

Valuation as Research: A Defensible Approach

Terans Gunawardhana^{a*}

^aDepartment of Estate Management and Valuation, University of Sri Jayewardenepura, Sri Lanka

Abstract

Valuation is a process intended to address specific inquiries concerning the value of real property. It entails market research. Although the final estimated value, expressed in monetary terms, holds importance, its validity cannot be assured unless the methodology is credible and reliable. Given that valuation is not a pure science, the term 'defensible valuation' is more appropriate than 'accurate valuation.' Therefore, defensible valuation centers on the robustness and integrity of the valuation process itself. This paper aims to refine the valuation process to enhance its robustness. Disciplinary literature was critically reviewed and complemented by expert consultations to identify key themes. These themes were then systematically mapped onto the current valuation practices to uncover potential areas for enhancement. A framework is derived as a defensible valuation process with high robustness and integrity.

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Introduction

Real estate, being inherently practical (French, 2023a), requires a deep understanding of both theoretical and practical aspects. The valuation of real property entails market research (Australian Property Institute, 2007). It is fascinating to explore how valuation can be seen as a form of research and the valuer's role as a market researcher in this process. According to the International Valuation Standards Council (IVSC, 2024), a valuer is defined as an individual who possesses the requisite qualifications, competencies, and experience to conduct a valuation effectively. Consequently, this paper aims to provide a comprehensive overview of the valuation process, exploring how it can be viewed as a form of market research, with the goal of refining the process to enhance its robustness. According to Ghauri et al. (2020), the presentation of research content should be carefully aligned with the intended audience. This paper is specifically directed toward valuers at the beginning of their careers and property students, serving as an educational resource.

The concept of 'valuation' is subject to different interpretations. Some scholars characterise valuation as both an art and a science. For example, Murray (1969), describes valuation as the procedure for determining value, referring to it as "the art of imputing a price to property." Crosby (2000) explores multiple interpretations, presenting views such as "valuation is an art, not a science," 'valuation is a 'very inexact science', and 'valuation can neither be described as an art nor a science.' In contrast, Kininmonth (2021) posits that valuation transcends mere mathematical output, emphasising that it results from human perception, integrating both empirical data and emotive inputs, which collectively yield a unique value for the property under consideration. Similarly, Shapiro et al. (2019) state that while valuation is not a precise science, the methodologies employed are nonetheless robust.

*Corresponding author: terans@sjp.ac.lk

The valuation process is a systematic procedure a valuer follows to provide answers to a client's questions about real property value (Appraisal Institute, 2020). In the Operational Manual titled *Objective Valuation Concepts and Techniques: A Contemporary Approach*, Squirrell et al. (2021) identify the initial step in this process as determining 'The Purpose of the Valuation.' The Appraisal Institute (2020) and Squirrell et al. (2021) reflect that the valuation process is a methodical process, likely as a research process, and demands robustness which is required for 'defensible valuation' as implied by Wilkinson et al. (2018). However, the need to refine the valuation process as a research-based approach for producing 'defensible valuations' with high robustness and integrity remains unaddressed in the disciplinary knowledge.

The objective of the study

The purpose of this paper is to demonstrate how the valuation process can be viewed as a form of research, highlighting its robustness in ensuring the reliability or dependability, validity or credibility, and free from measurement bias or trustworthiness required for a 'defensible valuation'.

Literature Review

Valuation

Valuation is typically understood as the process of determining market value (French, 2023b). According to the International Valuation Standards Council (IVSC) (2024), valuation is defined as the act or process of determining a value as of a specific valuation date, conducted in compliance with the International Valuation Standards (IVS). Ultimately, a valuation must address a client's inquiries regarding the value of a property. Clients are not merely seeking a numerical figure; they are equally concerned with the rationale underpinning the determination of that value. In other words, a client's inquiries encompass not only 'what' the value is, but also 'how' and 'why' it was established.

To address these inquiries comprehensively, IVS 105 outlines the essential characteristics of appropriate valuation models, which include: (a) accuracy, (b) completeness, (c) timeliness, and (d) transparency. While these attributes form the foundation of sound valuation practice, there remains scope for further refinement to enhance the robustness of valuation models. Integrating quality criteria derived from established research methodologies could significantly strengthen the discipline of valuation, particularly given the parallels between valuation processes and systematic, rigorous research practices. For example, as Saunders et al. (2023) suggest three key criteria could be employed to reinforce the robustness of valuation models: (a) reliability or dependability, (b) validity or credibility, and (c) free from measurement bias or trustworthiness.

Accurate Valuation and Defensible Valuation

There has been substantial scholarly discourse on the topic of valuation accuracy, reflecting the critical need for accurate valuations in decision-making processes. For example, Matysiak (2018) stated that an indication of accuracy is necessary for transparency. However, the question remains: how do inaccuracies in valuation estimates arise? Chan and Abidoye (2019) suggest that inaccuracies may stem from the adoption of inappropriate property valuation methods. While this perspective highlights a significant factor, it is important to recognise that the adoption of valuation methods occurs mid-process, suggesting that other factors may also contribute to inaccuracies. Indeed, the use of inappropriate methods is just one potential cause. Valuation is fundamentally a reasoning process. As highlighted in recent Australian case law, *Averala Pty Ltd v Valuer General (No 2)* [2006] NSWLEC 342, a valuation report must clearly disclose the valuer's reasoning process in determining the assessed value. This transparency demonstrates how the valuer applied their specialised knowledge to the specific facts of the case.

Shapiro et al. (2019) emphasise that the accuracy of any valuation method is heavily dependent on the quality of the comparable evidence available to the valuer. For example, the accuracy of the Discounted Cash Flow (DCF) analysis hinges on the reliability of key variables, such as the discount rate, growth rates, and length of stay (Towart, 2018). This underscores the importance of context and data quality in achieving accurate valuations. IVSC (2024) defines accuracy as ensuring that "the

valuation model is free from error and functions in a manner consistent with the objectives of the valuation.” Crosby (2000) raises the pertinent question of whether systematic differences in valuation processes across countries could lead to varying levels of accuracy. His assertion implies two key points: first, that accuracy can be compromised at any stage of the valuation process, and second, that variations in valuation practices between countries may result in different levels of valuation accuracy. Crosby’s observations also imply the importance of establishing a common framework to ensure a robust and defensible valuation process. Furthermore, Wilkinson et al. (2018) argue that the valuation industry has become increasingly compliance-driven, rather than being focused on value, quality, and accuracy. This perspective aligns with the preference for the term ‘defensible valuation’ over ‘accurate valuation,’ as a defensible approach prioritises compliance, quality, and accuracy, rather than being solely driven by value considerations.

Valuation Process

The valuation process is integral to forming a well-substantiated opinion of value, as emphasised by Shapiro et al. (2019). The Appraisal Institute (2020) further underscores that the ultimate objective of this process is to reach a conclusion that thoroughly reflects all relevant factors influencing a property’s market value. According to the Appraisal Institute (2020), the valuation process comprises several key components:

1. Identification of the appraisal problem
2. Determination of the scope of work
3. Data collection and property description
4. Data analysis
5. Land value opinion
6. Application of the approaches to value
7. Reconciliation of value indications and final opinion of value
8. Reporting of the defined value

While these steps are widely recognized, variations in the components of the valuation process can occur across different countries. Nevertheless, the outlined process is commonly employed, either explicitly or implicitly, in many jurisdictions. For example, four stages—accumulation, analysis, adjustment, and application—were identified from a legal perspective in *Adams v Valuer General [2014] NSWLEC 1005*. These stages form the process for conducting a valuation using the direct comparison of sales evidence. Although simplified, they represent the core and more abstract elements of what valuers do in practice. Specifically, the first three steps in the eight-step process correspond to the accumulation stage; the fourth step aligns with the analysis stage; the fifth and sixth steps with the adjustment stage; and the final two steps with the application stage. It is evident that the valuation process suggested by the Appraisal Institute (2020) matches with stages of valuation discussed from the legal perspective as well, consequently representing the acceptance in a broader context. However, the critical question is the extent to which this valuation process contributes to producing more defensible valuations.

The quality, reliability, and precision of the valuation process are heavily dependent on the valuer’s ability to comprehend and incorporate the dynamics of the real estate market and the inputs used throughout the process. As Lizieri (2021) points out, to conduct a rational valuation and provide rigorous advice to clients, a professional valuer must have a deep understanding of the real estate market dynamics surrounding the subject property.

Advancements in technology also hold the potential to address challenges and enhance the overall quality, reliability, and precision of the valuation process (Miller, 2021; Baum et al., 2021). However, the effective use of technology requires a clear understanding of when, where, and how it should be applied. It is important to recognise that technology alone does not inherently increase valuation accuracy or render valuations more defensible. Instead, the focus should be on establishing a robust and defensible valuation process that integrates technological tools carefully to support the valuer’s expertise and the methodological rigor of the valuation.

Methodology

This study employs a qualitative approach, utilising a comprehensive review of academic literature, industry reports across various formats (print, audio, video), and in-person consultations with experts within the valuation industry (Sri Lanka and Australia) and other relevant stakeholders. These diverse sources were leveraged to critically assess the necessity for a valuation process, with the objective of enabling valuers to produce defensible valuations that enhance both accuracy and credibility through rigorous methodologies.

The data underpinning this study were collected from 42 experts and stakeholders within the valuation industry over a two-year period, from 2022 to 2024. Through an in-depth analysis, key themes were identified regarding how practically the valuation process works. This thematic analysis was undertaken with the specific goal of identifying potential areas for methodological enhancement. The focus was on integrating a foundation into the valuation process, characterised by an evidence-based, transparent, and objective approach, thereby improving the overall validity and defensibility of the process.

Results and Discussion

The findings, summarised in Table 01, suggest additional two components, macro analysis and micro analysis, that have been incorporated into the valuation process. Macro analysis is crucial for conducting a comprehensive examination of the broader industry context in which the property operates. Micro analysis focuses on a detailed evaluation of the subject property itself. The validity and trustworthiness of the value derived through a process in absence of these two components, as in the current process, can be challenged. Therefore, even if they are implicitly considered, these elements must be explicitly stated to ensure a defensible valuation.

Expert feedback indicates that, following the identification of the valuation problem, the subsequent step involves a thorough analysis of the market environment specific to the property. This stage is often referred to as leveraging "experience," underscoring the importance of industry knowledge prior to advancing to further stages of the valuation process. The examination of the property is then conducted; however, it is important to note that micro analysis is significantly enhanced when the valuer possesses a robust understanding of the market conditions.

The reporting of the value opinion or conclusion represents the culmination of the valuer's work and can be delivered either in written form or verbally. It is fundamentally grounded in the valuer's research and analysis of the valuation problem. Crucially, the reporting phase is not merely about presenting the estimated value; it serves as a comprehensive narrative detailing the steps taken to ensure the reliability, validity, and trustworthiness of the valuation. This includes articulating how dependability was established, how credibility was maintained, and how measurement bias was eliminated throughout the valuation process.

Table 01: Components of the Valuation Process

Component	Purpose	Examples	Literature	Expert Responses
Valuation Problem Review	To set the parameters for the assignment	<ul style="list-style-type: none"> Date of valuation Interest to be valued Purpose of the valuation Going Concern/Continued Use Value 	(Appraisal Institute, 2020) (TEGoVA, 2020) (Squirrell et al., 2021)	"the problem identification is the first step in the process" "applicable laws or regulations define the interest and determine how that interest to be valued"

Macro Analysis	To undertake a detailed analysis of the industry	<p>Conventional Sectors:</p> <ul style="list-style-type: none"> • Residential • Office • Retail • Industrial • Rural <p>Specialised Sectors:</p> <ul style="list-style-type: none"> • Leisure Property • Plant and Equipment • Retirement and Aged Care • Business and Intangible Asset • Market Analysis • Demand studies • Supply studies 	<p>(Appraisal Institute, 2020)</p> <p>(Kucharska-Stasiak, 2018)</p> <p>(RICS, 2021)</p>	<p>“industry/sector knowledge is the key in valuation”</p> <p>“information needed for valuation approach selection”</p> <p>“the needs of market analysis: the transition from a subjective to an objective approach”</p>
Micro-Analyses	To undertake a detailed examination of the subject property	<ul style="list-style-type: none"> • Highest and Best Use Analysis • Marketability studies • Property Measurement • Locational Analysis 	<p>(Appraisal Institute, 2020)</p> <p>(RICS, 2021)</p>	<p>“Understands the market forces that affect the subject property”</p> <p>“Recognises the use/uses on which the final opinion of value is based”</p>
Valuation Approach Selection	To determine the most suitable valuation approach	<ul style="list-style-type: none"> • Cost Approach • Income Approach • Market Approach 	<p>(Appraisal Institute, 2020)</p> <p>(IVSC, 2024)</p>	<p>“value indication by comparing the subject property with similar/comparable properties”</p> <p>“the present value of the anticipated future benefits of property ownership”</p> <p>“Cost approach is mainly useful in valuing new/nearly new improvements and properties that are not regularly traded”</p>
Valuation method/s selection	To choose the most effective valuation method/s	<ul style="list-style-type: none"> • Capitalisation methods (Perpetual methods, Reversionary methods) • Discounting Models • The Profits Method • Direct value comparison • Depreciated Replacement Cost (DRC) 	<p>(Appraisal Institute, 2020)</p> <p>(IVSC, 2024)</p>	<p>“one or more methods used”</p>

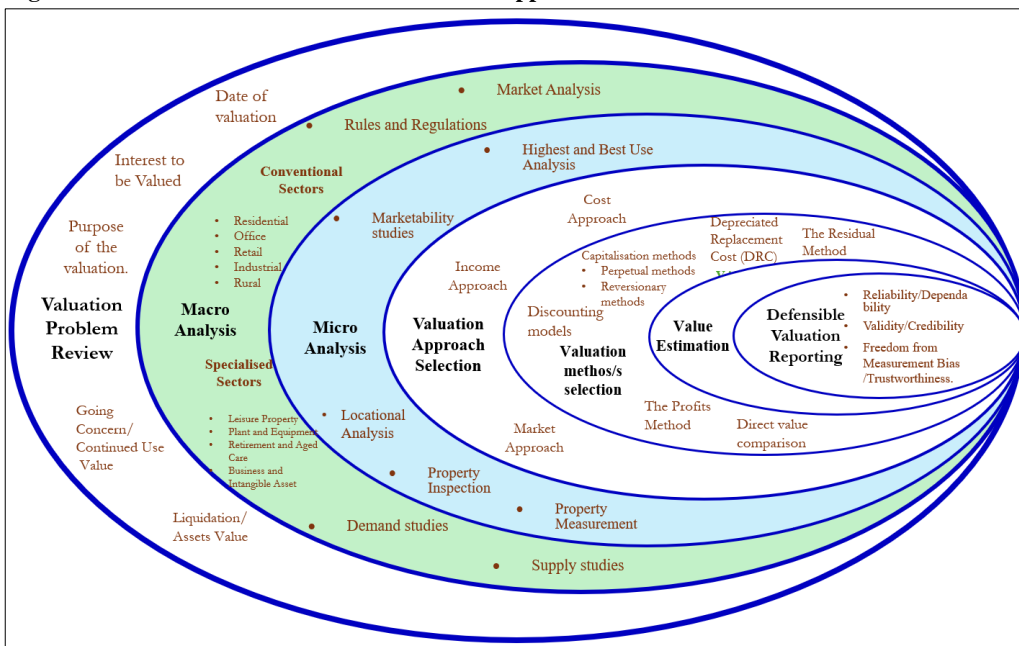
		<ul style="list-style-type: none"> • The Residual Method. 		
Value Estimation	To determine the value of the property	<ul style="list-style-type: none"> • Value Estimation • Value opinion 	(Appraisal Institute, 2020)	“analysis of valid general and specific data”
Reporting	To report of the value opinion or conclusion	<ul style="list-style-type: none"> • Reliability or Dependability • Validity or Credibility • Free from Measurement Bias or Trustworthiness. 	(Appraisal Institute, 2020) (TEGoVA, 2020)	“the expression of the valuer’s work” “the conclusion of the valuer’s research and analysis” “communicate the valuation process”

Source: Gunawardhana, 2024

A framework for defensible valuation is derived through a review of literature and expert insights and presented in Figure 01. Each ring represents the stages in the valuation process and overall depicts the structured systematic approach that needs to be followed as in research. Macro and micro analyses are the newly added stages while others are refined and presented with more completeness. This framework is significant for three key reasons. First, it provides a comprehensive representation of the entire valuation process, serving as a valuable guide particularly for valuers at the beginning of their careers and property students, enabling them to better understand how valuations should be conducted with high robustness; in turn, derived a defensible value for the property.

Second, the framework assists property educators in designing and delivering effective course content. It not only outlines the valuation process but also indicates the diverse knowledge areas and skill sets students must acquire to become proficient valuers. For instance, addressing a valuation problem requires more than technical knowledge; it demands competencies in communication, negotiation, management, and psychology to name a few. Each phase of the framework identifies the necessary knowledge, skills, and attitudes required for progression, guiding educators on what, how, and when to teach.

Third, this framework is beneficial for property policymakers and institutions in shaping policy decisions. A common concern, such as "valuation accuracy/validity," is addressed by the framework, which clarifies that accuracy refers not to the precision of the estimated value but to the correctness of decisions made at each phase of the valuation process. Hence, the term "defensible valuation" is used to emphasise the importance of a transparent, justifiable methodology over mere numerical precision.

Figure 01: Valuation as Research: A Defensible Approach

Source: Gunawardhana, 2024

Conclusion

The purpose of this paper was to refine the valuation process to enhance its robustness inculcating a research approach; consequently, to ensure high objectivity, precision, reliability, and validity required for 'defensible valuation'. Through a qualitative approach, the valuation process is derived and presented in a framework as the novelty of the paper; consequently, addresses the knowledge gap on how valuers can achieve defensible valuation by considering valuation as research. Practically, it provides a structured guide to strengthen the defensibility of valuation and is useful for valuers, educators, and policymakers. Future research should focus on validating this framework empirically, incorporating broader input from valuers using a larger sample.

Acknowledgments

Figure 1 in this paper is adapted from the 'Research Onion' developed by Saunders et al. (2019). The original work is acknowledged by the author.

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