CHAPTER 3
Market Analysis

This chapter provides an overview of the economic and property market analysis, which is the foundation of any Property Valuation. The more rigorous the market analysis, the more robust the valuation will be. Furthermore, as will be illustrated in Chapter 4, all valuation methods are based on a comparison, so the choice of comparative factors is a fundamental aspect of the valuation process.

ECONOMIC ANALYSIS

Market analysis must begin with an economic overview. Firstly, this allows the existing and prospective overall scenario to be defined, in order to gain a better understanding of the dynamics of demand and supply of properties based on the economic trend. Secondly, especially when the Discounted Cash Flow Approach is taken, it allows the choice of variables, including the inflation rate, the rate of growth of market rates and the risk-free rate (in this respect, see the case described in Chapter 9 for a detailed discussion of the choice of the main factors) to be justified. Finally, it provides a better understanding of the dynamics of supply and demand of properties based on economic trends.

The economic analysis must, therefore, highlight the dynamics of the main factors, such as Gross Domestic Product, expected economic growth rate, inflation rate, unemployment level, etc. By its nature, the data required for the economic analysis is usually drawn from reports published by the main institutional, economic and political sources (including the World Bank and International Monetary Fund globally, the European Central Bank (ECB) and the European Commission at European level). Considering the reliability of all these sources, the choice between them is arbitrary, but it is essential, particularly with the Income Capitalisation Methods, to use consistent data (e.g. if the valuation concerns a portfolio of properties, the inflation rate used must be identical for all the properties).

ANALYSIS OF THE PROPERTY MARKET

The next step in the analysis is on the property market, both globally/nationally and locally, a process which has a few peculiarities.

Unlike securities markets, where stock exchange transactions are registered and all the data are immediately available to the market participants, in the property market there is a delay required for them to be processed, as well as some difficulties in collecting the data themselves, including price trends and volumes of sales.

To begin with, the data became publicly available after a much greater delay than in the securities markets, where prices and volumes are available in real time. In the property market, data collection usually takes place over a relatively long period (depending on the data, the type of property and the market transparency, it ranges from a month to a year) and this leads to a delay in the availability of official information. The market reports produced by research organisations and real estate brokers therefore always refer to a previous period, with delays of a few weeks to a few months to allow the information collected to be processed.

Secondly, the complexity is increased by the specific nature of each property, which, unlike securities, is unique.