

Wüest & Partner

Methodology for development land valuation

Development land prices are calculated using the residual method, involving deduction of the construction costs estimated for a property from its market value. The difference (i.e. residual value), which may also be expressed in Swiss francs per square metre, is allocated to the land. The applied market values are determined on the basis of use class. The value of single-family houses is estimated using the statistical direct comparison method (hedonic valuation), while the market values of investment properties (apartment blocks, commercial/industrial properties) are calculated by risk-adjusted capitalization of the market rents.

In determining the market values of standard properties, Wüest & Partner applies proven valuation models and its own practical experience. The institutional investor perspective adopted for income-producing properties may sometimes, at peripheral locations, yield land values lower than the prices effectively paid by other market players (e.g. private purchasers). Moreover, no special allowance can be made in the model for the effective municipal planning and zoning framework. At the same time, special development orders and extraordinary regulations (e.g. governing plot ratios) are value-relevant factors that warrant consideration.

The applied construction costs are based on benchmarks and may be selected so as to reflect use class, fit-out standard, geographical region and location type (urban, rural etc.).

The values are computed at political municipality level and, for the major cities, by municipal district («Kreis»). Land values are issued in terms of percentiles, based on which statements can be made about the distribution of the modelled land values on one hand, and the location quality on the other hand. The 10th percentile refers to a downmarket location, the 50th percentile refers to an average and the 90th percentile to an upmarket location. Development land values may be aggregated to produce data for larger geographical areas, e.g. spatial mobility (MS) regions, cantons etc. Figures are available for a variety of use classes.

Component	Use classes	Method	Factors
Market value of property	Single-family house	Hedonic valuation	Use
	Apartment block	Capitalization of market rents	Location
	Commercial*	Capitalization of market rents	Standard
	Light/heavy-industrial	Capitalization of market rents	Condition Property size
Construction costs	Single-family house	Specific cost benchmarks	Use
	Apartment block		Municipality type
	Commercial*		
	Light/heavy-industrial		
Land value	Single-family house	Residual value (Market value – construction costs)	Use
	Apartment block		Locational quality
	Commercial*		Plot ratios typical for municipality
	Light/heavy-industrial		

* Model property with 80% office and 20% retail accommodation

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Summary of components used in applied residual valuation method together with relevant factors