



## Qualified Sales Determination

Presented by the Maine Chapter of the IAAO



# What do we use “Qualified” sales for?

1. Sales Ratio Studies
2. Appraisal – Determining Market Value
3. Developing Tables
4. Neighborhood studies
5. For any analysis that requires sales data

“Good data in...”



START HERE!

## **Definition of Market Value**

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) buyer and seller are typically motivated;
- (2) both parties are well informed or well advised, and each acting in what he or she considers his/her own best interest;
- (3) a reasonable time is allowed for exposure in the open market;
- (4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto;
- (5) and the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

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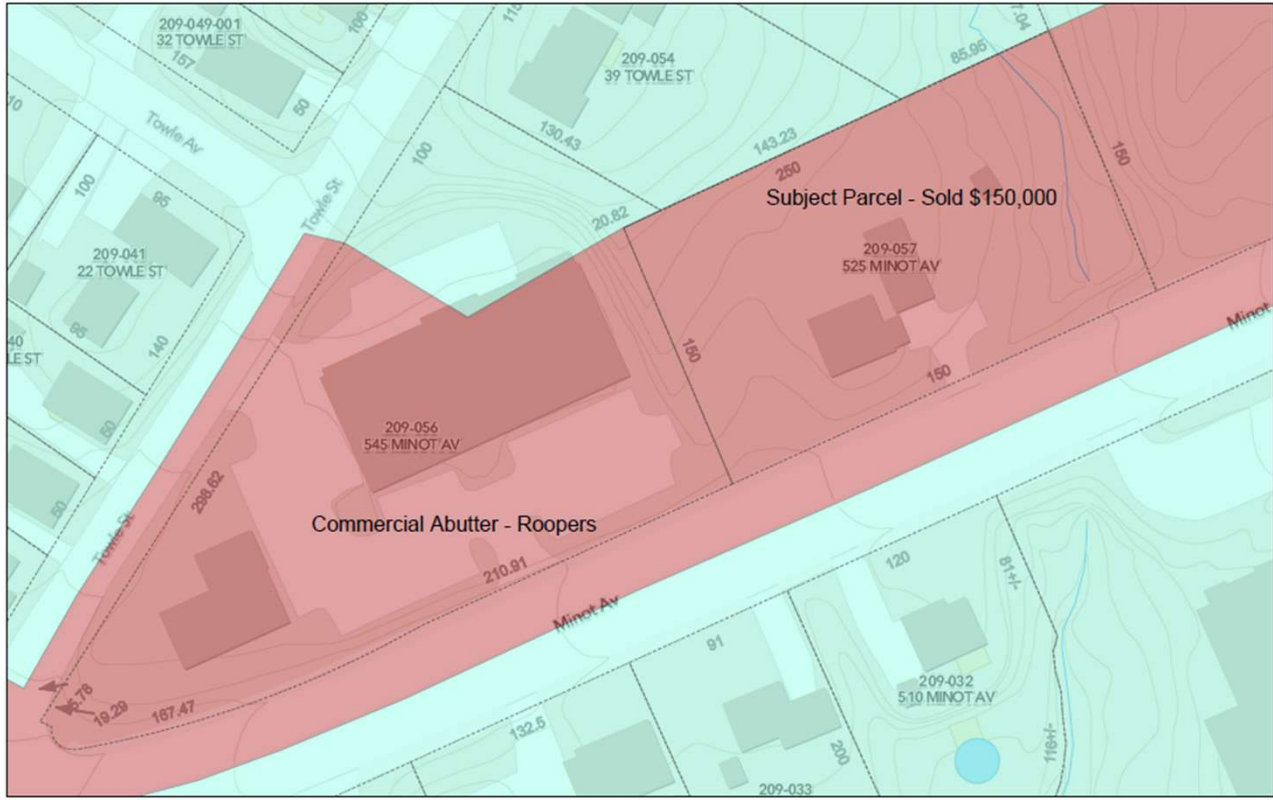
### Scenario One - Sale to Abutter

- Assessed Value at time of sale: \$151,800.
- Sale Price: \$150,000.
- Sale ratio: 1.01

What is known:

- Other than owning abutting property, the seller and the buyer have no prior relationship.
- The abutting property is commercial. At the time of sale it included a beverage retailer, bottle redemption center and Subway restaurant. The grantee owns this property.



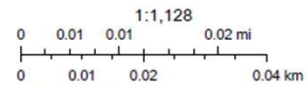


2/15/2023, 9:42:19 AM

Current Parcels \_ Public T-4.2B

Auburn Zoning

GB II - General Business II



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## The Parcels Now



*Photo as of April 2022*

### What else did we need to know?

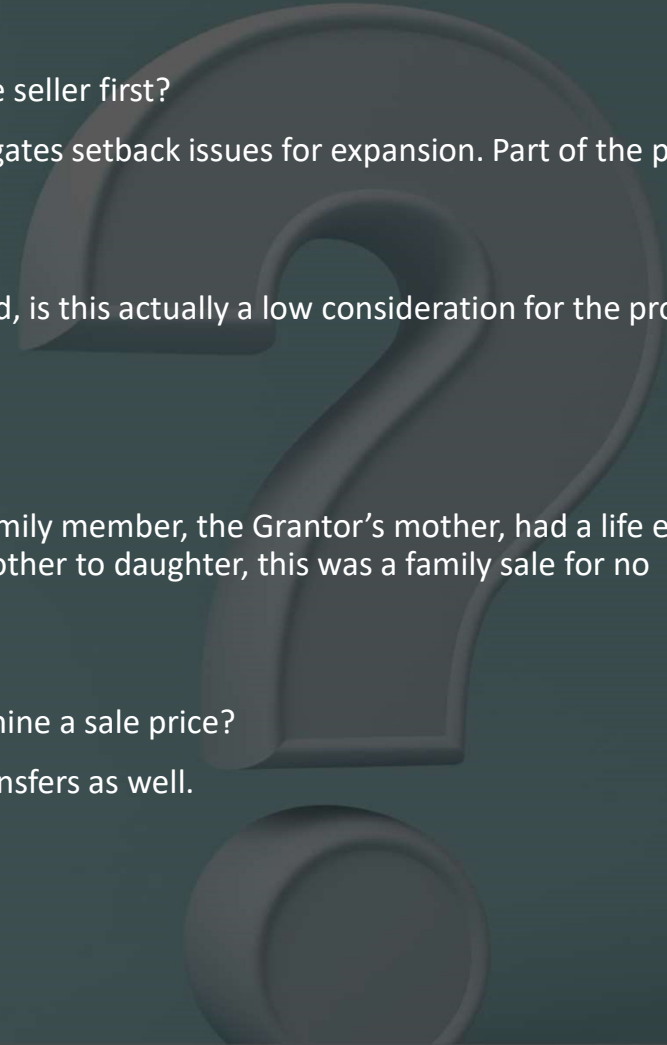
- Were there any special concessions? (Life estate)
- Was the property exposed to the market or did the buyer approach the seller first?
- What is the motivation of the buyer? (Owning the abutting parcel mitigates setback issues for expansion. Part of the purchased property will be used for an expanded parking area and entry as well).
- What were the market conditions at time of sale?
- What is the highest and best use of the property? (All things considered, is this actually a low consideration for the property).  
What is commercial land selling for?

### Some Facts:

- The seller did not live at the property, her mother did and still does.
- At the time of this sale, the Grantor did not reside at the dwelling. A family member, the Grantor's mother, had a life estate. When the property sold to the abutting business owner, the life estate mother to daughter, this was a family sale for no consideration. This transfer established the life estate of the mother.

### Discuss:

- Absent an independent fee appraisal, how to buyers and sellers determine a sale price?
- The determination of the sale status may require a look at previous transfers as well.





### **Qualified sale or “Arm’s Length Transaction” (ALT)**

An arm’s-length transaction is a sale between a willing and informed buyer and a willing and informed seller, neither under any undue pressure to buy or sell, with a price expressed in dollars. The property sold must have spent a reasonable amount of time available for sale and normal market conditions must exist. The buyer and seller must be unrelated. Foreclosure sales and sales between family members are typical examples of sales that are not arm’s-length transactions.

**Maine Revenue Services**, PT 103, Chapter 7 Sales Ratio Studies, page 177

A transaction between unrelated parties who are each acting in his or her own best interest.

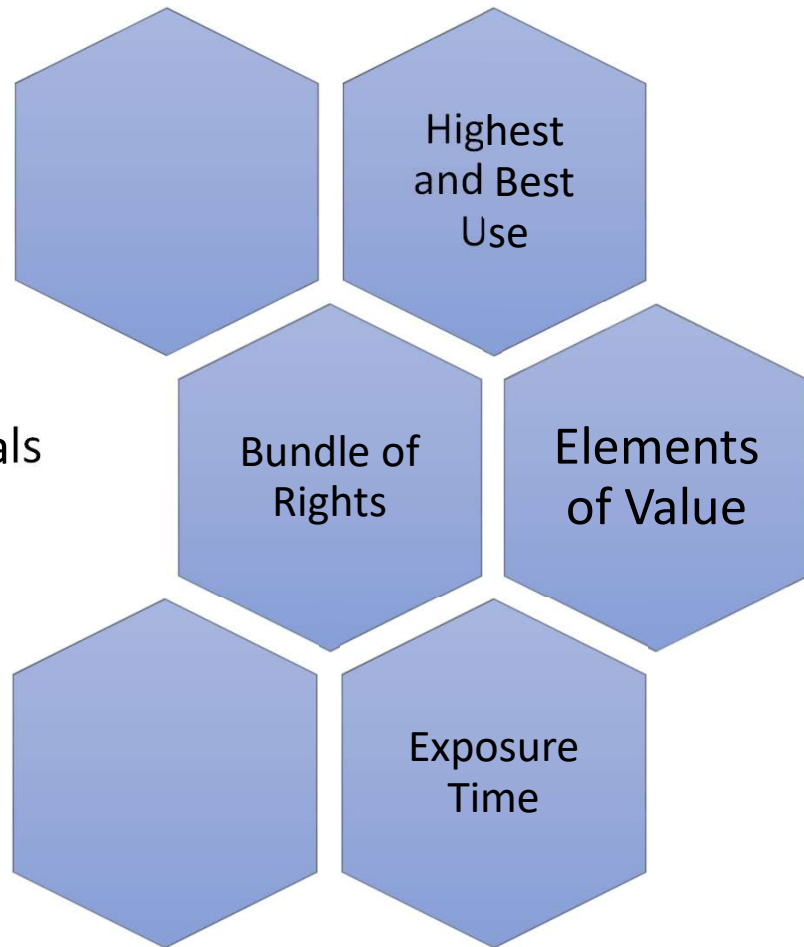
**(Appraisal Institute**, The Dictionary of Real Estate Appraisal, 6<sup>th</sup> Edition)

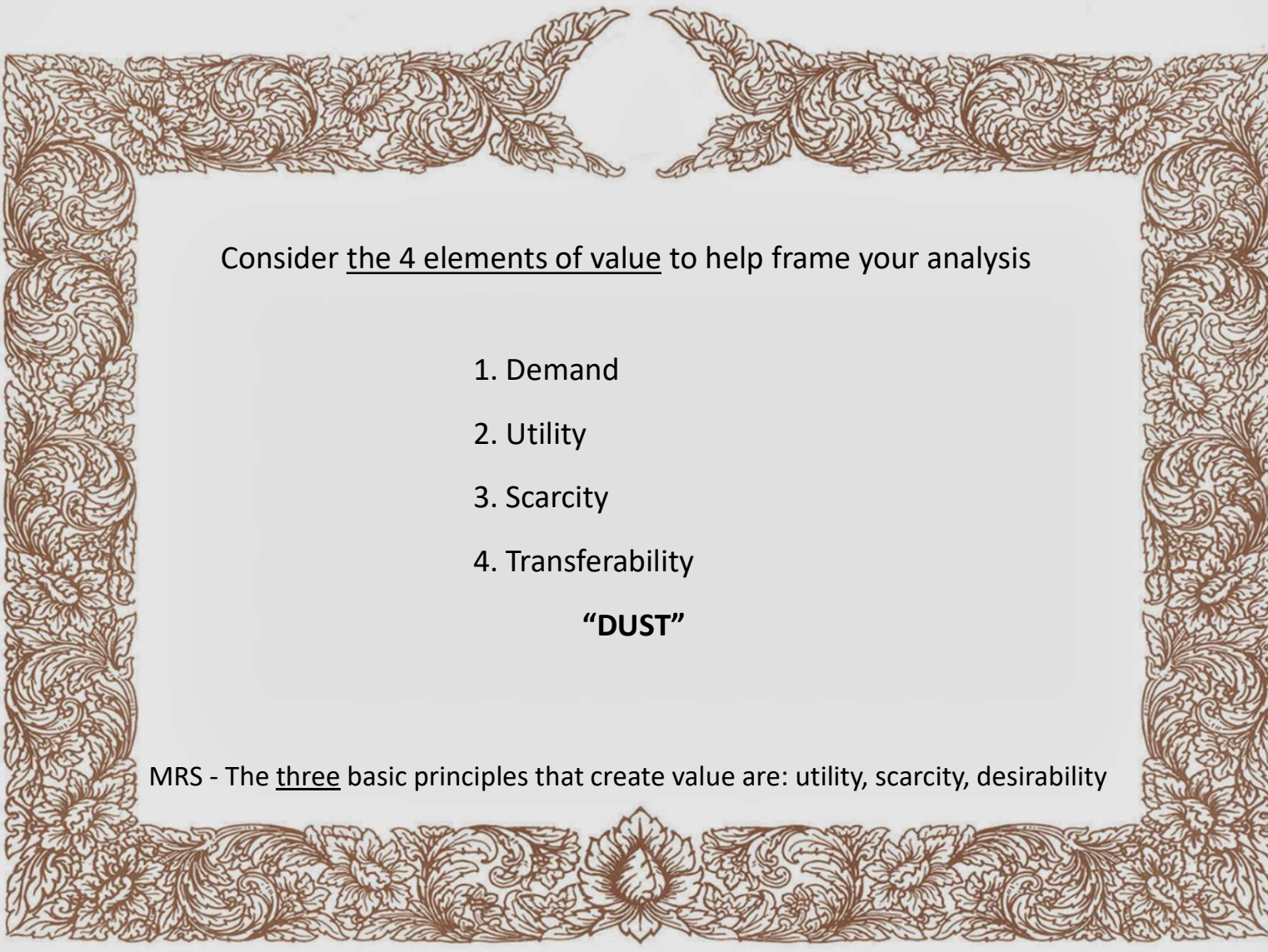
A sale between a willing buyer and a willing seller that are unrelated parties, each of whom is reasonably knowledgeable about market conditions and under no undue pressure to buy or sell.

**(IAAO** Glossary for Property Appraisal and Assessment, 3<sup>rd</sup> Edition)



Let's talk about relevant appraisal principals and theory...



A decorative border with intricate floral and scrollwork patterns in a brownish-gold color, framing the central text.

Consider the 4 elements of value to help frame your analysis

1. Demand
2. Utility
3. Scarcity
4. Transferability

**“DUST”**

MRS - The three basic principles that create value are: utility, scarcity, desirability

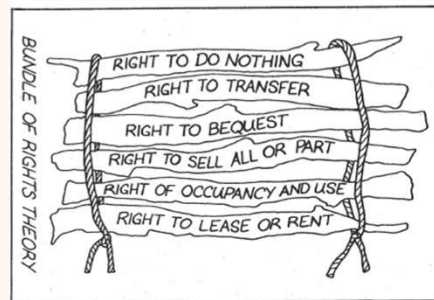
Also consider the **highest and best use of the property.**

1. Physically possible
2. Legally permissible
3. Financially feasible
4. Maximally productive



If the buyer's intended use for the property is contrary to the properties H&BU is the buyer acting prudently and in their own best interest?

# Bundle of Rights (Bundle of Sticks)



(Harrison's Illustrated Dictionary of Real Estate Appraisal, 1983)

## **Bundle of Rights:**

- The right of possession
- The right to control
- The right of enjoyment
- The right to dispose
- The right of exclusion

(Basic Real Estate Appraisal, Betts, Ely, Mckenzie, 2001)

## **Bundle of Rights:**

- Right to bequest
- Right to sell
- Right to lease
- Right to transfer
- Right to occupy

(The Dictionary of Real Estate Appraisal 6<sup>th</sup> Edition, Appraisal Institute, 2015)

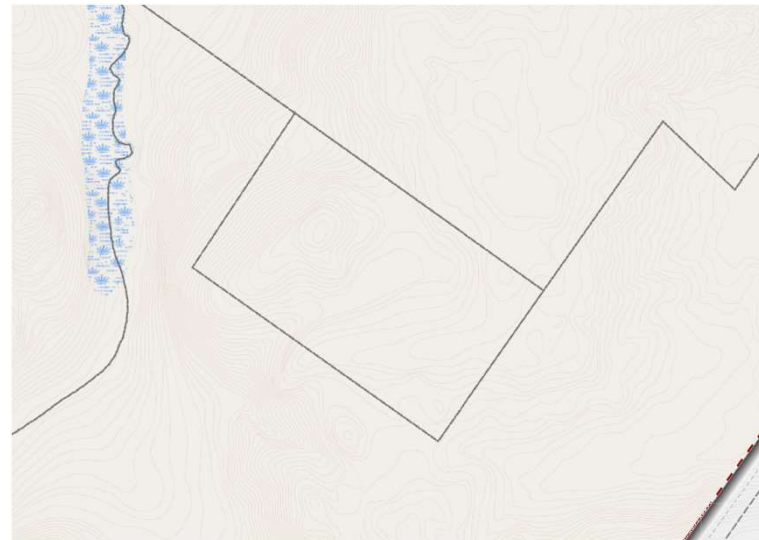
## Bundle of Rights (Bundle of Sticks)...

The typical buyer purchases properties with the understanding that we will have these **rights**, or at least enough to suit their own “best interests”.

So, if a buyer of a property waives any of their rights when they purchase property, is it an arm’s length sale?

Consider:	
Life estates	Right of Possession
Condominium covenants	Right to Dispose
Deed restrictions	Could be any of the rights

**Discuss:** If I decide to buy a landlocked parcel, what potential rights am I waiving?



### **Exposure time:**

The Appraisal Institute's The Dictionary of Real Estate Appraisal, 6th Edition, defines "Exposure Time" as: The estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market.

(The Dictionary of Real Estate Appraisal 6<sup>th</sup> Edition, Appraisal Institute, 2015)

### **In theory:**

- More exposure equals more potential buyers.
- Less exposure means fewer potential buyers.

It is relative to market conditions, especially demand. What is "typical" can vary.

Exposure time is property specific; from list to date of "hypothetical" sale date determined in an appraisal

Necessary market exposure differs depending on the type of value being estimated, for example it is shorter for "liquidation value".

Since exposure time is a component in the definition of "market value" it should always be considered.



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## Scenario Two – The “Covid Sale”

Determine if the following sale is arm’s-length or not.

- 321 Perkins Ridge Road, A single-family contemporary, 78.23 acres
- Sale date: 10/23/2020
- Sale price: \$1,910,000
- Assessed value at time of sale: \$1,214,800
  
- Sale ratio: 0.64

### What is known:

- The subject property is residential use.
- The sale occurred during the COVID pandemic.

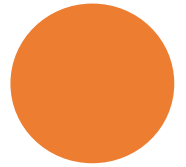




## Scenario Two – The “Covid Sale”:

### Additional facts

- The seller had appealed their property tax assessment in 2019.
- The buyers are from “out of state”. They are purchasing this house as a second home. They plan to “tele-commute” when in Maine.
- The property is lakefront, a neighborhood group believes that out of state purchases are artificially driving up lakefront prices.
- Excellent quality home with premium architectural features and amenities



# What sales are NOT arms length?

Some guiding questions:

Is the sale price **probable** in the market?

Was the sale **competitive and open**?

Did the buyer act **prudently and knowledgeably**? Did the seller?

Was the price affected by **undue stimulus**? Was the buyer or seller pressured into the transaction?

Was the sale **consummated** in a manner typical to the market? Is the sale date clear; did title pass from seller to buyer?

Always consider the definition of market value and arm's length transactions

# Not Arm's Length or Other Unusable - MRS

The following is a list of several types of transactions which are typically considered unusable:

- Sales with \$1.00 consideration
- Inter-family sales
- Inter-corporate sales
- Property in more than one municipality
- Corrective deed
- Undivided interest
- Guardian, trustee, or conservator (if not sold through a real estate broker)
- Exchange of property
- Property classified under Tree Growth, Farmland, Working Waterfront or Open Space programs
- Splits after April 1, 2020
- Sheriff's sale
- Liquidation sales
- Transfers in lieu of foreclosure
- Sales to or from exempt organizations (charitable, literary, religious, etc.)
- Sales when purchaser assumes more than two years of accrued taxes
- Property not located within your municipality

We need to differentiate between "unusable" and not arm's length

A sheriff's sale is a public auction at which property that has been defaulted on is repossessed. The proceeds from the sale are used to pay mortgage lenders, banks, tax collectors, and other litigants who have lost money on the property.

## City of Auburn – CAMA Codes

Sales Validity	Full Description	Sales Validity	Full Description
A	AUCTION	LC	LAND INSTALLMENT CONTRACT
B	BANK/LENDING INSTITUTION	LOT	LOT SPLIT AFTER SALE SEE NOTES
BC	BENEVOLENT/CHARITABLE	MT	MULTI TOWNS
BIL	BILL OF SALE FOR MOHO	N	NOT ARMS LENGTH
C	CITY	O	OTHER
CD	CORRECTIVE DEED	PEX	PROPERTY EXCHANGE
CJT	CREATING JOINT TENANCY	PI	PARTIAL INTEREST
CORP	CORPORATION (INTER)	PKG	MULTIPLE PARCELS
D	COURT JUDGEMENT & DIVORCE	POR	PORTION IN OTHER TOWN
DOD	DEED OF DISTRIBUTION	R	NON PROFIT
E	EASEMENTS OR R.O.W.	R D	RELEASE DEED
EST	ESTATE SALE	RELO	
F	FAMILY	REV	RIGHTS OF REVERSION
FC	FORECLOSURE	S E	SAME ENTITY
FOS	FARM & OPEN SPACE	T	TRUST/TRUSTEE
G	GOVERNMENT	TA	TAX ACQUIRED
H	HUD	TG	TREE GROWTH
L	IN LIEU OFFORECLOSURE	DIV	DIVORCE
TO LLC	TRANSFER TO LLC	ASGN	ASSIGNMENT OF NOTE AND MORTGAGE
		MORT	RECORDED MORTGAGE INSTRUMENT

## Possible NALs



- **Zero consideration** – NAL Reasons why are important. Know the form of ownership. Life estates, divorces
- **Low dollar sales** – Where is the cut off \$1, \$100, \$50,000? Discuss. Be consistent

- **Extreme high value.** May be a red an activity?  
 A **straw deed** is when two deeds are filed in quick succession, the first from Party A to Party B and then the second from Party B back to Party A. This is used to sidestep legal restrictions of sales between spouses or joint owners, or to incorporate a new survey description. Party B is a trusted intermediary, either a close friend or an attorney.

- **Sales by Government**  
 Usually a foreclosure sale, talk about REES (subprime crash in 2008)

- **No exposure time.**

- **Gift of equity**
- **Straw deeds**
- **Quick flips**
- **Seller or buyer duress**
- **Property distress?**
- **Related transfers:** Package sales versus “bundled sale”

## What are some others?

- Sales that include **personal property**
- Concurrent sales (package vs bundled sales),
- Sales that meet the conditions to be NAL, but sale price is consistent with market?

er knowledge  
(contrary use



**Consider the following sales:**

- 1) Grantor and grantee have the same last name, otherwise the sale appears to be at market value. What would you conclude?
- 2) A property sells for \$300,000 July 2, 2022. It sells again on June 29, 2023 for \$375,000. You have good information on both sales and there are no indication that either sale is “not-arm’s-length”. For the purposes of the State sales ratio analysis, can you consider both Arm’s Length? Which sale best indicates market value? Are both useable?





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A determination of sales status is your **work product**:

- Was your finding **supported**?
- Would it survive a **peer review**?
- Is it **defendable**?
- Are your criteria and conclusions **clear**, are they **documented**?
- Are your decisions **consistent**? Did you eliminate a sale for a particular reason in one circumstance but not another similar circumstance?

*We are skilled valuation professionals rendering informed opinions*



# Where do you document your qualified sale finding?

- Spreadsheet notes
- Property files
- Sales ratio folders
- Project work files

Most importantly, your notes must be retrievable

Transaction:			
<b>Current Transfer</b> <span>Parcel Group List</span> <span>View Activities</span>			
Sale Date: 12/30/2021	Sale Price: \$180,960	Sold As Vacant: <input type="checkbox"/>	Test Sale: <input type="checkbox"/>
Recorded Date: 1/5/2022	Doc Stamps:	Time Adj:	Retain Cap: <input type="checkbox"/>
Adj Code:	Adj Sale Price:	Uncap %:	
Book: 10993	Page: 347	Partial Interest: 20.00	
Legal Reference: 10993-347	Doc/Cert #: 1002240178717	N.A.L Reason:	
Instrument Type: Q - Quit Claim	Verified By:		Curr Own to Prev <input type="checkbox"/>
LUC at Sale: 70 - OFFICE	N.A.L. Code: PI - PARTIAL INT	Create Date: 5/12/2022	
Confirmed By:	Confirm Date:	Create User: jstpeter	
Note:	Grantor is selling their 20% interest in the property, the other owners retain their 40%/40% interests respectively.		
<b>Additional Parcels</b>			
208-060 - \$484,400			
<b>Sale Ratio</b>			
Sale Ratio:	2.677		
Associated Ratio:	2.677		
Extraction Ratio:	-0.645		
Price/Unit:	20.75\$/BSF		



MAINE REVENUE SERVICE  
SALES ANALYSIS

TOWN	COUNTY							4/1/2021	4/1/2021	COA added	COA added	
AUBURN	ANDROSCOGGI	NO OF ACRES	MAP NO.	BLOCK NO.	LOT NO.	TYPE CODE	PROPERTY CLASS	ASSESSED VALUE LAND ONLY	ASSESSED VALUE BLD ONLY	TOTAL ASSESSED	RATIO AV/SP	SALE UNUSABLE
<b>DECLARATION INFORMATION</b>												
SALE PRICE	\$169,000											
SALE NO.	17											
GRANTEE	ALLEN KENNETH *											
GRANTOR	ERVING H BICKFORD FAMILY T										0.00	X wrong town Sabattus
BOOK/PAGE	10482 / 77											
DATE OF SALE	9/4/2020											
SALE PRICE	\$63,800											
SALE NO.	18											
GRANTEE	ALTA CHUTES I, LLC *											
GRANTOR	ALTA CHUTES I, LLC										0.48	X Same entity
BOOK/PAGE	10526 / 214											
DATE OF SALE	10/23/2020											
SALE PRICE	\$312,874											
SALE NO.	19											
GRANTEE	ALZIE 300-30 LLC *											
GRANTOR	D.J. PROPERTIES, LLC										0.43	
BOOK/PAGE	10566 / 52											
DATE OF SALE	11/30/2020											
SALE PRICE	\$700,000											
SALE NO.	20											
GRANTEE	ANDREWS LAURIE *											
GRANTOR	FORTIER RICHARD FORTIER S										0.72	
BOOK/PAGE	10656 / 202											
DATE OF SALE	2/24/2021											
SALE PRICE	\$155,150											

**Example 2:**

**Sales ratio studies – Hypothetical Statements**

An appraiser employs a liberal methodology for eliminating sales.

“Cherry picking” to assure certain ratios are attained?

In this jurisdiction sales surveys are sent to all buyers of residential properties. Any sale that is deemed “questionable” is eliminated.

If a sales survey is not returned, the appraiser concludes the buyer is hiding something and eliminates the sale. Good practice?

# How do we discover if a sale is Arm's Length or Not?

## Sources of Information:

Sellers

Buyers

Surveys

Brokers

Appraisers

MLS and other listing services

Deed review

RETTD form

Prior sales and transfers (Hx of distress, Straw transfers, Quick Flips)

Requires effort and persistence

Follow through is part of our **due diligence**

IT IS ABOUT RELATIONSHIPS





**City of Auburn**  
**Residential Sales Verification Survey – Buyer**

Map & Lot: 249-013  
Sales Price: \$290,000  
Seller: [REDACTED]

Property Location: 205 LAKE ST  
Sale Date: 6/8/2022  
Buyer(s): [REDACTED]

Is the sales price noted above accurate?  Yes  No

Do you believe that the seller was motivated to sell due to unusual circumstances, such as death in the family, foreclosure, bankruptcy, divorce, abrupt move or other reasons?  Yes  No (If so, please circle or describe)

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Did the sales price include any personal items such as furniture, lawn mower, etc?  Yes  No

Did the property have any *alternative energy* features at the time of sale, check any that apply or describe:  
 Solar Panels  Wind Turbine  Heat Pumps  Geothermal loop  Other \_\_\_\_\_

How long was the property on the market before you bought it? \_\_\_\_\_ (days, months)  Not listed  Unknown

Confirmed: This was a "FSBO" 

Do you think **owner listings** are exposed to the market?

If the property was a rental, were you a tenant?  Yes  No  Not a rental

Do you think you paid fair market value for the property?  Yes  No (if no, please explain):

Why did you buy this particular property?  proximity to school  proximity to work  energy efficiency  
 neighborhood  new construction  view  condition of property  price  investment  
 Other (please explain) availability

Please describe the overall condition of the property at the time of sale: Good

Were any repairs or renovations necessary?  Yes  No (if so, summarize) needed new roof

Did necessary repairs affect the price that was paid?  Yes  No



Sold for **\$290,000**  
Assessed at **\$183,900** TOS  
Ratio **.63**

Other comments: \_\_\_\_\_

*Thank you very much for your assistance!*

I later learned that this was also a parcel split. The grantor retained a portion for himself in the sale. A good example of why all determinations should be considered provisional. Did I disqualify it?

## Scenario Three – Bidding War

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Determine if the following sale is arm's-length or not.

- Sale price: \$655,000.
- Assessed value at time of sale: \$611,000.
- Prior year assessed value: \$480,000
- Sale ratio: .93
- Days on market: 6

A single family with small accessory dwelling unit (ADU) is assessed at \$611,000. A bidding war over 6 days a year ago in December drove the price from \$600,000 to \$655,000.

The sale was "as-is" and purchased with no home inspection. There was also an agreement by buyer to keep the long-term, below-market ADU tenant in place.

The buyer relied on property income to get lending approval. Structural and electrical issues were found after purchase. Cost to repair: \$75,000. Unclear if repairs were made before April 1 last year.

The sellers had wanted an abatement off from \$611,000 valuation.

Another bidder was a contractor aware of the issues who bid over \$600,000. Other comparable market sales seem to support a value of \$625,000.

The prior year the property was assessed at \$480k and had been since 2009.



## Final Tips

- 1) When processing sales be very **structured**. Process sales in order. Closely examine RETTD forms. Review all deeds. Send surveys. Double-check your work. If staffing allows have at least one other person proof your findings.
- 2) Treat all qualified sales findings as **provisional**. Your first review should not be your last, new data and fresh perspective may reveal better information.
- 3) Trust your gut but **verify** what it tells you. We can't rely on intuition alone, nor should we ignore it. Flag questionable sales and follow-up. Conclusions must be supported by evidence.