



Summary of the International Association of Assessing Officers (IAAO) Standard on Sales Verification

Prepared by the Comptroller's
Property Tax Assistance Division (PTAD)

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The following is a summary of the IAAO Standard on Verification and Adjustment of Sales that was prepared by the Comptroller's Property Tax Assistance Division. Please be advised that we are providing this summary solely as an informational resource and it is not intended to be adopted or used in lieu of the IAAO Standard on Verification and Adjustment of Sales. It is neither an official interpretation of nor a substitute for the IAAO Standard on Verification and Adjustment of Sales and it should not be relied upon as such. Additionally, the information provided neither constitutes nor serves as a substitute for legal advice. Questions regarding the meaning or interpretation of the IAAO Standard on Verification and Adjustment of Sales should, as appropriate or necessary, be directed to a competent professional.

The IAAO Standard on Verification and Adjustment of Sales may be accessed on IAAO's website: http://www.iaao.org/uploads/Verification_Adjustment_of_Sales.pdf

Section 1: Scope

This document is to provide guidance to ensure that only sales that meet the definition of market value, along with sales that have been appropriately adjusted, are used to develop estimates of market value.

Section 2: Introduction

Sales data must be gathered, verified and adjusted so the information can be used for model calibration and in ratio studies. This section spends a lot of time on the importance of sales disclosure and the need for states that do not have disclosure to work toward obtaining it. The section reminds the reader that all sales should be considered valid unless there is sufficient documentation to prove otherwise, and that any trimming of data takes place in the statistical phase, not the verification phase.

Section 3: Sources of Sales Data

The primary sources of sales data include real estate transfer documents, sales verification questionnaires, buyers and sellers, and third-party sources.

3.1 Real Estate Transfer Documents

Real estate transfer documents include deeds, sales contracts, and transfer affidavits (i.e., land contracts, contract for deed). Some jurisdictions require recordation of transfer documents, and some do not.

3.1.1 Deeds and Land Contracts

This section describes deeds as legal written instruments that transfer an interest in the legal rights to a property. Deeds are listed in order of the level of guaranty (or warranty) of the protection of the interest the seller is giving to the buyer. The most secure deed is a general warranty deed and the least protective is a quitclaim deed. A general warranty deed guarantees the seller owns the rights and has the right to sell them and will produce any document necessary to prove that. A quitclaim deed warrants nothing and only conveys whatever right the seller may possess. Sheriff, or tax deeds are treated separately because these deeds exist to discharge delinquent taxes. This section also points out that contracts for sale are rarely useable because title does not transfer until the terms of the contract have been met, which is usually some years in the future.

3.2 Sales Verification Questionnaires

Sales questionnaires should be as comprehensive as possible so as to avoid follow up letters or calls.

This section is based on the premise that questionnaires are filled out when the deed is filed and are mandatory. Both the buyer and seller should be contacted (3.3) for verification information.

3.4 Third-Party Sources

Third party sources are especially important in states that do not have sales disclosure. The section lists a variety of sources for sales information:

- Multiple listing services
- Title companies
- Financial institutions
- Leasing agencies
- Property managers
- Real estate brokers and agencies
- Government and private fee appraisers
- Attorneys
- Appraisal organizations.

Section 4: Useful Sales Information

This section lists the kind of information that needs to be collected. The list includes the major elements necessary to identify the property and determine if the property can be used to estimate market value. These elements are:

- Full consideration
- Names of buyer and seller
- Addresses, phone numbers, and other contact information of buyer and seller or legal designee
- Relationship of buyer and seller (if any)
- Legal description, address, and parcel identifier
- Type of transfer
- Method of marketing
- Time on the market
- Interest transferred
- Type and terms of financing

- Personal property (if any)
- Date of sale (transfer)
- Deed instrument number
- Unique sale number.

There is also a discussion about the need to keep these elements in a separate data file or sales history file. Elements should match the physical components of the property as it existed at the time of sale. If the property has significantly changed characteristics between the time of sale and the date of assessment, it can't be used for ratio study purposes but might be used in a CAMA model as long as the model uses the characteristics of the property at the time of sale.

Sections 4.1 through 4.14 further describe the individual elements that are captured. For example, Section 4.1 describes full consideration as the total price paid for the property including the cash down payment and the amount financed. Deeds that do not reflect full consideration can't be used as verification documents.

Another example is Section 4.7 that describes methods of marketing. Auctions need to be verified (4.7.1) and the auctioneer is the best source for the information. Properties for sale by the owner (FSBO) could be valid transactions as long as the seller was actively marketing the property or used the services of an online marketing or listing company (4.7.2). Internet sales (4.7.3) require careful validation. These sales could be valid, but if the parties are uninformed, they should not be used. Examples of uninformed parties would be indicated if the property was purchased sight unseen, or if no other similar properties in the area were examined, or if a broker was not involved.

Personal property (4.11) real and intangible, should be identified by the participants, and listed with the price for each.

Section 5: Sales Verification

Sales should be verified to determine whether they reflect the market value of the real property. Sales should reflect only the value of the real property transferred and no other interest. Sales should be within the time frame being studied, and sales should be excluded only if they fail to meet the criteria for an arm's length transaction. Sales are needed for the valuation process (5.1), and the reliability

of value estimates or ratio study results is dependent on the quality and quantity of the sales data.

Section 5.2 Methods of Sales Verification

This section discusses methods of gathering data including sales questionnaires, phone interviews and personal interviews.

Section 5.3 Sales Generally Considered Invalid

This section lists sales that are generally invalid but may be used if carefully verified. Sales generally considered invalid include:

- 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.

Section 5.4 Sales with Special Conditions

These include trades, partial interests, contract for sale, incomplete or unbuilt common property and auctions. These transactions should be verified thoroughly.

Section 5.5 Acquisitions or Divestments by Large Property Owners

Transactions involving large investment groups, like pension funds and Real Estate Investment Trusts that involve multiple parcels should not be used.

Section 5.6 Multiple-Parcel Sales

These transactions have special considerations and should be researched and analyzed prior to being used for model calibration or ratio studies.

Section 5.7 IRS Section 1031 Exchanges

These should be analyzed like any other transaction and if there are no conditions that would make the sale price non-representative of market value these can be used.

Section 5.8 Adjoining Property Owners

Sales to adjoining property owners should be analyzed carefully to determine whether the buyer paid more, or less, than market value for 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.

Section 5.9 Leasebacks

Sales involving leasebacks, while common, should not be used because the sale price rarely represents market value.

Section 5.10 Property Characteristic Changes

Properties with significant physical changes between the date of sale and date of assessment should not be used in ratio studies. However, these sales may be used in mass appraisal modeling if the sale price is matched to the characteristics of the property as it existed at the time of the sale.

Section 5.11 Property Change in Use

Properties that change in use between the date of sale and date of assessment should not be used in ratio studies. However, such a sale may be used for analytical purposes if its current use can be matched to the use and characteristics of the property as it existed at the time of the sale.

Section 5.12 Sales with High and Low Ratios

Sales with high and low ratios should never be excluded from a ratio study simply on the basis of the ratio. Parameters need to be identified for outlier ratios and careful verification of these properties is necessary.

Section 5.13 Short Sales

Short sales, as with foreclosures, should not be used because they have an element of undue stimulus.

However, they may be used in ratio studies if they make up more than 20 percent of all the sales but only after a careful and thorough verification and analysis.

Section 6: Documenting the Results of the Verification Process

Section 6 underscores the need to document the verification process and points out that a form, preferably electronic, that captures all the information, should exist for each property. Helpful items on the form include:

- 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.

Section 7: Adjustments

Sales should be adjusted to represent only the value of the real property as of the assessment date prior to model calibration and ratio studies. Adjustments to the sale price may be considered if any of the following exist:

- Assumed long-term leases (nonmarket rates) (7.1)
- Buyer's closing costs (seller paid) (7.2)
- Delinquent taxes (paid by buyer) (7.3)
- Financing (nonmarket rates) (7.4)
- Personal property (paid by buyer) (7.5)
- Real estate commissions (7.6)
- Repair allowances (7.7)
- Special assessments (7.8)
- Time (7.9).

If adjustments for more than one purpose are required, they should be made in the following order:

- (1) Adjustments that convert the price to a better representation of the market value as of the date of sale. These include financing, assumed long term leases and special assessments.
- (2) Adjustments that isolate the price of only the real property. These include adjustments for personal property, trades, partial interests and delinquent taxes.
- (3) Adjustments for differences in market levels between the time of the transaction and the date of assessment (time trends).

Section 8 lists references and is followed by 11 pages of definitions.

Appendix A is a sample sales questionnaire.

Appendix B includes sample questions to cover specific situations, such as questions you should ask about a lease-back.

Appendix C is a partial list of government agencies.

Appendix D is an example of a multiple parcel recording form.

Appendix E is an example of the verification documentation form.

Appendix F includes some definitions and lists severable and non-severable assets for intangible personal property in operating properties.

**For information about the Standard, contact the Technical Standards Committee
at the following address:**

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For more information, visit our website:
www.window.state.tx.us/taxinfo/proptax

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