

Sales Comparison (Market Data) Approach Job Aid

The sales comparison (market data) approach is used to determine a value based on comparable sales derived from the market. There are eight key steps involved in completing a detailed analysis for the sales comparison (market data) approach.

1. Collect comparable sales.
2. Verify all sales and the information/data regarding these sales.
3. Classify the comparable sales into improved and unimproved.
4. Identify “puritan” unimproved sales (i.e., only one land class).
5. Compare sales to sales in order to make adjustments.
6. Appraise land under improved sales to derive improvement value.
7. Compare sales to subject.
8. Use a sales grid for an indication for the subject.

The following are some key terms and concepts that an appraiser must understand in order to use the sales comparison (market data) approach. These terms and concepts are helpful for reviewers to understand as well, in order to determine if the appraiser used the approach properly and accurately.

Key Term/Concept	Description/Explanation
Elements of comparison	<p>The elements of comparison are the characteristics of properties and transactions that cause the prices paid for real estate to vary. These elements of comparison include:</p> <ul style="list-style-type: none"> • Real property rights conveyed • Financing terms • Conditions of sale • Market conditions • Location • Physical characteristics <p>These elements must be researched and analyzed to determine if any adjustments to these elements are warranted within the market. Each element will be discussed and an adjustment made to the sale toward the characteristics that are evident in the subject.</p>
Sales selection	<p>In order to make selections for the sales comparison approach, appraisers must research the market to obtain information about transactions, listings, and other offerings that are similar to the subject property. Appraisers must select and develop comparable sales that have the closest attributes to the subject property in order to minimize adjustments.</p>

Sales Comparison (Market Data) Approach Job Aid (continued)

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Contributory value of land classes	<p>When analyzing sales to derive a land adjustment, the appraiser must remember that it may encompass all characteristics of the land, including productivity, topography, open land versus wooded land, and other characteristics. If the appraiser is working on an area where there is typically only one land class of land, a productivity or land quality adjustment may adequately reflect the degree of comparability between the land component of a sale and the subject property. An accepted technique for estimating the contributory value of multiple land characteristics is land class ratio analysis.</p>
Land allocation analysis	<p>To develop a land allocation (or class ratio) analysis, the first step is to place all unimproved sales in a summary format which reflects their total sale price, date of sale, overall size, and sale price per acre as well as the acreage distribution among the predominant land classes recognized in that market. The land classes specified may be:</p> <ul style="list-style-type: none"> • Class 1 cropland versus Class 2, 3, and/or 4 cropland • Open land versus wooded land • Cultivated land versus pasture • Good rangeland versus poor rangeland • Any other observable land classifications recognized in the market where the subject property is located. <p>The unimproved sales are then analyzed, and a land class ratio is developed, which identifies the differences in value among the different land classes of the comparable properties. Those land values are then translated back to the land classes of the subject property.</p>
Time adjustment	<p>Time adjustments are made when there is evidence to support that the land values have changed over time. The best way to ascertain if there have been movements in the market is to obtain comparable properties that have multiple sales in the recent past. The difference in value between the two sales will demonstrate which direction the market has been moving (+ or -) and is calculated in monthly changes. The method to determine the amount is with a business/financial calculator; the first sale represents present value, and the second sale represents future value. The number of months represents the period, and the problem to be solved is the rate. The rate represents the percent per month change in the market. Once the rate has been established, it can be applied to the difference in time between each comparable sale and the effective date of the report.</p>

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Land and building adjustment	<p>Land and building adjustments are made to the comparable sales to adjust them to the subject. Land should be done first, then buildings. All adjustments must be:</p> <ul style="list-style-type: none"> • Supported by the market • Applied consistently • Explained well
Quantitative Analysis – Sales Comparison Technique	This is the technique that is usually used in appraisal reports and it provides adequate data for the appraisal. It involves paired sales analysis, statistical and graphic analysis, and trend analysis.
Qualitative Analysis – Sales Comparison Technique	This technique is an unusual one to use for agricultural or residential properties. For this technique appraiser judgment is paramount. It may be used when there is an extreme lack of data, there are no or minimal comparable sales, and/or the market is very erratic.

For additional information on this approach, contact your supervisor/mentor.