

# THE FORSYTHE APPRAISALS FLASH

## Appraisal Insights for Real Estate Professionals

SELLER CONCESSIONS MAY CREATE UNEXPECTED CHALLENGES.

- John Forsythe, SRA, President

As the housing market slows, sales concessions are once again becoming more prevalent in the market. Buyers are negotiating seller contributions in the form of points paid toward closing costs, or sellers are including personal property to "make the deal more enticing." All parties need to be familiar with how this might affect the appraised value.

The definition of market value is intended to ensure that appraisals reflect an opinion of market value, after adjustments have been made, for any special or creative financing, or sales concessions. For most clients, the appraiser must certify that he or she used the definition of market value, which states, in part, "The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

Secondary market investors typically require that the loan charges for the financing and sales concessions made by the property seller, or other interested party to the transaction, must be stated in the sales contract. The appraiser is to report the total dollar amount, and describe the concessions. If the sale involves personal property, (e.g. car, lawn mower, furniture, etc.) it should be identified and excluded from the valuation.

The appraiser should provide a description of the prevalence and impact of sales and financing concessions, and/or down payment assistance, in the subject's market area. When completing the sales comparison analysis, the appraiser must report the type and amount of sales concessions for each comparable sale listed. The appraiser is required to make market-based adjustments to the comparable sales for any sales or financing concessions that may have affected the sales price.

As an example, if a property listed, for a reasonable amount of time, at \$300,000 is now under contract for \$309,000 with the seller paying \$9,000 towards the buyer's closing costs, the appraiser would likely deduct \$9,000 from this sale as a "seller's concession" that inflated the sales price. (Reasonable analysis would probably indicate that the sales price was inflated to cover the concession, therefore, the increase wasn't related to the property's value, but to the concessions involved.) There are times when concessions are used to market the property faster, not necessarily for a higher sales price. Therefore, it is important that the appraiser analyze each sale to determine what market impact, if any, the concessions had on the sale; not automatically make dollar-for-dollar adjustments.

When contemplating whether to include seller concessions into a purchase agreement, all parties should be knowledgeable of how this affects the true value of the property. Are the concessions "artificially" raising the sales price above what would otherwise be attained by the sale of the property without the concessions? The impact of seller concessions will be evident when the appraiser utilizes comparable sales that do not include seller concessions.

Highly motivated sellers are getting very creative with concessions. In some cases, sellers are including new cars, boats, etc., as part of the sales agreement. However, while this may work very well in generating buyer interest, the bottom line is that the lender doesn't get the car, if they get the property back.



March 30, 2007  
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