

Department of Natural Resources  
Division of Lands and Minerals  
Appraisal Management Unit  
**SUPPLEMENTAL APPRAISAL AND APPRAISAL REVIEW GUIDELINES**  
(Effective 04/02/12)

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I. Introduction

a. Definitions

**Administrative Review:** An administrative review checks for the completeness of the appraisal report and such items as accuracy of math. An administrative reviewer does not make a judgment on the analysis or conclusions within the report. DNR Administrative reviews are considered to fall outside the scope of USPAP.

**Appraisal:** An analysis, opinion, or conclusion relating to the nature, quality, value or utility of named interests in, or aspects of, identified real estate for purposes of preparing an appraisal report.

**Accepted Appraisal:** An appraisal accepted by a qualified review appraiser of the agency.

**Appraisal Practice:** Valuation services performed by an individual acting as an appraiser, including but not limited to appraisal, appraisal review or appraisal consulting.

**Appraisal Review:** The act or process of critically studying, developing and communicating an opinion about the quality of another appraiser’s work.

**Appraiser:** A person who develops and communicates real estate appraisals and who holds a current valid license. One who is expected to perform valuation services competently and in a manner that is independent, impartial and objective.

**Approved Appraisal:** An accepted appraisal that is approved by the agency and used in support of the review appraiser's recommended fair market value.

**Certified Appraisal:** An appraisal that is the basis of a signed Resume of Certified Appraisal Value (RCA) by the Director or Assistant Director of Lands and Minerals.

**Competency Rule:** Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment; or alternative, must:

- a. disclose the lack of knowledge and/or experience to the client before accepting the assignment;
- b. take all steps necessary or appropriate to complete the assignment competently; and
- c. describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.

**Disposition Value:** The most probable price that a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale will occur within a limited future marketing period specified by the client.
2. The actual market conditions currently prevailing are those to which the appraised property interest is subject.
3. The buyer and seller is each acting prudently and knowledgeably.
4. The seller is under compulsion to sell.
5. The buyer is typically motivated.
6. Both parties are acting in what they consider their best interests.
7. An adequate marketing effort will be made in the limited time allowed for the completion of a sale.
8. Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Divergency:** The difference(s) in value and/or analysis between separate appraisal reports for the same property. Typically, divergency must be resolved before an organization can rely on the value estimate. The reviewer recommends one of the appraisals and either accepts or rejects the other.

**Full Field Review:** This review is typically made by inspecting the subject of the appraisal and all sales used in the analysis.

**Grant Project:** A project that is identified by a “GRANT AGREEMENT” which outlines the grant requirements.

**Land Trust Project:** A project that is identified by a “LETTER OF INTENT” which outlines the agreement between the partner and the Minnesota DNR.

**Liquidation Value:** The most probable price that a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale will occur within a severely limited future marketing period specified by the client.
2. The actual market conditions currently prevailing are those to which the appraised property interest is subject.
3. The buyer is acting prudently and knowledgeably.
4. The seller is under extreme compulsion to sell.
5. The buyer is typically motivated.
6. The buyer is acting in what he or she considers his or her best interest.
7. A limited marketing effort and time will be allowed for the completion of a sale.
8. Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Market Value:** The definition of market value as set forth in the Definitions section of the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) published by the Appraisal Institute is as follows:

“Market Value is the amount in cash, or on terms reasonably equivalent to cash, for which in all probability, the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.”

**Partial Field Review:** This review involves inspecting some combination of the subject and some sales or some combination less than a full review.

**Recommended Appraisal:** An appraisal recommended by a qualified review appraiser or by a delegated administrative staff reviewer of the agency concerned.

**Rejected Appraisal:** An appraisal deemed unacceptable for use by a qualified review appraiser of the agency concerned.

**Review Appraiser:** An appraiser who examines the reports of other appraisers.

**Technical Review:** A technical review is performed by licensed appraisers in which the appraiser makes a judgment on the analysis or conclusions within the report. A technical

reviewer can express a different estimate of value from that in the appraisal report under review when the reviewer determines that the original report is non-compliant. A technical review must certify, accept or reject the conclusion in the review report.

## II. Appraiser / Reviewer Qualifications

- a. Current license requirements can be found by contacting the Minnesota Department of Commerce. Appraisers must be licensed Minnesota Appraisers in Good Standing.
- b. By accepting an assignment the appraiser is signifying that they are competent to complete the assignment.
- c. By accepting an assignment the appraiser or reviewer is signifying that they do not have any conflict of interest issues to complete the assignment.

## III. General Appraisal Standards

- a. DNR Supplemental Appraisal and Appraisal Review Guidelines
  - i. The Department of Natural Resources publishes its own supplemental guidelines so that it can supplement the purpose, intent and content of the requirements of USPAP and secure appraisals that meet multiple funding sources.
- b. Uniform Standards of Professional Appraisal Practice (USPAP)
  - i. The Department requires that such reports adhere to the most current version of the Uniform Standards of Professional Appraisal Practice (USPAP) as published by the Appraisal Foundation and state statutes. Appraisers should be accustomed to using the USPAP guidelines and be familiar with the advisory opinions issued on specific topics.
- c. Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA)
  - i. In some cases, the DNR appraisal assignment also requires adherence to Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA), which requires the appraisals to be slightly different and somewhat more complex. The UASFLA requirements are detailed in printed guidelines by the same name, also referred to as the “yellow book.” Appraisers, who accept assignments which must be completed to federal standards, should be competent to appraise with the “yellow book” and able to tailor their appraisals to these standards.
- d. Minnesota Standards of Conduct and Contract Compliance
  - i. Appraiser must abide by the Minnesota Standards of Conduct Statute 82B, the DNR contract and work order under which the work order is issued.

## IV. Statutory and DNR Specific Standards

- a. Physical (Site) Inspections for Appraisals
  - i. The subject property must be physically inspected by the appraiser under contract. A systematic, on-the-ground site inspection is essential.
  - ii. The landowner or designated representative must be given an opportunity to accompany the appraiser on the inspection.

- iii. Unusual circumstances that make aerial inspections more appropriate must be pre-approved by the Appraisal Unit Supervisor.
  - iv. Waiver of the comparable sale inspection requirement must be made in writing by the Appraisal Unit Supervisor in the form of a supplemental appraisal instruction.
- b. State Appraisal or Review Certification
  - i. The appraiser shall include the most recent DNR Appraiser Certification or a certification which addresses each of the state certificate components.
  - ii. The reviewer shall include the most recent DNR Reviewer Certification of a certification which addresses each of the state certification components.
- c. DNR Appraisals or DNR Appraisal Reviews are Confidential Data.
  - i. Certain appraisal information is considered confidential (protected non-public data) by the DNR. Appraisal data shall not be released to any individual outside of the Lands and Minerals Appraisal Management Unit without the approval of the Lands and Minerals Director, Assistant Director or Appraisal Unit Supervisor.
- d. Certified Market Value Estimates and Size Variability
  - i. The value conclusion should be certified as a total property value. The cover letter should also state the range of acreage (or other unit of measure) within which the certified value would remain valid (whenever appropriate and practical).
  - ii. If the change is beyond the indicated range provided in the cover letter, the Appraisal Unit Supervisor will contact the appraiser to establish the revised total property value. A new DNR Certification is required.
- e. Appraisal Summary Document
  - i. Appraiser must provide a DNR Appraisal Summary Document.
- f. Conflict of Interest
  - i. Staff and fee appraisers must disqualify themselves from appraising properties where there is a personal or business relationship in the property to be appraised or reviewed.
- g. Landowner Appraisals (Acquisition Projects Only)
  - i. The Landowner has a right to retain a qualified independent appraiser to conduct an appraisal at any time. To have the landowner appraisal qualify for possible reimbursement and be considered with the state's appraisal, the report must be received by the Division of Lands and Minerals prior to the certification of the state's appraisal of the property. If a landowner appraisal is received, the DNR appraisal and the landowner appraisal will be reviewed together.
    - 1. To be eligible for reimbursement the DNR must acquire the property.
- h. Appraisals prepared under DNR guidelines must be "as is" market value appraisals, unless otherwise approved by the Appraisal Unit Supervisor. See IV (l) below.
- i. Properties that are encumbered with contracts such as CRP or CREP should identify any portions of the property in the Conservation Reserve Program or other long term

agricultural programs and describe the terms and conditions of payments made under those programs. The appraiser shall determine the estimated market value of the property presuming that any payments will be transferred to the purchaser.

- j. Legal Description and Acreage Estimates
    - i. The legal descriptions, acreage estimates, scenarios for appraisal, and other facts contained in the fact packet are assumed to be correct. If the appraiser finds information to the contrary, he/she should notify the contact person as specified in section V of these Guidelines immediately.
    - ii. When a property is subject to a survey prior to closing (yet after the appraisal) the appraiser is required to provide the limited parameters (if any) by which the estimated market value may be administratively adjusted by the contact person as specified in section V of these Guidelines .
  - k. Technical and Administrative reviewers will review appraisals to these standards. The assigned appraiser has the responsibility to work with the reviewer to remedy deficiencies.
  - l. Any “extraordinary assumptions” or “hypothetical conditions” developed as a part of the appraisal project must be discussed with the Appraisal Unit Supervisor, and preapproved, before they are used in the final report. There are only two exceptions to this rule:
    - i. If the transaction involves a Land Trust appraisal, the property must be valued as though the DNR is purchasing it directly from the landowner. The appraiser must include this assumption as a “Hypothetical Condition” in the appraisal.
    - ii. If the transaction involves a Conservation Easement valuation, the appraiser must assume a hypothetical condition in the after valuation perspective – that the property is encumbered with the easement.
  - m. When the landowner is a non-profit organization or a unit of government, the DNR and the landowner may enter into an agreement to waive any of the rights identified in the Landowner’s Bill of Rights law. For an appraiser, the type of rights that might be waived include the requirement for the appraiser to physically inspect the property, the landowner having an opportunity to go along on inspections, and the length of time in which the DNR is to strive to acquire the property. The appraiser will be advised of any waiver of rights by the landowner that would affect the scope of work or analysis.
- V. Application of Projects using DNR Supplemental Appraisal And Appraisal Review Guidelines
- a. DNR Ordered Appraisals
    - i. The DNR orders appraisals to meet statutory and program requirements.
    - ii. Your contact regarding appraisal related questions is the Appraisal Unit Supervisor.
  - b. Landowner Appraisals (Acquisition Projects Only)
    - i. The landowner has a right to retain a qualified independent appraiser to conduct an appraisal. To have the landowner appraisal qualify for possible reimbursement and be considered with the state’s appraisal, the report must be received by the Division of Lands and Minerals prior to the certification of the state’s appraisal of the property. If a landowner appraisal is received, the DNR appraisal and the landowner appraisal will be reviewed together.

- ii. Your contact regarding appraisal related questions is the landowner. The DNR Appraisal Unit Supervisor is also available as a resource.
  - iii. The landowner should ask their appraiser to name the DNR as an intended user in the report.
  - iv. The landowner should be advised of the appraisal standards required to meet funding objectives.
- c. Land Trust Appraisals (Acquisition Projects Only)
- i. The DNR may agree to proceed with a Land Trust Appraisal Transaction for the DNR's potential purchase of a property from a non-profit or governmental organization.
  - ii. **This type of project will be identified by a Letter of Intent between the DNR and the Partner.**
  - iii. Specific Appraisal and Appraisal Review instructions are included in the addendum – Section (b)
  - iv. **Your contact regarding appraisal related questions is the Land Trust Project Manager unless the guidelines direct you to the DNR Appraisal Unit Supervisor.**
  - v. Successful sharing of the appraisal report or review report will require the following:
    - 1. The Land Trust must have been issued a Land Trust “Letter of Intent” from the DNR prior to the appraisal – this letter should be included in the addendum of the appraisal report.
    - 2. The appraiser must be licensed Certified General Real Property Appraiser in the State of Minnesota.
    - 3. The appraiser must comply with USPAP.
    - 4. The appraisal must be a market value – as is appraisal.
    - 5. The appraiser must comply with the DNR Supplemental Guidelines.
    - 6. When requested, the appraiser must comply with UASFLA.
    - 7. Use of the DNR Certification is required.
    - 8. The DNR must be named as an intended user of the report.
    - 9. The third parties’ written appraisal instructions must be included in the addendum of the report. Verbal instructions should be noted.
    - 10. The appraisal must be time current based on subject’s market.
    - 11. The appraiser should be made aware that the DNR will be reviewing the report and agree to work with the reviewer as needed.
    - 12. Unless otherwise stated, the property must be valued as though the DNR is purchasing it directly from the landowner. The appraiser must include this assumption as a “Hypothetical Condition” in the appraisal.
    - 13. The appraiser must analyze and report all agreements of sale, options or listings of the subject property as of the effective date of the appraisal.
- d. Grant Appraisals (Acquisition Projects Only)
- i. **This type of project will be identified by a Grant Agreement between the State of Minnesota and the Grant Recipient.**

- ii. Your contact regarding appraisal related questions is the Grant Recipient Project Manager unless the guidelines direct you to the DNR Appraisal Unit Supervisor.
- iii. These appraisal guidelines provide information on uniform requirements for all DNR grant programs that fund land acquisition projects. Keep in mind they are designed to ensure fairness, and protect the interests of landowners, grant recipients and the taxpayers of Minnesota. .
- iv. Specific Appraisal and Appraisal Review instructions are included in the addendum – Section (a)
  - 1. The appraiser must be licensed Certified General Real Property Appraiser in the State of Minnesota.
  - 2. The appraiser must comply with USPAP.
  - 3. The appraisal must be a market value – as is appraisal.
  - 4. The appraiser must comply with the DNR Supplemental Guidelines.
  - 5. When requested, the appraiser must comply with UASFLA.
  - 6. Use of the DNR Certification is required.
  - 7. The DNR must be named as an intended user of the report.
  - 8. The intended use shall include negotiation and grant reimbursement
  - 9. The written appraisal instructions must be included in the addendum of the report. Verbal instructions should be noted.
  - 10. The appraiser should be made aware that the report will be reviewed and agree to work with the reviewer as needed.
  - 11. The appraiser must analyze and report all agreements of sale, options or listings of the subject property as of the effective date of the appraisal.

## VI. Types of Appraisal Reports

The type of report desired depends upon how comprehensive we need. Generally, the value and type of the property appraised help us determine the desired level of detail required. The general guidelines we utilize to determine the required appraisal and reporting formats are described below. If you require further clarification, please call the contact person as specified in section V of these Guidelines.

- a. Restricted Reports
  - i. The DNR does not use restricted reports.
- b. Summary Reports
  - i. The appraisal process behind this report should be of a simple nature and easy to communicate, and is expected to contain most information and analysis relevant to the appraisal process and conclusion. The summary format should be a concise presentation of such a process. It should be a suitable abbreviation of what would otherwise be in a self-contained format. When appropriate this format should be used.
  - ii. This report is most likely to be appropriate when:
    - 1. The appraisal does not include a partial acquisition.

2. The appraisal problem is not so complicated or confusing that a self-contained report would be necessary for clear and accurate understanding.
3. Improvements are minor, or not a part of the acquisition, but must be considered.
4. Highest and Best Use is not a matter of contention or a subject requiring extensive discussion.
5. The appraisal is not to Federal Standards (UASFLA).

c. Self Contained Report

- i. The appraisal process behind this report would usually be more complex and require detail to communicate. Additionally, the appraisal should utilize a comprehensive level of detail in presentation of such a process and should contain all information and analysis relevant to the appraisal process and conclusion.
- ii. This report is most likely to be appropriate when:
  1. The appraisal problem is so complex or obscure that a summary or restricted report would not clearly and accurately communicate the whole of the appraisal process.
  2. Improvement are significant and a part of the acquisition.
  3. Highest and Best Use is a matter of contention or a subject requiring extensive discussion.
  4. Before-and-after valuation does not lend itself to concise reporting.
  5. Highest and Best Use of the remainder changes, and its valuation is not clearly and accurately communicated with concise reporting.
  6. Damages, if any, are not explainable without extension discussion
  7. The appraisal requires compliance with the Uniform Appraisal Standards for Federal Land Acquisitions.
  8. The highest and best use determination is subdivision

d. Minimal Value Report, as allowed under statute 84.0272 Subd 3

- i. The acquisition, sale or exchange of land can be accomplished without an appraisal from an appraiser. These valuations are conducted by DNR, Lands and Minerals staff.
  1. The minimum value threshold for each type of transaction is identified in the statute.
  2. The acquisition must not involve federal funding.
  3. The landowner must waive his/her right to an appraisal under the Landowner's Bill of Rights.
  4. The valuation will be based on the following information:
    - a. The most recent accessed market value of the land or interests in the land, as determined by the County Assessor in the county the land is located in, plus 10 percent.
    - b. A recent sales price (within the past year) of the land or interests in land.
    - c. Sales price of comparable land or interests in land in the vicinity of the property.
    - d. An appraisal of the land or interests conducted within the past year.

## VII. Required Number of Appraisals

- a. A second DNR appraisal may be required based on the complexity of the assignment, as approved by an Assistant Director or the Director of the Division of Lands and Minerals.
- b. An additional appraisal may be requested by the acquiring division.
- c. A second appraisal may be required to meet grant requirements or Land Trust projects

## VIII. Appraisal and Review Assignment Process

- a. The DNR assigns the appraiser and the reviewer to a project in two steps. Appraisers should contact the Appraisal Unit Supervisor or Appraisal Coordinator if they have any questions before beginning the appraisal assignment and as they move through the appraisal process. During the review phase, the appraiser will correspond with the assigned reviewer for direction on any needed changes or corrections. Appraisals are assigned to a specific appraiser at a firm with a specific level license
- b. Contracts with fee appraisers. The MN DNR employs fee appraisers as required. The MN DNR Appraisal Unit Supervisor or Appraisal Coordinator selects fee appraisers from the approved contract list based on appraiser competencies, appraiser's timeliness on previous projects, geographical areas, and on competitive bids, subject to the approval of the Assistant Director of the Division of Lands and Minerals.
- c. Accountability of assigned appraiser
  - i. The appraiser contracted by the DNR is the appraiser we expect will be responsible for the appraisal. If the appraisal is delegated to a junior member of an appraisal firm's staff, the assigned appraiser must be willing to take responsibility for all the information contained in that appraisal through a written certification. The assigned appraiser must make all required field inspections. Any review corrections will be discussed with the assigned appraiser.

## IX. Appraisal Data Documentation and Appraisal Reporting Standards

- i. DNR reports should include the following content. The depth of content is determined by which type of report is used.
- ii. Introduction
  1. Title Page – including effective date of appraisal, owner's name, project name and project/transaction numbers
  2. Letter of Transmittal
  3. Table of Contents (for self contained reports)
  4. Type of appraisal report
  5. Current DNR Appraisal Certification
  6. DNR Appraisal Summary Document
  7. Dates
    - a. Date of Inspection
    - b. Effective Date of Appraisal
    - c. Date of Report
  8. Salient Facts and Conclusions

9. Statement of Assumptions and Limiting Conditions – Project specific (Boiler plate not appropriate)
- iii. Scope of Work
1. The appraisal must reflect the appropriate scope of work (type and extent of research and analyses), based on what is required to produce credible assignment results in the appraisal process.
  2. The scope of work is generally acceptable when it meets the following:
    - a. Expectations of parties who are regularly intended users for similar assignments involving public funds.
    - b. What an appraiser's peers' actions would be in performing the same or a similar assignment.
  3. Unacceptable assignment conditions are as follows:
    - a. Appraisal must not allow assignment conditions to limit the scope of work to such a degree that assignment results are not credible in the context of the intended use.
  4. Use of an extraordinary assumption or hypothetical condition, unless pre-approved by the Appraisal Unit Supervisor.
  5. Required scope of work elements:
    - a. Client and intended users (must include MN DNR and federal agencies)
    - b. Definition of market value and citation
    - c. Intended use
    - d. Effective date of appraisal
    - e. Subject property – defined by legal description
    - f. The real property interests being appraised
    - g. Assignment conditions including any extraordinary assumptions and hypothetical conditions
    - h. Larger parcel analysis
- iv. Factual Data
1. Legal Description – Identify property by full legal description, and by address, if appropriate, for both the proposed acquisition and the whole parcel (if applicable).
  2. Owner of record and ownership rights.
  3. Analysis of all agreements of sale, options or listings of the subject property as of the effective date of the appraisal (USPAP requirement).
  4. Photographs of the Subject Property (original on the ground photo prints or color copies in all copies of the report) taken by assigned appraiser.
  5. Title Information – Provide ten-year transfer/sale history of subject.
  6. Description of subject property (as appropriate: whole, acquisitions and/or remainder).
  7. Include the Assessor's market value, taxes and any assessments.
  8. Describe improvements, physical characteristics, present use, zoning and deed restrictions.
  9. Identify any portions of the property in the Conservation Reserve Program or encumbrances and describe the terms and conditions of the payments made under those programs. Unless directed otherwise, determine the

- estimated market value of the property presuming that any payments will be transferred to the purchaser of the property.
10. Describe present use of the property.
  11. Identify encumbrances
  12. City and neighborhood data
  13. Property Data – Include maps, diagrams and sketches necessary to identify and understand the subject.
  14. Summarize type and character of area real estate markets.
- v. Data Analysis and Conclusions
1. Describe type and character of real estate markets with a view to the highest and best use discussion.
  2. Analysis of Highest and Best Use (vacant and improved) (definition and citation)
  3. Land Valuation
  4. Describe each approach to value, explain and support the exclusion of any of the valuation approaches.
  5. Value Estimate by the Sale Comparison Approach
  6. Value Estimate by the Cost Approach (if appropriate)
  7. Value Estimate by the Income Capitalization (if appropriate)
  8. If an income approach (subdivision valuation) is considered, the appraiser shall also use a sales comparison approach which provides similar large tract comparable sales purchased for subdivision.
- vi. Correlation, Reconciliation and Final Value Estimates
1. Reconcile indications of the approaches to value to a single value estimate
- vii. Exhibits and Addenda
1. On the ground photographs of subject and comparables taken by assigned appraiser
  2. Exterior photos of all improvements
  3. Photographs of any observed environmental concerns.
  4. Interior photos of dwellings and commercial use buildings
  5. Location Map
  6. Maps and Detail of Comparable Data – complete comparable sale data on the ground photos and maps, which allow easy identification and location of sales
  7. Plot Plan (if appropriate)
  8. Floor Plan sketch of dwellings and commercial use buildings
  9. Copies of deeds or other title documents including CRP/CREP contracts
  10. Copy of pertinent section of the zoning ordinance
  11. Other Pertinent Exhibits
  12. Qualifications of Appraiser
  13. Comparable Data Sheet Elements
  14. Documentation of each comparable sale shall include the following information, which may be summarized for each sale on a comparable sales form and included in the report or in the addenda of the report.
    - a. Name of buyer and seller
    - b. Date of sale

- c. Legal description (this may be abbreviated if lengthy or reference by a tax parcel number)
  - d. Type of sale instrument
  - e. Document recording information
  - f. Price
  - g. Terms of sale
  - h. Location
  - i. Zoning
  - j. Present use
  - k. Highest and Best Use (intended use)
  - l. Brief physical description of the property
  - m. Photograph (on the ground)
  - n. Comparable sales map, showing the relative location of the comparable sales to the property under appraisal
  - o. Name of the party that confirmed the transaction (effort should be made to contact a party directly related to the transaction)Photo number to the party that confirmed the transaction
- 15. Appraiser assignment instructions
  - 16. Landowner Disclosure Document
- viii. DNR Appraisal Summary
  - ix. Certification
    - 1. Use of the Current DNR Appraisal Certification is required. All elements in the DNR appraisal Certification must be included.
    - 2. When more than one appraiser contributes to the appraisal assignment, each appraiser must submit a separate certification.
    - 3. Certification form may be obtained from the DNR Appraisal Management website or from the Appraisal Management Unit Supervisor.
  - x. Partial Taking Valuations and Before and After
    - 1. For a partial acquisition, a before and after appraisal valuation must be considered. The appraiser is responsible for identifying the larger parcel, and the analysis of how the larger parcel was defined.
    - 2. The before and after method of valuation shall be used on partial acquisitions, except where it is obvious there is no damage or benefit to the remaining land or improvements. In these cases, the appraiser may appraise the land only and show values for the part taken.
    - 3. A before and after appraisal is not required when any of the following conditions exist:
      - a. The acquisition will not change the current use and utility of the remaining ownership;
      - b. The proposed acquisition will not adversely affect the market value of the remainder.
    - 4. When conducting a full before and after appraisal, any enhancement or diminution of the value of the property is captured in the appraisal process and does not need to be calculated separately. Therefore, there is no independent calculation of severance damages.

- a. When reporting the before and after process, it is recommended to avoid the use of the term subject. The report is more meaningful if terms such as larger parcel, entire ownership, acquisition, and remainder are utilized.
    - b. Additional guidance can be found in the addendum of these guidelines
- xi. Miscellaneous Reporting Requirements
  - 1. When reporting the estimated market value, please avoid rounding down.
  - 2. The appraiser will submit a written appraisal in triplicate, unless otherwise specified, for each property appraised, which shall follow the general outline furnished in these requirements.
  - 3. These requirements are intended to coincide with those of professional appraisal societies as to content, reasoning and format. The appraiser should add any information that will assist the reader to understand the problem or to clarify the reasoning used by the appraiser to arrive at a final estimate of value.
  - 4. The legal descriptions, acreage estimates, scenarios for appraisal, and other facts contained in the fact packet are assumed to be correct. If the appraiser finds information to the contrary, he/she should notify the contact person as specified in section V of these Guidelines immediately.
  - 5. Required contents of appraiser's file
    - a. The appraiser's file is expected to contain information and analyses, which are considered, but not determined to be necessary for the report to be properly understood by the person(s) expected to receive or rely on the report. Incorporate file, data and statements, by reference.
    - b. Any information or documentation necessary to comply with license law.
- b. Data to be furnished by the State, Grant Recipient or Partner in writing
  - i. Assignment instructions (Scope of Work)
  - ii. Ownership information including names of owners and tenants
  - iii. Address of property
  - iv. Legal description(s) and acreage of the property to be acquired by the state
  - v. Landowner Disclosure Statement
  - vi. Parcel sketch/maps
  - vii. The property rights and interest to be appraised
  - viii. Conservation or other Easement documents (if applicable)
  - ix. Unusual appraisal instructions.
- c. Field inspections of appraised and comparable properties
  - i. The appraiser must "physically inspect" the property, and invite the landowner to accompany him/her when the inspection is done. Field inspection and on the ground photographs of the appraised and comparable properties are required by the assigned appraiser. In the event the property is landlocked and/or legal access cannot be obtained, some other form of current physical inspection must be conducted by the appraiser (i.e., flyover). Whatever type of physical inspections

the appraiser chooses to do, the landowner must be given the opportunity to accompany them and this must be documented on the Certification.

## X. DNR Exchange Appraisal Assignments

- a. The DNR often secures appraisals for the purposes of facilitating exchange transactions. By statute, land exchanges must be “substantially equal” in value, which means within 20 percent if the lands to exchange are 100 acres or less on each side, and within 10 percent if they are more than 100 acres on each side (Minn. Stat. 94.343, Subd. 3). In some cases, the state is unable to “waive value” so the state side of the exchange must be equal or less than the private exchange.
  - i. When preparing appraisals for exchange purposes the following additional requirements must be met:
    1. Effective dates for the exchange properties should be the same date or very close to the same date.
    2. Exchanges do not require a larger parcel analysis
    3. In the case of land exchanges with multiple parcels:
      - a. The DNR will provide an order of priority for land exchanges with multiple parcels. One prioritized list will be identified as the “base list” and the other prioritized list will be identified as the “equalizer list” specifying which lands must be exchanged and which are optional for the state or landowner. This list will also specify which parcels can be divided, which can be dropped and which should be retained in the exchange. Adjacent parcels are frequently kept together in exchanges due to access or other issues.
      - b. The appraiser should contact the Appraisal Unit Supervisor to set up a meeting with the Exchange Coordinator after the subject inspection and research, but before report writing. At this meeting the appraisal should be prepared to propose the parcels that would make a “substantially equal” exchange. Once the meeting has been conducted, the Appraisal Unit Supervisor will provide written appraisal instructions to the appraiser.
    4. In the case of land exchanges with single parcels:
      - a. The DNR will provide the suggested exchange parcels:
        - i. If the parcels are found to be not “substantially equal.” The appraiser should contact the Appraisal Unit Supervisor for a meeting with the Exchange Coordinator for further equalization instructions, prior to writing the report.
    5. Appraiser must provide the names and addresses for all adjacent landowners for both the state parcel and the private parcel. This information should be placed in the addendum of the report.

## XI. Appraisal Review Standards

- a. The reviewer is responsible to determine if the appraisal report under review provides an adequate basis for the establishment of an estimated market value. Information may have become available following the completion of the appraisal report, which the reviewer is

obligated to consider. A recommendation based on outdated or incomplete information would fail to meet the DNR's needs to determine a current estimate of market value.

b. Technical Appraisal Review Guidelines

i. Technical Reviewer's Function:

1. The function of a reviewer is to investigate, analyze and verify the logic and procedures used in appraisal reports and to ensure the preparation of reports that result in sound market value estimates. Quality control and compliance are key components to the reviewer's function.
2. The reviewer accepts, recommends or rejects an appraisal report and recommends an estimated market value.
3. The reviewer's role is to determine if the appraisal report:
  - a. Meets quality standards and the criteria of the client
  - b. Conforms to the Uniform Standards of Professional Appraisal Practice (USPAP)
  - c. Complies with current DNR Standards
  - d. Complies with Federal Standards (when applicable) and most importantly
  - e. Concludes a reasonable and reliable market value estimate.
  - f. **The reviewer approves a report and recommends certification of a value conclusion**
  - g. The reviewer is obligated to report appraiser misconduct or incompetency to the Department of Commerce and notify the DNR Appraisal Unit Supervisor of those actions.

ii. General Technical Reviewer Qualifications

1. Reviewers must meet the Competency Provision of USPAP for each assignment.
2. Reviewers must be licensed with the State of Minnesota as a Certified General Appraiser in good standing.
3. Additional Federal Program Reviewer Qualifications:
  - a. Reviewer must meet Competency provision of USPAP.
  - b. Reviewer must be a Certified General Appraiser.
  - c. Reviewer must have authority from the appropriate Federal agency.

iii. Technical Level of Review

1. A Technical Review will be performed in accordance with Standard 3 of USPAP and, when applicable, with the Uniform Appraisal Standards for Federal Acquisitions.
2. Technical reviews may be conducted as either desk reviews or field reviews. Determining the proper level of review is based on the complexity of the problem and the reviewer's familiarity with the appraiser and subject area.
  - a. Guidelines to assist in this determination are below:
  - b. Field Review is suggested when any of the following situations exist:
    - i. Reviewer unfamiliar with appraiser or probational appraiser
    - ii. Reviewer unfamiliar with market area
    - iii. Appraisal assignment difficult or complex
    - iv. Reviewer has concerns about appraiser's analysis

- v. Reviewer discovers discrepancies in process of review and must resolve
- c. Field Review required:
  - i. When requested by the contact person as specified in section V of these Guidelines
  - ii. When requested by the Director or Assistant Director of L&M
  - iii. When required under Federal Agency Guidelines
- d. Technical Reviewer Responsibilities:
  - i. The review appraiser examines appraisals to assure they meet DNR Appraisal Guidelines and USPAP.
  - ii. When requested, the review appraiser shall examine appraisals to assure that they meet the Uniform Appraisal Standards for Federal Acquisition (USASFLA 2000).
  - iii. The reviewer will seek necessary corrections or revisions prior to certification the reviewer shall give the appraiser at least one opportunity to remedy the report.
  - iv. Corrections or revisions must be made to the report itself.
  - v. Three (3) copies of revisions should be submitted with the review report to the contact person as specified in section V of these Guidelines.
  - vi. The reviewer will execute the Review Assignment document and return it to the contact person as specified in section V of these Guidelines after acceptance of the assignment.
  - vii. The reviewer will complete the review assignment and deliver it to the contact person as specified in section V of these Guidelines on or before the requested due date.
  - viii. In the event that the due date is compromised, notify the contact person as specified in section V of these Guidelines
    - 1. The reviewer will not direct an appraiser to a particular value.
    - 2. If, after diligent efforts have been made to get the needed support and/or improvements to an appraisal under review, the report does not meet standards, the review appraiser will notify the contact person as specified in section V of these Guidelines and reject the appraisal report with full documentation for the basis of their rejection.
  - ix. The reviewer is responsible to determine if the appraisal report under review provides an adequate basis for the establishment of an estimated market value. Information may have become available following the completion of the appraisal report, which the reviewer is obligated to consider. A reviewer's recommendation based on outdated or incomplete information would fail to meet the DNR's need to determine a current estimate of market value.

1. This shall be reported to the contact person as specified in section V of these Guidelines, for resolution.
- x. When reviewing Land Trust transactions, if the partner acquires or enters into a purchase agreement after the appraisal but before the appraisal review, the reviewer should obtain the information, analyze and report as a part of the appraisal review. If the reviewer is unable to secure this information they should report their findings in the review report.
- e. Technical Reviewer Report
  - i. The appraiser will certify and recommend a value that is set forth in a signed statement which explains the basis of such recommendation or approval. The reviewer will:
    1. Identify the client and intended users of the reviewer's opinions and conclusions.
      - a. Identify the client and intended users of the reviewer's opinions and conclusions.
      - b. Identify the appraisal report under review, the date of the review, the property and ownership interests appraised in the report under review, the date of the report under review, the effective date of the value estimate reported, and the names of the appraiser(s) that completed the report.
      - c. Identify the scope of work performed in the review.
      - d. Develop an opinion as to the completeness of the appraisal report under review within the scope of work applicable to the appraisal assignment.
      - e. Develop an opinion as to the apparent adequacy and relevance of the data and adjustments to data.
      - f. Develop an opinion as to the appropriateness of the appraisal methods and techniques used, explaining the reasons for any disagreements.
      - g. Develop an opinion as to whether the analysis, opinions and conclusions in the appraisal report are appropriate and reasonable. Explain the reasons for any disagreement.
      - h. Report conclusion of the Review: The reviewer accepts, recommends or rejects an appraisal report and recommends an estimated market value
      - i. Prepare an appraisal review report in compliance with DNR Guidelines and, when

applicable, in compliance with Section C-6 of USASFLA.

- j. Proved a DNR Reviewer Certification
- f. Review Appraiser Communications
  - i. The primary contact for the reviewer is the contact person as specified in section V of these Guidelines.
  - ii. The reviewer shall keep confidential all appraisal data.
  - iii. To ensure the ethical integrity of the review process, the reviewer will:
    - 1. Contact the appraiser, as needed, to obtain an approvable appraisal report. Difficulties must be reported to the contact person as specified in section V of these Guidelines immediately.
    - 2. Report any contact by others (including DNR staff) to the contact person as specified in section V of these Guidelines.
    - 3. Attach copies of Correspondence to the Review Report.
- g. Reviewing Land Trust Appraisals (**Acquisition Projects Only**)
  - i. The DNR may agree to proceed with a Land Trust Acquisition Transaction for the DNR's potential purchase of a property from a non-profit or governmental organization. Successful sharing of the appraisal or review report will require the following:
    - 1. The Land Trust must have been issued a Land Trust letter of intent from the DNR prior to the appraisal.
    - 2. The appraisal must be a licensed Certified General Real Property Appraisal in the State of Minnesota
    - 3. The appraiser must comply with USPAP
    - 4. The appraiser must comply with DNR Supplemental Guidelines
    - 5. When required, the appraiser must comply with the Uniform Appraisal Standards for Federal Land Acquisitions
    - 6. The DNR must be named as an intended user of the report
    - 7. The Land Trust's written and verbal appraisal instructions must be included in the addendum of the report
    - 8. The appraisal must be time current
    - 9. The appraiser must remember the position of the DNR at the time of closing, with respect to partial takings
    - 10. Unless otherwise stated, the property must be valued as though the DNR is purchasing it directly from the landowner. The appraisal must include this



2. Identification of the appraisal report under review, the date of the review report, the property and ownership interest appraised in the report under review, the date of the report under review and the effective date of the value estimate reported, and the name(s) of the appraisers that completed the report under review.
  3. Description of the scope of work under review.
  4. Statement of opinions, reasons and conclusions reached concerning the appraisal report under review.
  5. Reviewers signed Current DNR Review Certification.
- j. Format of Technical Review
- i. These guidelines do not require a specific review report format or structure. All appraisal review reports shall be narrative in nature and in writing.
  - ii. The DNR standard review report format is recommended.
  - iii. Electronic copies or hard copies of the DNR standard review report format is available by contacting the Appraisal Unit Supervisor.
- k. Review Appraiser's File
- i. The review appraiser's file shall contain (at a minimum):
    1. A copy of the appraisal report and amendments
    2. A copy of any follow-up letters or memos from the appraiser in response to queries
    3. A copy of the review document
    4. Field notes and working papers of the review appraiser
    5. Names and phone numbers of all persons interviewed during the course of the review process.
    6. The review appraiser's file shall be made available to the client, the Department of Natural Resources, upon request.
    7. Under the Data Privacy Act the reviewer's work file and the appraisal data must remain confidential until certain actions occur.
    8. Any requests for release of this information should be immediately directed to the Appraisal Unit Supervisor within 24 hours so that applicable laws can be reviewed and a decision made as to the release of the requested data.
- l. Technical Reviewer Becoming the Appraiser of Record
- i. If a reviewer cannot approve an appraisal report, the DNR may authorize the review appraiser to develop an independent opinion of value (subject to that value opinion being prepared and documented in accordance with USPAP and/or the UASFLA). In certain circumstances, the reviewer may recommend a value estimate different from that cited in

the appraisal report under review. If the reviewer determines that this is the most appropriate course of action, he/she must immediately notify the contact person as specified in section V of these Guidelines immediately.

- m. Multiple Appraisal Reports and Divergency
  - i. When the review appraiser is provided more than one appraisal report on the same property to review he/she must attempt to:
    - 1. Compare the reports to uncover any inconsistencies.
    - 2. Attempt to resolve the differences by finding their sources, through a careful and thorough analysis of the appraisal reports.
    - 3. Review each report individually.
    - 4. Determine which appraisal report is better supported and more accurate.
    - 5. Work with each appraiser to attempt to remedy deficiencies
    - 6. Recommend one report.
    - 7. Accept or reject the other(s)
      - a. Acceptance indicates report is well prepared but not considered the best report submitted.
      - b. Rejected indicates that either the report is not certifiable (even with revisions) or the appraiser has refused to cooperate.
    - 8. Prepare individual review reports on all appraisals.
- n. Technical Reviews on Land Trust Projects (**Acquisition Projects Only**)
- o. When reviewing projects provided to the DNR through a Land Trust project the following items are unique:
  - 1. Unless otherwise stated, the property must be valued as though the DNR is purchasing it directly from the landowner. The appraiser must include this assumption as a “Hypothetical Condition” in the appraisal.
  - 2. The appraiser is required to name the DNR as an intended user.
  - 3. The appraiser is required to comply with USPAP, DNR and (if appropriate) UASFLA Standards.
  - 4. The third parties’ written appraisal instructions must be included in the addendum of the report.
  - 5. The appraiser must be a licensed Certified General Appraiser in the State of Minnesota.
  - 6. The appraisal must be time current.
  - 7. Hypothetical Conditions and Extraordinary Assumptions must be approved by the Review Coordinator. Appraisal should reflect the “as is’ condition.

8. The appraiser should have been made aware that the DNR would be reviewing the report and has agreed to work with the reviewer as needed.
  9. If the partner acquires or enters into a purchase agreement after the appraisal but before the appraisal review, the reviewer should obtain the information, analyze and report as a part of the appraisal review. If the reviewer is unable to secure this information they must report their findings in the review report.
- p. Technical Reviews on Grant Projects:
- i. When reviewing projects related to State Grants the following items are unique
    1. The appraiser is required to name the DNR as an intended user.
    2. The appraiser is required to comply with USPAP, DNR Guidelines and (if appropriate) UASFLA Standards.
    3. The third parties' written appraisal instructions must be included in the addendum of the report.
    4. The appraiser must have been provided a copy of the Landowner's Disclosure Statement
    5. The appraiser must be a licensed Certified General Appraiser in the State of Minnesota.
    6. The appraisal must be time current.
    7. Hypothetical Conditions and Extraordinary Assumptions must be approved by the Appraisal Unit Supervisor. The appraisal should reflect the "as is" condition.
    8. The appraiser should have been made aware that the appraisal would be reviewed and has agreed to work with the reviewer as needed.
    9. If the grant recipient acquires or enters into a purchase agreement after the appraisal but before the appraisal review, the reviewer should obtain the information, analyze and report as a part of the appraisal review. If the reviewer is unable to secure this information they should report their findings in the review report.
    10. The reviewer must name the DNR as an intended user of the review report
    11. The intended use of the review report is to assure reliability and credibility of the appraisal for use in reimbursement of grant monies.
    12. The reviewer must use the DNR Reviewer Certification

c. Administrative Appraisal Review Guidelines

- i. The acquisition administrative review process may be used under the criteria set forth in the Lands and Minerals Director's Memo to staff, which authorizes staff to conduct administrative reviews. Government staff appraisers are often assigned to conduct administrative reviews. These administrative staff duties are considered to fall outside the scope of the Uniform Standards of Professional Appraisal Practice (USPAP).
- ii. Grant recipients may conduct Administrative Reviews in accordance with Grant Agreements.
  1. Administrative Reviewer Responsibilities:
    - a. The purpose of the administrative review function is to check for completeness of the appraisal report and to check the accuracy of the math. The administrative review does not consider the analysis or conclusions presented. The administrative review documentation will consist of a signed checklist. The administrative reviewer is authorized to contact the appraiser if there is documentation missing or a math error. If unresolved checklist deficiencies are evident, or other concerns are noted a technical review shall be conducted.

d. Reviewer Conflict of Interest Situations

- i. To ensure objectivity and independence in the review process and to preclude the appearance of conflicts of interest or wrongdoing, review appraisers should not:
  1. Be responsible for negotiation or the sale or purchase of the appraised property.
  2. Review an appraisal prepared by the reviewer's supervisor.
  3. Review an appraisal of a property personally and recently appraised by the reviewer.
  4. Review an appraisal prepared by someone who is or has recently reviewed the reviewer's appraisal work.

## XII. Addendum

The following are summaries on the DNR's position on several appraisal issues. For help on how to approach any appraisal issue encountered in the course of an appraisal for the DNR, contact the Appraisal Unit Supervisor

### Properties subject to Survey Prior to DNR Acquisition (Non Federal)

When a property is subject to survey prior to closing, yet after the appraisal, the appraiser is required to provide the limited/minor parameters (if any) by which the estimated market value may be administratively adjusted by the MNDNR.

The Appraisal Unit Supervisor may administratively adjust the appraised value of a subject property in which the appraiser has provided parameters by which the adjustment process can be completed.

If the administrative market value adjustment is determined to be inappropriate, the appraiser will be asked to provide an appraisal update.

### Public Interest Value

The DNR's policy on s-called "public interest value" has been established in accordance with the Federal government's policy, developed in a paper presented at the Interagency Land Acquisition Conference (ILAC). It addresses whether a non-economic highest and best use can be a proper basis for the estimate of market value.

A group of appraisers and others have advocated that the highest and best use of certain remote non-productive lands of minimal utility acquired by governmental units is for the very purpose for which the government is acquiring them – such as preservation in their natural state, or other non-economic uses. This alternative definition of highest and best use is best known as "public interest value."

The appraisals develop an indication of value that clearly falls outside of the traditionally accepted definition of market value. Under established law, the criterion for just compensation is the fair market value of the property at the time it is acquired. Because the purpose of the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) is to set forth the principles applicable to the appraisal of property for Federal land acquisitions by both direct purchase and condemnation, only estimates of market value are applicable to Federal land acquisitions. Absent legislative mandate, any other type of value estimate is unacceptable for Federal land acquisition purposes.

For the above reasons, it is the ILAC's position (and the Minnesota DNR concurs), that a non-economic highest and best use is not a proper basis for the estimate of market value and, accordingly, that a highest and best use of conservation, preservation, or other use that requires the property to be withheld from economic production in perpetuity is not a value use upon which to estimate market value. Such an estimate is, therefore, not in conformance with the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA).

Please note: The Department has adopted the ILAC position on Public Interest Value for all DNR appraisals, not just Federal ones, as state law does not allow us to value land for anything but fair market value.

### Partial Acquisitions, Larger Parcels, and Before and After Appraisals

In the event of a partial acquisition or the acquisition of less than fee title, the valuation of the remaining interest or interest is to be supported to the same extent as that of the entire property except when it is obvious that there are no damages or benefits to the remaining property except for minor cost-to-cure items.

Performing a *Before and After* appraisal is a process that follows a set of consecutive procedures, which must be executed *in order* for the process to have a successful conclusion. Below is a quick synopsis of the procedural steps and a brief description of each of the components.

Determining the Larger Parcel – A part of every appraisal

Determining the *Larger Parcel* is a sub-process of determining the Highest and Best Use. However, this sub-process is being split out from the discussion of Highest and Best Use in this example to emphasize the importance of this poorly understood step and focus on the reasoning necessary to complete it.

There are two main criteria to be considered in determining the larger parcel, *Unity of Ownership* and *Unity of Use*. There is also a sub-criterion of *Proximity* (sometimes also called *Contiguity*), which is considered in the context of the two main criteria.

In determining *Unity of Ownership*, the appraiser must look not only at the property which will be acquired, but also any other lands owned by the landowner and even lands that may be owned by relatives or the landowner holds in less than fee interest.

Any lands that may have value affected by the taking, by either an increase or decrease in value, should be included in the *Larger Parcel*. This can even include lands that are rented by the landowner or used by the landowner and owned by a relative, for instance.

In determining *Unity of Use*, the appraiser must decide, based on market evidence, which of the landowner's interests are consistent with the use of the parcel to be acquired.

For Example: Your agency is acquiring 20-acres of pasture and woodlands in a larger agricultural holding. The Landowner owns the 80-acre agricultural parcel of which there is a 5-acre farmstead. Common local practice is to separate the farmstead from the agricultural lands when selling this type of property. Therefore, the farmstead could be exempted from the *Larger Parcel* by the *Unity of Use* criteria.

Conversely, if a farmer is renting a 40-acre parcel from another landowner, and this parcel is absolutely necessary for a viable farming operation, the rental parcel could, and probably

should, be considered part of the *Larger Parcel*, even though the landowner does not have any fee interest in it.

*The third, sub-criteria of Proximity* is only applied in the context of the first two.

For Example: A farmer has a viable 240-acre farm operation in Goodsoil County, MN. He also has a few scattered agricultural 40's and 80's in neighboring Hardrock and Sandpit Counties. These parcels are farmed by the same employees of the farmer and crops are supplied to the same markets as his main 240-acre farm. These scattered, detached parcels should probably be considered for inclusion in the *Larger Parcel*.

Conversely, a farmer has a viable 240-acre farm operation in Goodsoil County, MN. He also has a viable 180-acre farm operation in Deeploom County, several hundred miles away. The two operations are farmed by different employees and supply crops to different markets. Even though the same landowner has fee ownership of both properties and they have a *Unity of Use*, because of a lack of proximity, it is unlikely either of these two operations would be affected by any changes to the other and they would not likely be a part of a *Larger Parcel*.

### Highest and Best Use

The *Highest and Best Use* analysis is conducted in the same manner as with any appraisal, with one exception. A full *Highest and Best Use* analysis must be made for the *Larger Parcel* in both the *Before* **and** *After* conditions. As with all appraisals, the *Highest and Best Use* analysis is the cornerstone of the appraisal and should be done with great care.

### The Appraisal Process

In appraising the *Before* condition, once the *Larger Parcel* and the *Highest and Best Use* have been determined, the appraisal process follows the normal routes. Whichever of the three approaches are applicable are used and the appraiser proceeds to the value the *Larger Parcel*. The valuation should include a reconciliation of the approaches used, if necessary, and a final value determination.

In appraising the *After* condition, once the *Larger Parcel* and the *Highest and Best Use* have been determined, the appraisal process, again, follows the normal routes. Whichever of the three approaches are applicable are used and the appraiser proceeds to value the *Larger Parcel*. The valuation should include a reconciliation of the approaches to be used, if necessary, and a final value determination.

After the *Before* and *After* values of the *Larger Parcel* have been determined, the *Value of the Taking* is calculated by simply subtracting the *After Value* from the *Before Value*. Technically, this is not referred to as the *Value of the Taking*, because the appraiser never directly valued the taking, only the *Larger Parcel* in the *Before* and *After* conditions. However, when discussing this value with non-appraisers, referring to this value as the *Value of the Taking* seems to be easier for them to understand.

## Timber Valuation Guidelines

Appraisers must value timber as a component of the overall value of a parcel of land. As with all other appraisals, the choice of proper comparable sales is the key in proper valuation of parcels with merchantable timber resources.

However, in some cases, such as the appraisal of School Trust Fund lands, timber values must be also distilled from the overall land value. The following are suggested methods to approach the allocation of timber and land values in the appraisal process.

### Preferred Method

The preferred method is to find comparable sales that reflect similar types of land, which are both timbered and non-timbered (cut-over timber lands are the most representative non-timbered parcels). Comparison of the sale values of these similar land types should allow the appraiser to make a reasonable assumption of the contributory value of the timber resources. Adjustments may still have to be made for differences in timber quality, density and volume between the timbered comparable sales and the subject property. (Note: In many areas, because of the lack of well informed buyers and sellers, the value of timber is not well reflected in sales of bare lands. The appraiser should take precautions to ascertain that the participants in the sales selected were knowledgeable in timber values.)

### Secondary Method

In many cases, adequate comparable sales reflecting timber values are not available. In these situations, the appraiser will have to use the available comparable sales to develop a “base” level of timber coverage that will not affect the highest and best use. This is considered the minimum timber value and is taken as a part of the base land value. Any timber value over and above the base level is considered to be timber value only, and can be separated from the base land value. Some factors to consider when developing the base timber level are aesthetics, use of proper timber harvesting methods, species composition, and the knowledge level of the buyers and sellers.

## Appraisal Update Policy

- i) An update of an appraisal is defined as an extension of the original appraisal. It may be appropriate under several conditions, such as when the market has changed, when the property itself has changed, or when the client wishes to have the appraiser include a different scope of work than in the original appraisal.

“Updating” an appraisal is a business term, but technically an update is a “new assignment” which does not involve rewriting the entire report. The update becomes an attachment to the original appraisal. The nature of the content which needs to be “updated” in an appraisal update will vary depending upon what DNR requires in the assignment, whether there are changes in the market since the original appraisal, or whether there have been any significant changes on the subject property itself since the original appraisal. It is up to the

appraiser to determine the appropriate “scope of work” necessary to complete the update (new assignment).

It is possible for the appraiser to conclude that there has been no change in the value. It is also possible for an appraiser to perform an update on an appraisal completed by another appraiser.

- ii) The USPAP Advisory Opinion 3 (AO-3) should be consulted for a checklist of minimum documentation needed for an update report.
- iii) The update shall include, at minimum, the following items:
  - 1) Letter of transmittal
  - 2) Statement that the update becomes an attachment to the original report
  - 3) Updated scope of work
  - 4) Explanation of any changes in market condition since original appraisal
  - 5) Explanation of any changes in subject property since original appraisal
  - 6) Update of any section of the report pertinent to the changes identified
  - 7) Any other relevant information pertinent to the update
  - 8) DNR Summary
  - 9) DNR Certification

### “Shelf Life” of Appraisal

- a. The longevity of an appraisal report is contingent primarily on the volatility of the real estate markets in the vicinity of the subject property. It has generally been DNR policy to seek a new or updated appraisal whenever a report is more than twelve (12) months old. The DNR or Grant Recipient may choose to require an update sooner.
  - i. For any appraisal report that is more than one year old, the Appraisal Unit Supervisor will contact the original appraiser and consult with him/her on whether an update is called for by the prevailing market conditions. If an update is deemed unnecessary, the appraiser should supply a memo for the files stating that there has been no significant change in the market conditions.
  - ii. If an update is deemed necessary, the appraiser should be assigned to provide the appropriate report and documentation (in accordance with contract).

### Application of Cost Approach

The Cost Approach is traditionally used to estimate the depreciated value of improvements to a piece of real property. A segment of the agricultural appraisal community routinely uses the Cost Approach to breakdown components of land. One appraisal organization, the American Society of Farm Managers and Rural Appraisers (ASFMRA) even teaches this method and some farm Credit Service Bureaus insist it be included in any appraisals for transactions they will be financing.

The books, The Appraisal of Real Estate and The Dictionary of Real Estate Appraisal, define the cost approach in terms of valuing improvements. The Uniform Standards of Professional Appraisal

Practice (USPAP) Standard 1-4b states: “When a Cost Approach is applicable, an appraiser must: develop an opinion of site value by an appropriate appraisal method or technique; analyze such comparable cost data as are available to estimate the cost new of the improvements (if any); and analyze such comparable data as are available to estimate the differences between new and the present worth of the improvements (accrued depreciation).”

This is the only specific reference to the Cost Approach contained in USPAP, and it clearly references improvements as a basis for using the approach in an appraisal report.

Furthermore, Section A16 of the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA), commonly called the “yellow book” calls the Cost Approach the least reliable of the three approaches and strongly cautions against using it for anything more than as a support for a value derived by either the Sales Comparison or Income approaches.

The DNR will accept appraisals that use the Cost Approach to break down components of the land. However, the use of this approach must rely upon pure sales as the basis of the analysis. It is the opinion of the DNR Appraisal Management Team that this better done through the Sales Comparison Approach and should be handled in that manner.

### **Potentially Contaminated Property Appraisal or Environmental Nuisances**

The appraiser’s primary responsibility is to photograph the area of concern (if possible) and notify the Appraisal Unit Supervisor, Grant Project Manager or Partner Project Manager of the possible indications of an environmental nuisance or contamination he or she discovered either in on-site inspections or in background research.

The Appraiser will be directed to appraise the property in one of two ways:

1. Appraise the property as though the concern were removed (hypothetical condition):
  - a. This will result in one of the following actions:
    - i. Landowner will clean up prior to closing.
    - ii. DNR administration (this is not an option for Grant or Partner Projects) will administratively reduce the value of property due to the environmental condition based on a cost to cure estimate from either:
      1. DNR Management Resources
      2. A qualified specialist in environmental remediation
  - b. Appraise the property as is, relying on the findings and opinions of qualified specialists in environmental remediation and compliance cost estimations.
    - i. Appraiser must consider if the condition will result in stigma and affect the market value.
    - ii. Copies of estimates provided by others should be included in the addendum of the report.

### **Sales Comparison Approach – Qualitative and Quantitative Adjustments**

The preferred method of adjusting comparable sales is through the use of quantitative adjustments whenever adequate market data exists to support them. Factors that cannot be quantified are appropriately dealt with in qualitative analysis.

It is not acceptable to use self-opinion based dollar or percentage adjustments. An adjustment in dollar figures or percentages cannot be used unless there is supporting market data or matched pairs of sales back it up.

This requirement restricts one to a plus or minus qualitative adjustment except for those dollar or percentage adjustments that can be supported. It accomplishes two things: it requires a thorough sale search that provides most comparable sales available, thus reducing adjustments. It also assures that the appraiser is not adjusting to a preconceived figure.

It is imperative when using qualitative adjustments that both the adjusted and unadjusted comparable sales bracket the value of the subject parcel. Use of additional comparable sales to meet this requirement may be necessary.

### Sales Comparison Approach-Use of 1031 Exchange Transactions as Comparable Data

1031 exchange transactions are suspect from an arms-length transaction standpoint due to the very tight time lines required by law. If it is necessary to be considered, they require expensive verification. If an appraiser must use a 1031 comparable, appraiser must have discussions with both the buyer and seller to make sure that no one was under duress to complete the transaction. Please report the sources (names and phone numbers) and details of your discussions.

### Sales Comparison Approach-Use of Government Sales and Quasi-Government Sales as Comparable Data

Government and quasi-government sales are suspect from an arms-length transaction standpoint if the government has the ability to exercise eminent domain authority. If it is necessary to consider such government sales, they require extensive verification. Appraiser must have discussions with both the buyer and seller to have a complete understanding of the negotiations and the basis of purchase price to make sure that the transaction was completed without duress and fully represents a market value transaction. If the basis of the transaction was an appraisal, the report should be reviewed by the appraiser to confirm the reliability of the transaction as an arms-length transaction. Please report the sources (name and phone numbers) and details of your discussions.

### Valuation of Properties encumbered with Life Estates or Term for Years Estates

1. The DNR recommends the use of the valuation technique referenced in Appraising Partial Interests, (David Michael Keating), Chapter 5.
2. The party who holds the right to use and occupy the property is called the life tenant or term tenant. The party who holds the remaining rights to is called remainder man.
3. Typically the DNR is interested in the market value of the remainder man's interest. To estimate the value of the remainder man's interest, the following steps should be followed:
  - a. Estimate the most likely time of death of the life tenant:
    - i. Using actuarial tables
    - ii. Or, in the event of a Term Estate, use the length of the term
  - b. Estimate the current market value of the property.
  - c. Forecast the future value of the property at the end of the tenancy period.

- d. Discount the forecasted future value of the property to the present at the appropriate (market derived) discount rate. [What is the source for the “market” discount rate?] *The preferred method is to identify the rate by understanding the market and interviewing market participants. For example, Sewell conducts a survey every January of timber companies, reits and investors asking what rate of return they are calculating as they make their business decision. The question being asked is; What are current investors expecting for their return on investment? Most appraisers tend to just plop a rate into the appraisal and hope they can get away with it. A percentage difference can have a significant impact. Also, different types of property are easier to get rates for...for a hotel property in the twin cities you would also be able to get this type of data from a data source who tracks and reports it.*

### Appraising Undivided Partial Interests

The DNR does not assume the value attributable to the owners of a partial interest is in direct proportion to his ownership interest. Although the value of the whole may be equal to the sum of the separate estates, it also may be greater than or less than the sum of such estates of parts.

1. In most cases it will be necessary to value the whole property before you are ready to analyze the undivided interest.
2. You then must analyze actual sales data of properties that were sold with undivided interests.
3. The DNR has primarily relied upon three different valuation techniques:
  - a. Direct Sales Comparison. The appraiser would utilize direct sales of undivided interest sales to compare to the subject.
  - b. Analysis of undivided interest sales are compared to comparable full fee interest sales to determine if there are discounts that can be abstracted. Reconcile this information to your subject property.
  - c. A cost analysis of the partition cost and any related discounts.

### Valuation of Access Issues Specific to DNR Acquisitions

When appraising properties for the DNR, the following access guidelines are provided:

1. Legally, cart ways cannot be forced across state owned land and should not be considered.
2. Adverse possession cannot be obtained against state owned lands. The fact that there is an existing crossing across state lands does not mean that there is a legal right of access.
3. Determine if there is legal authorization to cross state lands, such as an easement or highway right-of-way.
4. State forestry roads do not represent legal public access.
5. A DNR lease authorizing access does not represent legal public access.
6. If the landowner is providing a written agreement that provides management access to the DNR, this right of access must be transferrable to subsequent landowners to be considered legal access for purposes of appraisal.
7. It should not be assumed that access easements across state lands will be issued by the DNR unless directed.
8. When appraising properties through the use of a before and after appraisal process, the appraiser must consult with the Appraisal Unit Supervisor if the parcel being acquired

- does not have legal access. In most cases, the appraiser will be instructed to appraise the property “direct,” that is, without the use of a before and after appraisal.
9. The DNR will not rely upon an appraisal which does not accurately reflect the rights of access that are actually acquired.
  10. If appraiser is asked to appraise the property under the hypothetical condition that access is as defined, the appraiser is expect to analyze if the hypothetical access will meet the appraiser’s highest and best use conclusion.
  11. A sales comparison approach to value with comparables with similar access is essential. A “cost to cure” method of valuation should be supported with market comparables.

### Appraising Properties with Potential Aggregate (Sand or Gravel) Resources:

The appraiser should notify the contact person as specified in section V of these Guidelines if the appraiser identifies a property in which there is a gravel resource with potential market value.

If there as an indication of value related to Industrial Silica Sand “frac sand” the appraiser must notify the Appraisal Unit Supervisor who will seek legal council to ascertain ownership rights as to that particular parcel. Sufficient title work must be conducted to determine appropriate ownership of the resource.

The contact person as specified in section V of these Guidelines will direct the appraiser to appraise the property in one of two ways:

1. Appraise the property as if there is no sand/gravel resources or potential for sand/gravel resource (extraordinary assumption)
  - a. This will result in the following action:
    - i. Prior to appraising the property, the landowner will sign a waiver indicating they understand that the appraisal does not reflect any possible value related to the sand/gravel resource. Thus, they are not being compensated for this resource value, if any.
    - ii. This waiver method is not allowed for projects involving federal aid
  - b. Appraise the property as is, relying on the estimations, findings and opinions of qualified specialists in sand/gravel resource assessment.
    - i. Appraiser must consider the quality, quantity and market demand for the resource.
    - ii. Copies of estimates and reports provided by others should be included in the addendum of the report.

### Appraising Conservation Easements

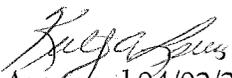
1. The “substantially agreed upon” or final copy of the conservation easement must be provided to the appraiser. Changes in the document will require the appraiser be given an opportunity to consider and address any possible impact to the valuation.
2. If the DNR will be the holder of the conservation easement, the DNR must be involved in the drafting of the terms of the conservation easement
3. All conservation easement appraisals will be based on the Before and After Methodology and will substantially comply with the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA).

4. Comparables in the after position should be properties similarly encumbered, if at all possible. A larger geographic search is typical.
5. The appraiser must assume a hypothetical condition in the after valuation perspective – that the property is encumbered with the easement.
6. The appraiser shall certify both the before value and the after value on the Current DNR Certification.
7. There are times when the landowner will require an appraisal to meet IRS requirements. An appraisal prepared to these DNR guidelines IS NOT intended to meet IRS Guidelines.

### Conservation Easements and Mineral Rights

If the DNR will be the holder of the conservation easement, the DNR will be requiring language in the conservation easement that allows the state the ability to exercise its mineral rights. With the larger conservation easements being entered into, it is common to find that the State of Minnesota is the owner of severed minerals for properties being made subject to conservation easements being accepted by the DNR. This is of concern because:

1. Minnesota Statutes, Sec. 84C.02(d) provides: An interest in real property in existence at the time a conservation easement is created is not impaired by it unless the owner of the interest is a party to the conservation easement or consents to it.
2. Many of the conservation easements include provisions prohibiting mineral exploration and mining.
3. The Federal income tax deduction code prohibits deduction if the minerals are retained by any person and surface mining is allowed or any method of mining is allowed inconsistent with the particular conservation purpose, unless:
  - a. the minerals were severed prior to June 13, 1976, and the probability of removal of minerals by surface mining is so remote as to be negligible, or
  - b. the minerals were severed after June 12, 1976, and surface mining is completely prohibited (26 CFR Sec. 1.170A-14(g)(4) (attached).

  
Approved 04/02/2012  
Kathy A. Lewis  
Assistant Director  
Lands and Minerals