

Standard on Verification and Adjustment of Sales—2010

formation subsequent to the sale, there are several disadvantages, as follows:

- Response is not immediate.
- Additional contact may be needed.
- Information is limited to what is stated on the sales verification questionnaire.
- Printing and mailing costs are incurred.

Mailed sales verification questionnaires should be as concise as possible and should include the following:

- Postage-paid return envelope
- Official stationery
- Purpose of the sales verification questionnaire
- Contact person (name, telephone number and e-mail address for additional information)
- Authorized signature (of person completing the questionnaire)

Specialized questionnaires may be designed for a specific type of property or situation such as an income producing property or a property that sells with atypical financing. Specialized questionnaires can be developed for numerous situations; however, all should follow the guidelines for the regular questionnaire suggested above.

5.2.2 Telephone Interviews

Telephone interviews provide quick responses and the opportunity for immediate clarification. Disadvantages are as follows:

- Inability to prove caller's identity
- Need for trained staff
- Difficulty in reaching the party to the sale.

An opening script should be written for telephone interviews. Always state your name, the office you represent, and the purpose of the telephone call. If the individual is unable to talk, ask for a specific time that would be more convenient. It is extremely important to use simple conversational words and avoid slang and industry jargon. Interviews should be short, courteous, and to the point.

5.2.3 Personal Interviews

The disadvantages of the in-person interview are they are the most costly and qualified analysts or appraisers should perform this task. However, they are most effective for the following reasons:

- Refusals less frequent
- Information more reliable
- More unusual or special considerations revealed.

For personal interviews it is critical to be on time. An identification badge or business card should be present-

ed upon introduction. All paperwork and forms should be available and in order before the interview begins. The style and tone of the conversation should be geared to the interview setting. It can sometimes be helpful to establish rapport through brief small talk. Maintain eye contact, smile, and be friendly and respectful throughout the conversation.

5.3 Sales Generally Considered Invalid

The following types of sales are often found to be invalid and can be excluded unless a larger sample size is needed. If a larger sample size is needed, these sales require verification.

- Sales involving government agencies
- Sales involving charitable, religious, or educational institutions
- Sales involving financial institutions as buyer or seller
- Sales between relatives or between corporate affiliates
- Sales settling an estate
- Forced sales resulting from a judicial order
- Sales of doubtful title

5.3.1 Sales Involving Government Agencies

Sales to government agencies can involve an element of compulsion and often occur at prices higher than would otherwise be expected. When the governmental agency is the seller, values typically fall on the low end of the value range. The latter should not be considered in model calibration or ratio studies unless an analysis indicates governmental sales have affected the market in specific market areas or neighborhoods. Each sale in this category should be thoroughly researched prior to use. See Appendix C for a listing of some of the government agencies in this category.

5.3.2 Sales Involving Charitable, Religious or Educational Institutions

A sale to such an organization can involve an element of philanthropy, and a sale by such an organization can involve a nominal consideration or restrictive covenants. These sales often involve partial gifts and therefore are generally not representative of market value.

5.3.3 Sales Involving Financial Institution as Buyer

These sales are often made in lieu of foreclosure and are not exposed to the open market. However, open-market sales in which a financial institution is a willing buyer, such as the purchase of vacant land for a branch bank, may be considered potentially valid transactions.

5.3.4 Sales Involving Financial Institution as Seller

A foreclosure is not a sale but the legal process by which a lien on a property is enforced. The majority of the sales in which the financial institution is the seller are properties that were formerly foreclosed on by the financial institution. Also, they are easily identified because the seller is the financial institution. These sales typically are on the low side of the value range because the financial institution is highly motivated to sell and may be required by banking regulations to remove the property from its books. The longer the property is carried on the books by the financial institution, the lower the asking price is likely to be. If the financial institution was ordered by banking regulators to dispose of the property regardless of the sale price, the sale should not be included as a valid transaction.

Sales in which a financial institution is the seller typically should be considered as potentially valid for model calibration and ratio studies if they comprise more than 20 percent of sales in a specific market area. Care should be taken in validating this type of sale to account for changes in property characteristics (see Section 5.10). Any properties that have been vandalized should be excluded.

5.3.5 Sales between Relatives or Corporate Affiliates

Sales between close relatives (parents, children, aunts, uncles, nephews, nieces, grandparents) or corporate affiliates are usually non-open-market transactions. If the following factors apply during the follow-up verification, the sale may be considered a valid transaction.

- The property was exposed on the open market.
- The asking and selling price was within the range that any party purchasing the property would be expected to pay.
- The sale meets all other criteria of being an open-market, arm's-length transaction.

5.3.6 Sales Settling an Estate

A conveyance by an executor or trustee under powers granted in a will may not represent fair market value, particularly if the sale takes place soon after the will has been filed and admitted to probate in order to satisfy the decedent's debts or the wishes of an heir.

5.3.7 Forced Sales Resulting from a Judicial Order

These sales should never be considered for model calibration or ratio studies. The seller in these sales is usually a sheriff, receiver, or other court officer.

5.3.8 Sales of Doubtful Title

Sales in which title is in doubt tend to be below market value. When a sale is made on other than a warranty

deed, there is a question of whether the title is merchantable. A quitclaim deed is an example.

5.4 Sales with Special Conditions

Sales with special conditions can be open-market transactions; however, they should be verified thoroughly. The following are types of sales with special conditions.

- Trades
- Partial interests
- Land contracts
- Incomplete or unbuilt common property
- Auctions

5.4.1 Trades

In a trade, the buyer gives the seller one or more items of real or personal property as all or part of the full consideration. If the sale is a pure trade with the seller receiving no money or securities, the sale should be excluded from analysis. If the sale involves both money and traded property, it may be possible to include the sale in the analysis if the value of the traded property is stipulated, can be estimated with accuracy, or is small in comparison to the total consideration. However, transactions involving trades should be excluded from the analysis whenever possible, particularly when the value of the traded property is substantial.

5.4.2 Partial Interest

A sale involving a conveyance of less than the full interest in a property should be excluded as a valid transaction. Sometimes all the partial interest owners of a property may agree to syndication and sell their portions of the estate to a buyer (typically on the same day). However, the sum of all the sale prices may not necessarily indicate the market value of the whole property. These transfers should not be used as valid sales without thorough testing, analysis, and documentation.

5.4.3 Land Contracts

Land contracts (also known as contracts for deeds) and other installment purchase agreements in which title is not transferred until the contract is fulfilled require careful analysis. Deeds in fulfillment of a land contract often reflect market conditions several years in the past, and such dated information should not be considered. Sales data from land contracts also can reflect the value of the financing arrangements. In such instances, if the transaction is recent, the sale price should be adjusted for financing, if warranted, and included as a valid transaction (see Section 7.4.4). Because the contract itself often is not recorded, discovery of these sales is difficult until the deed is finally recorded. The sale then is likely to be too old to be used.

5.4.4 Incomplete or Unbuilt Common Property

Sales of condominium units and of units in planned unit developments or vacation resorts often include an interest in common elements (e.g., golf courses, clubhouses, or swimming pools) that may not exist or be usable on the date of sale or on the assessment date. Sales of such properties should be examined to determine whether prices might be influenced by promises to add or complete common elements at some later date. Sales whose prices are influenced by such promises should be excluded or the sales price should be adjusted to reflect only the value of the improvements or amenities in existence on the assessment date.

5.4.5 Auction Sales

In general, auction sales of real property tend to be at the lower end of the price spectrum and are more prevalent in rural areas. Absolute auctions do not have a low bid clause or right of refusal and typically are advertised as absolute auctions. The property is sold to the highest bidder whatever that bid may be. All absolute auctions should be considered invalid. Before auction sales should be considered as valid transactions, the following criteria should be met.

- Was the auction well-advertised?
- Was the auction well-attended?
- Did the seller have a minimum bid or the right of refusal on all bids (with reserve)?

5.5 Acquisitions or Divestments by Large Property Owners

Acquisitions or divestments by large corporations, pension funds, or real estate investment trust (REITs) that involve multiple parcels typically should not be considered for analysis.

5.6 Multiple-Parcel Sales

A multiple-parcel sale is a transaction involving more than one parcel of real property. These transactions present special considerations and should be researched and analyzed prior to being used for valuation or ratio studies.

If the appraiser needs to include multiple-parcel sales, it should be determined whether the parcels are contiguous and whether the sale is a single economic unit or multiple economic units. Regardless of whether the parcels are contiguous, any multiple-parcel sale that involves multiple economic units generally should not be used in valuation or ratio studies.

The sum of the appraised values for the parcels involved in the transaction should be compared to the total sale price (see Appendix D for a copy of a multiple-parcel form.)

For example,

Parcel No.	Appraised Value	Sale Price
001	\$ 150,000	
002	50,000	
003	100,000	
Total	\$ 300,000	\$315,000

5.7 IRS Section 1031 Exchanges

Internal Revenue Service (IRS) Code Section 1031 stipulates that investment properties can be sold on a tax-deferred basis if certain requirements are met. These transactions enable the taxpayer to defer capital gains tax on the sale of a business use or investment property. All net equity must be reinvested in a certain time period. A certain amount of undue stimuli may be present as this time period lapses. Sale transactions that represent Section 1031 exchanges should be analyzed like any other commercial transaction and, absent conditions that would make the sale price unrepresentative of market value, should be considered valid sales.

5.8 Adjoining Property Owners

Sales in which the buyer already owns adjoining property should be examined carefully to determine whether or not the buyer possibly paid more or less than the property is worth on the open market. In some cases because of the neighbor relationship, the buyer may even receive a *deal* on the property. These sales should not be excluded solely because the buyer owns adjoining property unless one or more of the following reasons exists:

- Buyer is willing to pay more than the asking price.
- Buyer is willing to pay more than the fee appraisal.
- Selling price is substantially less than the asking price.
- Buyer is under undue stimuli to purchase the adjoining property.

5.9 Leasebacks

A leaseback is defined as the sale of a building, land, or other property to a buyer under special arrangements for simultaneously leasing it on a long-term basis to the original seller, usually with an option to renew the lease. These transactions are also referred to as *sale and leaseback* and *sale-leaseback*. Leasebacks occur in the commercial and industrial class of property. Sales involving leasebacks are generally invalid because the sale price is unlikely to represent the market value of the property. This can be determined only by further verification of the sale (see Appendix B for questions involving leasebacks).

Typically, the land and location is purchased, the building erected, and the property sold with a long-term leaseback clause. A major benefit of the leaseback is cash-flow issues.

5.10 Property Characteristic Changes

Sales data files should reflect the physical characteristics of the property when sold. For ratio studies, if significant physical changes have occurred to the property between the date of sale and the appraisal date, the sale should not be included. The sale may still be valid for mass appraisal modeling by matching the sale price to the characteristics that existed on the date of sale. For consistency in application, written guidelines should be provided as to what constitutes significant change. For example, an improvement of \$3,500 may not be significant for a property with a selling price of \$255,000 (1.4 percent), but is significant for a property selling for \$21,000 (16.7 percent).

5.11 Property Change in Use

In conducting ratio studies property in which the use has changed between the date of appraisal and the date of sale should be excluded from further analysis. However, the sale may be used for analytical purposes if it can be matched with its use and physical characteristics at the time of sale.

5.12 Sales with Low and High Ratios

It is a best practice to set parameters for further verification on sales with extreme high or low ratios (e.g., less than 50 percent or greater than 150 percent). Such atypical ratios may be the result of problems that warrant further investigation. However, during sales verification sales should never be excluded from a ratio study solely on the basis of the computed ratio. If no problems are discovered with the sale, it will likely be identified as an outlier and be subject to removal during the statistical trimming process.

5.13 Short Sales

Short sales are difficult to recognize because the parties to the sale are typical buyers and sellers. In a short sale, the lien holder agrees to accept a payoff for less than the outstanding balance of the mortgage or loan. This negotiation is achieved through communication with a bank's loss mitigation or workout department. The homeowner or debtor sells the mortgaged property for less than the outstanding balance of the loan and turns over the proceeds of the sale to the lender. In such instances, the lender would have the right to approve or disapprove a proposed sale. Extenuating circumstances influence whether or not banks will discount a loan balance. These circumstances are usually related to the current real estate market and the borrower's financial situation. A short sale is typically faster and less expensive

than a foreclosure. A short sale is nothing more than negotiating with lien holders a payoff for less than what they are owed, or rather a sale of a debt on a piece of real estate short of the full debt amount. It does not extinguish the remaining balance unless settlement is clearly indicated on the acceptance of offer. As with all foreclosure-related sales, the element of undue stimuli exists. Therefore these sales should be treated like other foreclosure-related sales and considered for model calibration and ratio studies when, in combination with other foreclosure-related sales, they represent more than 20% of all sales in the market area, but only after a thorough verification process of each sale. Again, care should be taken when validating these types of sales to account for changes in property characteristics (see Section 5.10).

6. Documenting the Results of the Verification Process

A documentation form, preferably in electronic format, should be completed for all sales that have had a follow-up verification and the form should become part of the sales file (see Appendix E for an example of a documentation form). Helpful items on the form are listed below.

- Parcel identification number
- Unique sale number
- Contact information
- Conclusions/comments
- Sales source or screening codes
- Validity codes
- Name of person completing the form
- Date the form was completed

Documentation forms should be completed at the time each sale has been verified to limit the loss of valuable information or the possibility of mixing information from different transactions. It is far better to over-document than under-document to eliminate the need for additional follow-up contacts.

6.1 Parcel Identification Number

The parcel identification number is the numeric or alphanumeric description of a parcel that identifies it uniquely.

6.2 Unique Sale Number

Unique sale numbers tie a specific sale to a parcel(s) and eliminate problems caused by parcels with multiple sales.

6.3 Contact Information

Contact information includes the name of the person interviewed, their role in the transaction (buyer, seller,