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Summary of doctoral thesis

Title: Market value of real estate as an attempt to objectify the behaviour of market participants

With the return to the roots of economics, the need to discuss the category of value is also returning. *An economy without values is like a life without meaning*[1]. It is essential in the area of imperfect markets, because this is where the paradigm of the rational man does not correspond to reality to the greatest extent. Such markets include the real estate market. The central object of study in this thesis is the category of market value of real estate. This type of value is most often sought by market participants for the purposes of, inter alia, sales, assessments, taxes, compensation, debt security, advice, etc. These purposes require the establishment of a value that objectifies the behaviour of market participants, i.e. a value that represents the typical, most common behaviour. Considerations in the literature point to the difficult nature of value as a relative and dynamic category and, above all, always having subjective characteristics. This makes it difficult to objectivise, a process which is already grounded in the specifics of research carried out in the social sciences[2], and deepening in the process of property valuation. in the property valuation process. Since the process of arriving at a market value is intended to simulate the typical behaviour of participants in this market, the concept of value must reflect the specifics of the market in which this value is created, as well as the conditions in which its participants operate, including risk and uncertainty. The main objectives of the dissertation are (C1) to show that market value poorly objectifies the behaviour of market participants, (C2) to show that the objectification of market value in the real estate market is relatively more difficult than in the market for other assets due to the specifics of real estate as well as the peculiarities of the real estate market itself, (C3) demonstrating that the valuation of real estate is behavioural in nature, which should be revealed in the definition of market value as well as the in the presentation and interpretation of the valuation result.

The high level of risk and uncertainty in the value of the property, which also originates in the process of arriving at it, should be revealed not only in the definition of the market value but also in the way the result of the valuation is presented and interpreted. In order to achieve the objectives of the study, two research methods were used: a survey and an experiment. The

[1] G. W. Kołodko, *Dokąd zmierza świat. Ekonomia Polityczna*, Wydawnictwo Prószyński Media, Warszawa 2013, s. 164.

[2] S. Stachak, *Podstawy metodologii nauk ekonomicznych*, Wydawnictwo Książka i Wiedza, Warszawa 2006, s. 20.

questionnaire survey was designed to investigate the degree to which the definition of market value was consistent with its understanding and acceptance by valuers, and to identify behavioural factors influencing the property valuation process. The vast majority of respondents agreed with the basic tenets of the market value definition, however, some doubts were noted regarding aspects related to human nature, such as the rationality of real estate market participants' decisions or the lack of compulsion in decision-making - the heterogeneity of properties and the relatively low number of transactions mean that individual properties are not substitutes, which may create pressure to make quick purchase decisions and thus increase susceptibility to the influence of emotions. A significant number of respondents expressed the belief that the definition of market value does not fully take into account non-economic factors, such as emotions, the influence of the environment, or instinct, which can significantly influence transaction prices. Valuers also pointed to behavioural aspects of the property valuation process. It was noted that subjectivity in the assessment of market evidence and assumptions made affects the final valuation outcome. Although the majority of respondents did not perceive the influence of emotion or peer pressure on valuation outcomes, literature research indicates that such an influence exists and can be significant. Respondents acknowledged that transaction prices and rental rates do not always fully reflect available property information, which confirms existing views in the literature about the low efficiency and imperfection of the property market. A significant result of the survey was the demonstration that the majority of respondents perceive a misunderstanding of the essence of market value by valuation recipients, who often mistakenly treat market value as equal to price. This attitude has a negative impact on the image of the valuation profession and the real estate investment decision-making process. In addition, more than half of the respondents encountered a situation where a small difference between value and price was considered to be an error on the part of the valuer, indicating a lack of understanding of the difference between the two categories. The survey results also indicate a need to change the way valuation results are presented. A majority of respondents favour the introduction of new methods of presentation such as numerical ranges, clauses in valuation reports or sensitivity analysis which could better reflect the risks and uncertainties involved in the valuation process. Respondents also perceive a need to inform clients about the subjective and scientific nature of valuation, which could help to improve understanding of the valuer's role and better perception of their work in the business community. The results of the survey indicate a need to further educate valuation audiences in understanding the difference between market value and price and to consider changes in the way valuation results are presented to better reflect the realities of the market and the needs of its participants.

Based on the experimental research carried out, too, it can be concluded that property valuation is a process subject to considerable uncertainty, which is due to the variety of assumptions made by valuers. Significant discrepancies in estimated property values were noted in both student and candidate valuers, despite the use of the same valuation techniques and input data. Uncertainty in a single valuation leads to uncertainty understood as the difference between the results of successive valuations of the same property for the same purpose on the same date. Uncertainty understood in this way is called valuation volatility (cf. 4.3). Its occurrence was confirmed by a research experiment. The analysis of the results showed that the more complex the valuation technique, the greater the variation in the results obtained, confirming the observation that valuation is not an unambiguous process, but on the contrary is influenced by subjective factors and perceptions of risk, income and other parameters.

The results of the study clearly indicate that property valuation is a process in which uncertainty and risk play a key role. Therefore, future valuation approaches should take these aspects into account in a more transparent manner to enable a better understanding and interpretation of the values obtained, both by valuers and and recipients of valuation reports. On the basis of the data collected, it seems reasonable to consider introducing a new approach to the presentation of valuation results in the form of a numerical range, instead of one specific value. This approach could better reflect the true extent of uncertainty surrounding the valuation process. The introduction of pessimistic, most likely and optimistic variants provides the opportunity for a more flexible and realistic representation of the market value, which in particular could be useful in a practical context, especially in market conditions where volatility and data availability can affect the final outcome of an estimate. The introduction of value ranges and clear disclosure of the assumptions made can be an important step towards increasing transparency and confidence in the property valuation process.

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Prof. [illegible]