FORSYTHE FLASH

Appraisal Insights for the Real Estate Professional

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Sales History – A Fourth Approach to Value

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The appraisal industry generally recognizes three different approaches in the development of an opinion of value. The three generally accepted methods are: 1) The Sales Comparison Approach, 2) The Cost Approach, and 3) The Income Approach. However, the reporting and analysis of a property's past sales and listing history is so important in the development of market value that it has essentially become a fourth approach to value. Recent changes in "USPAP" Uniform Standards of Professional Appraisal concerning the mandatory reporting of a properties transfer history, demonstrates the importance of the approach. In addition the new Fannie Mae appraisal forms which appraisers will be required to start using November 1, 2005 have been changed significantly. Many of the changes within the new FNMA forms are to assure the proper reporting and analysis of past transfer and listing history. The reporting and analysis of past transfers and listings has surpassed the importance the Cost and Income Approaches in developing a market value opinion for most residential properties.

The reason the past transfer and listing history is so important to the development of an appraisal is based on the theory that opinions of market value should be based on what is reasonable and logical. Thus, there should be some correlation between a property's past transfer price and current market value. For example, if appreciation rates within a neighborhood have historically averaged 5 percent per year; it is not reasonable for a property which sold less than a year ago for $100,000, which has not undergone any updates or improvements, to now appraise for $140,000 or 40 percent higher than the past transfer. Also, if a property is currently listed or has been recently listed for sale this data is also extremely important and relevant to the development of current market value. For example, if a property has been listed on the open market for 160 days at a price of $100,000, and the appraisal being developed is based on an exposure period of 150 days, it would not be logical or reasonable if the opinion of value reported by the appraiser were more than $100,000. The market has already proven to us that the property will not sell for $100,000 within 150 days. There is no better measurement than actual market forces of buyers and sellers in action.

Frequently Asked Questions

Q: What are the changes in the reporting and analysis of past transfer and listing history for the subject property or comparable sales with the introduction of the new Fannie forms, effective November 1, 2005?

A: There are no changes to the reporting and analysis of the subject's past transfer history, it remains at 3 years. The appraiser is also still expected to research and analyze prior sales of the comparables; however, the timeframe of the search has changed. Formerly, the sale history was for year prior to the effective date of the appraisal report. Now, it is for the year prior to the date of the sale of the comparable sale.

Mortgage Rates As of October 20

30 Year Fixed: **6.10%**
15 Year Fixed: **5.65%**
1- Year ARM: **4.89%**

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