Practical application
of the Wilcoxon-Mann-Whitney test
in valuation.

Selection of attributes as pricing factors based on the principle of unbiased estimates

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In their practice appraisers often face the need to take into account differences in quantitative and qualitative characteristics of objects. In particular, one of the standard tasks is to determine the attributes that influence the cost (so-called "pricing factors") and to separate them from the attributes that do not or cannot be determined.

Subjective selection of attributes taken into account in determining the value is widespread in valuation practice. In this case, specific quantitative indicators of the impact of these attributes on the cost are often taken from the so-called "reference books". While not denying the speed and low cost of this approach, it should be recognized that only data directly observed in the open markets is a reliable basis for a value judgment. The priority of such data over other data, in particular those obtained by expert survey, is enshrined, among others, in RICS Valuation — Global Standards 2022 [7], International Valuation Standards 2022 [8], as well as in IFRS 13 "Fair Value Measurement" [6]. Therefore, we can say that mathematical methods for analyzing data from the open market are the most reliable means of interpreting market information used in market research and predicting the value of individual objects.

The aim of this work is to justify the necessity and possibility of using a rigorous mathematical Wilcoxon–Mann–Whitney test, which allows us to answer the question about the necessity of taking into account the binary attribute as a price-generating factor. Instead of the judgmental approach, which is most commonly used by appraisers in selecting the attributes to be considered in appraisal, this paper proposes the idea of prioritizing the measuring approach based on the results of a mathematical test that allows to draw a conclusion about the importance or otherwise of the binary attribute influence on the value. It should be noted that despite the fact that the statistical test under consideration belongs to frequentist statistics, it, through its connection to ROC analysis and AUC, is related to modern machine learning methods, which will be discussed later in the text of this material. The presence of this relationship and elements of Bayesian statistics seems particularly interesting and promising from the point of view of introducing machine learning and data analysis methods into the everyday practice of appraisers.

Users should have some general math background and basic Python and R programming skills to understand and practice all of the material in the text, but lack of that knowledge and skill is not a barrier to learning most of the material and implementing the test in the spreadsheet that comes with it.

The material consists of four blocks:

- a description of the Wilcoxon–Mann–Whitney test (hereafter "U-test"), its probabilistic meaning, and its relationship to other mathematical methods;

- a practical implementation of the U-test in a spreadsheet on an example of test random data;

- practical implementation of the U-test on the real data of the residential real estate market of St. Petersburg agglomeration by means of Python programming language, the purpose of the analysis was to check the significance of the difference in the unit price between the objects located in the urban and suburban parts of the agglomeration;

- practical implementation of the U-test on real data of residential real estate market of Almaty by means of R programming language, the purpose of the analysis was to check the significance of difference in unit price between the objects sold without demountable improvements and the objects sold with them.

The current version of this material, its source code, Python and R scripts, and the spreadsheet are in the repository on the GitHub portal and are available at the permanent link [9].

This material and all of its appendices are distributed under the terms of the cc-by-sa-4.0 license [10].

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1 Technical details

This material, as well as the appendices to it, are available at permanent link [9]. The source code for this work was created using the language TeX [23] with a set of macro extensions LaTeX 2_ε [24], distribution TeXLive [25] and Editor TeXstudio [29]. The spreadsheet calculation was done with LibreOffice Calc [12] (Version: 7.3.4. 2 / LibreOffice Community Build ID: 30(Build:2); CPU threads: 4; OS: Linux 5.11; UI render: default; VCL: kf5 (cairo+xcb) Locale: en-US (en_US.UTF-8); UI: en-US Ubuntu package version: 1:7.3.4 rc2-0ubuntu0.20.04.1 lo1; Calc: threaded). The calculation in R [26] (version 4.2.1 (2022-06-23) – "Funny-Looking Kid") was done using an IDE RStudio (RStudio 2022. 02.3+492 "Prairie Trillium" Release (1db809b8, 2022-05-20) for Ubuntu Bionic; Mozilla/5.0 (X11; Linux x86_64); AppleWebKit/537.36 (KHTML, like Gecko); QtWebEngine/5.12.8; Chrome/69.0.3497.128; Safari/537.36) [22]. The calculation in Python (Version 3.9.12) [11] was performed using the development environment Jupyter Lab (Version 3.4.2) [18] and IDE Spyder (Spyder version: 5.1.5 None* Python version: 3.9.12 64-bit * Qt version: 5.9.7 * PyQt5 version: 5.9.2 * Operating System: Linux 5.11.0-37-generic) [21]. The graphics used in the subsection **??** were prepared using Geogebra (Version 6.0.666.0-202109211234) [13]. The following values were used in this material as well as in most of the works in the series:

- significance level: $\alpha = 0.05$;

- confidence interval: $Pr = 0.95$;

- initial position of the pseudo-random number generator: $seed = 19190709$.

A dot is used as a decimal point. Most of the mathematical notations are written as they are used in English-speaking circles. For example, a tangent is written as tan, not tg. The results of statistical tests are considered significant when

$$p \le \alpha. \tag{1.1}$$

This decision is based, in part, on the results of the discussion that took place on researchgate.net [17].

2 Subject of research

When working with market data, the appraiser is often faced with the task of testing the hypothesis of whether a quantitative, ordinal or nominal attribute has a significant effect on the price. Real estate market analysts, developers, realtors, employees of collateral departments of banks, leasing and insurance companies, tax inspectors and other specialists have a similar task. At the same time, it is often impossible to collect large amounts of data that would allow a wide range of machine learning methods to be applied. In some cases appraisers consciously narrow the area of data collection to the narrow market segment, resulting in only very small samples of less than thirty observations at their disposal. In this case, the price data most often has a distribution that differs from the normal one. In this case, a rational solution is to use U-test. Let us formulate the problem:

- suppose that we have two samples of unit prices for commercial premises, some of which have some attribute (e. g., having a separate entrance) and some of which do not;

- it is necessary to determine whether the presence of this feature has a significant impact on the unit value of this type of real estate or not.

At first glance, according to established practice, an appraiser can simply subjectively recognize some attributes as significant and others as not, and then accept the adjustment values for differences in these attributes from the reference books. However, as mentioned above, this approach is hardly considered best practice because it lacks any market analysis. Also, in that case, it is unlikely that such work is of any serious value at all.

Instead, it is possible to use random samples of market data and apply mathematical analysis to them, allowing scientific and evidence-based conclusions to be drawn about the significance of a particular attribute's impact on value. The data used in this paper to perform the U-test using Python and R are real market data, some of which were collected by the author through web scraping and some provided by colleagues for the analysis. The attached spreadsheet is set up so that test raw data can be generated in a pseudo-random fashion.

The subject of this paper is the nonparametric Wilcoxon-Mann-Whitney test, specifically designed for samples that have a distribution other than normal. This circumstance is important because the price data that appraisers deal with most often have this distribution, which excludes the possibility of applying the parametric t-criterion and z-criterion. In addition, the test under consideration is of great interest because it has a connection to machine learning methods through AUC, the calculation of which

through the formula provided in the test framework gives a value equal to that calculated by ROC analysis. Thus, the study of the U-test paves the way for a further dive into the world of machine learning, which is entering many areas of human activity and will significantly change the field of value estimation in the foreseeable future.

The material contains a description of the test and instructions for performing it, sufficient in the author's opinion for its demonstrable use in the estimation process.

3 Basic information about the test

3.1 Assumptions and formalization of hypotheses

First of all, it should be said that, in spite of the stated common name, it is more correct to speak of two tests:

- Wilcoxon rank-sum test developed by Frank Wilcoxon in 1945 [20];

- Mann–Whitney U-test which is a further development of the aforementioned criterion developed by Henry Mann and Donald Whitney in 1947 [19].

Looking ahead we can say that the statistics of these criteria are linearly related and their p-values are almost the same which from a practical point of view allows us to talk about variations of one test rather than two separate tests. This paper uses the common name throughout the text, as well as a shortened version of "U-test" which historically refers to the Mann-Whitney test. Some authors[4] recommend using the Wilcoxon rank-sum test when there are no assumptions about variance, and the Mann-Whitney U-test when variance of the two samples are equal. However, the experimental data indicate that the Wilcoxon rank-sum test and Mann-Whitney U-test values are essentially the same when the variance of the samples is significantly different. Adhering to the KISS principle [27] underlying the entire series of publications, the author concludes that a unified approach is possible. Also remember that the Wilcoxon signed-rank test is a separate test designed to analyze differences between two matched samples, whereas the Mann-Whitney U-test discussed in this paper is designed to work with two independent samples.

Suppose that there are two samples:

$$x^m = (x_1, x_2, \ldots, x_m), x_i \in \mathbb{R}; \quad y^n = (y_1, y_2, \ldots, y_n), y_i \in \mathbb{R} \quad : m \leq n.$$

- Both samples are simple and random (i.e., SRS [28]), the combined sample is independent.

- The samples are taken from unknown continuous distributions $F(x)$ and $G(y)$, respectively.

Simple random sample (SRS) — is a subset of individuals (*a sample*) chosen from a larger set (*a population*) in which a subset of individuals are chosen randomly, all with the same probability. It is a process of selecting a sample in a random way. In **SRS**, each subset of k individuals has the same probability of being chosen for the sample as any other subset of k individuals.A simple random sample is an unbiased sampling technique. Equivalent definition: a sample

$x^m = (x_1, x_2, \ldots, x_m)$ is simple if the values $(x_1, x_2, \ldots, x_m)$ are realizations of m independent equally distributed random variables. In other words, the selection of observations is not only random but also does not imply any special selection rules (e.g., choosing every 10th observation).

The U-test — is a nonparametric criterion to test the null hypothesis that for randomly chosen from two samples of observations $x \in X$ and $y \in Y$ the probability that x is greater than y is equal to the probability that y is greater than x. In mathematical language, the null hypothesis is written as follows

$$H_0 : P\{x < y = \frac{1}{2}\}. \tag{3.1}$$

For the test's own consistency, an alternative hypothesis is required, which is that the probability that the value of a characteristic of observation from X is greater than that of observation from Y differs upward or downward from the probability that the value of a characteristic of observation from Y is greater than that of observation from X. In mathematical language, the alternative hypothesis is written as follows

$$H_1 : P\{x < y\} \neq P\{y < x\} \vee P\{x < y\} + 0.5 \cdot P\{x = y\} \neq 0.5. \tag{3.2}$$

According to the basic concept of the U-test, if the null hypothesis is true, the distribution of the two samples is continuous; if the alternative hypothesis is true, the distribution of one sample is stochastically greater than the distribution of the other. In this case, it is possible to formulate a number of null and alternative hypotheses for which this test will give a correct result. His most extensive generalization lies in the following assumptions:

- the observations in both samples are independent;

- the data type is at least ranked, i.e., with respect to any two observations you can tell which one is greater;

- the null hypothesis assumes that the distributions of the two samples are equal;

- the alternative hypothesis assumes that the distributions of the two samples are unequal.

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