

# The Importance Of Data In Property Valuations And The Key Role Of Comparative Method In Other Methods.

**DR. THOMAS DIMOPOULOS**  
DIRECTOR AND FOUNDER

**AXIA CHARTERED SURVEYORS**  
(PROPERTY VALUATIONS FIRM)

**REAL GEOSOLUTIONS**  
(SOFTWARE COMPANY PROVIDING  
GIS AND AVM SOLUTIONS)



## DATA IN PROPERTY VALUATIONS

It is undisputable that data plays an indispensable role in the valuation process and affects valuation results in:

1. **Accuracy & Reliability:** At the heart of the valuation process is the pursuit of accurate and reliable results. The accuracy of a valuation is heavily dependent on the quality and relevance of the data used. For instance, when using the Comparable Sales Method (a common approach in property valuation), it's essential to have access to recent, local, and relevant sales data to make accurate comparisons.
2. **Standardization & Consistency:** Institutions such as RICS, IVS, and TEGOVA emphasize the importance of consistency and standardization in the valuation process. To achieve this, valuers require a consistent stream of data that is processed in a standardized manner. This ensures that different valuers or firms can come to relatively similar valuation conclusions given similar data.
3. **Market Trends & Analysis:** The property market, like any other, is subject to fluctuations and trends. Historical and current data provides a lens into the market's direction, enabling valuers to adjust their assessments based on market conditions. For instance, in a market showing a consistent upward trend in property values, a valuation would be adjusted accordingly.
4. **Risk Management:** Good data allows valuers to understand the risks associated with a property. Factors like location, historical price volatility, and local market conditions can provide insight into a property investment's potential risks and rewards.
5. **Compliance & Regulation:** As professionals, bound by certain standards and ethical considerations, valuers need to ensure their assessments are defensible and compliant with relevant guidelines. The IVS, for instance, sets out how valuations should be conducted on an international scale. Using comprehensive and reliable data ensures that a valuation adheres to these standards.
6. **Informed Decision Making:** Beyond the valuers, the end-users of valuations (like investors, lenders, and property owners) rely on these assessments to make informed decisions. Accurate and comprehensive data ensures that these stakeholders can trust the valuation as a foundation for their decisions.
7. **Technological Evolution:** With advancements in technology, particularly in the realms of big data and artificial intelligence, the valuation process is becoming more sophisticated. This new wave of tech-driven valuation tools requires a robust data-set to operate effectively.
8. **Diversity of Data Sources:** The property market is affected by a wide array of factors, from macroeconomic indicators to local infrastructure developments. A valuer with a broad background understands the importance of sourcing data from diverse channels to get a comprehensive view of the property's value.
9. **Transparency & Trust:** In today's information-driven world, stakeholders often demand transparency in the valuation process. Valuers can enhance trust in their assessments by showcasing the data sources and methodologies used.
10. **Adaptability:** The property market, and indeed the world at large, is always evolving. New data allows valuers to remain adaptable and update their methodologies and

perspectives in light of changing circumstances.

Data acts as the backbone of the property valuation process. It's not just about numbers; it's about understanding market dynamics, managing risks, and ensuring that valuations are both accurate and reliable. An expert valuer will rely on quality data to uphold the highest professional and ethical standards in their practice.

At this stage, I will try to synopsise how data is utilized for each primary valuation Method separately:

**1. Comparative Sales Method (or Sales Comparison Approach):**

- Data Needed: Recent sale prices of comparable properties (comps), features of comps (e.g., square meters, number of rooms, location), date of sale, and terms and conditions of sales.
- How Data Affects It: The value of a property is directly compared to recent sales of similar properties. The quality, relevance, and recency of the comps can significantly affect the valuation.

**2. Income Capitalization (Investment) Approach:**

- Data Needed: Potential rental income, operating expenses, vacancy rates, yields, rental

growth, and capitalization rate. Expected future cash flows and a discount rate to calculate the present value.

- How Data Affects It: This approach determines the value of a property based on the income it can potentially generate. Accurate data on potential rent, expenses, and prevailing cap rates ensures the valuation is reflective of the property's income potential. Accurate cash flow projections and appropriate discount rates ensure a reliable valuation.

**3. Cost (contractor's) Approach:**

- Data Needed: Cost to build a replica of the subject property, current value of the land, and depreciation since the construction.
- How Data Affects It: This method values a property based on how much it would cost to build an identical or equivalent property. Up-to-date construction cost data, land values, and accurate depreciation rates are crucial.

**4. Residual (Development) Method:**

- Data Needed: Value of the completed development, costs of development, profit margin expected by developers, absorption rates, professional

fees, contingencies, and others.

- How Data Affects It: Used mainly for properties with development potential, this method determines the value of a property (land) based on the end value minus costs and required profit. Accurate projections and cost estimates are pivotal.

**5. Profit Method:**

- Data Needed: Gross income from the business, operating expenses, capitalization rate, and analyses of similar businesses for proper rating and adjustments.
- How Data Affects It: This approach is used primarily for properties like hotels or pubs, where the property and business are intertwined. Reliable income statements and operating cost data are essential.

To summarize the above, someone could say that having the most recent and relevant data is crucial for ensuring that valuations reflect current market conditions. Consistent and comprehensive data sources boost the reliability of valuations, enabling stakeholders to make informed decisions based on the assessment.

In a field that requires trust, showcasing the data and methodologies used can enhance credibility. Transparent data sources

and clear methodologies can reduce disputes and disagreements. International and local valuation standards often require valuers to base their judgments on concrete evidence. Proper data ensures compliance with these standards.

Last but not the least, with consistent data over time, valuers can identify trends in the property market. This can be essential for forecasting or understanding market cycles.

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*The paradox here lies in the dual role of quality data. While robust datasets empower valuers to enhance the precision and consistency of their assessments, they simultaneously pave the way for Automated Valuation Models (AVMs) that can perform portions of their routine tasks. Conversely, when the data is subpar, not only do valuers struggle to produce reliable valuations (however daily*

*work increases due to the high demand for valuations), but AVMs also become inoperative.*

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### KEY ROLE OF COMPARATIVE METHOD IN OTHER METHODS

The Comparative Method involves comparing the subject property with similar, recently sold properties and then adjusting for differences between the properties. This principle of making adjustments based on empirical data is used, implicitly or explicitly, in many valuation methods. It is a foundational tool (cornerstone) in property valuation. While it primarily involves juxtaposing the subject property against similar, recently sold properties to derive value, its influence extends well beyond this singular technique. The Comparative Method not only stands as its own distinct approach but also weaves its principles seamlessly into various other valuation methods, enhancing their accuracy and relevance. This interplay underscores the method's significance, showcasing its versatility and integral role in the broader spectrum of property valuation. In the ensuing discussion, I will delve into the pivotal role the Comparative Method

plays in complementing and reinforcing other prevalent valuation techniques.

1. **Income Capitalization Approach:** Even when using the income approach, one might need to refer to comparative data to estimate market rent, especially if the subject property or its units are vacant or if lease agreements are considered below or above market rates. It is also used to estimate yields and discount rates.
2. **Cost Approach:** While this method is based on the cost of constructing a replica of the subject property, the land's value on which the property has been constructed is often determined using the Comparative Method by looking at recent sales of similar vacant land plots.
3. **Residual & Development Methods:** When determining the Gross Development Value (GDV) – essentially the value of a developed property – the Comparative Method often comes into play. Comparing the potential property with recently sold developed properties can help in estimating the GDV.
4. **Investment Method:** When assessing the market value of an investment property, the

Comparative Method can be used to gauge the current market sentiment, even if the primary valuation is based on cash flow projections.

5. Validation: Even if the primary valuation is conducted using another method, valuers often cross-check their results using the Comparative Method as a sanity check, ensuring that their valuation is in line with recent market transactions.
6. Establishing Base Rates: For methods that rely on rates such as capitalization rates or discount rates, the Comparative Method can assist in establishing a baseline by analysing transaction data and extracting implicit rates from market comps.

While the Comparative Method is a standalone approach for property valuation, its principles, and the data it utilises play a foundational role in multiple other valuation techniques. This interconnectedness reinforces the importance of accurate, timely, and relevant data in the field of property valuation.

**ABOUT THE WRITER**

Thomas is the Director and founder of AXIA CHARTERED SURVEYORS (a property valuations firm), and REAL GEOSOLUTIONS (a software company that provides GIS and AVM solutions)

Appointed to the European Board of IVSC in 2020, his commitment to the realm of valuation is further cemented by his leadership roles both as an Assistant Professor and Director of Real Estate Programmes at Neapolis University and as a Visiting Lecturer at Cyprus University of Technology.

Educationally, he boasts a diverse academic portfolio including a PhD from Cyprus University of Technology in the field of AVMs, a M.Eng. from Aristotle University of Thessalonica as a Rural and Surveying Engineer, and a MSc in Real Estate from Oxford Brookes University. His commendable tenure as the chairman of RICS Cyprus between 2017-2022 and as a board member of the Association of Property Valuers in Cyprus underlines his contributions to the industry.

A published author, his work delves deep into property valuation methodologies, property taxation, and the pioneering integration of AI and Machine Learning in Mass Appraisals.