Title: Comparable evidence in real estate valuation

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RICS professional standards and guidance

Definition and scope

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Publications status

Type of document	Definition
RICS Rules of Conduct for Members and *RICS Rules of Conduct for Firms*	These Rules set out the standards of professional conduct and practice expected of members and firms registered for regulation by RICS.
International standard	High-level standard developed in collaboration with other relevant bodies.
RICS professional statement (PS)	Mandatory requirements for RICS members and RICS regulated firms.
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1 Introduction

1.1 Purpose

Comparable evidence is at the heart of virtually all real estate valuations. The process of identifying, analysing and applying comparable evidence to the real estate to be valued is, therefore, fundamental to producing a sound valuation that can stand scrutiny from the client, the market and, where necessary, the courts.

Although many valuers are experienced in handling and analysing comparable data, approaches vary. In developing markets, comparable evidence is often more difficult to obtain and valuers may be less familiar with its use. At the same time the valuation process is becoming increasingly regulated worldwide. RICS members are required to maintain suitable records of inspections, investigations and key valuation inputs, including the evidence used to support a reported valuation and are subject to monitoring to ensure standards are maintained. Many clients also now require supporting evidence to be produced.

1.2 Scope

This guidance note discusses the use of comparable evidence in the valuation process. It has four main purposes:

- to outline the principles of the use of comparable evidence
- to encourage consistency in the use of comparable evidence globally
- to address issues of availability and use of comparable evidence, especially in challenging market conditions and
- to consider potential sources of comparable evidence and the relative weight that may be given to them.

The use of comparable evidence in the valuation of the principal types of real estate asset is examined. This guidance note does not cover the use of comparable evidence in the valuation of plant and equipment and other business assets, or personal property, though many of the principles described are also relevant to the valuation of these types of asset.

It is important to emphasise that this guidance note is not prescriptive – the content covers a broad area of practice, and applies to a wide variety of market conditions and circumstances. Valuers should use its contents to guide their general approach to the use of comparable evidence, while making due allowance for the particular circumstances of the real estate being valued and the market in which it is located. Reference should also be made to *RICS Valuation – Global Standards 2017* (the 'Red Book'), especially VPS 2 (Inspections, investigations and records) and VPS 3 (Valuation reports).

Real estate markets are imperfect and are generally characterised by a lack of comprehensive information. Thus, while the theory of real estate valuation and the use of comparable evidence can be explained, there is no substitute for the valuer's detailed,

in-depth market knowledge and valuation experience. The competence requirements for RICS members can be found in more detail in *RICS Valuation – Global Standards 2017* (the 'Red Book') PS 2 (Ethics, competency, objectivity and disclosures).

2 General principles of comparable evidence

A comparable can be defined as an item of information used during the valuation process as evidence to support the valuation of another, similar item. Comparable evidence comprises a range of relevant data used by the valuer to support a valuation.

Valuation of any asset relies on the well-established economic principle of substitution. This states that the buyer of an item would not pay more for it than the cost of acquiring a satisfactory substitute.

Therefore, a person assessing the price to pay for a particular item will normally look to the price achieved for similar items in the market (the comparable evidence) and make a bid accordingly.

Ideally, comparable evidence should be:

- comprehensive – there should be several comparables rather than a single transaction or event
- very similar or, if possible, identical to the item being valued
- recent, i.e. representative of the current market
- the result of an arm's-length transaction in the market
- verifiable
- consistent with local market practice, and
- the result of underlying demand, i.e. comparable transactions have taken place with enough potential bidders to create an active market.

Comparable evidence underpins the valuation of almost all openly-traded goods. Provided the above criteria are met, it can provide an accurate indication of value for many widely-traded assets.

Challenges arise, however, when considering assets that are less-widely traded or where there are significant differences between the assets providing the evidence and the asset being valued. In such circumstances the evidence available may not be directly comparable. It will therefore need to be analysed and reconciled in order for it to be used in the valuation. This is often the case for real estate. In such circumstances the skills of the valuer assume a much greater importance.

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3 Comparable evidence in real estate valuation

3.1 Principles

Comparable evidence is widely used in real estate valuation, even though comparables may not always meet the criteria set out in section 2. There are several reasons for this.

- A limited number of available comparable transactions – real estate transactions are relatively infrequent compared with those for other assets such as, for example, listed shares
- A lack of up-to-date evidence – relatively infrequent transactions may mean that evidence is sometimes out-of-date.
- Special purchasers – some purchasers may be willing to pay more than the market value for a real estate asset because they have an over-riding motivation, for example ownership of an adjoining plot of land. In these circumstances the price achieved may not provide evidence of the asset's current market value.
- Similar or identical evidence – the complex nature of real estate means that its value is derived from numerous factors, ranging from location to use, size, construction and efficiency of buildings, tenure and tenancy. As a result, it is unlikely in practice that a comparable will be identical to the real estate being valued.
- Real estate markets are not fully transparent – information on transactions is often not publicly available, and even when available it may be out-of-date, lacking in detail or inaccurate. This situation is encountered worldwide, but transactional evidence is particularly difficult to obtain in developing markets.

For all these reasons, it is unlikely that comparable evidence will perfectly match the real estate asset subject to valuation. The valuer will, therefore, need to analyse and interpret the available evidence and use it as guidance rather than direct evidence of value. In some circumstances this can result in a significant degree of uncertainty in the reported valuation figure.

The *RICS Valuation- Global Standards 2017* (the 'Red Book') requires material uncertainty to be reported in VPS 2 (Inspections, investigations and records). Guidance on how to report an uncertain figure is given in VPGA 10 (Matters that may give rise to material valuation uncertainty).

3.2 Approaches to real estate valuation

Three commonly used approaches to real estate valuation are recognised in *RICS Valuation- Global Standards 2017* (the 'Red Book') in VPS 5 (Valuation approaches and methods). Each approach includes the use of comparable evidence to a greater or lesser extent.

3.2.1 Market approach

This approach adopts the principle that the value of one property may be derived by comparing it directly with market transactions for similar properties. It is widely used in the valuation of straightforward residential, rural and commercial real estate.

3.2.2 Income approach

The income approach is used to value real estate that produce an income for the investor. There are two methods that fall within the income approach: the investment (or income capitalisation) method and the profits method.

In the conventional investment method, the value is derived from the net rental income and a capitalisation factor based on the expected annual rate of return. These are both normally established using comparable evidence. An alternative investment method involves the use of a discounted cash flow (DCF) technique. The key inputs in a DCF valuation, including rent, rental growth rate, discount rate, costs and disposal price at the end of the investment period, will be derived from comparable evidence.

The profits method is used for when value is derived from the trading potential of the business for which the property is designed; examples include golf courses, student housing or cinemas.

Comparison is used in assessing a fair and maintainable level of trade – see VPGA 4 (Valuation of individual trade related properties) in *RICS Valuation- Global Standards 2017* (the 'Red Book').

3.2.3 Cost approach

The cost approach, also known as the depreciated replacement cost approach, is used to value real estate that does not usually sell on the open market (for example, public buildings), and for which comparable evidence does not exist. In some jurisdictions the cost approach is used for proposed or recently built properties. This approach is based on two components: the depreciated cost of the building element and the value of the land. Figures for both these components will be obtained from comparable evidence.

3.2.4 Statutory valuation

Statutory valuations are usually required for the purposes of taxation, or in cases of compulsory purchase, and therefore they must be undertaken in accordance with the relevant statutes. This means that the approach to the valuation, and its result, can differ from a conventional market valuation. An example would be a valuation for a taxing jurisdiction that requires the valuer to follow a specific approach or defined methodology. Although the valuer will be required to abide by the constraints of the statute, the principles of comparable evidence will still apply and the valuer will need to search for and analyse evidence in the usual way.

3.2.5 Retrospective and projected valuations

Valuers may sometimes be asked to provide an opinion of value on a specified date in the past when market conditions will probably have been significantly different from those at the date of instruction. This situation can arise, for example, in valuations for taxation purposes or as evidence in a court case.

When using comparable evidence for a retrospective valuation, the valuer should consider the following:

- comparable evidence should only be used if it would have been available to a valuer on the date of valuation, and
- Viewed with the benefit of hindsight, comparable evidence can be much clearer than it would have appeared to a valuer at the date of valuation. The valuer valuing retrospectively therefore needs to place themselves in the position of someone reviewing the available evidence on the valuation date, and make a judgement on the extent and nature of the evidence that could reasonably be expected to have been available at the time.

A projected valuation for a future date may sometimes be required. Projected valuations are referred to in *RICS Valuation- Global Standards 2017* (the 'Red Book') VPS 4 (Bases of value, assumptions and special assumptions, section 11). Current comparable evidence will not be available, and the valuer must ensure all assumptions made are realistic, credible and clearly described in the report.

3.3 Comparable evidence in real estate sectors

Comparable evidence will vary dependent on the type of real estate being valued, but the key comparative factors applicable to almost all real estate sectors are summarised in appendix A. Appendix B lists factors affecting value and comparability in specific sectors. There are some important elements for each sector.

- Rural – the value of agricultural land will be strongly influenced by its ability to produce income. Its quality in terms of soil fertility, accessibility and ease of cultivation will therefore be important. Development potential can also affect values.
- Residential – location is vital in terms of residential value: the property's position in the country and factors such as aspect, outlook and the immediate environment are all important. Factors such as condition, facilities and energy efficiency will also affect value.
- Retail – retail locations are usually divided into prime, secondary and tertiary pitches so the precise location of a unit will be a key factor. In the case of shopping centres/malls, these-are complex properties whose requirements vary from one country to another. Important factors

usually include size, location, accessibility, parking ratio, tenant quality and mix and building quality.

- Offices – location, building quality, layout, facilities, service costs, building efficiency and sustainability credentials are amongst the significant factors. With advances in technology and the aging of costly building plant, obsolescence of older premises is an important consideration.
- Industrial, warehouse and distribution – accessibility to transport links has a major impact on value as do aspects of the building design, size, age and condition.
- real estate with development potential – the value of a development site is particularly sensitive to small changes to valuation inputs such as the amount and density of the permitted development, the assumed value of the completed development, ground conditions, development costs and allowance for risk. Straightforward comparison on a price per unit area of the site is therefore often not valid. Comparison on a price per buildable area basis may be possible but a more detailed analysis is often required, usually involving residual valuation or cash-flow techniques. These need a wide range of data inputs including the estimated value on the special assumption that the development is completed as at the date of valuation, construction costs, finance costs, fees and an allowance for profit.

If the real estate asset is let as an investment, lease terms such as length of the unexpired term, lease break options, the financial strength of the tenant, and rent review provisions will all have an impact on value. Tenure is another important factor: for example, unusual restrictions to the freehold title will have an adverse impact while, in the case of leasehold interests, the terms of the lease and any extension provisions can significantly affect value.

The common theme across all real estate sectors is that comparable evidence will almost always require analysis and adjustment to allow for differences between the asset being valued and the comparable evidence.

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4 Sources of comparable evidence

Sourcing good comparable evidence in real estate markets is often not easy. Where details of directly comparable transactions are not available, the valuer must refer to other sources of information. This requires both careful interpretation and professional judgement.

It is important to be aware of the strengths and limitations of the different types of evidence available. This section summarises the main sources of comparable evidence and examines the relative importance of each.

4.1 Market evidence

Information derived from relevant comparable market transactions will normally provide the best evidence of value. Such evidence should be recent, relevant and comprehensive. It may come from a variety of sources.

4.1.1 Direct transactional evidence

Recent transactions in the open market will almost invariably provide the best and most reliable source of evidence. However, even in the most transparent markets, full details of sales and lettings are rarely publicly available. Real estate transactions are often complex and the headline data alone rarely provide sufficient evidence, so it is vital to gain as much information as possible from each comparable transaction so it may be effectively applied to the asset being valued. The accuracy of published data should therefore be confirmed where possible and full details of reported transactions should be established.

Valuers should ensure that full details of any incentives (such as rent-free periods, capital payments by either party or lease breaks) forming part of a comparable transaction are incorporated into the analysis of the evidence. Incentives are commonly offered in the case, for example, of new house sales or in retail or office lettings.

A sale or letting in the property being valued can provide some of the best evidence available for a valuation provided it is a recent transaction that fits the *RICS Valuation – Global Standards 2017* (the 'Red Book') glossary definition of market value.

4.1.2 Publicly available information

Publicly available data comprises information on real estate transactions that has been published by a government or other recognised authoritative source, either in the press or via open online sources such as real estate agents' websites. Although this information can be useful, further investigation and analysis will almost certainly be required before the data can be reliably used as comparable evidence.

For example, while published data on a sale may include details of the tenure, contract sum and the size of the unit, it may not refer to other factors of the transaction that have an impact on the reported figures. These factors may include the condition of the building, its specification, letting or sale incentives, the existence of a special purchaser or circumstances resulting in a forced sale.

Also, publicly available information is often published several months after the transaction was agreed, which, in a fast-moving market, can compromise its relevance as comparable evidence.

4.1.3 Databases

Databases can provide a general background to values and market trends. However, they are not a primary source of information unless full details of a transaction can be confirmed. Databases can provide guidance and support but, where possible, a reported value should be primarily based on direct comparable evidence, backed by the valuer's personal knowledge and experience. This is because the level of aggregation in databases may mask local variations and will not take into account the particular characteristics of the real estate being valued. Similarly to publicly available

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information, valuers should also be aware that the time taken to analyse raw data and produce databases can mean they are out of date by the time they are published.

4.1.4 Asking prices

Asking prices do not provide reliable evidence of value and should be treated with caution because they will usually not reflect the agreed final transaction price. In some markets, however, asking prices may be the only evidence available and if interpreted carefully by an experienced valuer, asking prices can provide some guidance on current market conditions and trends in value.

Asking prices can also be useful when combined with information on the level of demand and offers received, though the valuer must verify that the properties are being effectively marketed. To obtain full information on asking prices the valuer will normally need to have reliable contacts with letting or selling agents.

4.1.5 Historic evidence

Evidence of transactions that have taken place too long ago to provide direct comparable evidence can sometimes still be useful if combined with knowledge of market trends between the date of the comparable transaction and the valuation date.

A valuer specialising in a particular area may be asked to value the same property on more than one occasion, for example, when a house is sold several times over a number of years. While not producing direct evidence, knowledge of a previous sale and the market at that time can provide background information to support a judgement on a valuation at a later date, assuming the asset itself has not changed significantly.

4.2 Indices

Real estate market indices, derived from aggregated information about market values or transactions, exist in most mature real estate markets worldwide. They can be a source of useful information, provided the valuer takes due account of the sources and reliability of the data, and the level of aggregation.

For commercial investment real estate, the longest-established and best-known indices are provided by the Investment Property Databank (IPD). IPD (which became part of MSCI from 2012), produces indices covering capital and rental value movements, yields and investment returns. These may be disaggregated by, for example, region, town, sector and investor category. IPD/MSCI indices cover many of the principal commercial investment markets but coverage of secondary real estate markets can be less comprehensive.

Many of the larger firms of real estate advisers also produce indices for the main markets worldwide and across most sectors. These can show trends in market and sector performance, although these indices are often limited to prime real estate. The performance of secondary real estate, or that in provincial locations, may differ significantly.

Indices of building cost data are also available, and can be useful in residual valuations or in the cost approach to valuation. However, the time taken to analyse raw data and produce these indices can mean they are often out of date by the time they are published.

Indices can be a guide to general trends in the market, usually at a national, regional or city level. They can be a useful reference point when forming a judgement, providing the valuer has a clear understanding of the sources and reliability of the data from which the index has been derived. It should be remembered, however, that indices represent aggregate trends in their subject area and the value of individual properties may differ significantly from the general trends.

4.3 Automated valuation models

The providers of automated valuation models (AVMs) may offer access to their data in certain circumstances. Some of this data may be detailed and more rapidly available than that from other databases though care in verifying it will still be required and the same caveats apply; aggregated data may be used to show trends but it cannot account for the characteristics of an individual property and the effects these may have on its value.

Data from an AVM may be used as part of the evidence in support of a valuation, and the valuer must decide on the weight to give AVM outputs when assessing the total body of comparable evidence available.

4.4 Data protection and confidentiality

This section has emphasised the importance of obtaining as much data as possible on comparable real estate transactions so that it can be accurately applied to the subject of the valuation. In many cases this evidence will be provided by third parties such as the owners, tenants or occupiers of similar real estate, or their agents.

Questions of commercial confidentiality or statutory data protection may arise, which might mean that sources and figures cannot be confirmed, but this should not invalidate the use of this data in arriving at an opinion of value, provided confidentiality issues can be respected. Valuers need to be aware of any local data protection or confidentiality legislation that may apply in their jurisdiction and act accordingly. For example, it may be necessary to obtain permission to use data on comparable transactions, especially if this is going to be published in a report or used in judicial proceedings.

4.5 Hierarchy of evidence

There is a wide variety of sources for comparable evidence available to the valuer, although some will be more relevant than others. In general, transactions that have taken place for similar real estate to that being valued will provide the best evidence, while databases and indices will give a broader guidance.

In some countries, valuation cases that have been subject to litigation have resulted in the courts adopting a hierarchical approach to the evidence being presented. Where this has occurred, valuers need to be aware of relevant court decisions and precedents. In general, however, a precise hierarchy of evidence is difficult to define as different sources assume a greater or lesser importance depending on market conditions and the exact type and nature of the asset being valued.

Certain types of evidence usually take precedence over others and the list below provides an indication of relative importance. It should not be regarded as prescriptive and the relative importance will vary according to market conditions and local practice. The valuer must use professional judgement to assess the relative importance of evidence on a case-by-case basis.

4.5.1 Category A – direct comparables

This category relates to all types of relevant transactional comparable evidence including:

- recently completed transactions of identical properties for which full and accurate information is available; occasionally, this may include data from the subject property itself
- recently completed transactions of other, similar real estate assets for which full and accurate information is available
- recently completed transactions of similar real estate for which full data may not be available, but for which enough reliable data can be obtained to use as evidence
- similar real estate being marketed where offers may have been made but a binding contract has not been completed, and
- asking prices (see 4.1.4 above).

4.5.2 Category B – general market data

This category relates to data that can provide guidance rather than a direct indication of value including:

- information from published sources or commercial databases; its relative importance will depend on relevance, authority and verifiability
- other indirect evidence (e.g. indices)
- historic evidence, and

- demand/supply data for rent, owner-occupation or investment.

4.5.3 Category C – other sources

There is also a wide range of data that might provide broad indications of value including:

- transactional evidence from other real estate types and locations, and
- other background data (e.g. interest rates, stock market movements and returns which can give an indication for real estate yields).

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5 Recording comparable evidence

Evidence used to arrive at an opinion of value should be recorded clearly and kept on file. It should be presented in a form that can be used by both the valuer and others who may need to review the file and understand the approach adopted in the valuation at a later date.

The Red Book states that 'a proper record must be kept of inspections and investigations, and of other key inputs, in an appropriate business format' (*RICS Valuation- Global Standards 2017* – the 'Red Book' – VPS 2, Inspections, investigations and records, section 3). The exact form in which such information is held is a matter for the valuer and the organisation for which the valuer works. It is important that evidence of transactions, sales particulars, correspondence and discussions is recorded clearly and permanently. It may be appropriate to download or print web-based material if it is not likely to be permanently maintained online.

Information should be summarised in a format that is easily comprehensible and that aids analysis. A tabular or spreadsheet layout is often appropriate for this type of process, but other formats are possible. Comparable evidence can, for example, be entered and ranked in terms of relevance and importance, allowing efficient and clear analysis of what is often a large and complex body of data.

The following list provides a summary of likely generic headings for comparable transactions of real estate, though these will vary depending on the context of the valuation and should be adapted to take account of the particular circumstances.

1. Address.
2. Real estate type, e.g. office, shop, industrial, residential, agricultural.
3. Exact nature of the asset being valued or compared, e.g. a freehold or leasehold interest.
4. Location details.
5. Legal, e.g. lease terms and conditions.
6. Brief description, specification, condition and any other relevant attributes (e.g. energy efficiency may be a material issue in some sectors or markets).
7. Accommodation/area – including method of measurement.
8. Type of transaction, e.g. sale, letting.
9. Date of transaction.
10. Financial information, e.g. rent or sale price and details of any incentives.
11. Analysis per unit area (where appropriate).
12. Parties involved, e.g. owner, tenant, agents.
13. Source of information, e.g. name, organisation, contact details and any comments on the reliability of data employed.
14. Date of confirmation of information.

In addition to recording the basic information relating to each comparable, a record should be kept of the valuer's reasons for applying the comparable evidence to the real estate asset being valued. This will require a ranking of evidence clarifying the relative contribution that each piece of evidence has made to the reported valuation figure.

6 Analysis of comparable evidence

The data assembled by the valuer to support an opinion of value will not necessarily be a perfect match with the property that is the subject of the valuation. It will therefore need to be carefully scrutinised, assessed and analysed before it can be used effectively. This process converts raw data into useable comparable evidence.

Typically, there are two stages of analysis: establishing a common measurement or other comparison standard; and analysis of the comparable data to provide meaningful comparable evidence.

6.1 Establishing a common measurement or other comparison standard

A common measurement standard is required to enable properties being used as evidence to be compared on a pro-rata basis.

It is essential that the valuer applies the same method of measurement the real estate being valued and the comparable evidence. The International Valuation Standards Council (IVSC) and RICS are promoting the use of the International Property Measurement Standards (IPMS) worldwide and wherever appropriate, RICS members are required to use the appropriate standard for the type of real estate subject to valuation.

Not all countries have adopted IPMS so where relevant, the valuer must choose the most appropriate standard in the country the real estate in located. RICS members are required to justify the standard used if IPMS are not applied.

6.2 Adjusting comparable evidence

It is relatively rare to find comparable evidence that exactly matches the property being valued, so adjustments will be required to allow for differences in the various factors that may affect value. These include location, building specification, condition and size, tenure and lease terms, timing of the transaction, letting or sale incentives, energy efficiency and adaptability.

Some adjustments may be assessed quantitatively. For example, when assessing rental value, if the tenant is responsible for the costs of insurance under the terms of the lease while in a comparable property the landlord bears these costs, an adjustment should be incorporated into the analysis to take account of the cost difference.

Another frequently encountered situation is where two similar properties are in different states of repair. In this situation, an adjustment could be made to allow for the cost of renovating the property in the poorer condition up to the standard of the better building. However, care is needed in this approach because in practice, a purchaser might not just make an allowance for the estimated cost of works, but could, for example, make a further adjustment to reflect uncertainties over the costs and the time taken to renovate. The valuer should therefore consider how a purchaser in the market would respond to differences between the asset being valued and the comparable evidence – simple cost adjustment may not be sufficient.

Other adjustments may require the valuer to make a qualitative judgement based on experience and knowledge of the local market. For example, the effects of small but significant differences in location, aspect or outlook may have an influence on value but there is often no direct evidence to quantify the degree of adjustment required.

There are many other areas of comparable analysis that cannot be precisely assessed but which instead rely on the experience and professional judgement of the valuer. Examples include adjustment of rental evidence to take account of differences in lease lengths and, in the case of investment assets, yield adjustments to allow for differences in matters such as the quality of the building, lease terms, tenant covenant and location. Small changes in the yield can have a significant impact on value.

As well as analysing individual comparables, the valuer will need to take a broad view of the whole body of evidence in order to apply it effectively to the asset being valued. This may be a complex process so presenting the evidence in a format that aids analysis will be essential not only to the valuer but also to those reviewing the valuation at a later date. Such reviews can occur as part of a quality assurance process, for due diligence or if the valuation is subject to legal proceedings, which can take place years after the valuation date.

A matrix format will often assist the valuer's judgement at this stage of the analysis, although the approach adopted will depend on the type of real estate and the available evidence. Any analysis should be effective and clear to all parties, both at the time of the valuation and in the future.

Whatever method of analysis employed, the valuer will ultimately have to stand back and weigh up a considerable range of evidence with differing degrees of quality and applicability, much of which cannot be precisely quantified. This will require not only technical ability but also, and more importantly, experience of the relevant market and judgement developed from that experience. The process should lead to a ranking of the comparable evidence and an assessment of where the asset subject to valuation fits into that ranking. The aim is to ensure confidence in the reported figure, which can then be fully justified to all relevant parties.

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7 Dealing with a shortage of evidence

It is not uncommon for there to be a shortage of comparable evidence available to the valuer. A lack of evidence can arise for a variety of reasons.

- The market may be inactive, with few transactions occurring to provide evidence.
- By contrast, the market may be changing rapidly, leading to a situation where comparable evidence quickly becomes out of date.
- The property may be unusual in terms of its use, construction, location or other factors.
- The local market may lack transparency, with little available information on prices or transactions – more common in markets in the early stages of development.

It is important to emphasise that a lack of evidence should not prevent a valuation being undertaken, but the skills, expertise and judgement of the valuer become more important in difficult market conditions.

The valuer has to look further afield and across a wider range of indicators when transactional evidence for directly comparable real estate is lacking. In such circumstances, it may be necessary to consider more indirect evidence: for example, local or national economic data which can indicate trends that can give guidance towards, rather than direct evidence of, value.

Uncertainty generated by a lack of comparable evidence is a common feature of the real estate market. Most valuers recognise this, but many of their clients do not. Such uncertainty is inevitable, and the valuer should not be afraid to report it – indeed the *RICS Valuation – Global Standards 2017* (the 'Red Book') states that 'valuers should not treat … a statement expressing less confidence in a valuation than usual as an admission of weakness … it is … a matter entirely proper for disclosure'. If a client understands that unusual market conditions result in an uncertain valuation it may enable them to make a better-informed business decision. It is for this reason that the 'Red Book' requires the valuer to 'comment on any material uncertainty in relation to the valuation where it is essential to ensure clarity on the part of the valuation user' [VPS 3, Valuation reports, section 2.2(o)].

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Appendix A: Key comparative elements applicable to most real estate types

Building age and condition	This will have a clear impact on value, which will reflect the cost and time in bringing a building of poor condition up to an acceptable level.
Building specification and layout	Specification and layout will have an impact on the usability of a building and therefore on the price that an occupier will be prepared to pay to rent or buy.
Efficiency and adaptability	Energy efficiency and the flexibility and adaptability of a building as technology and user requirements continue to evolve may increasingly have a material effect on value.
Legal	A variety of different types of tenure is found in all countries. Unencumbered freehold tenure (or local equivalent) will normally have the highest value. Limitations on ownership or use, for example in the form of restrictive covenants or leasehold tenure, will usually reduce value. For properties that are let, the terms of any lease will have a direct effect on the value of both the landlord's and tenant's interests. Important lease terms include rent payable, lease length, rent review clauses, repair obligations, insurance obligations, rights to assign or sub-let and permitted use.
Limitations on use	These may occur in the form of restrictive covenants affecting such issues as freehold title, user limitations in leases, restrictions on use and size imposed by local planning authorities. Restrictions on use are likely to have a negative impact on value.
Location	Location affects the value of almost all types of real estate. A new office building in New York City, for example, will have a higher value per unit size than a similar building in Albany, New York, despite the latter being the state capital. Location can also be crucial on a much smaller scale: in the retail market a difference in location of just a few metres can make a major difference to the value of a shop.
Size	Comparable properties should ideally be of similar size. Different building sizes will appeal to different market sectors and small units are likely to command a higher rate per unit area than large buildings or blocks of land.
Transaction date	Most markets are subject to price fluctuations, which can sometimes be extremely rapid. Comparable evidence should therefore be as up to date as possible. However, even in conditions of active trading, relatively few real estate transactions occur so it can be difficult to obtain up-to-date evidence in volatile conditions.

Appendix B: Factors affecting value and comparability by sector

Sector	Real estate type	Key factors affecting comparability
Rural	Agricultural land	Land use mix; soil type; capability; aspect; layout; accessibility; drainage; irrigation; proximity to markets; size; suitability and layout of buildings; eligibility for support payments; environmental or other statutory designations/schemes; tenure; planning opportunities; use of machinery; size; water distribution and availability; sporting rights; riparian ownerships; minerals; public development/compulsory purchase proposals. For information on the categorisation of rural real estate see *Valuation of rural property* (2nd edition), RICS guidance note.
	Farm buildings	Age; construction type; layout; adaptability; access; compliance with farm quality assurance requirements; pollution hazards; electricity supply and other mains/private services; redevelopment/conversion opportunities.
	Farmhouse	Ability to sell separately; access; size; demand for specialist housing type; other factors as for residential real estate generally.
Residential	Houses and apartments – sale	Type (house, apartment, detached, terrace, purpose built or converted, etc.); site; aspect and views; detailed location; size; number of rooms and bedrooms; car parking; fixtures and fittings; specification; local amenities; transport links; age and condition. Additional factors for apartments include length of unexpired lease and other lease terms; strata-title conditions; service charges.
	Houses and apartments – rent	As above, plus lease terms.
Commercial – offices	Owner-occupied	Layout; flexibility; floor area (quantum); building services; specification (including air conditioning); service charge level; transport facilities; car parking; energy efficiency and environmental sustainability.
	Rental	As above, plus key lease terms: unexpired term; provision for rent increase; responsibility for repairs; maintenance and insurance; any restrictive covenants.
	Investment	Yield – rent factors as above, plus tenant covenant strength.
Commercial – town centre retail	Rental	Site and precise location; shop frontage and display windows; shop layout; number of floors, adjacent complimentary uses; floor level (if in multi-storey shopping centre/mall); loading facilities; pedestrian flow; parking; access to public transport; lease terms.
	Investment	Location and layout; tenant covenant strength; lease terms and length; in shopping centres/malls, the quality of centre management may also be relevant.

Commercial – out of town retail	Rental	Building layout; size; height; loading; access; car parking and access to public transport; other retail units adjacent; visibility and key lease terms: unexpired term; provision for rent increase; responsibility for repairs; maintenance and insurance; restrictive covenants; planning restrictions, especially regarding use.
	Investment	Yield – rent factors above, plus tenant covenant strength.
Industrial/ warehousing and distribution	Rental	Accessibility to major transport links; site access and loading facilities; building layout and eaves height; floor loading; layout offering clear space; power supply; office content; site coverage; environmental issues; potential for alternative use.
	Investment	Yield – rent factors as above plus tenant covenant strength and lease terms.
Trade-related property (hotels, petrol filling stations, bars, etc.)	All types	Rent or capital value derives from trading potential in the hands of a hypothetical reasonably efficient operator, so use of actual trading accounts and strength of the occupying business is not always relevant. The valuer seeks to stand in the shoes of a prospective competent new bidder, assessing the efficient but not exceptional operating plan for a business using the real estate in accordance with planning, licensing and (if relevant) lease user constraints. Use of comparison in trade-related properties requires specialised knowledge. See *RICS Valuation – Global Standards 2017* (the 'Red Book') VPGA 4 (Valuation of individual trade-related properties).
Property with development potential	All types	Permitted use and density; developable area; access; adjoining developments; ground conditions; market demand for completed development; building and other costs. Direct comparison between sites on a rate per unit area basis will only be possible if all these key factors align. If not, individual comparable elements will need to be incorporated into a residual or cash-flow valuation. See RICS Valuation Information Paper 12, *Valuation of development land* (2008).
Assets having value as resources	Water and materials	Volume and quality of resource; accessibility; regulatory environment.