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Appraisal Insights for the Real Estate Professional



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The Sales Comparison Approach

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The purpose of the Sales Comparison Approach is to estimate the subject's market value by comparing it to the most similar properties in close proximity that have recently sold. The procedure for the Sales Comparison Approach involves researching the market for data on the prices of comparables properties; verification that the data is accurate and representative of arm's length transactions, comparing the subject with the comparables and adjusting them for differences, and finally, reconciling the adjusted value conclusions into the most meaningful value.

An appraiser's responsibility is to thoroughly search every available data source of sales in the subject's market area. The easiest, most readily available and convenient resource is on-line MLS listing information. However, that is not the only resource to be searched. Appraisers may use their own files of property sales that they have appraised, which is especially helpful to unusual or unique properties. Assessor's offices in the local counties keep updated lists of sales. Good data may be acquired from local realtors who are familiar with and understand the subject's specific market area. Worthy of consideration are active listings or pending sales, if they have meaningful similarities and are located in the immediate area. All of the comparables chosen for the appraisal must have verifiable closed dates and the verification source (MLS; courthouse records, appraiser's files, etc.) should be stated on the market grid.

FNMA guidelines require that the comparables be located within one mile of the subject property and have a closed date of not more than 12 months (preferably 6 months) previous to the effective date of the appraisal. These guidelines can typically be adhered to in larger, metropolitan cities, but in smaller communities and the surrounding suburban/rural areas it more difficult and occasionally these guidelines must be exceeded.

After thoroughly researching, analyzing and selecting the most relevant comparables, the appraiser then organizes them on a grid page and makes adjustments for significant differences. The final adjusted prices of the comparables are an indication of the market value for the subject property. The appraiser's job of reflecting the attitudes of a typical buyer is best achieved through the use of a well researched and documented sales comparison approach.

Frequently Asked Questions

Q: What guidelines must appraisers follow?

A: The most comprehensive guidelines governing the conduct and procedures of an appraiser are contained in USPAP, the Uniform Standards of Professional Appraisal Practice published by the Appraisal Foundation. Also, most lenders will require the appraiser to follow guidelines established by Fannie Mae and Freddie Mac, who are the two largest purchasers of residential mortgages. For FHA or VA loans, the appraiser must adhere to guidelines established by those government agencies. Additionally, the appraiser must adhere to any state regulations not defined by the aforementioned organizations.

Mortgage Rates As of November 18th

30 Year Fixed: **5.74%**

15 Year Fixed: **5.15%**

1-year ARM: **4.17%**

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