CHAPTER 5

Sales Comparison Approach Methods

This chapter presents the Sales Comparison Approach Methods, also referred to, for simplicity, as the Sales Comparison Methods, starting with the principles on which they are based, subsequently describing in greater detail the main application criteria – the Direct Comparison Approach and the Hedonic Pricing Model – showing how each one is used, and discussing their main advantages and limitations.

APPROACH AND APPLICATION CRITERIA

In the Sales Comparison Methods, the value of an asset is obtained based on the identified prices of comparable transactions. This method is based on the assumption that no rational buyer is willing to pay a price higher than the cost of purchasing similar assets that present the same degree of usefulness. This assumption stems from the two main principles of substitution and equilibrium between demand and supply:

- Substitution Principle: the value of an asset is related to the price that should be paid for a perfectly identical asset.
- Equilibrium Principle: the price of an asset depends directly on the market (demand and supply) and is, therefore, the synthesis of the negotiation process.

For the Sales Comparison Methods to be applied, one needs a sample of transactions[1] relating to identical assets. By definition, strictly speaking, there are no identical properties because they are all unique, at least in terms of location. However, in practical terms, the flexibility of an asset can be identified based on the main features that contribute to determining its attractiveness. The price of an asset always depends on the relationship between demand and supply and will tend to vary over time.

The Sales Comparison Methods can be divided into two main application criteria which will be illustrated separately,[2] both for greater clarity of explanation and because, while all of them are based on the same principles, their calculation algorithms and application methods differ:

1. Direct Comparison Approach
2. Hedonic Pricing Model.

With regard to the Direct Comparison Approach, there are many manuals that provide a clear and in-depth description with numerous examples of how it is used. The Hedonic Pricing

Model is rarely used because of the difficulty of obtaining a sufficient amount of information about transactions, but it is important since in the future, thanks to AI and the increasing amount of data available, could become of practical interest.[3] Despite this, knowledge of the Hedonic Pricing Model helps to gain a better understanding and ensure the more effective use of the more widespread Direct Comparison Approach. While the former, as illustrated in the Section 'Direct Comparison Approach', is based on multiple regression models, where several variables contribute to assigning a value to the unit of measurement used to determine the value of the property, the latter can be seen as a linear regression with a single variable, where the value depends solely on the Net Sellable Area. Later, this value is modified by making some adjustments based on the specific characteristics of the property being valued which differ from the comparable transactions.