

Selection of Comparable Sales

The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible, and must be used in certain instances (see below). Sale activity from within the neighborhood is the best indicator of value for properties in that neighborhood as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser's analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist. The appraiser must also provide an explanation as to why he or she used the specific comparable sales in the appraisal report and include a discussion of how a competing neighborhood is comparable to the subject neighborhood.

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood, the appraiser might need to use as comparable sales, properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents his or her analysis and explains why these sales were used. (For additional information, see [B4-1.3-03, Neighborhood Section of the Appraisal Report](#). For specific information concerning the selection of comparable sales for manufactured home appraisals, see [B4-1.4-01, Factory-Built Housing: Manufactured Housing](#).)

When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms of miles and include the applicable directional indicator (for example, "1.75 miles NW"). The distance between the subject property and each comparable property is to be measured using a straight line between the properties.

Minimum Number of Comparable Sales

A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

In no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three closed comparables, these transactions, which are often completed as part of a construction-to-permanent loan transaction, may be included as additional support with appropriate commentary.

Age of the Comparable Sales

Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate 3 truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as he or she explains why they are being used.

Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS

If the subject property is located in a new (or recently converted) condo, subdivision, or PUD, then it must be compared to other properties in the neighborhood as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property. Two of the sales must be verifiable from reliable data sources, other than the builder. Sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project provided the developer or builder of the subject property is not involved in the transactions.

In the event there are no closed sales inside a new subject project or subdivision because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project or subdivision in lieu of one closed sale. When the appraiser is using two pending comparable sales in lieu of a closed sale, the appraiser must also use at least three closed comparable sales from projects or subdivisions outside of the subject property's project or subdivision.

To meet the requirement that the appraiser utilize one comparable sale from inside the subject subdivision or project, the appraiser may need to rely solely on the builder of the property he or she is appraising, as this data may not yet be available through typical data sources (for example, public records or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the settlement statement from the builder's file.

When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions

and upgrades for the subject property relative to concessions and upgrades for each builder sale. (For special appraisal considerations regarding condo projects, see [B4-1.4-03, Condo Appraisal Requirements](#), and B4-2, Project Standards.)

Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

Use of Foreclosures and Short Sales

It is acceptable to use foreclosures and short sales as comparables if the appraiser believes they are the best and most appropriate sales available. The appraiser must address in the appraisal report the prevalence of such sales in the subject's neighborhood and the impact, if any, of such sales. The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it. The appraiser cannot assume it is equal to the subject property. For example, a foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. For appraisals that are required to be UAD compliant, the appraiser must identify the sale type as REO sale or Short sale, as appropriate. (For specific information regarding comparable sale adjustments, see [B4-1.3-09, Adjustments to Comparable Sales](#), and for information regarding financing types, see [Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements](#)).

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2017-01	January 31, 2017
Announcement SEL-2014-03	April 15, 2014
Announcement SEL-2011-11	October 25, 2011
Announcement SEL-2010-09	June 30, 2010
Announcement 08-30	November 14, 2008