

MNRTF ACQUISITION PROJECT PROCEDURES
Michigan Department of Natural Resources Grants Management Section
February 9, 2012 Booklet Excerpt

**APPENDIX A: MICHIGAN DEPARTMENT OF NATURAL RESOURCES
APPRAISAL REPORT STANDARDS**

Appraisals for MNRTF funded projects are to be done only by State Certified General Appraisers. The selected appraiser must be competent to do the assignment and produce a credible report according to the Uniform Standards of Professional Appraisal Practice (USPAP) and DNR Appraisal Standards. The purpose of the appraisal is to determine the market value of the subject parcel. According to USPAP, the appraiser chosen must perform the assignment in an unbiased fashion, be neutral as to cause or interest of any party or issue and avoid being influenced to reach a predetermined figure.

All appraisal assignments involving DNR funding programs are to be completed in the narrative, summary report format and must be contracted for and submitted by the local unit of government. At a minimum, the local unit of government and DNR should be named as intended users of the report. **Appraisals prepared for or contracted by the seller or a third party will not be accepted.**

As the DNR Appraisal Standards state, locations of the subject and comparables must be clearly expressed through legal descriptions, legible maps, nearby addresses and/or local landmarks which aid in locating the properties. Descriptions of the subject property and the comparables must have all of the photos, maps and specific data as outlined in the Standards.

If federal funding is a potential source of funding (or match) for the project, it would be prudent for the appraiser to view and follow "Yellow Book" appraisal requirements. A full copy of the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA or Yellow Book) can be found online at: www.justice.gov/enrd/land-ack/Uniform-Appraisal-Standards.pdf.

The appraisal will undergo a thorough review at DNR according to USPAP standards and typical of the process used by private and public users of appraisal products. If the appraisal is clearly communicated and thoroughly researched with well-supported conclusions and appropriate methodology, the review process will be incidental to entire grants process. Conversely, inadequate research, errors, contradictory information, and unsupported conclusions, etc. will cause delays and may result in the report being rejected entirely if problems cannot be worked out with the appraiser.

Local units of government (and appraisers) should be aware that the official DNR review of the appraisal(s) may result in an opinion of market value that is different from the value concluded by the appraiser. This is addressed under USPAP Standards Rule 3-3. The USPAP Standards can be found online at: www.uspap.org.

NARRATIVE SUMMARY APPRAISAL REPORT STANDARDS

Working Together – The DNR Appraisal Standards are designed to assist DNR staff, partners and local units of government throughout the acquisition, exchange and disposition processes. Finding key information in predictable places saves time and is more efficient for both appraiser and report user.

Therefore we request your cooperation to follow the general outline provided. Many of the details within the outline are offered as reminders or suggestions for developing your credible results.

Basics and Required DNR Appraisal Standards

- All appraisals must meet Uniform Standards of Professional Appraisal Practice (USPAP) and DNR Appraisal Report Standards. If other standards are required, notice will be provided as a part of the Request for Proposals (RFP) process. **If there is federal money involved, Yellow Book Standards might be required.**
- While your staff and appraiser licensees may be utilized on assignments at your discretion, all appraisals must be researched, prepared and signed by the contracted Certified General licensee in conformance with USPAP and USPAP's Competency Rule.
- As Users of your report, we need to understand your reasoned and logical approach to the appraisal problem. Please discuss all relevant factors and your thought process as you move through the appraisal problem to its final solution. *Including "boilerplate" language without relevance is strongly discouraged.*
- While all appraisals will undergo a desk review, some will undergo a partial or full field review, so it is critical that locations of the subject and comparables be clearly identified through legible maps, legal descriptions and/or use of nearby addresses, landmarks and/or GPS coordinates to aid the reviewer.
- **Market Value should be sought unless in an extremely rare occurrence our DNR bid specifies otherwise, specifically:**
 - 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 all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeable, and for self-interest, and assuming that neither is under undue duress.*
- The data sheets of each comparable must be complete as outlined in Part III of these Standards. Each comparable, like the subject itself, must be identified with size, shape, dimensions, road frontage/access data, conditions of sale, days on market, verification data, photographs, maps, etc.

- Your appraisal should include a statement regarding potential for oil and gas, metallic minerals (like copper or iron) and nonmetallic mineral (like sand or gravel) resources and include values where significant potential exists.
- **Market sales are required.** While transactions involving governmental units, agencies or non-profit conservancies *may* be used to *supplement* the sales comparison analysis, arms-length private sector transactions **must** provide the foundation. Extreme care should be taken to verify that sales involving governmental units or charitable organizations were in fact reflective of market conditions and indeed “arms-length” transactions. An explanation should be provided verifying the extent to which this has been done. Supplemental comparable *listings* are encouraged as market indicators to augment actual market sales data. Please research the total time exposed to the market (by the owner and/or sale listing office as is necessary) **and have deed/affidavits in your file or in the report.**
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- Reports should be in narrative format (unless otherwise specified) as a Summary Appraisal Report or a Self-Contained Appraisal Report. Please provide identifying information on the cover, including location, project name and project or grant number if available.
- Please provide one hard copy and one electronic (pdf) copy of your report.
- Appraisers are required to be unbiased and neutral as to the parties to the transaction.

A Few New Requirements since December 2011

- A visual representation that clarifies the key relationships in the appraisal problem. In other words, a visual representation of your understanding of the appraisal problem. This might be accomplished by an existing map, or your modification of an existing map or your own original sketch.
- If the subject is landlocked, identify adjoining owners and explain potential access. You may want to use a plat or tax map to demonstrate adjoining owners and roads.
- While all market indicators are expected to be explored, a quantitative grid for the sales comparison approach **must** be used, with adjustments where appropriate and market related explanations.
- Analyze and report on the sales history of the subject during the previous 10 years, if possible, and provide date of last sale of the subject.

DNR APPRAISAL REPORT FORMAT

Please follow this outline. It helps us to reliably find information as we need it.

PART I – INTRODUCTION

- A. Title Page
 - 1. Name and location of property, project, acreage, township, county, ownership and case number if provided.
 - 2. Name of appraiser and effective date of the appraisal.
- B. Table of Contents
 - 1. Number every page from cover to cover.
 - 2. List titles and corresponding page numbers.
- C. Summary Page
 - 1. Name of project and project # if available.
 - 2. Location – road, section, township, county.
 - 3. Ownership identification.
 - 4. Name of appraiser, certification type and number, business address, e-mail address, fax and telephone numbers.
 - 5. Dates of field work – all dates spent in the area for the appraisal.
 - 6. Date of property inspection.
 - 7. Effective date of appraisal – normally last time subject inspected.
 - 8. Reporting format – prominent statement of which kind of report.
 - 9. Interest being appraised.
 - 10. Definition of value to be developed in the report.
 - 11. Purpose of the report.
 - 12. Intended use and users.
 - 13. Size, in acres, unless otherwise specified. Include road and/or water frontage.
 - 14. Your sketch (free hand, computer generated) or modification of an existing survey/sketch/aerial photograph illustrating your understanding of the appraisal problem to assist the reader. Provide a conceptual visual of the appraisal problem.
 - 15. Highest and Best Use conclusion.
 - 16. Appraised Value.
- D. Statement of Limiting Conditions and Critical Assumptions. While USPAP mandates a statement relative to Extraordinary Assumptions or Hypothetical Conditions, DNR does not want them used unless discussed with DNR first.
- E. Statement of Co-authorship – acknowledge assistance received by other persons in arriving at the analysis, conclusions or opinions concerning real estate contained in the appraisal report. Statements of co-authorship are not to be construed as a waiver or transfer of responsibility for the contracting state certified general appraiser.
- F. Scope of Appraisal – summarize the extent of the process in which data are collected, confirmed and reported to produce credible assignment results. The appraiser should briefly describe the valuation process relied on in the final conclusion of value. Provide adequate location maps and photographs of the subject, including photos calling attention to particular issues identified in your report, where appropriate.

PART II – FACTUAL DATA

- A. Purpose – Define value being estimated and property rights appraised.
- B. Exposure time (Excluded when meeting “Yellow Book” UASFLA requirements).
- C. Intended Use and Intended Users.
- D. Function.
- E. Date of Inspection.

F. Full Legal Description Required.

G. Economic Foundation

1. Market Area Influences – including but limited to employment, stability, cultural influences, social education and aesthetic.
2. Neighborhood Influences – Describe present neighborhood and land uses, forces evident in regard to change or stability.
3. Zoning or other Restrictions – Itemize current zoning classification/uses as well as designation of future land use; if different, discuss.

H. Property Data

I. Site:

1. Current equalized values, assessments, taxable values and annual property tax.
2. Survey including critical dimensions (if available) or tax map. If landlocked call out adjoining ownership and location of nearest road.
3. Present use
4. Topography
5. Soil and drainage characteristics
6. Area description.
7. Road frontage or water frontage, and access
8. Ground cover
9. Utilities
10. Easements, leases, permits, enrollment in land conservation programs (farmland, forest protection, etc.)
11. Mineral rights and deposits. Identify and discuss on comparables and subject.
12. History – including offers to buy, sell and listings with asking price over the past 10 years.
13. Zoning – describe present zoning for the subject including any reasonably probable changes that may influence value. Specific if development potential (legal splits, etc.)
14. Provide name and addresses of all current parties of interest, including co-owners, lessees, licensees, easement holder, etc.
15. Encroachments – itemize anything that appears to be encroaching on the subject property.

J. Improvements – include a site plan and a floor plan

1. Major land improvements such as dams, irrigation systems, etc., and minor land improvements such as wells or fencing
2. Size of any and all structures
3. Condition and quality
4. Physical and effective age, functional and economic obsolescence, stigmas, marketability, etc.
5. Type of construction
6. Special amenities, utilities, heating/cooling, basements, slabs, etc.
7. Equipment, if any – describe utility, obsolescence, and repair or replacement requirements.

PART III – ANALYSIS AND CONCLUSIONS

A. Highest and Best Use – Include a definition of highest and best use and a thoughtful/thorough development and determination of this use.

1. What uses are legally permissible?

2. Of those legally permissible uses, which are physically possible?
 3. Of those legally permissible and physically possible uses, which uses can be proven to be financially feasible?
 4. Of the uses shown to be legally permissible, physically possible and financially feasible, demonstrate which use will generate the greatest net income or prove to be maximally productive?
- B. Appraisal Approaches to Value – Consideration will be given to the three standard approaches to value. It is not necessary to develop an approach that cannot be relied on as a reasonable accurate indication of value. The appraiser must explain the reasons for not using any of the standard approaches.

1. **Sales Comparison Approach** – based on analysis of recent confirmed comparable sales. Please document how the sales were confirmed. Listings or government sales may be used to **supplement** market sales to gain a broader understanding of the market. The comparable sales analysis section should include:
 - a. A sales introduction and identification, site size, shape, access frontage, etc.
 - b. A map showing the location of the subject and all comparables with sufficient identifying information for DNR field staff to locate which may include the use of GPS coordinates.
 - c. Recent photograph of all comparables.
 - d. A complete data sheet for each comparable in the addendum with all identifying information previously discussed, including the steps taken to verify that information and with whom.
 - e. Compare and discuss the mineral rights of the comparable sales to the subject.
 - f. Discuss the reliability and similarity of the comparable in general to the subject.
 - g. Sales to or from governmental agencies or condemning authorities should be avoided.
 - h. Provide a general market analysis of these sales addressing the significant elements of value.
 - i. If your market comparables are over 3 years old, include 3 current listings of similar property now on the market.
 - j. A comparison of sales with the subject in quantitative or grid format with adjustments where necessary is **required**.
 - k. A final indication of value. Regardless of charts, tables or graphs, a narrative comparison of the pertinent market data with the subject is still required. The narration should clearly and concisely demonstrate the reasoning behind the appraiser's final indicated value from the sales comparison approach.

NOTE: To the extent which it is possible all sales adjustments should be derived from a cross-comparison (pairing) of sales which consistently reflect these same differences, or from other market sources. Supplemental support should be provided for any adjustment which cannot otherwise be supported through comparative analysis or for adjustments which would be viewed by their professional peers as being exceptionally large on a percentage basis.

2. **Income Approach** – It is acknowledged that some form of Gross Rent Multiplier (GRM) or Effective Gross Income Multiplier (EGIM) may be used for single family and less sophisticated investments, otherwise it is expected the income approach

will be based on the capitalization of the net income generated from the subject. As such a value estimate by the income approach shall include adequate factual data to support all components of income and expenses. Supporting data should include:

- Estimated market rent or income.
- Allowances for vacancy and credit losses
- An itemized estimate of total expenses including reserves for replacement.

Capitalization of net income shall be at the rate prevailing for this type of property and location. Actual, rather than estimated, rents from the comparable sales should be used whenever possible. The capitalization rate should be derived from the market and all critical information should be explained in narrative form and supported by a statement of sources of rates and factors.

Although it should only be employed in support of the sales comparison approach and not as the sole basis for valuation, when discounted cash flow analysis is being used in the appraisal of vacant land, support should be provided for each of the assumptions made including marketing time, project absorption periods and discount rates.

3. **Cost Approach** – based on replacement or reproduction cost new (whichever would be applicable) of the improvements or building, less applicable depreciation, plus the value of the land (based upon a similar highest and best use). All work shall be in the form of computed data, arranged in sequence, beginning reproduction or replacement costs, and shall state the source, book and page of all figures used. The dollar amounts of physical deterioration and functional and external obsolescence, or the omission of same, shall be explained in narrative form.

C. Correlation and Final Estimate of Value – one of the final steps in the analyses and conclusions portion of the report will be a narrative correlation of the indications of value into a final estimate of value. When only one approach is used, the correlation will serve as:

1. A summary of the most pertinent data of the particular approach.
2. The appraiser's conclusion of market value. Provide a summary to explain the strengths and weaknesses of each approach and the weight each is given.

D. Certification

E. Your credentials

F. A copy of your current E&O Insurance coverage.

PART IV – EXHIBITS AND ADDENDA

- Sales data sheets detailing buyer/seller information, source of verification, consideration, terms, date of transaction, legal description, description of physical characteristics relative to all elements of adjustment, and income and expense data relative to extraction of overall capitalization rates are required. It is imperative to verify sales and income data. Please remember to explain the steps you took to verify the comparables.

- A duplicate copy of the Comparables sales map (one sheet) of suitable detail to assist the report's reader/user to visualize, compare and locate all properties discussed. (One in the body of the report and one in the Addenda.)
 - Maps, plats, deeds, photographs, and other pertinent information not already provided elsewhere in the report.
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APPRAISER'S ACKNOWLEDGMENT OF MDNR APPRAISAL STANDARDS

X _____
DATE: _____
Signature

Print Name Here

DNR APPRAISAL REVIEW PROCESS – REFERENCE MATERIAL

Useful Notes from Appraisal Institute October 2011 Class

Appraising the Appraisal: Appraisal Review – Stephanie Coleman, Instructor

- A Code of Ethics and Competency (of the appraiser and the appraisal process) is foundational to USPAP.
 - USPAP says absence of bias is the most important factor in producing a credible report
 - Ethical means the intent to do the right thing
 - Competency means the appraiser has the skill to do the right thing
- USPAP definition of a Review: Opinion of the quality of another appraiser's work.
- Purpose of an Appraisal Review: To reinforce the client's confidence in the credibility of the appraisal and its conclusions. Includes:
 - Testing reasonableness for intended use
 - Testing appropriateness of methods and techniques employed
 - Bolstering appraisal's credibility
 - Aiding client (DNR) in managing risk
 - May lead to enhanced comfort level for decision makers
 - Never intended as a vehicle for nit picking – the benefit of the doubt is always given to the appraiser unless credibility is in question
- USPAP definition of Credibility: Worthy of belief, which is measured in light of the intended use of the report. (The intended use of a report must be discussed and developed with the client and reported in the appraisal – it is a mandatory reporting requirement.)
 - A short list of expectations of a quality appraisal:
 - Well supported and documented
 - Reader can follow the appraiser's thought process
 - Analysis is logical and sensible
 - Analysis and conclusions are credible and convincing to the intended user
 - A short list of warning signs of a problem appraisal:
 - Comparing apples with oranges – using dissimilar comparable properties
 - Carelessness or inconsistencies in report (including describing market as trending in one direction but data in valuation section trends otherwise)
 - Redundancy and information overload
 - Leaps of faith – unsupported or questionable assumptions
 - Unexpected Limiting Conditions – sometimes used to limit liability
 - Selection of key assumptions at the extreme margins of a range
 - Questionable or suspect data
 - *Failure to apply a test of reasonableness before finalizing the value.*
- Section of report most often misunderstood or inadequate: Highest and Best Use.