

## Frequent Appraisal Review issues with Contract Appraisals

1. **Larger Parcel** - Weak Larger Parcel analysis. Lack of support for the conclusion. No discussion of the three tests, or no larger parcel determination at all. Incomplete, inadequate, or non-existent larger parcel analysis. Very significant issue in valuation of conservation easements. If the easement is not encumbering all of the landowner's contiguous acreage, the appraiser 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.
2. **Estate appraised** - Fee simple statement when properties are subject to easements, etc... The estate appraised is not defined but the generic "fee simple" estate routinely used. Appraisals for Conservation Easements may not include the actual easement language proposed for the projects. Other times a copy of the easement is in the addenda but the analysis is inconsistent with the conditions of the easement.
3. **Appraisal Management** - Non-compliance with appraisal instructions. Lack of a summary of the appraisal problem. Failure to follow Yellow Book guidelines in "Before and After" analysis. No Market Analysis. Usually Area and Neighborhood Analysis is presented, but rarely is an analysis provided. Inadequate contact with local appraisers and real estate agents with respect to changing market conditions, and elements of comparison. Appraising the property to the Forest Service rather than to the open market. UASFLA Boilerplate and Specific Requirements: Usually reports are submitted without adequately identifying the definition of value, the jurisdictional exception, appropriate language in certification, 10-year history of subject transactions, the last sale of the subject. 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
4. **USPAP** - Appraisers forget to put the USPAP edition date they are preparing the report in compliance with. They do not put the dates of photographs or the person who took the photos. Several appraisers still do an average for correlation and analysis when concluding the subject's value estimate; many appraisers still have a problem with access descriptions and support for adjustments for access.
5. **Timber and Land** - Inadequate analysis regarding the contributory value of timber on the land. Quite often the appraiser takes the value of the timber the forester estimated from the timber cruise. Appraisers will develop a land value which often includes some component of timber value since the sales are wooded. They hire a forester to then estimate a stumpage value for the subject and add the two numbers together with a lack of understanding of the contributory value of timber when it sells with the land. On tracts with a highest and best use of timber production, an income approach may 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. Also, timberland appraised using comparable sales with different highest and best use.
6. **Assumptions & limiting conditions** - Inappropriate or irrelevant assumptions and limiting conditions.
  7. **Zoning issues** - Inadequate support for the contention that zoning variances are reasonably probable
  8. **Highest and Best Use** - Inadequate Highest and Best Use analysis. Lack of comprehensive highest and best use analysis using the 4 tests. Typically there is only a statement that the highest and best use is defined as a particular use without any support. Contradiction of highest and best use conclusion and statements made in body of report. Incorrect definition of market value and highest and best use. Inconsistent application of Highest and Best use analysis in the before and after conditions. The H&BU analysis in the after condition focuses on what one cannot use the property for instead rather than what it can be used for.
  9. **Subject property** – Silent on whether the property owner was given opportunity to accompany the appraiser during the property inspection pursuant to PL 91-646. Lack of 10 year sales history for the subject property. Also, failure to report the last sale of the subject because it occurred more than 10 years ago. No indication if the last sale of the subject was considered or omitted in the analysis. The appraiser had someone else inspect the Subject property and comparable sales. One instance, a forester with no appraisal qualifications inspected the subject and comparable sales.
  10. **Maps** - Sales history of the subject not included in the report. Reports do not include a market data or comparable sales map that includes all of the comparable sales. Regardless of how spread out they are, often there are inadequate directions and maps for comparable sales locations. No Comparable sales display/analysis chart or is of poor quality format. 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. Since we're dealing generally with sizable blocks of land, topographic maps are generally the best ones to use. (In some areas and for some property types, soil maps or aerial photos are best). 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. Further, it stands to reason that the appraiser would want to utilize topographic maps (or something beyond a tax map) to fully understand the property they are appraising, and the tracts they are comparing it to. Reports have been submitted from designated appraisers with poor quality maps and after field reviews indicated they were in the wrong place on the ground. If they have a poor map, fair chance they never found it on the ground either. 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.
11. **Sales analysis** - Failure to confirm sales data with a party knowledgeable of the transaction. Sales not confirmed or confirmed by courthouse records. Lack of reporting "Sales considered but not utilized" in the reports. Mislabeling of subdivision analysis (DCF) as Sales Comparison Approach instead of Income Approach. Listings labeled as sales in sales comparison tables and data sheets. Use of listings as comparable sales. Discrepancies and/or inaccuracies in comparable sales data. Narrow and limited sales search/research, geographically too limited for unique subject properties. The comparable sale data sheets do not include the data that is shown in the Yellow Book as needed. Who verified the sale, warranty deed information, and other requirements? Government or government related sales are often used without the required extraordinary verification as required by UASFL. Typically appraisal states that such sales were appropriately verified without support.
  12. **Adjustments in the appraisals** - Incorrect market conditions (time) adjustments. Spreadsheets are often used for making time adjustments but do not adequately describe how many periods (N) were included in the calculation. Adjustments based on "experience" rather than market evidence. Some appraisers will not include an adjustment chart in the report. Omission of sales comparison chart makes it hard to follow the appraiser logic and conclusions of value. Some appraisers do not put the subject in the bracketing chart making it difficult to compare to the comparable sales.
  13. **Unsupported adjustments (Quantitative)** - Unsupported quantified adjustments. Adjustments not supported with data. No support for quantitative adjustments in the Sales Comparison Approach. General reluctance to provide matched pairs analysis for quantitative adjustments. Heavy reliance on broker's opinions and appraiser's observations without analysis of market data to support specific adjustments. Non-Market derived adjustments. Specifically, appraisers often conclude quantitative adjustments without sound market support; which should generally be in the form of paired sales analysis. *The adjustment is typically developed from 20 years of completing appraisal assignments in the market area.* Often see reports that inappropriately utilize a simple interest calculation for a market conditions adjustment. Also a problem of aggregating too many elements of comparison into one category, for instance recreational amenities.
  14. **Qualitative adjustments** - Very minimal or no explanation/rationale for qualitative adjustments. Typically seen is a statement that the comparable sale is inferior to the subject for an element of value with no discussion of why this is the case. Reports that use qualitative adjustments often inadequately describe

reasoning or do not utilize sales that bracket the subject as required by the UASFLA.

15. **Estimating values** - Using averages and means to develop values instead of correlating to the best sale. Provides a summary of all the sales and just concludes a value without any rationale. Using “pending sale” to develop value. “Pending sales” are often included in the bracketing chart and used in the final value. Applying the same adjustment for changing market conditions to sales from markets that have not displayed the same rate of change, Utah vs Nevada. New Mexico vs Arizona. No explanation of the logic used to arrive at the final value conclusion or inadequate reconciliation of final value.
16. **Differences between data and narrative in report** - Elements affecting value discussed in the body of the report do not match the elements considered in the analysis chart, with no clear explanation of the thought process that lead to using different elements of value in the analysis than those described earlier in the appraisal report. Discrepancies between data in the narrative compared to market data sheets.
17. **Scheduling** - Late submittal of reports for review.
18. **Conservation Easements** - Appraisers sometimes define the appraisal analysis in terms of the value of the developmental rights being taken instead of using the before and after approach identified in UASFLA. Some appraisers will utilize the Development 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.