APPRAISAL REPORT STANDARDS

To prepare an appraisal report and/or appraisal review for the Department of Natural Resources (DNR), the appraiser **MUST** be on the DNR Approved Appraiser List and the appraiser **MUST** be licensed in the State of Michigan as a Certified General Appraiser. To register for the DNR Approved Appraiser List, please contact Walter Linn, DNR Appraisal Supervisor, at 517-930-9874 or at LinnW@Michigan.gov.

> **NOTE**: *For all DNR appraisal assignments, the Certified General Appraiser under contract is the ONLY person authorized to analyze the data, make value adjustments, reconcile value conclusions and sign the Certification. Any deviation from this requirement MUST receive written approval from the DNR Appraisal Supervisor prior to commencing work on the appraisal report.*

Currently, the DNR uses SIGMA Vendor Self Service (VSS) to do the following:

1. To sign up for Electronic Fund Transfers (EFT)
2. To sign up to receive bid requests on appraisal assignments

To register for these services, log into the SIGMA VSS website at: www.michigan.gov/VSSLogin. To sign up for EFT's, go to Vendor Registration. To sign up to receive bid requests on appraisal assignments, go to Business Opportunities, Solicitations. If you have any questions on the SIGMA VSS registration process, please contact Vendor Registration at 1-888-734-9749 or at SIGMA-Vendor@michigan.gov.

All DNR appraisal reports must be in narrative format, unless otherwise specified, and must adhere to DNR Appraisal Report Standards and USPAP requirements that are current as of the date of the appraisal report. If Federal money is involved, the appraiser may have to be Yellow Book Certified and follow Yellow Book requirements. Appraisal reports not adhering to these requirements will be returned for correction.

The use of the Development/Subdivision Approach is NOT allowed on DNR appraisal reports. Any deviation from this requirement MUST receive written approval from the DNR Appraisal Supervisor prior to commencing work on the appraisal report.

For DNR appraisal reports, the use of Hypothetical Conditions and Extraordinary Assumptions MUST receive written approval from the DNR Appraisal Supervisor prior to commencing work on the appraisal report.

For DNR appraisal reports, the use of qualitative adjustments (versus quantitative adjustments) MUST receive written approval from the DNR Appraisal Supervisor prior to commencing work on the appraisal report.

For larger valued properties, two appraisals are required. The DNR will contract two appraisers from the DNR Approved Appraisal List. The two contracted appraisers are responsible for any coordination needed to complete the appraisal reports.

When the appraisal report is complete, an unsigned, electronic report must be submitted to the DNR Appraisal Supervisor for review. Upon completion of the appraisal review, one signed, hard copy AND one signed, electronic copy of the appraisal report is required. Invoices will be paid upon receipt of the final, signed, electronic copy of the appraisal report.

I. GENERAL DATA

A. Cover Page – Include the following information regarding the subject property:
   1. Photograph
   2. Name of Record Owner and Mailing Address
   3. Location/Address, including Township, City, County
   4. Tax ID Number
   5. Name of Project and Case Number
   6. Acreage
   7. Name of Subsurface Owner, if applicable
   8. Appraiser's Name and Address
   9. Effective Date of Value

B. Table of Contents
   1. Number every page from cover to cover
   2. List titles of contents and corresponding pages numbers

C. Summary Page – Include the following information regarding the subject property:
   1. Name of Project and Case Number
   2. Name of Owner/Lessee, including mailing address(es)
   3. Location (include Road, City, Township, Section, County, Road/Water Frontage and Legal Description)
   4. Property Details (include Improvements, Leases, Easements, Encroachments, Permits and Mineral Rights)
   5. Total Area, Size and Dimensions of Property
   6. Name of Appraiser, Business Address, Email Address, Phone Number and Appraisal License Number
   7. Date of Value
   8. Date of Report
   9. Date(s) of Inspection
   10. Purpose of Appraisal
   11. Interest being Appraised
   12. Intended Users
   13. Highest and Best Use
   14. Final Reconciled Value under the Sales Comparison Approach, Cost Approach, Income Approach

   NOTE: *The Development/Subdivision Approach is NOT allowed on DNR Appraisal Reports.*

D. Statement of Assumptions and Limiting Conditions

E. Scope of Appraisal – Summarize the process and assistance received in collecting and confirming the data, the inspection date(s) on the subject property and the valuation process relied on in determining market value. Provide adequate location maps and photographs of the subject property.

F. Purpose of Appraisal – Clearly set forth the purpose for which the appraisal report is being prepared, which is to establish market value for the subject property. For DNR appraisal reports, market value is defined as:

> *The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeable, and for self-interest, and assuming neither is under undue duress.*

G. Intended Users

H. Market Exposure/Marketing Time

I. Hypothetical Conditions and Extraordinary Assumptions – Define Hypothetical Conditions and Extraordinary Assumptions and list any utilized in the valuation of the subject property.

NOTE: *The use of Hypothetical Conditions and Extraordinary Assumptions MUST receive written approval from the DNR Appraisal Supervisor prior to commencing work on the appraisal report.*

J. Hazardous Waste and Property Contamination – Fully research and describe any physical details of the land and improvements which are unusual and indicate possible presence of hazardous wastes or contamination (i.e., unvegetated or stained areas, underground tanks, foam insulation, asbestos, transformers and electrical equipment containing PCB's and product and processing materials). Detail your inquiries to, and responses from, the property owners and/or other persons knowledgeable about the subject property. Include their knowledge of past uses of the subject property and of adjoining properties.

1. If you suspect hazardous waste or property contamination on the subject property, immediately contact the Case Manager listed on the Fee Appraisal Request (FAR)
2. If you find no evidence of hazardous waste or property contamination on the subject property, the following statement should be included in your appraisal report:

   "No evidence of hazardous waste or property contamination was observed by the appraiser; however, this appraiser is not versed in, nor qualified to, detect hazardous waste or property contaminated conditions. Expert testing should be done, if so desired".

II. PROPERTY DATA

A. Description of Property – Describe in detail the physical features of the subject property, including land area, road/water frontage, access, topography, type of utility service, timber/wood lot, ground cover, soil type/condition, drainage characteristics and any hazardous waste or property contamination information. Include surveys of the subject property, if available, in the Addendum.

B. Description of Improvements – Describe the physical details, size and condition of all buildings structures and land improvements, including dams, irrigation systems, wells and fencing. A floor plan of the buildings, showing room sizes, should be included in the Addendum.

C. Description of Easements, Encroachments, Leases and Permits – Describe any existing easements, encroachments, leases and permits on the subject property and provide names of all current parties of interest. Also describe if the subject property is enrolled in the Land Conservation Program (farmland, forest protection, etc.) or in the Land Grants Program.

D. Description of Mineral Rights – Identify and discuss the existence of mineral rights on the subject property, including oil and gas, metallic minerals (copper, iron) and non-metallic mineral (sand, gravel) and the effect they have on the valuation of the subject property.

E. Description of Landlock – If the subject property is landlocked, identify adjoining owners and explain potential access issues. Provide a plat or tax map, identifying adjoining owners and roads.

F. Zoning – Describe existing zoning, including any land-use restrictions or permitted uses under the current zoning. Verify with the property owner and/or municipal offices any zoning change requests made on the subject property and/or special use permits applied for in the past five (5) years and how each of these may influence values.

G. Present Use of Property – Describe the existing use of the property. If the present use is different than the use permitted by existing zoning, state the conditions it is permitted.

H. Ownership, Occupancy and Contact with Property Owners – Provide names/addresses of all current parties of interest, including owners, co-owners, lessees, licensees, easement holders and holders of subsurface rights, etc. A copy of all party of interest documents must be included in the Addendum.

The appraiser must contact the property owner, his/her representative and any other party of interest and offer the opportunity to accompany them on the inspection of the subject property. A statement must be included in the appraisal report that "I offered the owner(s) and his/her designated representative an opportunity to accompany me during the inspection of the property, and he/she accepted or declined". List the date(s) of inspection and name(s) of all people in attendance at the inspection. If the appraiser is unable to contact the owner, the appraisal report should document dates and what specific attempts were made to set up the inspection.

I. Sales History – Provide sales date/price on all sales of the subject property in the past five (5) years. Verify the sales data, including sales date, price, recording data, liber, page number, etc. for each sales transaction on the subject property. If you find the subject property has sold, but you can't verify the sales price, explain what efforts you made to obtain this information. If there have been no sales of the subject property within the last five (5) years, simply state "NONE IN THE PAST 5 YEARS".

J. Assessed Value and Taxes – Identify assessed value, state equalized value and taxable value of the subject property. Also include subject property taxes for the current year.

K. Highest and Best Use – Define and analyze the highest and best use of the subject property and your opinion of the use that would result in the greatest net return on the subject property. If your highest and best use conflicts with existing zoning, a detailed explanation of the reasonable possibility of effecting change must be substantiated through interviews with public zoning officials and/or other governing authorities.

III. VALUATION ANALYSIS AND CONCLUSIONS

A. **Sales Comparison Approach** – The Sales Comparison Approach MUST be utilized on all DNR appraisal reports. The appraiser should conduct a thorough investigation of the market activity on properties similar to the subject property, utilizing at least three (3) comparable sales. If inadequate market data is available to utilize three (3) comparable sales, the appraiser must discuss his/her attempt to locate market data transactions in the appraisal report.

A comparison grid showing adjustments (expressed in dollars or percentages) is required, along with a detailed explanation of items of dissimilarity and the appraiser's reasoning for each adjustment.

NOTE: *The use of qualitative adjustments (versus quantitative adjustments) MUST receive written approval from the DNR Appraisal Supervisor prior to commencing work on the appraisal report.*

For appraisals of linear corridors, the appraiser should consider comparable sales of other corridors or based on an "across the fence" valuation methodology. Listings and sales to/from governmental agencies can be used for supplemental/support purposes only.

A comparable sales data sheet, showing detailed sales information of each comparable sale must be included in the Addendum. (See "Comparable Sales Data Sheet" in Section V, Addendum for requirements).

A final reconciliation of the unit value, if applicable, must be determined and the reconciled total market value for the subject property under the Sales Comparison Approach must be clearly stated in the appraisal report.

B. **Cost Approach** – If the subject property is improved and the improvements are new and in good condition, the Cost Approach must be considered. If the appraiser deems this approach unreliable, an explanation must be included in the appraisal report.

When the Cost Approach is utilized, the following analysis and calculations must be detailed in the appraisal report:

1. Value of land, as vacant
2. Replacement or Reproduction Cost (new) of the improvements or buildings
3. Amount of accrued depreciation (physical, functional and economic) with an explanation and justification of each depreciation deduction

After each of these calculations are completed, a grid showing each calculation, and the process utilized to calculate market value, must be included in the appraisal report. A final reconciliation of market value for the subject property under the Cost Approach must be clearly stated in the appraisal report.

C. **Income Approach** – If the subject property is generating an income, the Income Approach must be considered. If the appraiser deems this approach unreliable, an explanation must be included in the appraisal report.

When the Income Approach is utilized, the following analysis and calculation must be detailed in the appraisal report:

1. Estimated rental rate for the subject property based on comparable rental properties
2. Estimate of vacancy and collections, credit loss and operating expense
3. Estimate of capitalization rate

After each of these calculations are completed, a grid showing each calculation, and the process utilized to calculate market value, must be included in the appraisal report. A final reconciliation of market value for the subject property under the Income Approach must be clearly stated in the appraisal report.

D. **Development/Subdivision Approach** - The use of the Development/Subdivision Approach is **NOT** allowed on DNR appraisal reports. Any deviation from this requirement MUST receive written approval from the DNR Appraisal Supervisor prior to commencing work on the appraisal report.

E. **Correlation and Final Reconciliation of Market Value** – List your estimates of market value as concluded in your analysis under the Sales Comparison Approach, Cost Approach and Income Approach. Discuss the degree of reliability of each approach, and which approach you feel would be the most reliable to a prudent purchaser of this type of property. Make a conclusion of market value.

After a final reconciliation of market value is determined, the appraisal report must include the following statement:

> "*After applying all the applicable approaches to value, and giving due consideration to all factors of value, I conclude the ESTIMATED MARKET VALUE FOR THE SUBJECT PROPERTY is $_____.*"

IV. CERTIFICATION

Since each DNR appraisal assignment is with an individual, pre-approved Certified General Appraiser (not a company) and because the Certified General Appraiser under contract is the ONLY person authorized to analyze the data, make value adjustments and reconcile value conclusions, they are the ONLY person authorized to sign the Certification. Non-appraisers are NEVER allowed to sign the Certification.

V. ADDENDUM

The Addendum should include the following documentation:

A. Photographs of Subject Property – Include location, improvements and other features of subject property. Indicate date photo taken, by whom, and the position it was taken.

B. Maps – Include various dimensional maps of subject property.

C. Ownership Documents – Include deeds, leases, licenses and permits on the subject property.

D. Comparable Sales Data Sheets – Provide a comparable sales data sheet for each comparable utilized and relied upon in the appraisal report AND a comparable sales map, showing each comparable in relation to the location of the subject property. Comparable sales data sheets should include the following information regarding the comparable sale:

1. Photograph
2. Location/Address (include legal description)
3. Tax ID Number
4. Date of Sale
5. Name of Parties on the Last Sales Transaction (Buyer/Seller)
6. Name, Phone Number and Date of Comparable Verification (Verification must be made with buyer/seller or broker)
7. Date of Inspection
8. Sales Price Paid
9. Unit Price Paid (per square foot, acre, front foot)
10. Financing Terms (include any special consideration in the financing)
11. Conditions of Sale
12. Arm's Length Details
13. Exposure Time on Market
14. Physical Description of Land, Improvements, Easements and Mineral Rights, etc.
15. Utilities, Shape, Topography, Ground Cover, Soil Types/Conditions, Road Cover
16. Mineral/Timber Values
17. Assemblage Details, if applicable
18. Buyers Intended Use
19. Zoning and Permitted Uses (include proposed zoning changes, special use permits, proposed site plans)
20. Environmental Items (include on-site tanks, hazardous materials, contaminants)
21. Highest and Best Use at Time of Sale
22. Appraiser's Remarks, when applicable
23. Ownership Documents (include deeds, leases, licenses, permits, etc.)

E. Correspondence

F. Other Documentation Deemed Appropriate

G. Copy of DNR Fee Appraisal Request (FAR)

H. Copy of DNR Appraisal Site Inspection Environmental Checklist

I. Copy of Appraiser's E & O Insurance

J. Appraiser's Resume

K. Appraiser's Appraisal License