# The Effects of Conditions and Context on Office Building Sales, 2002–2011

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**Abstract**

This article demonstrates the inclusion of understudied elements of comparison in a multiple-regression model using a national sample of commercial office building sales from 2002 to 2011. Where the elements of comparison tested are statistically significant predictors of price, the results suggest that practitioners might use the coefficient estimates in two ways—quantitatively and qualitatively. For valuers working in larger urban areas, nationally homogenous results can provide a range of empirically established estimates for several elements of comparison. The results also provide qualitative directional guidance for local or regional elements of comparison.

## Introduction

This article examines the influence of several types of understudied elements of comparison on commercial real estate transaction prices with a goal of developing insight for appraisal practice. Specifically, this article analyzes elements of comparison describing the who, how, why, context, and conditions of the purchase and sale of office buildings within large metropolitan markets in the United States. This analysis is motivated by a gap in the real estate finance, economics, and appraisal literature around these types of elements of comparison. Additionally, despite the fact that commercial appraisers create adjustments for these types of elements of comparison (e.g., 1031 exchanges) for individual valuation assignments, such elements are rarely studied or included in larger regression-based analyses.

In this context, the purpose of this article is to both demonstrate the inclusion of who, how, why, context, and transaction conditions elements of comparison variables within a regression model of commercial real estate transactions and to discuss the utility of the findings for appraisal practice. This demonstration is operationalized using a national sample of commercial office building sales data describing transactions from 2002 to 2011 within the fifty largest US metropolitan markets.

Where several of the elements of sale tested are statistically significant predictors of price, the results suggest that appraisers might use the coefficient estimates in two ways: empirically and qualitatively. For those working in urban areas, results can provide a band of empirically established estimates for several nationally homogenous elements of comparison. For some variables, the high degree of variability or more heterogeneous national application of the coefficients mutes their quantitative utility. Instead, these results could provide qualitative and directional signals in the value estimation process.

## Relevant Literature Summary

Commercial real estate appraisers traditionally employ three methods to estimate the value of income-producing properties: the cost approach, the income capitalization approach (including discounted cash flow and capitalization rate methods), and the sales comparison approach.[1] Typically, comparable properties are located in

1. Appraisal Institute, *The Appraisal of Real Estate*, 14th ed. (Chicago: Appraisal Institute, 2013).