

# PARTICULARITIES IN APPLYING THE SALES COMPARISON APPROACH: CASE STUDY

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În practica evaluatorii se confruntă cu diferite cazuri specifice, dat fiind faptul că fiecare bun imobil este unic: are caracteristicile constructive (suprafața, starea fizică, îmbunătățiri, planificarea, etc.), amplasare și utilități unice. Apartamentele sunt considerate obiecte imobiliare, care sunt ușor de evaluat, deoarece piața este bine dezvoltată și sunt o mulțime de oferte pentru aplicarea abordării analizei comparative a vânzărilor și de obicei aceste sunt obiectele tipice, cu mai puține divieri. Totodată, se mai întâlnesc cazuri mai complicate, care necesită o analiză mai profundă. În lucrarea data este prezentat un caz deosebit, deoarece are careva neconcordanțe juridice (suprafața înregistrată nu coincide cu suprafața din plan), la fel, a fost anexată o terasă deschisă cu suprafața de 73,1 m.p., ce constituie o treime din suprafața totală. Toate nuanțele au fost examinate și explicate, și în final au fost trase concluzii asupra aspectelor procesului de evaluare.

**Key words:** sales comparison approach, feature, characteristic, comparable object, adjustment, market value.

Each real-estate object is unique in its nature: it has specific construction characteristics, including materials, area, and configuration; location (in perspective of both the city and the building, it is situated); and different utilities. Valuers should analyse prudently a real-estate entity before researching for similar ones on the market in order to identify which characteristics are the key features. Some of them would be true for all objects: •type; • location; • area; • condition; • utilities.

The easiest objects to find the comparatives are considered to be apartments. Indeed, this segment of the real-estate market is significantly developed as there are thousands of offers for modern buildings as well as for typical dwellings. However, from time to time, there arise more complex cases for a valuer even with apartments. One of these cases is presented below.

## Description of the apartment

The apartment is located in the centre of Chișinău, on the first floor of a 5 storey building. It consists of a living and 2 bedrooms, a kitchen, two bathrooms, several storerooms and wardrobes, and a terrace, total registered area being equal to 212,5 sq.m. The physical apartment condition is good; it is connected to the aqueduct, sewerage, electricity, gas and has autonomous heating system. The material of the construction is reinforced concrete.

Examining the documents, it's evident that the terrace has area of 73,1 sq.m., which is roughly a third of the total area. In addition, there was noticed the difference between the area mentioned in all the documents and the area according to the plan: it is 10 sq.m. less than registered officially. There might be various explanations: the engineer made a mistake while describing the plan; the flat was replanned, so the area of the rooms has changed. There still appears a question: which surface should a valuer use in the calculation? If you chose wrong you will overestimate or underestimate the real value at the rate of 10 sq. m. In this situation a valuer should demand the landlord to inquire measurement of the property, and if needed, to register the corrected area; else, a valuer must annul the valuation service contract. In this case the registered area was used for valuation process.

## The sales comparison approach

For this method, analysing the offers on the market, there were determined 3 comparable objects. The dominant feature for the search was the location of the apartments. One of them is situated in the same building, the other two are in a building 250 meters from the object of evaluation. The information about them is presented in the table 1.

Table 1: Characteristics of comparable flats

Characteristic	O1	O2	O3
Location	The same building	Block of flats in 250 m	Block of flats in 250 m
Area, sq. m.	125	115	97
Construction material	Reinforced concrete	Bricks	Bricks
Physical condition	Good	Good	Good

Type of heating system	Autonomous (incl. underfloor)	Autonomous per block	Autonomous per block
Floor	4 <sup>th</sup> out of 5	2 <sup>nd</sup> out of 9	3 <sup>rd</sup> out of 9
Utilities	None	None	None
Furniture	Full	Full	Partially
Price, euro	139 000	98 100	85 100

Studying comparable objects, it is notable there are no utilities, like terrace. The offered prices refer only to capital construction, which needs a bigger investment to be constructed in comparison to an open terrace. That's why the total area of valued apartment was divided: 139,4 sq.m. are taken as the key area for valuing process, while the terrace with 73,1 sq.m. is considered as a utility (because the construction costs are less).

Preliminary calculations showed, though, the selected objects from another building are not quite representative: the valued apartment (as well as comparable object 1) is located in a block with a heightened comfort, due to reduced number of apartments (2 per floor), while the comparable objects 2&3 are in a standard multi-flat building. At least one of them should be substituted with more similar apartments.

Unfortunately, the area where the valued apartment is situated, is composed of a limited number of newly built blocks of apartments, mainly consisting of single-family houses or flats on the ground. Therefore, a larger area was explored.

As city center has mostly commercial and administrative realty, only one similar object was found as a substitute for comparable 3, because it has the smallest area. The updated information about comparable flats is presented in table 2.

Table 2: Characteristics of comparable flats (updated)

Characteristic	O1	O2	O3
Location	The same building	Block of flats in 250 m	Block of flats in 1250 m
Area, sq. m.	125	115	185
Construction material	Reinforced concrete	Bricks	Limestone bricks
Physical condition	Good	Good	Good
Type of heating system	Autonomous (incl. underfloor)	Autonomous per block	Autonomous (incl. underfloor)
Floor	4 <sup>th</sup> out of 5	2 <sup>nd</sup> out of 9	3 <sup>rd</sup> out of 7
Utilities	None	None	None
Furniture	Full	Full	Full
Comfort level	high (2 flats per floor)	medium	high (1 flat per floor)
Price, euro	139 000	98 100	220000

As one may notice, the new comparable does not have any kind of utilities. The presence of one with a terrace would consist an advantage, as it would be the reference point to estimate the correction for utilities. Unfortunately, no analogous apartments with such a utility were found: there were two-storey flats with a terrace, there were flats with a terrace on Stefan cel mare street (the Main Street in the city) or there were flats with a terrace in an old building. For all of these categories, it would be difficult to estimate corrections for the number of levels in the apartment, for ultra-central location (the correction would be to big, which is also not a good sign), for the type of building, which at the same time needs to refer to depreciation.

The calculation of the market value for valued object is presented in table 3. According to national norms, there are 4 obligatory characteristics (transmitted rights, financing conditions, terms of transaction, market conditions) which were skipped as they are identical, and there is no need to adjust the price.

Table 3: Calculation of market value applying sales comparison approach

Characteristic	Valued Object	O1	O2	O3
Location	Chisinau, city center	The same building	Block of flats in 250 m	Block of flats in 1250 m
Price, €	139,4	139 000	98 100	220 000
Total area, sq.m.		125	115	185
Price per sq.m.		1 112	853	1 189

Adjustment for negotiation		0,90	0,95	0,90
<b>Adjusted price, €/sq.m.</b>		<b>1 001</b>	<b>810</b>	<b>1 070</b>
Adjustment for location		1,00	1,00	0,95
<b>Construction material</b>	Reinforced concrete	Reinforced concrete	Bricks	Limestone bricks
Adjustment		1,00	0,96	0,98
<b>Physical condition</b>	Good	Good	Good	Good
Adjustment		1,00	1,00	1,00
<b>Year of construction</b>	2004	2004	1999	2005
Adjustment		1,00	1,02	1,00
<b>Type of heating system</b>	Autonomous	Autonomous (incl. underfloor)	Autonomous per block	Autonomous (incl. underfloor)
Adjustment		0,98	1,03	0,98
<b>Floor</b>	1st out of 5	4th out of 5	2nd out of 9	3rd out of 7
Adjustment		0,98	0,97	0,97
<b>Area, sq. m.</b>	139,4	125	115	185
Adjustment		1,00	0,98	1,03
<b>Furniture</b>	-	Full	Full	Full
Adjustment		0,90	0,95	0,90
<b>Comfort level</b>	high (2 flats per floor)	high (2 flats per floor)	medium	high (1flat per floor)
Adjustment		1,00	1,10	0,97
<b>Utilities</b>	equipped open terrace	None	None	None
Adjustment		1,15	1,15	1,15
<b>Adjusted price, €/sq.m.</b>		<b>995</b>	<b>934</b>	<b>979</b>
Moldovan Norms	<b>Coefficient</b>	3	2	1
	Arithmetic average, €/sq.m.	969		
	<b>Weighted average, €/sq.m.</b>	<b>972</b>		
	<b>Market value, €</b>	<b>135 481</b>		
	<b>Market value, lei</b>	<b>2 655 093</b>		
International Standards	<b>Number of adjustments</b>	<b>4</b>	<b>8</b>	<b>8</b>
	<b>Net adjustment</b>	1%	16%	-7%
		24	154	-56
	<b>Brut adjustment</b>	27%	44%	43%
		298	526	465
	<b>Adopted value, €/sq.m.</b>	<b>995</b>		
	<b>Market value, €</b>	<b>138 676</b>		
<b>Market value, lei</b>	<b>2 717 711</b>			

The market value was calculated in 2 ways: according to Moldovan Norms and to International Standards. Moldovan norms permit to use weighed average, while International Standards impose to choose one of the values, which was corrected the least (brut adjustment is the smallest). Market values differ a bit, as a market value is not an exact sum, but an interval. Adjustments are explained in table 4.

Table 4: Explanation of adjustments applied

Adjustment	Explanation
Negotiation	<i>O1 and O3 fall into category of realty whose owners must pay extra-taxes, thus, there will be fewer potential buyers and seller will yield up to 10%.</i>
Location	<i>O3 is located better in comparison with the VO.</i>
Construction material	<i>Depending on the material price and its properties, O2&amp;O3 prices were lowered.</i>

Physical condition	<i>No adjustment.</i>
Year of construction	<i>As there is not a technical examination, valuer adjusted O2 price (1 year=0,5%)</i>
Type of heating system	<i>O1&amp;O3 are in more favorable condition, as underfloor heating represents an advantage; O2 is in a less favorable condition, as the temperature is set for the whole building, not per apartment.</i>
Floor	<i>1<sup>st</sup> and last floor apartments are always in a less favorable condition comparing with others. The reduction of the price was applied to all CO.</i>
Area, sq. m.	<i>The smallest the area – the more expensive is 1 sq.m. O2&amp;O3 prices were adjusted respectively.</i>
Furniture	<i>Deduction was calculated based on approximate prices for furniture left by seller.</i>
Comfort level	<i>Blocks with reduced number of flats per floor have a higher level of comfort.</i>
Utilities	<i>Adjustment was estimated referring to the cost of execution of a terrace. In medium, it is equal to 150€ per sq. m. Still, it is difficult to erect a similar utility on the middle floors, unless it was provided by initial plan. Also, there is difference between a terrace on the 1<sup>st</sup> and the last floor: usually, the last variant is located on the roof. The 1<sup>st</sup> floor terraces (as in this case) sometimes are on the ground; and as it's registered – this earth parcel cannot be taken and sold, and built on. The prices on lots in city centre start with 150€ per sq.m. Thus, the terrace has min 15 per cent share in the flat's value.</i>

Valuer shall appreciate on his own most of the adjustments, as there are no statistical or analytical data available, for instance, about negotiation level, as it is done in other countries.

### Conclusions

1. Sales comparison approach can be used in valuation process of an apartment in Chisinau, as there are enough offers on real estate market.
2. Valuer should always carefully analyse the object and identify the features, which may influence the final opinion on market value considerably. Thus, relying only on common belief that location is the most important factor valuer might under- or over-estimate an object. For Chisinau there are several categories of such specific real-estate units: flats on the attic-level constructed as an extension of an old 5-store building; apartments with terraces; apartments in 2 levels; apartments created as a result of combination of several dorm rooms or even of a whole section; penthouses; apartments with panoramic view; etc.
3. Valuers in Moldova do not have any list of recommended adjustments for each category of realty. This way, some valuers may estimate the value wrong, not applying a necessary correction just because they would never think this influences a lot.
4. Valuers in Moldova can use different methods to draw a conclusion about the value according to sales comparison approach, as this is not regulated by any national laws, norms or standards. As a result, valuer may use arithmetic average, weighted average (percentage or coefficient) or adopted value in order to calculate market value, which again can cause a difference in the final result.

**Note:** *The detailed information about the object of valuation and the offers is kept at the author's archive.*

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