

Section 5:

Appraisal Requirements

In this section, you'll learn about the following:

- ✓ Just compensation
- ✓ Appraisal and review appraisal standards
- ✓ Appraiser qualifications
- ✓ Appraisal costs

Just Compensation

RCO determines just compensation to landowners based on appraisals and reviews of those appraisals. The project sponsor first contracts for an appraisal of the property to determine the market value of the property. Then the project sponsor contracts for an independent review of the appraisal to confirm the market value identified in the appraisal.

Appraisal and Review Appraisal Standards

There are two forms of acceptable appraisal and review appraisal standards depending upon the source of funding for the acquisition project. For projects funded with state money, the project sponsor must instruct the appraiser and review appraiser to use the standards set forth in the *Uniform Standards of Professional Appraisal Practice* (USPAP) publication. The appraised market value of the property must be a point value, rather than a value range. (Example: \$257,000 rather than \$240,000 to \$270,000).

Projects with Federal Money

For projects funded with the **Land and Water Conservation Fund**, the project sponsor must instruct the appraiser and review appraiser to use the standards set forth in the *Uniform Appraisal Standards for Federal Land Acquisitions* (UASFLA). In addition, projects in the Land and Water Conservation Fund must follow special appraisal instructions (see *Manual 15: Land and Water Conservation Fund*). When an acquisition project will receive funding from both state and federal sources, the project sponsor may apply the federal standards to the entire project.

For all other federal programs managed by RCO, use either the *Uniform Appraisal Standards for Federal Land Acquisitions* or *Uniform Standards of Professional Appraisal Practice*. If you have a matching federal grant, check with the federal funding agency to see which standards to use.

Extraordinary Assumptions and Hypothetical Conditions

All appraisal reports include a statement of assumptions and limiting conditions. In addition, an appraisal may include extraordinary assumptions or hypothetical conditions upon which the appraiser based the market value of the property. Project sponsors should avoid the use of extraordinary assumptions or hypothetical conditions unless consistent with the uniform appraisal standards. If the appraiser uses extraordinary (special) assumptions or hypothetical conditions, the appraiser must clearly state these within the report and must provide a reasonable justification for using them. Additionally, the review appraiser must list all extraordinary assumptions and hypothetical conditions and comment on their reasonableness. If the findings are that the assumptions or conditions are not reasonable, the value of the land may not be supported. RCO may not accept the appraisal and require a new appraisal without unsupported assumptions and conditions.

RCO recommends that any extraordinary assumptions or hypothetical conditions (e.g. those related to legal access, zoning, encumbrances, etc.) provided to the appraiser first be reviewed by RCO for compliance with RCO policies and the project agreement. RCO reserves the right to require a project sponsor to update an appraisal or get a new appraisal, at the project sponsor's expense, if the appraised value of the property is subject to any extraordinary assumption or hypothetical conditions not previously reviewed and approved by RCO.

Encumbrances

When determining the property's market value, the appraiser and review appraiser must consider encumbrances and reservations that will be on the property as it is finally to be conveyed, which may be different than characterized on the preliminary title report. The project sponsor must provide the appraiser and review appraiser with the preliminary title report and the encumbrance documents. In addition, the project sponsor must inform the appraiser of any changes on title to be made up to closing, including encumbrances that will be cleared and any new encumbrances or reservations that are to be created (except for RCO's Deed of Right). RCO may require supplemental information or an appraisal update before reimbursement or the release of escrow funds if the original report does not reflect accurately the encumbrances in place at the time of conveyance.

Appraisal Report Formats

State Funded Projects

The *Uniform Standards of Professional Appraisal Practice* requires an appraisal report for all appraisal assignments. RCO requires additional documentation beyond the standard *Uniform Standards of Professional Appraisal Practice* appraisal report for certain appraisal problems as described below. In all appraisals using the sales comparison approach, the appraiser shall include a comparable sales adjustment table. RCO has included these requirements to ensure the accountability and transparency of the public's investment.

The following two report formats are acceptable for RCO-funded projects. Project sponsors should consult with the appraiser and RCO to determine whether standard appraisal reports or expanded appraisal reports will be required for their projects. RCO may reject an appraisal report if it does not meet the intent of the policy described herein.

- **Appraisal Report:** Used if the appraisal problem involves only "whole takes" of the subject property. In other words, use this report when non-complex acquisition of an entire parcel(s) occurs with no partial takings or resulting damages to remaining properties.
- **Expanded Appraisal Report:** Used if the appraisal problem involves partial land takes, acquisitions involving damages, conservation or other easements, complex appraisal issues, etc.

The expanded appraisal report is RCO's requirement and is not defined in the *Uniform Standards of Professional Appraisal Practice*. It is similar in scope to a self-contained appraisal report, which was described in previous editions of the *Uniform Standards of Professional Appraisal Practice*, but is not in the current set of standards. Therefore, project sponsors must clearly instruct their appraisers if they need expanded appraisal reports when they contract for appraisers' services and be clear about the appraisal reports expectations.

The reason for the additional documentation in the expanded appraisal report is to fully illustrate the market value of the property to be acquired and the methodology used to make that determination.

RCO recommends project sponsors use the following language when soliciting for appraisal services and issuing contracts for an expanded appraisal report:

The appraisal must be reported in a fully self-contained appraisal report format to exceed the requirements outlined in the most current "Uniform Standards of Professional Appraisal Practices." The report must describe in detail the information analyzed and the reasoning and methodology that supports any analyses, opinions,

and conclusions. The report will be subject to review and the appraiser will be required to clarify any issues in writing. Failure to do so may result in the report being considered unacceptable.

[Sample appraisal instructions](#) are also available on the RCO Web site.

Federally-Funded Projects

Unless stated otherwise by the federal grant source, the *Uniform Appraisal Standards of Federal Land Acquisitions*, commonly called the “Yellow Book,” must be used to prepare appraisals and appraisal reviews for federally-funded Land and Water Conservation Fund acquisition projects. The [Yellow Book](#) is revised annually and can be found on the Appraisal Foundation’s Web site. This requirement applies to new projects and to land transactions that occur as a result of a conversion.

Additional Appraisal Requirements for Land Transactions Resulting From Conversions

A conversion occurs when a property acquired with an RCO grant is used for purposes other than originally stated in the project agreement. See *RCO Manual 7, Long-term Obligations* for a complete discussion of conversions and the process required for replacement of the public investment as required by the RCO Deed of Right or RCO Assignment of Rights.

When determining the market value of the property being converted, the project sponsor must instruct the appraiser to make a special assumption that the RCO Deed of Right or Assignment of Right is not encumbering the property and to assume zoning has kept up with surrounding properties. Because the RCO Deed of Right or Assignment of Right will be extinguished once the conversion is approved, the appraised value must reflect the property free and clear of this encumbrance.

For projects funded in the **Land and Water Conservation Fund** program, there are specific instructions on how to appraise conversions. See [Manual 15, Land and Water Conservation Fund](#) for more details on how to conduct appraisals for these projects.

Appraisal Shelf Life

State-Funded Projects

Appraisals for state-funded grant projects are considered valid for 1 year from the effective or valuation date of the appraisal. Sponsors must either purchase the property or have a signed Purchase and Sale Agreement within 1 year of the effective date of the appraisal.

If the property is not acquired or a Purchase and Sale Agreement is not secured within 1 year of the effective date of the appraisal, the project sponsor must obtain a new appraisal statement from the appraiser stating that land values have not changed and the appraised value is the same since the effective date of the appraisal. If the appraiser cannot or will not provide such a statement, the project sponsor must obtain an appraisal update (see below). Costs associated with the appraisal statement may be reimbursed by RCO. The shelf life of an appraisal for any state-funded grant project may not exceed 18 months under any circumstances.

Federally Funded Projects

Appraisals for federally funded Land and Water Conservation Fund projects are valid for 12 months. Sponsors must either purchase the property or have a signed Purchase and Sale Agreement within 1 year of the effective date of the appraisal.

Appraisal Updates

An appraisal update is a new appraisal assignment to the original appraiser that incorporates information and analysis from the original report to get a more current market value. A review appraisal is required for all appraisal updates. Appraisal and review appraisal updates may be reimbursed by RCO. An appraisal update obtained within 24 months of the original appraisal effective date is not considered a new appraisal. For RCO reimbursement purposes, appraisal updates after 24 months are acceptable to determine the market value, but will not be an eligible cost for reimbursement.

Appraisal Waivers

When the estimated value of the property does not exceed \$10,000, and the acquisition is not complex, project sponsors may be exempt from having to meet appraisal and appraisal review standards. Such exemptions must be requested in writing before closing on the property. In lieu of the appraisal standards, a project sponsor may submit a written "Finding of Value" that includes:

- The preparer's name, experience, and qualifications. The preparer must have sufficient understanding of the real estate market and shall not have any interest, direct or indirect, in the real property to be valued for compensation. Project sponsor staff may not prepare the "Finding of Value."³⁹
- A description of the methods and factors used to reach the value for compensation. This description must have enough detail to allow RCO to understand how the preparer used market information to decide a market value.

³⁹Recreation and Conservation Funding Board Resolution 2010-34

Examples of “Findings of Value” may include an “Administrative Offer” prepared by a certified right-of-way agent, a “Broker Price Opinion” prepared by a qualified real estate broker or other individual, or other narrative summary of recent market information and the analysis used to decide the market value of the property.

Appraisal Reviews

Independent appraisal reviews are required for all appraisals to confirm just compensation for the property. If the original appraisal relies on a timber cruise, other special reports, or research to establish property value, those also must be reviewed. Appraisal reviews must include the following:

- Field inspections of the property and comparable sales when the appraisal sets the property value of the acquisition project at \$250,000 or higher. Desk reviews are acceptable for properties having a value less than \$250,000.
- The review appraiser must comment on whether the following conditions are met:
 - The appraisal is complete within the scope of work applicable and the appraisal assignment.
 - The appraisal met applicable appraisal standards.
 - The appraiser’s extraordinary assumptions are reasonable and justified.
 - The appraiser’s hypothetical conditions are reasonable and justified.
 - The appraiser’s consideration of encumbrances was satisfactory.
 - The appraiser’s data and adjustments are adequate and relevant.
 - The appraiser’s methods and techniques are appropriate.
 - The appraiser’s analysis, opinions, and conclusions are reasonable.
- The review appraiser must approve or reject the value conclusion in the original appraisal.
 - If the review appraiser approves the market value established in the original appraisal, he/she either can acknowledge that the appraisal meets the appraisal guidelines in this manual or do the necessary work to bring the original appraisal into compliance. The confirmed market value is the final just compensation for the property.
 - If the review appraiser rejects the value established in the original appraisal, the project sponsor must either instruct the review appraiser to

establish a new property value or obtain a new appraisal. The new property value then becomes the just compensation for the property. If the review appraiser previously had conducted a desk review of the property and now is working to establish a new property value, the review appraisal must take the form of a field review.

Third Party Appraisals

The appraisal and review appraisal must be procured on behalf of the project sponsor. The appraisal and review appraisal may not be procured on behalf of the landowner or other third party with an interest in the sale unless approved by RCO in advance. If the project sponsor is partnering with a third party (e.g. another organization that is assisting with negotiating the transaction, co-holding rights, or holding third party rights), then the appraisal and appraisal review may be procured on behalf of and authorized by the project sponsor and the third party. The project sponsor must be listed as an intended user of the appraisal.⁴⁰

Appraiser and Review Appraiser Qualifications

Chapter 18.140 Revised Code of Washington, Certified Real Estate Appraiser Act, establishes four certification or license categories.

- **State-certified general real estate appraiser** (license number begins with 270-11): Eligible to develop and communicate real estate appraisals of all types of properties.
- **State-certified residential real estate appraiser** (license number begins with 270-17): Eligible to develop and communicate real estate appraisals of all types of *residential* property of one to four units without regard to transaction value or complexity and *nonresidential* property having a transaction value less than \$250,000.
- **State licensed real estate appraiser** (license number begins with 270-16): Eligible to develop and communicate real estate appraisals of noncomplex, one to four residential units having a transaction value less than \$1 million; complex, one to four residential units having a transaction value less than \$250,000; and nonresidential property having a transaction value less than \$250,000.
- **State registered appraiser trainee** (license number begins with 100): Eligible to assist certified real estate appraisers while gaining experience. The appraisal or review appraisal also must be signed by a certified real estate appraiser.

⁴⁰Recreation and Conservation Funding Board Resolution 2010-34

Project sponsors must select an appraiser and review appraiser with appropriate certifications or licenses from Washington State to perform appraisal work, unless the appraisal review is conducted by the Natural Resources Conservation Service for a Farmland Preservation Category project. Review appraisers must have an equal or greater license certification than the original appraiser and cannot be selected from the same firm, organization, or agency/sponsor who conducted the original appraisal.

Project sponsor staff may perform appraisals or review appraisals if they meet the state licensing requirements. Project sponsor staff may not conduct both the appraisal and appraisal review on the same property. If a staff person is conducting appraisal work on behalf of the project sponsor, he/she may communicate with the independent appraiser in the role as an appraiser, not as the client or the intended user of the appraisal. A staff person functioning as a negotiator with a property owner may not supervise or formally evaluate the performance of any appraiser or review appraiser.

Appraisal Costs

The cost to procure an appraisal and review appraisal are eligible project costs and are reimbursable per the project agreement, except for projects funded through the **Land and Water Conservation Fund** (see below). A copy of the appraisal and review appraisal must be submitted to RCO at the time of the reimbursement request for the appraisal and review costs. RCO recommends the project sponsor submit the appraisal and review appraisal in advance of closing on the property for RCO review to ensure that the scope of the appraisal meets the terms of the project agreement and this manual.

If a project is funded through the **Land and Water Conservation Fund**, the project sponsor must pay for the appraisal and review appraisal and the cost is not eligible as match. See *Manual 15, Land and Water Conservation Fund* for more details on eligible acquisition costs in this program.

Only one appraisal and one review appraisal for each property is eligible. RCO may approve the cost for a new appraisal and review appraisal on a case-by-case basis in advance. The project sponsor must submit a written request to approve reimbursement for a new appraisal and review that includes adequate justification as to why the new work is required.