



Theoretical And Methodological Foundations Of Real Estate Valuation And Development Trends Of Modern Approaches

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ABSTRACT

This article examines the theoretical and methodological foundations of real estate valuation and identifies the principal development trends of contemporary valuation approaches. The study systematizes the economic, spatial, technical, infrastructural, environmental and market factors that shape real estate value and compares the scope, strengths and limitations of the sales comparison, income and cost approaches. Particular attention is paid to the transformation of valuation under digitalization, including the growing use of geographic information systems (GIS), large-scale data processing, econometric modelling, artificial intelligence, machine learning and automated valuation models (AVMs). The paper argues that digital tools should not be treated as a mechanical substitute for professional valuation judgment; rather, their strongest contribution lies in improving data coverage, consistency, reproducibility, speed and model validation. A conceptual framework integrating data quality, spatial analysis, statistical or machine-learning models, validation and professional verification is proposed as a methodological basis for improving modern real estate valuation.

Keywords: real estate; valuation; market value; valuation approaches; GIS; Big Data; artificial intelligence; machine learning; automated valuation model; AVM.

INTRODUCTION

Real estate is a distinctive economic asset because it is spatially fixed, heterogeneous, capital-intensive and closely linked to local infrastructure, planning conditions, financing and expectations about future use. These characteristics make the estimation of value more complex than the pricing of standardized goods. A valuation must therefore combine information about the physical characteristics of an asset with evidence about its location, legal status, market environment and income-generating capacity.



The quality of real estate valuation has direct implications for investment decisions, mortgage lending, taxation, financial reporting, public asset management and market transparency. Contemporary international professional standards increasingly emphasize not only the choice of valuation approach, but also the quality of data, transparency of assumptions, suitability of valuation models and documentation of professional judgment. The International Valuation Standards published in 2024 and effective from 31 January 2025 place increased emphasis on data and valuation modelling, while the current RICS Red Book also contains dedicated requirements relating to valuation approaches, methods and models [1, 2].

At the same time, digital transformation is changing the information environment in which valuers operate. Property databases, digital cadastral information, GIS layers, online market evidence, remote sensing and algorithmic models allow much larger volumes of information to be processed than was possible under traditional manual procedures. This creates opportunities to improve consistency and speed, but also raises methodological questions concerning data quality, model risk, explainability, bias and the continuing role of professional verification.

The purpose of this study is to systematize the theoretical and methodological foundations of real estate valuation, compare traditional approaches and determine the principal development trends associated with data-driven and automated valuation. The study also proposes a conceptual framework that can serve as a basis for further research on improving the efficiency of digital technologies in real estate valuation.

LITERATURE REVIEW

The theoretical foundations of property valuation are closely connected with utility, scarcity, demand and supply, substitution, anticipation and highest and best use. In valuation theory, value is not treated as an immutable characteristic of an asset. It is an estimate formed for a specified valuation date, purpose and basis of value under stated assumptions.

Hedonic theory provides an important analytical foundation for empirical real estate valuation. Lancaster [3] explained consumer demand through bundles of product characteristics, while Rosen [4] formalized hedonic prices as implicit prices of differentiated attributes. In real estate



markets, this logic makes it possible to relate observed prices to structural, locational and neighborhood characteristics.

The professional valuation literature traditionally recognizes three principal approaches: the market or sales comparison approach, the income approach and the cost approach. Pagourtzi et al. [5] showed that real estate appraisal has evolved from conventional methods toward more advanced statistical and decision-support techniques. More recent professional standards have strengthened attention to valuation models, data governance and technology. RICS reports that its current Red Book, effective from 31 January 2025, aligns with the latest IVS and includes new content on modelling, automation and artificial intelligence [2].

Automated valuation models represent a further stage of this evolution. IAAO maintains technical standards covering AVMs, data quality, cadastral mapping and mass appraisal, reflecting the importance of standardized data and model governance in computer-assisted valuation [6]. The literature therefore suggests a transition from expert-dominated valuation toward an integrated model in which professional judgment is supported by larger datasets, spatial analysis and reproducible statistical procedures.

RESEARCH METHODOLOGY

The research uses systematic analysis, comparative analysis, classification, synthesis and conceptual modelling. The methodological comparison focuses on the information requirements, applicability, strengths, limitations and digitalization potential of the three conventional valuation approaches. Contemporary digital methods are then examined according to their contribution to data acquisition, spatial analysis, prediction, automation and validation.

For analytical purposes, real estate value can be represented as a multidimensional function:

$$V = f(L, P, T, I, E, M, R)$$

where V denotes real estate value; L represents location characteristics; P denotes physical and technical parameters; T represents transport accessibility; I denotes infrastructure; E represents economic and environmental conditions; M denotes market conditions; and R represents risk factors.

This formulation emphasizes that property value is produced by the combined effect of asset-specific and external characteristics. It also



provides a theoretical basis for expanding conventional valuation with GIS variables, market databases and algorithmic models.

RESULTS AND DISCUSSION

Economic nature and determinants of real estate value

A distinction should be maintained between price and value. Price is an observed or proposed monetary amount in a transaction, whereas value is an estimate developed under a defined basis of value, valuation date and set of assumptions. Consequently, a professional valuation requires both market evidence and a transparent analytical framework.

The principal determinants of real estate value can be grouped into spatial, physical, infrastructural, transport, economic, environmental and legal-market factors. Their relative importance differs by property type and market segment. Residential property may be particularly sensitive to accessibility, schools and neighborhood quality, whereas income-producing commercial property is strongly affected by rent, vacancy, operating costs, lease conditions and required returns.

Factor group	Examples of indicators	Main valuation relevance
Spatial	Location, distance to centres, neighborhood	Influences accessibility and market demand
Physical/technical	Area, age, condition, construction quality	Affects utility, depreciation and marketability
Infrastructure	Schools, retail, healthcare, public services	Shapes location attractiveness
Transport	Road access, public transport, travel time	Affects connectivity and effective location
Economic/market	Income, employment, credit, supply and demand	Influences purchasing power and price dynamics
Environmental/legal	Environmental quality, restrictions, rights	Affects usability, risk and market acceptance

Traditional valuation approaches



The sales comparison approach estimates value by reference to transactions or market evidence for comparable properties. A simplified expression is $V = P_a \pm \sum A_i$, where P_a is the price of a comparable property and A_i represents adjustments for differences between the comparable and the subject property. Its principal advantage is direct connection with observed market behaviour. Its principal limitation is dependence on sufficient, reliable and genuinely comparable evidence.

The income approach converts expected future economic benefits into a present value. Under direct capitalization, $V = NOI/R$, where NOI is net operating income and R is the capitalization rate. This approach is particularly relevant to income-producing property. Its reliability depends on well-supported assumptions concerning rent, vacancy, operating expenditure, growth and risk.

The cost approach can be expressed as $V = VL + CN - D$, where VL is land value, CN is replacement or reproduction cost and D is accumulated depreciation or obsolescence. It is useful for new, specialized or thinly traded assets, although the measurement of depreciation and economic obsolescence can introduce significant judgment.

Approach	Primary evidence	Typical use	Main limitation	Digitalization potential
Sales comparison	Comparable transactions/listings	Active residential and commercial markets	Data comparability and transparency	Very high
Income	Rent, expenses, yields, cash flows	Income-producing property	Forecast and discount-rate uncertainty	High
Cost	Land value, construction cost, depreciation	New/specialized property	Depreciation and obsolescence estimates	High

Digital transformation of valuation



GIS technologies extend valuation analysis by converting location from a qualitative description into measurable spatial variables. Distances to transport nodes, schools, commercial centres, green areas and employment centres can be calculated systematically. Spatial variables can then be incorporated into econometric or machine-learning models.

Large-scale data processing expands the number and variety of observations available to the valuer. Transaction records, cadastral attributes, listing information, building characteristics and spatial indicators can be combined to identify market patterns. The methodological benefit, however, depends on data accuracy, completeness, timeliness and consistency.

Machine-learning methods can model nonlinear relationships and interactions among a large number of predictors. A general predictive specification can be written as $\hat{V} = f(X_1, X_2, \dots, X_n)$, where $\hat{V}$ is predicted value and $X_1 \dots X_n$ are property and market characteristics. Algorithms may include regularized regression, decision trees, random forests and gradient-boosting methods. Predictive accuracy alone is insufficient: model stability, interpretability, validation and suitability for the valuation purpose remain essential.

AVMs combine structured data and statistical or algorithmic models to generate automated estimates of property value. Their use is especially relevant where a sufficiently large and representative dataset exists. A robust AVM process can be represented as: data acquisition → data cleaning → feature engineering → model estimation → validation → value estimate → professional review. IAAO technical standards and current RICS standards demonstrate the growing institutional attention given to model governance and automated valuation [2, 6].

DEVELOPMENT TRENDS OF MODERN VALUATION APPROACHES

The evolution of valuation methodology can be summarized as a movement from predominantly manual expert appraisal toward standardized, data-supported and increasingly automated systems. This evolution does not eliminate the traditional approaches; instead, it changes the way evidence is collected, analysed and validated.

First, valuation is becoming more data-intensive. The competitive advantage of a valuation system increasingly depends on the availability of structured, timely and verifiable market information. Second, spatial analysis is becoming an integral component of property analytics because



location effects can be quantified more precisely. Third, statistical and machine-learning models are being used to improve consistency and identify complex relationships in heterogeneous markets. Fourth, professional standards are placing greater emphasis on model governance, transparency and accountability. Finally, human expertise is shifting from repetitive data processing toward model selection, exception handling, interpretation and verification.

Dimension	Traditional paradigm	Data-driven/digital paradigm
Data volume	Limited samples	Large, integrated datasets
Location analysis	Mostly descriptive	GIS-based and measurable
Computation	Manual/expert-led	Model-assisted and automated
Updating	Periodic	Potentially frequent/dynamic
Mass valuation	Resource-intensive	Scalable where data are adequate
Quality control	Professional review	Model validation plus professional review
Main risk	Subjectivity and limited evidence	Data/model bias and opacity

PROPOSED CONCEPTUAL FRAMEWORK

Based on the theoretical review, an integrated framework for modern real estate valuation is proposed: digital data environment → data-quality control → GIS and spatial feature generation → selection of valuation approach/model → statistical or machine-learning estimation → out-of-sample validation → professional verification → final valuation conclusion.

The framework treats technology as a methodological extension of professional valuation rather than a replacement for it. Its purpose is to improve evidence coverage, consistency, speed and reproducibility while retaining accountability for assumptions, exceptional cases and final conclusions.

For further empirical research, the efficiency of digital valuation can be represented conceptually as $Ev = f(A, T, C, D, R)$, where Ev is valuation efficiency, A is accuracy, T is time requirement, C is valuation cost, D is data



quality and completeness, and R is reliability or robustness of the result. This formulation can later be operationalized through measurable indicators and an integral efficiency index.

CONCLUSION

The study confirms that the theoretical foundation of real estate valuation remains rooted in utility, substitution, anticipation, demand and supply, and highest and best use, while the methodological environment is changing rapidly because of digital technologies.

The sales comparison, income and cost approaches remain fundamental. Their effectiveness, however, can be strengthened through better data integration, GIS-based location analysis, econometric modelling and carefully governed automated valuation models.

The central methodological challenge is therefore not a choice between traditional valuation and digital technology. It is the design of an integrated system in which reliable data, appropriate models, transparent assumptions, validation procedures and professional judgment reinforce one another.

Future research should empirically test digital valuation efficiency using real market and cadastral data, compare conventional econometric and machine-learning models, assess model accuracy across market segments and develop an integrated indicator for measuring the economic and methodological effectiveness of digital technologies in real estate valuation.

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