

The Impact of Valuation Methods on Property Price Development - a Swiss Perspective

Bachelor Thesis

In

Financial Economics

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Executive Summary

Real estate markets differentiate themselves fundamentally from other markets. Since a particular property is basically a unique good that can be distinguished from other properties just by its' local position, it can't be assigned a particular price just by observations of other properties' transactions.

This heterogeneity makes it difficult for market participants to form any form of price expectations. Hereby, the field of real estate appraisal has merited its' role by filling this information gap (theoretically).

The aim of this work is to emphasize the impact of the property valuation methods on price development in Switzerland. As there are no other studies, which treat this very subject, and no data on transaction prices or valuation results are publicly available, this work concentrates on analyzing the literature, which either treats Swiss property valuation methods, functionality of the property markets or behavior and preferences of appraisers when valuating properties.

We find that property markets in Switzerland are even more obscure and inefficient than (international) property markets in general. This is partly caused by little available information on property prices or transactions. Analyzed methods used for valuation however often seem to rely on some form of comparison; either by direct (single) transaction prices or indirectly through regression models (*Hedonic Pricing Method*) or capitalization rates. Accordingly, when inefficient prices are used for comparing, the results can't bring up any new information.

We further find that on the most appraisers have strong faiths in some valuation methods, although their approaches are criticized by several observers of the real estate market and even by individual appraisers themselves.

This work however fails to provide any evidence on the influence of valuation results on the market participants price estimates, since we couldn't find access to relevant data or opportunities to test those effects.