From Our Readers

"The Accuracy of Comparable Sales Data in Appraisal Reports: Evidence from California"

To the Editor

The recent article "The Accuracy of Comparable Sales Data in Appraisal Reports: Evidence from California" (*The Appraisal Journal*, Winter 2021), by Yanling G. Mayer, PhD, and Frank E. Nothaft, PhD, provides a useful look at the accuracy of reported price information for comparable sales in residential appraisal reports. Referencing a prior study by Allen, Lusht, and Weeks that demonstrated price misrepresentation during a declining market in 2007–2008, the instant study documents a more recent period (2015–2016) characterized by increasing price trends and enhanced regulatory oversight of the appraisal process for mortgage lending. Their conclusions are that the multiple listing service (MLS) is a primary data source for comparables sales; 91.4% of reported prices match public records data; and price differences for the remainder are typically small (<0.2%), with only 1.9% of mismatches reflecting a price variance exceeding 1%. Since neither of the authors are based in California, I can hopefully offer some additional explanation for their findings.

Recorded prices in California are based on a documentary transfer tax (DTT) collected by the county recorder upon deed recordation involving a change of ownership. All counties, under section 11911 of the California Revenue and Taxation Code, collect a tax of $0.55 per $500 consideration or a fraction thereof. Where the actual sale price is an exact multiple of $500, the price reported to the MLS and the recorded price should be the same (absent an error in computing the DTT, which does happen). If not, there will be a difference between the actual (reported) and recorded prices. For example, the MLS might report a sale at $295,050; for recording purposes, however, the DTT would be $325.05 (55¢ per $500 or fraction thereof), resulting in a recorded price of $295,500, a difference of $450 or slightly over 0.15%. (The maximum discrepancy would be $499, and the percentage of price would be lower for more expensive properties.) If an appraiser reported the sale price of the comparable property based on MLS data, there would be a small difference relative to the price reported in public records, consistent with the authors' findings in most cases involving price mismatches.

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With respect to larger differences, the authors allude to concessions that can cause a disconnect between "the final price and the true value" (more appropriately, the disconnect would be between reported and recorded prices). From experience, this can be a problem, due largely to inconsistencies in how concessions or rebates are reported to the MLS by real estate agents. Suppose a transaction is reported to the MLS with a sale price of $295,000, including a credit for repairs or closing costs of $5,000. In theory, the credit does not change the price, which should

be recorded in public records at $295,000. In some cases, however, what is reported as a concession is actually a price reduction, particularly with respect to items like repairs, resulting in a recorded price of $290,000, instead of the reported price of $295,000.

Commission waivers are another area where significant discrepancies can arise between reported and recorded prices. Using the same example with a reported sale price of $295,000, a buyer with a broker's license who represents himself/herself would usually waive half the commission (say 6%), which might be reported as a rebate of $8,850, while the recorded price would be $286,500 (net of commission waiver) based on a DTT of $315.15.

It obviously is incumbent on appraisers to research and accurately report concessions and rebates, and to make appropriate adjustments as needed.

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