Reviewing the Sales Contract as Relevant Market Data

There has been a recent trend in appraisal reports coming in below contract prices. PCV doesn’t expect the report to come in at the sales price, but we do expect that the value be supported in the appraisal. In order to do this the appraiser needs to provide a reasonable conclusion that includes competent analysis of relevant and credible market data. USPAP considers a sales contract to be a significant piece of market data that can be a good indicator of the properties market value.

From USPAP FAQ 18;

A contract sale price can be a good indicator of a property’s market value, and it may be logical and reasonable for the appraiser to conclude that they are the same. However this is not always the case. In some situations, a contract price will exceed what is typical in a market. In other situations, a contract price will be less than what is typical. A contract sale price, while a significant piece of market data, must not become a target in an appraisal assignment. Rather, competent analysis of relevant and credible market data must be the appraiser’s basis for a market value conclusion.

If an appraiser consistently concludes that the contract sale price of any property they appraise equals market value, particularly when a competent analysis of credible market data indicates otherwise, the appraiser’s impartiality, objectivity, and independence appear to have been compromised. The ETHICS RULE clearly prohibits such a practice. The Conduct section of the ETHICS RULE indicates the following statements:

- An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.
- An appraiser must not perform an assignment with bias.
- An appraiser must not advocate the cause or interest of any party of issue.
- An appraiser must not accept an assignment that includes reporting of predetermined opinions and conclusions.
- An appraiser must not use or communicate a report that is known by the appraiser to be misleading or fraudulent.
- An appraiser must not knowingly permit an employee or other person to communicate a misleading or fraudulent report.
Before submitting the appraisal report ask yourself the following questions.

- Were the contract and all the contract addendums reviewed?
  
  o Provide details of the contract that would be unusual resulting in lower values: (personal property included, Concessions? Etc.)

- Did you talk to the listing agent or any other market participants and what were the results of the conversations?
  
  o How was the list price determined?
  o How was the property marketed?
  o Were there multiple offers?
  o Were any previous offers disclosed?

- Any other relevant active listings on the market that are being offered for less?

- Is there a discussion in the report how you determined which comparables to use and why?
  
  o There needs to be an explanation as to why these are the best comps.

- Was there a discussion regarding a lack of comparables, which may support the contract price?
  
  o Was data provided to support such as a CMA?

- Does the report include a reconciliation explaining why the contact price is not supported?
  
  o Statement needs to be definitive.
  o It needs to be logical and explain why their opinion is the most probable price regardless of the fact that we have the contract. Example of this statement:
    - My opinion of market value is $X. It is (lower/higher) than the negotiated sales contract due to reasons X, Y, and Z. My opinion of market value is probable price the subject would sell at consistent with the Definition of Market Value.

- In the event the opinion of value is well above the purchase price the appraiser should add commentary on if the seller was motivated or was the property distressed? Were there multiple offers?

- The appraiser needs to go into detail in regards to the steps taken to reconcile the difference in the final value conclusion and the contract price.
  
  o Details of prior transactions may be required.
  o Any improvements to the property since the last purchase need to be clearly described.
  o Cost estimates for these updates/improvements are also recommended.