



APPLIED VALUATION

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MARKET APPROACH

EAEQ 3209: LESSON THREE



1- Market Approach

- Provides value by comparing the subject asset with identical or similar assets for which price information is available (IVS-2013)
- You compare property under valuation with:
 - Recently sold properties
 - Listed properties
 - Properties under contract

Measurement Techniques



1. Demand and supply
2. Substitution
3. Balance





Procedure

1. Gather sales data; recent sales, listings, offers of properties similar to the subject (e.g. type, size, location, condition etc.).
2. Verify the accuracy of the data to ensure the data represent arm's length transactions (confirm the data is comparable).
3. Selecting relevant units of comparison (e.g. per sq.ft., per room, per acre, per bed, per quest room etc.).
4. Determine the extent of the differences between the comparables and the subject and adjust their prices for differences in various elements of comparison, and
5. Reconciling multiple value indications into a single value or range of values.



Elements of comparison

1. Real property rights conveyed
2. Financing terms
3. Conditions of sale
4. Expenditures made immediately after purchase
5. Market conditions (time)
6. Location
7. Physical characteristics—e.g., size, construction quality, condition
8. Economic characteristics—e.g., expense ratios, lease provisions, management, tenant mix
9. Use (zoning)
10. Non-realty components of value



Data Sources

Type of Data

- Sales
- offers
- Listings

Sources

- Estate Agents
- Multiple Listing Services
- Records from Lands Office
- Real Estate Magazines
- Websites/Internet
- Interviews with the parties involved in market transactions (valuers, lawyers, bankers etc)



Measurement Techniques

1. Quantitative

- a) Mathematics
- b) Statistics (averages, mode)
- c) Graphs
- d) Trends analysis

2. Qualitative

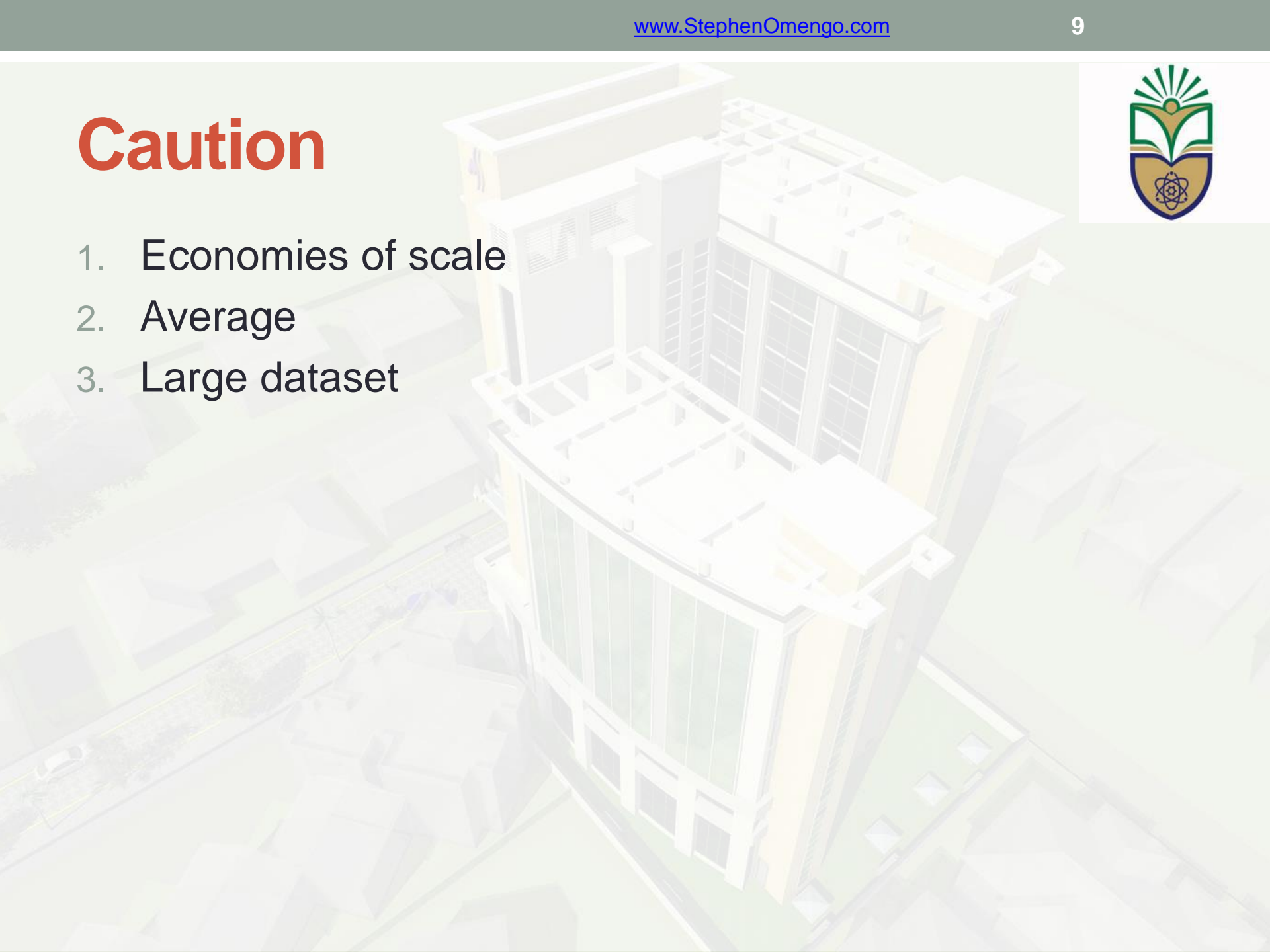
- a) Ranking
- b) Personal judgement

Mostly quantitative techniques are applied followed by qualitative techniques.

Mathematical computations must not be substitute for the valuers opinion

Caution

1. Economies of scale
2. Average
3. Large dataset





Limitation

- Used where there is sufficient recent market data.
- Simple and straightforward method
- No applicable to special purpose [properties
- Lack of market data may render the approach
- The sale does not capture all the characteristic of the property such as the incomes
- Rapidly changing market may render the method inaccurate where comparablens sales may not reflect the market
- The sale must be analysed and the valuer understand the circumstances under which the sale was made