

## Professional Excellence Bulletin

# Data Verification

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CUSPAP, includes some very specific guidelines as to data verification. While the level of verification will vary depending on the nature of the assignment.

Hopefully, each and every item of data that finds its way into an appraisal report is fully verified and therefore as accurate as possible. There are some aspects of data verification that apply to all assignments and are indeed mandated under CUSPAP. It is these items that will be the focus of this bulletin.

### **Analysis of Sales History, Agreement for Sale, Options and Listings**

Appraisal Standard Rules require a sales history of the property being appraised. Within the time limit as set out in CUSPAP, all sales, listings, sales agreements, options and lease activity must be investigated and reported. But this is the minimum standard and should be treated as just that — a minimum standard.

The Practice Notes state that sales history verification need not involve a search of public records (i.e., the Land Title Office), such a search depends upon the nature of the assignment and the common appraisal practices in the area. That being said, it should always be used where verification is critical to the assignment, such as litigation or expropriation. For most narrative reports, a search of public records should be made, and especially where the property is of an income-producing nature, as leases registered against title will show up in such a search. On the other hand, for the simple residential form report, a public records search may not be required nor, given the time and cost restraints with such assignments, economically feasible.

In any event, the Land Title Office will only show sales, options and perhaps leasing activity; it will not provide information on listings or sales agreements. The most obvious source for such verification is the owner, but the owner may have a vested interest and not be, therefore, totally reliable. If the property is known to be listed, the listing agent should be helpful, but the appraiser should be extra diligent when reviewing non MLS listing agreements.

Exclusive listing agreements can sometimes be just a tool to get better financing. That is not to say that the MLS system is perfect, but it is a reliable for the appraiser to obtain competitive and comparable property listings.

Where a sale is involved, the purchaser is a possible source of verification. A source that is probably more reliable is the actual conveyancing attorney, who may be able to verify sales terms and whether the sale was at arm's length.

Many residential appraisals and a significant number of non-residential appraisals are for financing a proposed purchase. In this respect, the appraiser must make all reasonable efforts to obtain a copy of the sale agreement and document the steps taken and the due diligence to obtain the agreement.

Good appraisal practice is to request a copy of the sales agreement from the client at the time of taking instructions. Failing that, a copy should be obtained from either the selling or listing agent or from the owner, better yet, from the lender if they are your client.

This cannot be stressed too strongly: a copy of the sales agreement is one of the best tools for the appraiser; it can also go a long way in fraud prevention. There are at least four or five sources from which to obtain a copy of the sales agreement: the owner, the prospective purchaser, the listing and/or selling agent and the lending institution.

### **Verification of Comparables**

The minimum level of verification for each comparable depends greatly on the amount of reliance placed on the data under the nature and intended use of the assignment. Sales data, either land or improved sales, and capitalization rate data have a very high level of required verification, similar to that required under the Sales History requirement. The most reliable source will be the Land Title Office records followed by any of the parties to the transaction: seller, buyer, selling and/ or listing agent, attorney, etc. Capitalization Rate data is more problematical, due to the fact that no one source is likely to have all the required information.

Where the property is income-producing, income and expense data for the subject is best confirmed by at least two, and preferably three, years audited accounts. There are circumstances when such information is not available and, if this is the case, the appraiser must state so very clearly in the report. There is absolutely no excuse for the appraiser failing to not ask for income and expense statements.

Rental data, depending on the circumstances, can be considered to have the same level of verification as sale data but, realistically, this can be a troublesome, especially in respect of property other than the subject, and even more so if the rental data is at all voluminous. However, rental data is best verified from the lease itself and from discussions with the owner or the property manager, as the “tenant” may not be the party to the initial transaction. Obtaining the actual lease can be relatively simple if it involves the subject property, but more complicated if it involves rental comparables. Here the most successful solution is to check Land Title documentation to see if any or all the leases are registered against title. But the appraiser should take care to ensure that what is registered is the latest version of the lease.

As with income and expense data, there is no excuse for the appraiser not to ask the subject’s lease documentation. Failure to obtain the most current lease documentation should be clearly mentioned in the report, cautioning the reader that less reliance should be placed on the report as a result.

Of course other data in any appraisal report needs to be verified, and the same standards should apply. As each and every appraisal is different, it is difficult to be specific. However, certain items, such as zoning and services to the property, obviously are relatively more important to value considerations and attract the highest level of verification requirement. Some aspects of the property, such as building dimensions, can be verified directly by the appraiser by on-site measurements. However, even when building plans are provided and there could be a presumption that site measurements are not necessary, the appraiser should compare the plans very carefully with the actual building, and take at least a few check measurements.

Data verification is a very onerous obligation on the appraiser and so it should be - it is the cornerstone of the whole report.

### **CUSPAP Reference**

#### **Sales History**

#### **Options**

**Listings: 6.2.22, 14.38**

**Agreement for Sale (current) 6.2.22, 7.23, 14.38**

**Public Records: 14.38**

**Title Search: 7.10.1.v, 14.15.114.20.2, 14.31.3, 14.31.4, 14.35.4**