

APPRAISAL

NOTE: In order to ensure the appraisal report contains the content required, the grant sponsor needs to provide the appraiser with a copy of these Appraisal guidelines.

1. Type of Appraisal. The sponsor shall secure an appraisal of the appropriate type by a State of Texas Certified General Real Estate Appraiser for all real property to be taken. All work by the appraiser must conform to the current version of *Uniform Standards of Professional Appraisal Practice* (USPAP) and to the standards set forth below in "A." or "B." The appraisal will be submitted to the Department for review unless otherwise noted or requested. The value established by the appraisal report should not be older than one year from the date of its submittal to the Department for review.

The type of appraisal required depends on the source of grant funding. When Federal Funds are involved, the standards under "A." apply. If only State Funds are involved, then the appraisal standards under "B." below apply.

A. Appraisal Standards – Federal Funds. When Federal Funds are involved, standards for appraisals shall be those set forth in the current versions of USPAP and *Uniform Appraisal Standards for Federal Land Acquisition* ("Yellow Book") which can be found on the U. S. Department of Justice website: <http://www.justice.gov/sites/default/files/enrd/legacy/2010/11/16/Uniform-Appraisal-Standards.pdf>. Strict compliance with Yellow Book standards is required.

Sponsors should be aware that the Yellow Book requires an appraisal which is more elaborate and more detailed than the typical appraisal assignment. Appraisal reports which are described as "summary" typically do not meet Yellow Book standards. Also, sponsors should bear in mind that most appraisers have never performed a Yellow Book appraisal. Due to the complexity of the requirements, most appraisers without Yellow Book experience have difficulty complying with them. **If sponsors decide it is necessary to hire an appraiser without previous Yellow Book experience, they should ensure that the appraiser has obtained a copy of the Yellow Book and examined it before submitting a fee proposal. Appraisal costs are not reimbursable for Land and Water Conservation Fund projects.**

B. Appraisal Standards – State Funds. When State Funds are involved, the formality and detail of required documentation will be determined by USPAP and, as described below, by the value of the real property involved in each instance. Depending on value, the Department will require detailed appraisal reports, abbreviated appraisal reports, or written findings of value. A detailed appraisal is required for all projects involving the donation of real property or interests therein.

(1) Detailed Appraisal Report. If an acquisition will cost more than \$25,000 the project sponsor will apply the following appraisal requirements.

The report on any individual property may vary depending upon the type of property under appraisal. Additional data may be required in the case of highly specialized properties. Items may be deleted as in the case of land valuation only. Generally, however, all items must be considered by the appraiser and included in the report unless otherwise requested and agreed to by the Department, and omissions must be explained by narrative.

The Appraisal Report should cover the following:

- (a) Opportunity to Accompany. Property owners (or a designated representative) shall be afforded an opportunity to accompany the appraisers during the inspection of the property. The appraisal report shall indicate whether or not the owner or representative accompanied the appraiser.

- (b) Qualifications. Statement of qualifications (education, experience, professional memberships, publications, list of clientele, State of Texas Certification number, and date of expiration) of all appraisers and/or technicians contributing to the report.
- (c) Statement of Limiting Conditions. The appraiser should provide clear concise statements of all assumptions and conditions, including the following specifics:
 - (i) That the title to the property is marketable,
 - (ii) That the appraiser assumes no responsibility for legal matters, and
 - (iii) That all data furnished by others are presumed correct.
- (d) Purpose of the Appraisal. This shall include a definition of all values required and appraised, a statement of the property interest to be acquired (fee simple, surface estate, fraction of minerals, etc.) and the date of value.
- (e) Identification of Property. Legal description of the whole tract and that portion to be acquired.
- (f) City and Area Data. This data (mostly social and economic) should be kept to a minimum and include only such information as directly affects the property being appraised.
- (g) Property Data.
 - (i) Site. Describe accessibility, road frontage (including front feet), soil, topography, views, vegetation, drainage (including flood plain), mineral deposits, easements, availability of utilities, hazardous substances, etc. If there is an indication that mineral deposits have more than a nominal commercial value, this fact shall be clearly stated.
 - (ii) Easements. Describe all known easements. If land is to be acquired over which the sponsor has limited control or use, such as land encumbered by easements, proper adjustments must be made in the appraisal to reflect the limited control. If no adverse easements exist, report should so state.
 - (iii) Improvements. This shall be by narrative description, including dimensions of principal buildings and/or improvements. A floor plan and location of each building is required.
 - (iv) Equipment. This shall be by narrative description including the condition of equipment.
 - (v) Condition. The actual age, current physical condition and any functional obsolescence shall be stated for each item or group appraised and, whenever applicable, the repair or replacement requirements to bring the property to usable condition.
 - (vi) Assessed Value and Annual Tax Load. Include the Central Appraisal District's estimated current market values for land and improvements, assessed values, tax rate and dollar amount of real estate taxes.
 - (vii) Zoning. Describe the zoning for the subject.
 - (viii) Restrictive Covenants. Describe any restrictive covenants or other land use regulations, for example the Endangered Species Act, affecting subject.
- (h) Analysis of Highest and Best Use. The report shall state the highest and best use that can be made of the property (land and improvements and where applicable, machinery and equipment). The valuation shall be based on this use. In no case shall the land be appraised

for one highest and best use and the value of the improvements added when they do not contribute to the fair market value of the land under the highest and best use. Such special purpose appraisals are not allowable.

Also, subdivision development should not be selected as a highest and best use in the absence of strong evidence that such use of the property would be feasible. The evidence required includes a detailed development plan showing streets, utilities, lot sizes and locations; market research to locate finished comparable lot sales; estimates of the time periods required to obtain approval of the subdivision plat and to complete construction of streets, utilities, drainage facilities, etc.; a detailed absorption study estimating a sell-out period for all the lots; a well-supported estimate of direct costs of development, including surveying, design, engineering, permitting, clearing, dirt work, sewers, storm drains, water lines, other utilities, streets, curbs and gutters; a detailed estimate of indirect costs including financing, insurance, real estate taxes, sales commissions and advertising, accounting, legal, closing costs, project supervision costs, developer's overhead and profit; a strongly supported estimate of an appropriate discount rate. The subdivision development approach to land value should not be utilized when sufficient comparable sales are available with which to reliably estimate land value by the sales comparison approach.

Additionally, recreation should only be selected as a highest and best use when private sector recreation sales are used as comparable sales. If no non-public recreation sales are available, a highest and best use other than recreation should be selected and supported with like-type comparables.

- (i) Land Value. The appraiser's opinion of the value of the land shall be based upon its highest and best use, regardless of any existing structures and shall be supported by confirmed recent factual data (sales, contracts and offerings) of comparable, or nearly comparable parcels of land having the same or similar highest and best uses. Differences shall be weighed and explained to show how they indicate the value of the land being appraised.
- (j) Value Estimate by Comparative (Market) Approach. All comparable sales used shall be confirmed by the buyer, seller, broker, or other person having knowledge of the price, terms and conditions of sale. Each comparable sale shall be weighed and explained in relation to the subject property to indicate the reasoning behind the appraiser's final value estimate from this approach.

For acquisitions which involve properties with man-made improvements, the following methodology must be followed by the appraiser for the valuation of such improvements.

- i) If the highest and best use of the property is determined to be for "recreation":
 - (a) Fair market value must be justified utilizing private sector recreation properties as comparable sales.
 - (b) Improvements on the property which are for recreation (and are therefore potentially eligible for program assistance) must be valued at their "current depreciated value."
 - (c) Improvements on the property which cannot be utilized for recreation must be assessed for salvage/scrap value. (Such improvements are not eligible for grant support.)
- (ii) If the highest and best use of the property is determined to be for "other than recreation":
 - (a) Improvements which are for "recreation use" must be assessed for their salvage/scrap value. (The salvage/scrap value can be eligible for grant support).

(b) Improvements which are for "other than recreation use" must be valued at their depreciated value. These improvements are eligible for grant assistance only if they are to be demolished/removed from the site, or if the improvements are to be utilized for (or in support of) recreation activities. To be grant supported, the improvements must either be handicapped accessible in their current state, or they must have the ability to be modified and made accessible, pursuant to state law requirements.

(k) Value Estimate by Cost Approach. This section shall be in the form of computational data, arranged in sequence, beginning with reproduction or replacement cost, and shall state the source (book, page and page date, if a national service) of all figures used. The dollar amounts of physical deterioration and functional and economic obsolescence, or the omission of same, shall be explained in narrative form. Developer's profit, if any is appropriate, shall be considered. This procedure may be omitted on improvements, both real and personal, for which only a salvage or scrap value is estimated.

(l) Value Estimate by Income Approach.

NOTE: The Department will not reimburse the sponsor for the value of land determined by the income approach method.

(m) Interpretation and Correlation of Estimates. The appraiser shall interpret the foregoing estimates and shall state the reasons why one or more of the conclusions reached in items (j) and (k) are indicative of the market value.

(n) Tabulation of History of Conveyance (property sales and transfers). Include parties to the transactions, dates of purchase, financing and amounts of consideration for three years prior to date of value, unless more years are specifically requested. Include, if the information is available, any offers to buy or sell the property under appraisal. Information to be reported shall include the appraiser's opinion as to whether the sale price in the more recent transactions represented market value at the time, and, if not, the reasons for the appraiser's conclusion. If the purchaser is a governmental entity, discuss whether its power of condemnation affected the sale price. An unsupported statement that the sale did not represent market value, or was not an arms-length transaction, is unacceptable. Bearing in mind that a prior sale of the subject is frequently more comparable than a sale of any other property, explain how the transactions involving subject relate to the value conclusion stated in the report.

(o) Certification of Appraiser.

(i) He/she has personally inspected the property. Statement that the owner or representative had the opportunity to accompany the appraiser at the time of property inspection, and whether or not he/she accompanied the appraiser.

(ii) He/she has no present or contemplated interest in the property.

(iii) That in his/her opinion the market value of the taking as of _____
(Valuation date)

is \$_____.

(Signature)

(p) Exhibits and Addenda.

(i) Subject location Map. Include the city or area.

(ii) Comparable Map Data. Show geographic location of the appraised property and the comparable sales analyzed.

- (iii) Comparable Data Details. A listing of sale price, property type, grantor, grantee, recording data, rights conveyed (fee simple, surface estate, fraction of minerals, etc.) sale date, financing, confirmation (person), present use, highest and best use, zoning, land size, shape, topography, mineral deposits, vegetation, flood information, and a brief narrative describing physical characteristics, public utilities associated with the land, deed restrictions, easements, and any other information deemed pertinent. Supply a photograph and plat for each comparable property.
- (iv) Plat of subject. Include a metes and bounds description and/or a survey with legible dimensions..
- (v) Floor Plans. Include when needed to explain the value estimate.
- (vi) Photographs. Include photographs of site's road frontage, vegetation, views, topographic features, etc. Pictures shall show at least the front elevation of the major improvements, plus any unusual features. When a large number of buildings are involved, including duplicates, one picture may be used for each type. All graphic material shall include captions.
- (vii) Other Pertinent Exhibits. Include as deemed appropriate.

(2). Abbreviated Appraisal Report. An abbreviated appraisal report, compiled by a qualified appraiser and adequately related to comparable sales, is acceptable for a parcel with a value estimate between \$1,000 and up to and including \$25,000. The abbreviated report should include:

- (1) A brief description of the subject property to include physical characteristics, present use, zoning, public utilities associated with the land, deed restrictions, easements and any other pertinent information.
- (2) A legal description of the real property to be acquired and a plat.
- (3) State the property interest to be acquired (fee simple, surface estate, fraction of minerals).
- (4) Assessed Value and Annual Tax Load. Include the Central Appraisal District's estimated current market values for land and improvements, assessed values, tax rate and dollar amount of real estate taxes.
- (5) Tabulation of History of Conveyance (property sales and transfers). Include parties to the transactions, dates of purchase, financing and amounts of consideration for three years prior to date of value, unless more years are specifically requested. Include, if the information is available, any offers to buy or sell the property under appraisal. Information to be reported shall include the appraiser's opinion as to whether the sale price in the more recent transactions represented market value at the time, and, if not, the reasons for the appraiser's conclusion. If the purchaser is a governmental entity, discuss whether its power of condemnation affected the sale price. An unsupported statement that the sale did not represent market value, or was not an arms-length transaction, is unacceptable. Bearing in mind that a prior sale of the subject is frequently more comparable than a sale of any other property, explain how the transactions involving subject relate to the value conclusion stated in the report.
- (6) An analysis and statement of the property's highest and best use.
- (7) Supporting data, including two or three comparable real property sales, a brief analysis of those sales, and a map showing their locations relative to the land to be acquired.
- (8) The appraiser's certification and signature. See Item 5.B.(1) (o) Certification of Appraiser.

(9) The date the value estimate applies.

(10) Statement of qualifications (education, experience, professional memberships, publications, list of clientele, State of Texas Certification number, and date of expiration) of all appraisers and/or technicians contributing to the report.

(11) Location Map. Include the city or area.

(12) Boundary Map (Plat). Include a metes and bounds description or survey with legible dimensions.

(3). Finding of Value. Where a parcel has a value of \$1,000 or less and the expense of an appraisal would be disproportionate to its benefit, a written finding of value by a qualified appraiser will be acceptable for approval. This finding of value can be based on the individual's knowledge of land values, but should include a statement of the appraiser's experience and qualifications, including a short description of the factors considered and the means by which a conclusion was reached. These statements should be sufficiently detailed so as to enable the Department to judge their respective merits.