-5,0	-5,0	-5,0	-5,0	-5,0
Location Adjustment		0,0	-30,0	0,0	10,0	-5,0
Scale Adjustment		0,0	0,0	0,0	-8,0	-8,0
Adjustment: Quality & Technical Condition, Building & Support Systems		0,0	6,25	6,6	6,0	5,71
Net Adjustment		-5,00%	-28,75%	1,60%	3,00%	-12,29%
Adjusted Offer Price, UAH/Sq m		46 029	45 486	40 538	41 097	48 997
Adjusted Offer Price, Thousand UAH		324 505	320 676	285 796	289 734	345 430
Comparables Used in Valuation		324 505	Not Used	285 796	289 734	345 430
Median Offering Price, Thousand UAH	311 366					
Average	307 120					
Standard Deviation	28 605					
Maximum	339 972					
Minimum	282 761					

Conclusions

- Offer Prices (Market Listings) are very often the most abundant and verifiable source of data and information
- It is feasible to identify, compile, analyze and reliably use offer price data and related information to
 - Support market analysis
 - Calculate comparable adjustment factors
 - Support valuation within IVS guidelines