Article Side

Commercial Comparable Sales -- Matched Pair Analysis by Patrick O Connor

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Commercial comparable sales can be used to perform analysis regarding a variety of factors and issues impacting the value of real estate. The basic technique is to identify two sales that are identical except for the issue being evaluated. For example, to determine trends in market value over time, the sale price of a tract of land at two points in time can be compared to determine whether values are increasing or decreasing.

The following is a list of some items that can be analyzed utilizing the matched pair technique:

Market conditions

Corner versus non-corner

Size (land or buildings)

Age

Location

Window air conditioner versus Central air conditioner

HVAC versus a chilled water cooling system for apartments

Original kitchen versus remodeled kitchen

Swimming pool

Condominium on the 4th floor versus a condominium on the 20th story of a high-rise building

Following are the steps to perform a matched pair analysis:

Locate comparable sales identical in all regards except for the issue being evaluated. Locating meaningful data is the most difficult part of performing a matched pair analysis. It is ideal to have two or three sets of matched pairs to evaluate a single factor. In practice, it is often difficult to develop one truly identical matched pair. In many cases, it is necessary to make adjustments for an additional item before performing the matched pair analysis. For example, when comparing an apartment complex with a chilled water cooling system versus an apartment complex with separate HVACs, it may be first necessary to make adjustments for another factor such as age or size.

Evaluate the difference in sales price between the matched pair. The comparison can either be done on a gross sales price basis or utilizing a unit of measure (such as sales price per square foot or per unit).

Review whether the result is reasonable. For example, a matched pair which indicates a swimming pool (which cost $30,000 to install) adds $50,000 to the market value of a home is likely not reasonable.

Match pairs can be a valuable tool in evaluating the impact of factors affecting the market value of real estate. Other options for analyzing these factors include interviews with brokers, buyers, sellers and other market participants, analysis of depreciated cost differences and capitalizing differences in rental rates.

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Patrick O Connor - About Author:
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