

## **Top Ten Appraisal Issues**

Extracted from a Forest Legacy Powerpoint presentation prepared by:

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### **10 - Confusion of Standards:**

- ◆ Appraisers have submitted work for agency acquisitions, certifying that it meets the UASFLA, yet one finds it is written to IRS standards, not Yellow Book.

### **9 - Development Approach:**

- ◆ For CE cases, it appears that some appraisers will utilize this approach because in their mind they are appraising the “development rights.” Therefore, they appraise what kind of money the owner could make from “development.” Problems with submitted analyses include:
  - ◆ Inadequate highest and best use analysis as to physical/legal/financially feasible
  - ◆ Little support for demand/absorption rate, or lag time
  - ◆ Little support for development costs
  - ◆ Little support, and/or no category for estimates of developer profit and management
  - ◆ Little or no support for discount rate.

### **8 - Income Approach:**

- ◆ On tracts with a highest and best use of timber production, an income approach may very well be appropriate. Sometimes the approach is not attempted. When it is, weaknesses generally include the lack of market derived inputs, particularly for the discount rate in a DCF. If one cannot support inputs from comparable sales, the approach has little validity.

### **7 - Good maps**

- ◆ UASFLA doesn't specifically call for topographic maps of subject and sales; however, it does speak of maps to aid the reader in understanding the report. The quality of maps in reports varies widely. It is important to recognize that the maps are in the report to help the reader understand the analysis – not just to fill a contract requirement. Reports have used tax maps, Delorme computer generated maps, county maps, road maps, etc. Legibility of maps is often poor. Some reports have contained a map....but the property is not depicted on it. Other reports have contained a map, but the property is poorly and/or carelessly drawn or sometimes the map is just plain wrong, depicting the wrong tract.

### **6 - Timber appraisal**

- ◆ Appraisers are attempting timberland appraisals when it does not appear they are competent to do so. Will develop a land value (which often includes some component of timber value, as the sales are “wooded”), and then hire a forester to estimate a stumpage value for the subject and add the two numbers together. No understanding of contributory value of timber when it sells with the land.

## **5 - Larger Parcel**

- ♦ Typically a more significant issue in conservation easement cases. If the easement is not encumbering all of the landowner's contiguous acreage, the uninstructed appraiser (and sometimes the one who received instruction) will typically only appraise the part being encumbered instead of adequately describing and appraising the larger parcel. For all reports, fee or easement, this issue is often misunderstood and poorly handled.

## **4 – Yellow Book - Specific Requirements**

- ♦ Much of this is easily fixed, but it is the rare report that comes in the first time with the right definition of value, the jurisdictional exception, appropriate language in certification, 10-year history of subject transactions – and the inclusion of last sale (if recent) in analysis. In general, it often is evident that the appraiser has not carefully read the UASFLA.

## **3 - Estate Appraised**

- ♦ The specific estate appraised is not defined, but a generic “fee simple” is appraised. Specific estate required by USPAP and UASFLA. Appraisals for conservation easements may not include the actual easement language proposed for the project. Other times a copy of the easement is in the addenda, but the analysis does not reflect the language in the easement. Report must communicate clear understanding of estate to be appraised, before and after.

## **2- Highest and Best Use Analysis**

- ♦ Key part of analysis, often short-changed. The report should clearly go through 4 tests. This is critical in easement cases – should have two H&BU analyses, before and after. Appraisers have sometimes defined the appraisal analysis in terms of the value of the development rights being taken. This is not only incorrect (UASFLA is specific; analysis is of value of the whole, before and after), but often leads to an assumption/bias that these “development rights” have significant value. They may have, but the before H&BU analysis must clearly demonstrate the demand for that use. Cannot just assume that because seller is conveying “development rights” that there's a large value loss. Inadequate H&BU analysis in the after often focuses on what one *cannot* do on the property. The valuation should be based on the analysis of highest and best use of the property, not on what one cannot use the property for.

## **1 - Sales Comparison Approach**

- ♦ There is little support, and sometimes little logic, provided for precise mathematical adjustments. Some reports provide no paired sales or other analysis to support 12, 17, or 65% adjustments.
- ♦ Often see reports that inappropriately utilize a simple interest calculation for a market conditions adjustment.
- ♦ Reports that go the qualitative route, often the best route in rural markets, inadequately describe reasoning or do not utilize sales that bracket the subject as required by the UASFLA.

- ◆ Government or government related sales are often used without extraordinary verification required by the UASFLA. Appraisal may come in with a statement that such sales were appropriate verified, but find that all that was done was both parties agreed that the price was “at market” without coercion.