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**PROPERTY MARKET ANALYSIS IN THE VALUATION PROCESS: A SURVEY
OF AUSTRALIAN PRACTICE**

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Keywords: property market analysis, valuation practice, land economics, property market characteristics, real property valuation.

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PROPERTY MARKET ANALYSIS IN THE VALUATION PROCESS: A SURVEY OF AUSTRALIAN PRACTICE

ABSTRACT

The nature of property valuation/analysis is examined in respect of the property market and, in particular, the extent of property market analysis undertaken by practitioners when carrying out property valuations. An empirical survey is described of a sample of 240 valuers throughout Australia and their practices in valuing investment grade property. It is shown that, although the valuers are fully aware of the need for property market analysis, and collect appropriate data to do the analysis, the analysis itself is seldom conducted in other than a cursory manner.

Keywords: property market analysis, valuation practice, land economics, property market characteristics, real property valuation.

INTRODUCTION

A major function of market analysis in the appraisal process is to identify key factors of value. This is said to be essential to appraisals because it is the foundation for economic decision-making (Fanning *et al* 1994, p. 5-7). However, a number of professional and academic sources involved with property market process suggest that the property market process is not well understood and, hence, may not be interpreted appropriately by practitioners.

This lack of understanding appears to be all pervading. Millington (1996, p. 13) and Whipple (1995, p. 52, 56-57), for example, discuss the broad context of the property market, while sensitivity and awareness of the complexity and current lack of understanding of property market process is apparent from a number of the authors (eg., Hall, 1996, 1997; Fainstein, 1994; Healy *et al*, 1995). Of particular note is the recognition by Fainstein of the significance of behavioural and exchange aspects of the market in contrast to the traditional planners' focus on development characteristics; and, in respect of planners' role as urban managers, Healy *et al*'s perception is that an enhanced, but still elusive, understanding of the operation of the property market, is crucial to the effective management of the urban system.

Some of the more recent Australian commentaries (e.g. Whipple 1995, Squirrell 1997, Westwood 1997) promote the congruence between land economy and valuation, suggesting opportunities for an enhanced understanding of market process may emerge consequently. This was tested in the survey of valuers through separate identification of Australian Property Institute (API) dual (valuer and land economist) stream members. Such commonality is also exploited in some of the literature emanating from property researchers. Pittman and Thrall (1997, p. 203), for example, make comment upon the various interpretations of 'property research' that are typically demonstrated by valuers, property economists and academics.

The proposition of Fanning *et al* (1994, p. 5) is that market analysis ranges from the general to the complex and that the extremes of this continuum are represented, respectively, as inferred (or trend) analysis and fundamental analysis. Their criticism of valuers is that they rely upon the former approach, which estimates future patterns of activity by investigating past market behaviour, to the exclusion of the latter, thereby limiting the usefulness of their

report. Whilst Carn *et al* (1988) demonstrate a somewhat similar philosophy of approach to Fanning *et al*, Fibbens (1997) appears to fully support Fanning's worst fears of market analysis by starting and ending with the analysis of past transactions. Given that Fibbens was writing in one of the most recent valuation texts published by the API, it would not be unreasonable to consider such views to have support amongst practitioners and wide exposure to the current and upcoming student cohort.

Empirical work has shown that valuers do not always follow the prescribed valuation process (Diaz, 1990) for a variety of reasons, including client pressure (Gallimore and Wolverton, 2000; Worzala *et al*, 1998) and culture (Gallimore and Wolverton, 1997). Little is known of the extent to which valuers' consider market processes in their valuations however. Australian surveys of *users* of valuation reports by Newell and Barrett (1990), Newell (1995) and Newell (1999) have made some progress. These surveys indicate a perceived continuing improvement over the last decade, the most recent (1998) being that 97% and 58% of respondents indicated that valuations are "relevant" and "highly relevant" respectively to their investment related decisions; 96% of reports are at least adequate for their purpose; 85% of reports contain sufficient analytical detail; and 96% of valuers are considered to be competent in their professional activities. At the same time, however, "failure to understand complexities and market position of a particular project" and "inadequate market analysis" are consistently the highest of the perceived weaknesses over the period (Newell, 1999).

To date, no direct survey of valuers has been attempted on this issue. Consequently, a questionnaire survey was undertaken to investigate the view that the property market process is not well understood by market participants and, more specifically, the extent to which market analysis is conducted by the valuation profession. This was done by means of a large

empirical survey of practising valuers in Australia. The results of the research are described below.

SURVEY METHODOLOGY

Preliminary interviews

The review of the literature, generated from the field of valuation and related professional and academic areas, supports the view of Fanning et al (1994:5) that further investigation is appropriate to increase the understanding of property market process. It also provides evidence of a range of non-consensual views. Indeed, the range of perceptions of the nature of the market, as well as appropriate techniques for its analysis, demonstrates extreme diversity and lack of congruence both within and between the property-related professional and academic literature canvassed.

Whilst there have been a few surveys of valuation practice in Australia during the past ten years - Newell and Barrett (1990), Newell and Fibbens (1991), Boyd (1992, 1993) - the focus has been either on the users of valuations (the clients) or on complementary aspects of valuation such as the redefinition of market value or general aspects of valuation practice.

A number of valuers practising the valuation of investment grade property from a range of backgrounds and levels of experience were therefore approached through meetings held in an unstructured interview format. The agenda was very informal with a few prompts being provided to facilitate focus and convergence. At the outset, the statement by Fanning et al

(1994:5) was discussed together with an outline of the scope and content of this study. Four more specific questions were then posed in each interview. These all related to their understanding of the term 'property market analysis': what it would be in a perfect world; how reality differs and, consequently, how such analysis is undertaken in their practice; and, finally, the constraints they experience.

There was no predetermined number of people who were to be targeted for the unstructured interviews. Rather the interviews were to continue to be held until such time as the responses converged. In practice this was achieved with ten interviews, and even by the third the responses showed great commonality. Appendix A provides details of those with whom the unstructured interviews were held.

Target sample

With the partial de-regulation of the valuation profession, which has been occurring to varying degrees across the country since 1993 as a result of the federal government's National Competition Policy (Hilmer Report 1993), the traditional use of the Valuers' Registration Boards as the definitive source of the total population of those who are recognised as valuers was no longer available. The situation at the time of the research present varied (Valuers' Registration Board of Queensland (VRBQ) 1998) from state to state with South Australia, for example, having adopted a system of negative registration - which enables people to practise as valuers until found negligent or otherwise unfit to do so by the courts. New South Wales and Tasmania were also moving toward this system whilst Queensland had not yet chosen its approach but was considering co-regulation between

government regulation and its administration through the professional institute, the Australian Property Institute (formerly the AIVLE). The Queensland Valuers' Registration Act 1992 was still in place. Victoria had total deregulation but the government required valuers to be on an approved list in order to undertake government work. In Western Australia, the VRBQ notes, was moving towards deregulation as at September 1998 but efforts were continuing to retain negative registration as a preferred option. There was no registration in the Northern Territory or the ACT.

Given this lack of conformity between the states, the most comprehensive national listing available when the survey was being prepared was held by the AIVLE (now API) as its membership records show those members who are valuers (as opposed to land economists or specialist plant and machinery valuers) and whether or not they are practising or retired. Except for these details the records, however, did not identify the type of valuations primarily undertaken by valuers in general practice. As a consequence it was not possible to target members who focus on the valuation of investment grade property except by contacting them directly.

The study population was thus identified, in late 1997, through the co-operation of the Divisional Registrars who provided details of the AIVLE lists of valuer members from each state/territory. Discussions with the Registrars indicated a consensus view that in the order of 25% of all practising valuer members, i.e. some 1000 of the 4000 total) would, in their opinion, be involved principally with the valuation of investment grade property, and they would be most likely to be resident in the metropolitan and major provincial centres. 1722 postal questionnaires were sent out between 13th November 1997 and 12th January 1998 to

members falling into this category. As the responses were anonymous, a state-by-state response level was not available from the data.

1722 postal questionnaires were sent out. 240 responses were received, constituting a 14% response rate. The divisional registrars of the Institute indicated they considered 25% of practising valuers to be involved in the valuation of investment grade property and the survey's targeting of metropolitan based practitioners was intended to focus on these members. However, whilst accepting that the response rate was low it is considered sufficient for analysis purposes (Barnett 1991:68).

Questionnaire design

The questionnaire, a copy of which is included as Appendix B, was structured in three parts following an introduction which identified the purpose of the questionnaire as:

1. to find out from practising valuers their views of the role of market analysis in the valuation of investment grade property.
2. to compare the views of these Australian valuers with those from other places.

The 'other places' refers to that material accessed through this study's literature review and found principally to be academic in character. The introduction continued with instructions to participants to circle the number of the response (based on the Likert scale) which most closely reflects their views of the valuation work with which they are involved. The extremes of the range were identified at the head of the appropriate column, e.g. strongly agree, and at

the far end e.g. strongly disagree. The intervening columns were not classified to allow analysis to be conducted at the interval level.

Following the introduction, the three sections A, B and C, sought information, respectively, on the participants' professional and academic qualifications and experience; their views on the nature of market analysis and the identification of factors influencing the property market which they consider to be important when undertaking the market analysis part of the market valuation of investment grade property.

Overall, the main purpose of the section A was to identify relevant characteristics of participants. The existing literature, in Australia and overseas from the evidence of that which has been accessed, provided very little assistance upon which to base expectations. More specifically, in the context of this enquiry into the role of market analysis in the valuation of investment grade property, it was intended to provide some indication of the levels of conformity or diversity existing between valuers using a series of filters based on educational background, duration of professional experience, stream of AIVLE membership or focus of work in the area of investment, for example. Any such relationships identified may then be compared to those identified later in the survey.

Section B of the survey asked for participants' views on what they consider to be market analysis. It comprised some thirteen questions and is the largest section of the questionnaire. In most cases, the text of the question was drawn from one of the sources used for the literature review and many are direct quotes. It thus uses many contradictory and challenging statements and seeks to obtain clear comments from the targeted group of practising valuers.

When constructing this section of the questionnaire it was necessary to be particularly mindful of the depth, length and appearance of the document and of individual questions to avoid their appearing too daunting to potential respondents. It was for this reason that many questions, e.g. 16, 17 and 18, were separated thereby offering a visual break in preference to a slab of text which their presentation as one, three-part, question may have suggested. Where questions, however, had more subtle variations or shades of meaning (and, as in the case of Question 10 for example, considered to be crucial to the outcome) they were linked into one question to encourage respondents' awareness of this relationship. Again as represented by Question 10, the opportunity for an open-ended response was frequently proffered. This was largely as a consequence of the literature's evident failure to offer a consensus view in many areas; for example, that of a universally acceptable definition of market value.

The final section of the survey, Section C, comprised one question (Question 23) with five sub-sections to facilitate completion and analysis of the 70 factors which are nominated for consideration as the essential features which market analysis can address. The factors were sourced, variously and sometimes repetitively, from AIVLE Guidance Notes (GN LE1 1/96), Fanning et al (1994), Millington (1994), Whipple (1995), Barlowe (1986), from discussions with practitioners participating in the unstructured interviews and from brainstorming with academic colleagues.

The grouping of factors into property aspects, socio-economic factors, economic and political factors, organisational aspects, environmental, technological and land use issues and market activity aspects was intended to reflect the full range of influences raised in the literature review including some exogenous factors. The items included ranged from very specific details of a property (e.g. age, size, location) through activity levels within the property

market to wider aspects of the national economy, such as exchange rates and GDP, bureaucratic systems and impact of technological change. It was anticipated that the responses from this question would be further analysed by means of the filter groups.

The inclusion of an open-ended category for other factors to be added was aimed at eliciting major oversights of general character or specific considerations of relevance to specialists. However, its position as the final item of a long questionnaire was expected to restrict the response rate. Similarly, the request for respondents to specify property type when considering the market factors' impact which was placed at the end of the question block for Question 22 may be found to suffer a similar fate.

The survey was administered in late 1997 by the API to its members. 240 responses were received, constituting an estimated 50% response rate from regular valuers of investment grade property. The major results are summarised in the next section.

RESULTS

General

Table I summarises the length of experience of the respondents as measured by the year of registration, indicating the sample to comprise a reasonable cross-section of the likely population.

Take in Table I

Table II summarises the type of valuations undertaken most often by the respondents in comparison with Boyd's (1993) survey. This shows that, of the 986 responses to work that is 'often' or 'occasionally' undertaken, 79% (780) comprises investment grade valuation work, the balance being owner-occupied (mortgage) valuations. It suggests that the survey, like Boyd's, reached an appropriate sample of respondents.

Take in Table II

A mean of 38% (30% median) of valuations undertaken by respondents are for investment grade property, with 39% of respondents' work involving the valuation of investment grade property in 50% or more of instructions. An average of 103 investment grade valuations was completed by each respondent in the last 12 months (333 over a five-year period). This may be accounted for by varying levels of economic activity with the current output having increased over the last say, two years. In some cases individuals may be increasing their work load perhaps as they increase their expertise but, with a fairly even distribution of experience, this is just as likely to be counterbalanced by those who are reducing their work load as they approach retirement.

Market analysis

Definition and compliance

One finding from this section is the strong support for the definition of market analysis with 79% of respondents agreeing that it could be defined as ‘the process that identifies, analyses and synthesises market information to assist with the determination of an opinion of value’. Respondents generally complied with the recommended technical aspects of market analysis procedures except for the use of econometric or other theoretical models as a component of market analysis, which was regarded as very much the domain of specialist practitioners.

Support

Valuers do not appear to be complacent about their shortcomings with the majority again recognising the need to respond to an increasingly broad view of the market. However, the responses indicate that the majority has the confidence to undertake the tasks of market analysis required of them with 75% agreeing or strongly agreeing that they have the appropriate skills and judgement. They are also sensitive to the need for change in practice and such continuing adaptation may be an appropriate assertion of this level of confidence, and their continuing professional practice a demonstration of it. The responses also provide some indication that, if the view is adopted that the profession is a relevant judge, the high level of support for the recommended practices nominated in the API’s professional practice guidelines are a useful starting point.

Reporting

In contrast with the Newell and Barrett (1990) and Newell (1995,1999) surveys, the feedback from the informal interviews revealed a long-perceived criticism from some clients of

valuation reports' over-emphasis on descriptive components at the expense of analytical ones. The results of this survey (Table III) suggest that, while the former is still the single largest component, with an average of 38% (20% standard deviation) of the total content, the latter items in the report - which deal both with data analysis and synthesis - of market analysis, calculation, reconciliation and forecasting, together exceed it by comprising some 58% of an average report. Of this latter group, market analysis - at an average of 30% (13% standard deviation) content - is the largest section. Forecasting is the most recent addition to the contents of a valuation report and its relatively infrequent showing at an average of 7% (6% standard deviation) content is likely to be a reflection of this. It also may confirm the dominance of valuers' reliance on past events.

Take in Table III

Constraints

Table IV summarises the constraints on property market analysis rank ordered by the sum of the first two categories. This is limited to those responses where constraints are considered to limit effective market analysis. As can be seen, when the responses of the first two categories are added together, there are four cases where the total of those responses exceeds the total of the other responses (i.e. exceeds 50%). These are: the limited volume of information at 68%; the questionable accuracy of market data, 66%; time pressure at 62% and restricted access to relevant data - 56%.

Take in Table IV

Response across categories

One other aspect of the responses to this question that may be of interest is the somewhat similar pattern of responses across the three central categories. This is evident in the case of the limits of questionable market accuracy, the limited volume of relevant information, the cost and speed of obtaining information and confidentiality agreements. These results suggest a lack of consensus regarding factors that limit effective market analysis, although over two-thirds consider the limited volume of information, time pressure and the questionable accuracy of market data in the top two categories. To this extent, therefore, these findings support the literature in that Fanning *et al* (1994) also criticise the accuracy of market data, as do Carn *et al* (1988, p. 7) who also expresses concern over the client-analyst relationship that may be inferred as generating the time pressures on valuers/analysts. It would appear that valuers are endeavouring to provide a high standard of data collection and analysis since they show concern for the limited volume of relevant information available. Furthermore, it should be noted that some 20% of respondents consider the skills of the analyst/valuer to limit property market analysis to a great extent (47% when the next category of limitation is added) suggesting that they may be aware of the shortcomings inherent in the process and possibly boding well for its improvement.

Factors influencing the property market

Generally

A basic assumption is that the factors that are rated highly by valuers/analysts are likely to be those on which they rely when undertaking market analyses. This enables some light to be shed on the question raised by Fanning *et al* (1994, p. 5), ie., that data collection need not imply data analysis. Of the 70 factors nominated in the questionnaire, 19 were considered by respondents to be 'very important' in affecting the property market (Table V). Of these, nine are concerned with property aspects; one with economic and political aspects; four with organisational aspects; three with environmental, technological and land use issues and two with market activity aspects. Seven of these top responses were nominated by at least 50% of respondents and the top three - comparable transactions, lease terms and conditions, and location - by over two-thirds of them.

Take in Table V

The strength of support for property aspects is not surprising as it comprises both physical and occupancy considerations and, with 20 items, is comprehensive. By contrast with the property aspects, socio-economic factors did not record any items with 'very important' ranked highest. Only one of twenty economic and political aspects (that of the 'misplaced' evidence of comparable transactions) was represented which, combined with the low response to socio-economic factors, may give support to the views of Fanning *et al* (1994, p. 5) that the broader issues receive relatively little attention. Organisational aspects fare better with four of the ten aspects represented: accessibility to and reliability of information, the tenure system and ethics. In the case of environmental, technological and land use issues, three of the ten were nominated - contamination, local planning instruments and heritage.

However, these three items are much more closely linked to aspects affecting an individual property than to circumstances that influence the underlying market, again suggesting a greater focus on the specifics of the property than the fundamentals of the market.

38 factors scored over 50% when the responses of very important and important were aggregated. By comparing Table VI with Table V above, it may be noted that not all those aspects appear in both tables. This may indicate that respondents appear to prefer to under- rather than over-state their commitment to the various aspects.

Take in Table VI

The top decile comprises three factors: location 93%, lease terms and conditions 91% and comparable transactions also 91%, the same three which were also the top ranking factors for the 'very important' response, providing a clear indication of the pre-eminence accord with the aspects by over nine out of ten respondent valuers. The first two are from the property aspect group and the third, though included in the survey under economic and political aspects should be viewed as a market activity aspect. These three factors represent a breadth of characteristics of both macro- and micro-level consideration: location implies that the property is set within the physical and economic framework of competing properties; the lease terms and conditions define the specifics of income flows, current and upcoming; and comparable transactions confirms valuers' reliance on past activity as a guide to future practices. Given that these responses are based on a broad range of property types and interests that are valued, it is perhaps not surprising that these all-encompassing aspects should receive such strong support.

The next decile, between 80% and 89%, comprises eight factors: current levels of vacant space (89%), building condition, age, obsolescence (86%), tenure - also 86%, contamination and take-up rates (85%), with vacancy rates, reliability of information and local planning following with 82%. When the eight following highest-ranking factors of the 'very important' responses are compared, take-up rates and local planning replace zoning and land size/shape/drainage etc. However, if the comparison extends to the following two highest ranked items of each listing i.e. to the 12th and 13th ranked factors, then the two lists both include the same factors, though in a slightly different sequence.

Of the remaining six factors appearing in the 'very important' ranking, the first three - heritage, accessibility to information and tenant mix - are in the same sequence on both lists; whilst the 17th, 18th and 19th ranking (size, tenure system and ethics respectively) on the 'very important' list appear as at 24th, 32nd and nowhere on the combined list.

In summary, the high level of similarity between the factors and between their ranking indicates the lack of any large differences between the factors which valuers consider to be very important or just important when identifying such features for use in market analysis.

Source groups

Table VII compares the source groups of the factors that appear in the two lists of rankings illustrated in Tables V and VI.

Take in Table VII

It is apparent from the material summarised in Table VII that property aspects are consistently ranked higher than the other groups of aspects. The 'property aspects' grouping covers a broad range of characteristics that serve to identify specifically an individual property. It does not equate to physical or technical aspects. The responses indicate an emphasis on legal and market linked characteristics - such as comparable transactions, lease terms and conditions, tenure, contamination and zoning and with only three physical aspects (land size etc., building condition etc. and size) being nominated as 'most important'. The pre-eminence of location (in third place) would also reflect its economic potential rather than merely the physical situs.

Of the remaining groups, environmental, technological land use issues have the strongest showing. This may be partly accounted for by the dominance of statutory planning in this group but also by the frequent mention of contamination and heritage perhaps as these, being issues of fairly recent legislative (and hence professional) concern, are areas of uncertainty whose impact upon value is considered less predictable than other, more familiar, components of market analysis.

By contrast, the least support is given to socio-economic factors that do not rate at all in this analysis. A sympathetic explanation for lack of concern over these fundamental drivers of the economy would be their stability relative, for example, to property or market aspects. The relatively poor showing of market activity aspects is perhaps surprising, suggesting that valuers' in general lack of perception of the broader considerations of the property market.

CONCLUSION

The principal finding of the study was that, whilst valuers' views on the nature of the property market accord closely with those of the literature, when questioned further on the factors they consider important when undertaking a valuation, their focus is relatively narrow, retrospective and property-based. The inference is that practising valuers possess as clear an understanding of the property market process as do the commentators but do not demonstrate it in their work. The reasons for this may be a consequence of the respondents' education, their understanding of what is now appropriate in practice or it may be that they are merely responding to the limited expectations of many clients.

The results of the survey also indicate support for market analysis being viewed as broad ranging and expansive in its coverage. Practitioners are well aware of constraints that limit their effectiveness in market analysis and are responsive to the need for improvement. Property specific aspects, as a category, are ranked most highly, socio-economic, economic, and political aspects most lowly (although a small number of statistically significant results in this area were evident from the investment grade valuer sub-category).

Further research

These findings have implications for valuers' education and professional practice in the future when, as the valuation profession itself perversely recognises, it may be anticipated that valuation is likely to become a more rigorous process. The research identified this

paradox as a target for further study. In addition, the following three areas were identified for further research:

- The examination of valuation reports from practising valuers should enable further information to be gleaned – possibly leading to a more detailed classification of market analysis methods than that currently available in the literature.
- A repetition of this survey, or similar survey of other professional bodies overseas, would be useful to identify trends.
- An examination of the quality of the property market analysis could be undertaken by a combination of survey and analysis of valuation reports. The question of fitness for purpose, who is qualified to judge, etc., were beyond the bounds of the study reported here but could be extended to the role of the profession in general, its responsibilities to the public, issues of accountability and self or external regulation.

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APPENDIX A: LIST OF PEOPLE INTERVIEWED FOR THE UNSTRUCTURED INTERVIEWS

| | Position | Principal area of expertise |
|----|--|--|
| 1 | Director of Valuations, Stanton Hillier Parker, Brisbane | Institutional and prime investment grade; full range of property type; metropolitan and state-wide |
| 2 | Director, Cameron Brothers, Brisbane | Trusts, owner occupied and investment property; Brisbane city and suburbs; mortgage valuations |
| 3 | Sole principal, Iveson and Associates, Wynnum, Queensland | Medium range investment, owner occupied and development property; private investors and developers; mortgage valuations. Suburban and SE Qld |
| 4 | Divisional valuer, Department of Natural Resources, Brisbane | Valuation of prime property for government purposes; rural and urban; central city and SE Qld |
| 5 | Director, Alex J. Saunders Valuers, Milton, Queensland | Medium range investment and owner-occupied property; mortgage valuations; city fringe and suburban |
| 6 | Director, Australia Pacific Valuations, Buranda, Queensland | Prime investment grade property including specialist properties; Australia wide and SE Asia/Pacific |
| 7 | Director, Jones Lang Wootton TransAct, Brisbane | Resorts, hotels and other prime investment grade and institutional property; Australia-wide and SE Asia/Pacific |
| 8 | Director of Valuations, McGee's, Brisbane | Prime investment and institutional grade property; Queensland focus plus international portfolios |
| 9 | Principal, The Professionals, Everton Park, Queensland | Medium range investment and development and subdivisinal property; Brisbane metropolitan and SE Queensland |
| 10 | Director of Valuations, Knight Frank Independent, Brisbane | Institutional and prime investment grade; full range of property type; metropolitan and state-wide |

APPENDIX B: SURVEY QUESTIONNAIRE

Questionnaire: What part does property market analysis play in the valuation of investment grade property?

Our trials indicate that this survey will take no more than 20 minutes to complete

Introduction

1. The purpose of this questionnaire is twofold:
 - To find out from practising valuers their views of the role of market analysis in the valuation of investment grade property;
 - To compare the views of these Australian valuers with views from other places
2. Please circle the number of the response which most closely reflects your views on the valuation work with which you are involved
3. **If your reply to any question is 'don't know' - please leave it blank.**
 - identifies questions used in analysis by filter group

Section A: About you

Professional and academic qualifications and experience

Question 1: Please identify your professional qualifications

| | Date obtained | State(s) | |
|--|---------------|----------|-----------|
| State(s) where registered (or equivalent) as a valuer. | | | |
| | Date obtained | Fellow | Associate |
| Member of AIVLE Valuation strand | | | |
| Member of AIVLE Land Economy strand | | | |
| Other professional qualifications - including overseas Please specify | | | |

Question 2: Please identify your academic qualifications

| | Date obtained | Awarding body |
|---|---------------|---------------|
| Tertiary certificate in valuation | | |
| Associate diploma in valuation | | |
| Bachelor's degree in valuation, property or land economics | | |
| Graduate diploma in valuation | | |
| Other tertiary qualifications - including overseas - please specify | | |

Question 3: Have you received any formal education or training in property market analysis? Please circle:

No Yes - give details

Question 4: What types of market valuations do you undertake? Tick boxes as relevant.

| | Often | Occasionally | Never |
|--|-------|--------------|-------|
| Urban investment properties with a value of over \$ 10 million | | | |
| Urban investment properties under \$ 10 million | | | |
| Hotel and resort properties | | | |
| - over \$ 10 million | | | |
| - under \$10 million | | | |
| Rural properties | | | |
| - over \$ 10 million | | | |
| - under \$10 million | | | |
| Owner occupied dwellings | | | |
| Management rights | | | |
| Other - please specify | | | |

Question 5: What percentage (by number not value) of the valuations you undertake are of investment grade property?

Question 6: Approximately how many investment grade valuations did you complete:

| in the last 12 months | in the last 5 years |
|-----------------------|---------------------|
| | |

Question 7: Of the instructions which you accept, what do you consider your level of expertise to be in the following areas:

| | Novice | | | | Expert |
|--|--------|---|---|---|--------|
| The valuation of investment grade property for market value purposes | 1 | 2 | 3 | 4 | 5 |
| Property market analysis | 1 | 2 | 3 | 4 | 5 |

Question 8: Principal client groups - please estimate percentages

| | % |
|---|------|
| Mortgage lenders | |
| Institutional investors | |
| Private investors | |
| Developers | |
| Government and government instrumentalities | |
| Private/corporate owner occupiers | |
| Trusts/trustees | |
| Other - please specify | |
| | 100% |

Question 9: Please nominate the main geographic areas in which you operate.

| |
|--|
| |
|--|

Section B: Your views on what market analysis is

| Question 10*: Identify the extent to which you agree with the following definitions in the context of the valuation of investment grade property for market value purposes | Strongly agree | | | | Strongly disagree |
|---|----------------|---|---|---|-------------------|
| Market analysis is the process which identifies, analyses and synthesises market information which determines the figures used in the calculation of an opinion of value. | 1 | 2 | 3 | 4 | 5 |
| Market analysis is the process which identifies, analyses and synthesises market information to assist with the determination of an opinion of value. | 1 | 2 | 3 | 4 | 5 |
| Question 11: Can you offer a better definition of property market analysis? Please write it here. | | | | | |
| | | | | | |

| Question 12*: To what extent do you agree with the following statements? | Strongly agree | | | | Strongly disagree |
|--|-----------------------|---|---|---|--------------------------|
| Market analysis is a basic component of the valuation of investment grade property | 1 | 2 | 3 | 4 | 5 |
| Market analysis is entirely concerned with data collection | 1 | 2 | 3 | 4 | 5 |
| Data collection does not imply data analysis | 1 | 2 | 3 | 4 | 5 |

| Question 13: To what extent do the following statements agree with your understanding of the term 'market analysis' in the context of the valuation of investment grade property? | Strongly agree | | | | Strongly disagree |
|--|-----------------------|---|---|---|--------------------------|
| Market analysis provides the underpinnings for determining property value, which is estimated with the valuation approaches. | 1 | 2 | 3 | 4 | 5 |
| Market analysis enables the identification of key factors of value fundamental to economic decision-making and essential to the valuation process | 1 | 2 | 3 | 4 | 5 |
| Market analysis defines an individual property's productive attributes in the context of the supply of and demand for that property amongst its close substitutes. | 1 | 2 | 3 | 4 | 5 |
| Market analysis is a major component of the valuation process which interrelates the elements of highest and best use analysis, model building and model calibration, calling for the application of 'conceptual and statistical skills in market analysis.' | 1 | 2 | 3 | 4 | 5 |

| Question 14: To what extent do you agree with the following statements? | Strongly agree | | | | Strongly disagree |
|--|-----------------------|---|---|---|--------------------------|
| Market analysis is the activity of research and synthesis which | | | | | |
| identifies appropriate comparable transactions | 1 | 2 | 3 | 4 | 5 |
| is concerned with identifying demand, supply and price or rental rate | 1 | 2 | 3 | 4 | 5 |
| provides the quantitative analysis of demand and supply factors, presented as an econometric model of the market being studied | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|--|---|---|---|---|---|
| is 'the study of the economic structure and performance of real estate markets including the development of theoretical and empirical frameworks or models that facilitate the understanding of how markets work as a total system.' | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|

| Question 15*: To what extent do you agree with the following statements | Strongly agree | | | | Strongly disagree |
|--|----------------|---|---|---|-------------------|
| There is a tendency for valuers to focus narrowly on the micro-market for a particular property and to give scant recognition to the broader issues of local and regional economics or the specific demographics and economic variables driving the demand for and supply of particular types of property. | 1 | 2 | 3 | 4 | 5 |
| There is a need for the appropriate use of more advanced analytical techniques and market models to assist valuers understand the macro-market, i.e. the broader economic pressures and trends to benefit the valuation process. | 1 | 2 | 3 | 4 | 5 |
| There is an increasingly significant role emerging for geographic information systems (GIS) which have the benefit of the spatial application absent from the traditional forms of economic data sources. | 1 | 2 | 3 | 4 | 5 |
| Valuers have a range of techniques of property market analysis available to them and they are able to use their professional judgement to ensure their most appropriate use. | 1 | 2 | 3 | 4 | 5 |
| The analysis of past transactions will remain the major source of evidence for valuers. | 1 | 2 | 3 | 4 | 5 |

| Question 16: To what extent do you agree with the following statement? | Strongly agree | | | | Strongly disagree |
|---|----------------|---|---|---|-------------------|
| Property market analysis is a part of the productivity analysis of a valuation | 1 | 2 | 3 | 4 | 5 |
| The valuation process comprises a sequence of six steps: problem definition; determination of most probable use (productivity analysis); determination of most probable buyer; selection and application of valuation method; review and adjustment; conclusions and limiting factors. | 1 | 2 | 3 | 4 | 5 |

Question 17*: To what extent do you agree with the following statement?

| | Strongly agree | | | | Strongly disagree |
|---|----------------|---|---|---|-------------------|
| The market overview section of a valuation report would normally comprise: general market overview including commentary on pertinent legal, political and economic aspects; overview of the specific region in which the property is located; both overviews would usually address factors including: demand and supply, vacancy factors, rental movements, demographics/population growth, and any other market trends. | 1 | 2 | 3 | 4 | 5 |

Question 18*: To what extent do you agree with the following statement?

| | Strongly agree | | | | Strongly disagree |
|--|----------------|---|---|---|-------------------|
| The market analysis process comprises seven steps: property productivity analysis; market area definition; analysis of demand for each competitive/prospective use; analysis of supply for each competitive/prospective use; marginal demand/equilibrium analysis; subject capture estimates; financial analysis and optimal land use plan. | 1 | 2 | 3 | 4 | 5 |

Question 19*: In your estimation, what percentage of the final valuation report would each of the following comprise?

| | % |
|--|-------------|
| predominantly descriptive aspects - including title, location, town planning, site, improvements etc. | |
| market analysis - general and specific, including potential/highest and best use, supply and demand analysis, market overview etc. | |
| calculations | |
| reconciliation | |
| forecasting | |
| other (please specify) | |
| | 100% |

| Question 20*: To what extent do you agree with the following statement? | Strongly agree | | | | Strongly disagree |
|---|-----------------------|---|---|---|--------------------------|
| Clients expect a more comprehensive discussion of the market to be included in the valuation report than five years ago i.e. a `talking report` is more common now. | 1 | 2 | 3 | 4 | 5 |
| It is normally appropriate to undertake and include statistical analysis in a valuation report to support market analysis | 1 | 2 | 3 | 4 | 5 |

| Question 21*: For the valuations with which you are involved, with what frequency do you use the following as sources of information for your property market analysis? | Always | | | | Never |
|--|---------------|---|---|---|--------------|
| ABS data | 1 | 2 | 3 | 4 | 5 |
| reports by government departments please specify | 1 | 2 | 3 | 4 | 5 |
| reports which you commission please specify | 1 | 2 | 3 | 4 | 5 |
| reports on national economic activity | 1 | 2 | 3 | 4 | 5 |
| planning policies | 1 | 2 | 3 | 4 | 5 |
| regional planning schemes | 1 | 2 | 3 | 4 | 5 |
| local planning schemes | 1 | 2 | 3 | 4 | 5 |

| Question 21* (Cont'd): For the valuations with which you are involved, with what frequency do you use the following as sources of information for your property market analysis? | Always | | | | Never |
|---|---------------|---|---|---|--------------|
| RP Data | 1 | 2 | 3 | 4 | 5 |
| CITEC | 1 | 2 | 3 | 4 | 5 |
| APN | 1 | 2 | 3 | 4 | 5 |
| financial and business newspapers | 1 | 2 | 3 | 4 | 5 |
| in-house on-line data base | 1 | 2 | 3 | 4 | 5 |
| in-house paper/card data base | 1 | 2 | 3 | 4 | 5 |
| real estate agents | 1 | 2 | 3 | 4 | 5 |
| colleagues | 1 | 2 | 3 | 4 | 5 |
| other professional contacts | 1 | 2 | 3 | 4 | 5 |
| previous opinions of value | 1 | 2 | 3 | 4 | 5 |
| accumulated experience | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|--------------------------------|---|---|---|---|---|
| gut feel | 1 | 2 | 3 | 4 | 5 |
| other sources - please specify | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |

| Question 22*: To what extent do you consider the following to limit effective property market analysis? | Great extent | | | | Minimum extent |
|--|---------------------|---|---|---|-----------------------|
| the questionable accuracy of market data | 1 | 2 | 3 | 4 | 5 |
| the limited volume of relevant information | 1 | 2 | 3 | 4 | 5 |
| the limitless volume of relevant information | 1 | 2 | 3 | 4 | 5 |
| restricted access to relevant information | 1 | 2 | 3 | 4 | 5 |
| cost of obtaining information | 1 | 2 | 3 | 4 | 5 |
| speed of obtaining information | 1 | 2 | 3 | 4 | 5 |
| skills of the analyst/valuer | 1 | 2 | 3 | 4 | 5 |
| pressure from clients | 1 | 2 | 3 | 4 | 5 |
| time pressure | 1 | 2 | 3 | 4 | 5 |
| confidentiality agreements | 1 | 2 | 3 | 4 | 5 |
| other | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |

Section C: Factors influencing the property market

| Question 23*: In respect of the valuations with which you are involved, for each of the factors listed below, please identify their relative importance to you when you undertake the market analysis part of a market valuation of an investment grade property. Please nominate property type. | Very important | | | | Not important |
|---|-----------------------|---|---|---|----------------------|
| Property aspects | 1 | 2 | 3 | 4 | 5 |
| Land size, shape, slope, drainage etc. | 1 | 2 | 3 | 4 | 5 |
| Age, obsolescence, condition of improvements | 1 | 2 | 3 | 4 | 5 |
| Building maintenance costs | 1 | 2 | 3 | 4 | 5 |
| Building design | 1 | 2 | 3 | 4 | 5 |
| Architectural style | 1 | 2 | 3 | 4 | 5 |
| Landscaping | 1 | 2 | 3 | 4 | 5 |
| Internal layout | 1 | 2 | 3 | 4 | 5 |
| Services - site and building | 1 | 2 | 3 | 4 | 5 |
| Tenant mix | 1 | 2 | 3 | 4 | 5 |
| Tenure | 1 | 2 | 3 | 4 | 5 |
| Lease terms and conditions | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| Vacancy rate | 1 | 2 | 3 | 4 | 5 |
| Use of property | 1 | 2 | 3 | 4 | 5 |
| Size | 1 | 2 | 3 | 4 | 5 |
| Aspect | 1 | 2 | 3 | 4 | 5 |
| Access | 1 | 2 | 3 | 4 | 5 |
| Car parking, loading | 1 | 2 | 3 | 4 | 5 |
| Zoning | 1 | 2 | 3 | 4 | 5 |
| Location | 1 | 2 | 3 | 4 | 5 |
| | | | | | |
| Socio-economic factors - | 1 | 2 | 3 | 4 | 5 |
| Population movements | 1 | 2 | 3 | 4 | 5 |
| Immigration policy | 1 | 2 | 3 | 4 | 5 |
| Age profile of the community | 1 | 2 | 3 | 4 | 5 |
| Wage rates | 1 | 2 | 3 | 4 | 5 |
| Level of employment/unemployment | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| Economic and political aspects | 1 | 2 | 3 | 4 | 5 |
| Estimate of current point in the business cycle | 1 | 2 | 3 | 4 | 5 |
| Estimate of current point within the property cycle | 1 | 2 | 3 | 4 | 5 |
| Business bankruptcy rates | 1 | 2 | 3 | 4 | 5 |
| Major legislative change | 1 | 2 | 3 | 4 | 5 |
| Change in business legislation | 1 | 2 | 3 | 4 | 5 |
| Change of government | 1 | 2 | 3 | 4 | 5 |
| Inflation | 1 | 2 | 3 | 4 | 5 |
| Interest rates | 1 | 2 | 3 | 4 | 5 |
| Lending policies | 1 | 2 | 3 | 4 | 5 |
| Changing tax rates | 1 | 2 | 3 | 4 | 5 |
| National economic performance (Australian GDP) | 1 | 2 | 3 | 4 | 5 |
| Asian GDP | 1 | 2 | 3 | 4 | 5 |
| Exchange rates | 1 | 2 | 3 | 4 | 5 |
| Foreign policy | 1 | 2 | 3 | 4 | 5 |
| Foreign investment policy | 1 | 2 | 3 | 4 | 5 |
| Stock market performance | 1 | 2 | 3 | 4 | 5 |
| Stock market trends | 1 | 2 | 3 | 4 | 5 |
| Activity within the informal economy | 1 | 2 | 3 | 4 | 5 |
| Evidence of comparable transactions | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| Organisational aspects | 1 | 2 | 3 | 4 | 5 |
| Accessibility to information | 1 | 2 | 3 | 4 | 5 |
| Cost of information | 1 | 2 | 3 | 4 | 5 |
| Reliability of information | 1 | 2 | 3 | 4 | 5 |
| Current transaction rate | 1 | 2 | 3 | 4 | 5 |
| Market size | 1 | 2 | 3 | 4 | 5 |
| Market maturity | 1 | 2 | 3 | 4 | 5 |
| Tenure system | 1 | 2 | 3 | 4 | 5 |
| Bureaucratic structure | 1 | 2 | 3 | 4 | 5 |
| Ethics | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| Environmental and land use issues | 1 | 2 | 3 | 4 | 5 |
| Heritage issues | 1 | 2 | 3 | 4 | 5 |
| Contamination issues | 1 | 2 | 3 | 4 | 5 |
| Natural hazards | 1 | 2 | 3 | 4 | 5 |
| Local environmental conditions (e.g. pollution) | 1 | 2 | 3 | 4 | 5 |
| Changes in technology | 1 | 2 | 3 | 4 | 5 |
| Infrastructure capacity | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|--|---|---|---|---|---|
| Local planning instruments | 1 | 2 | 3 | 4 | 5 |
| Regional planning instruments | 1 | 2 | 3 | 4 | 5 |
| National planning policies | 1 | 2 | 3 | 4 | 5 |
| | 1 | 2 | 3 | 4 | 5 |
| Market activity aspects | 1 | 2 | 3 | 4 | 5 |
| Number of development applications under consideration | 1 | 2 | 3 | 4 | 5 |
| Current levels of vacant space | 1 | 2 | 3 | 4 | 5 |
| Take-up rates | 1 | 2 | 3 | 4 | 5 |
| Current volume of construction activity | 1 | 2 | 3 | 4 | 5 |
| Cost of building labour | 1 | 2 | 3 | 4 | 5 |
| Cost of building materials | 1 | 2 | 3 | 4 | 5 |
| Land tax and rates | 1 | 2 | 3 | 4 | 5 |
| Transaction costs | 1 | 2 | 3 | 4 | 5 |
| Other | 1 | 2 | 3 | 4 | 5 |

Table I: API membership by date of registration or equivalent

| Date of registration | 1993-98 | 1988-92 | 1978-87 | 1900-77 | Unknown | Total |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|--------------|
| Number | 35 | 42 | 80 | 78 | 5 | 240 |
| Percentage respondents | 14.6% | 17.5% | 33.3% | 32.5% | 2.1% | 100% |

Table II: Responses by category of valuation work: Boyd and this survey compared

| Category of valuation | Boyd (1993) | | | This survey | | | |
|--|--------------------|---------------------|--------------|--------------------|---------------------|--------------|--------------------|
| | <i>often</i> | <i>on occasions</i> | <i>never</i> | <i>often</i> | <i>on occasions</i> | <i>never</i> | <i>No response</i> |
| Urban investment property \$10m+ | 23% | 44% | 33% | 15% | 38% | 43% | 4% |
| Urban investment property under \$10m | 56% | 39% | 5% | 51% | 33% | 11% | 5% |
| Rural property \$10m+ | 1% | 17% | 82% | 2% | 13% | 77% | 8% |
| Rural property under \$10m | 18% | 41% | 41% | 23% | 34% | 36% | 7% |
| Owner occupied dwellings | 63% | 32% | 5% | 64% | 22% | 9% | 5% |
| Hotels and resorts \$10m + | - | - | - | 6% | 16% | 72% | 6% |
| Hotels and resorts under \$10m | - | - | - | 9% | 35% | 50% | 7% |
| Other* | - | - | - | 20% | 6% | 0% | 74% |

* Management rights and other non-specified

Table III - Components of a valuation report

| | Mean | Standard Deviation |
|----------------------------|-------------|-------------------------------|
| Descriptive aspects | 38% | 20% |
| Market analysis | 30% | 13% |
| Calculations | 13% | 8% |
| Reconciliation | 8% | 6% |
| Forecasting | 7% | 6% |
| Other | 4% | 8% |

Table IV: Constraints on property market analysis

| Limiting effect on property market analysis | Great extent | | | | Minimum extent | No response |
|--|---------------------|-----|-----|-----|-----------------------|--------------------|
| Limited volume of relevant info | 23% | 45% | 20% | 7% | 2% | 3% |
| Questionable accuracy of market data | 24% | 42% | 19% | 9% | 3% | 3% |
| Time pressure | 24% | 38% | 22% | 11% | 3% | 3% |
| Restricted access to relevant info | 26% | 30% | 26% | 9% | 2% | 4% |
| Pressure from clients | 18% | 30% | 23% | 17% | 10% | 3% |
| Skills of the analyst/valuer | 20% | 27% | 30% | 18% | 3% | 3% |
| Speed of obtaining information | 15% | 30% | 27% | 19% | 8% | 3% |
| Confidentiality agreements | 17% | 23% | 34% | 18% | 4% | 4% |
| Cost of obtaining information | 14% | 25% | 27% | 23% | 8% | 3% |
| Limitless volume of relevant info | 4% | 8% | 20% | 33% | 28% | 7% |
| Other | 3% | 1% | 0% | 0% | 0% | 95%* |

notation identified in text

Table V: Rank order of ‘very important’ responses to factors affecting the property market

| Market analysis factor | % ‘very important’ |
|--|-----------------------------------|
| comparable transactions | 75 |
| lease terms and conditions | 71 |
| location | 69 |
| tenure | 59 |
| contamination | 54 |
| zoning | 53 |
| current levels of vacant space | 53 |
| vacancy rates | 50 |
| reliability of information | 50 |
| land size, shape, slope, drainage etc. | 49 |
| age, obsolescence, condition of improvements | 48 |
| local planning instruments | 47 |
| take-up rates | 47 |
| heritage | 43 |
| accessibility to information | 42 |
| tenant mix | 38 |
| size | 35 |
| tenure system | 31 |
| ethics | 29 |

Table VI: ranking of responses over 50% to market analysis factors by addition of ‘very important’ and ‘important’ responses

| Factor | % |
|--------------------------------|----------|
| location | 93 |
| lease terms, conditions | 91 |
| comparable transactions | 91 |
| vacant space | 89 |
| building condition etc | 86 |
| tenure | 86 |
| contamination | 85 |
| take-up rates | 85 |
| vacancy rates | 82 |
| reliability of information | 82 |
| local planning | 82 |
| zoning | 79 |
| land size etc | 78 |
| heritage | 78 |
| accessibility of information | 76 |
| tenant mix | 75 |
| construction activity | 75 |
| interest rates | 73 |
| services | 72 |
| use of property | 71 |
| access | 71 |
| car parking, loading | 71 |
| current DAs | 70 |
| size of property | 69 |
| building design | 67 |
| natural hazards | 67 |
| internal layout | 65 |
| regional planning | 65 |
| point in property cycle | 63 |
| maintenance costs | 63 |
| market size | 61 |
| tenure system | 59 |
| inflation | 57 |
| lending policies | 56 |
| point in business cycle | 55 |
| local environmental conditions | 55 |
| infrastructure capacity | 53 |
| property aspects (overall) | 51 |

Table VII: Comparison by source group for top ranking ‘very important’ and ‘important’ responses to market analysis factors

| Market factors by group (number of factors per group) | ‘Most important’ top rank | | ‘Very important’ and ‘important’ top rank | | Other responses over 40% |
|--|---------------------------|-----|---|-----|--------------------------|
| | | | | | |
| Property aspects (20) | 9/20 | 45% | 17/20 | 85% | - |
| Socio-economic factors (6) | - | - | - | - | - |
| Economic & political aspects (20) | 1/20* | 5% | 6/20 | 30% | 1/20 |
| Organisational aspects (10) | 4/10 | 40% | 4/10 | 40% | 1/10 |
| Environmental, technological & land use issues (10) | 3/10 | 30% | 7/10 | 70% | 1/10 |
| Market activity aspects (9) | 2/9 | 22% | 4/9 | 44% | 1/9 |
| Other (1) | - | - | - | - | 1/1 |

* Note: this item is ‘evidence of comparable transactions’ which, as discussed in the commentary, would be better placed in the market activity group.