

## REAL ESTATE SERVICES DIVISION

Professional Services Branch

707 Third Street, 5<sup>th</sup> Floor • West Sacramento, California 95605

### **DEPARTMENT OF GENERAL SERVICES (DGS) APPRAISAL SPECIFICATIONS for Direct and Grant Funded Acquisitions January 19, 2010**

#### **Basic Minimum Standard**

**All appraisals must be completed and signed by a State of California Licensed Real Estate Appraiser (pursuant to Part 3 of Division 4 of the Business and Professions Code), in good standing who holds an appropriate “Certification” and confirms that the appraisal is in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) as currently adopted by the Appraisal Standards Board of the Appraisal Foundation.**

**Implicit in this standard is the need for independence by the appraiser. The appraiser shall not engage in any appraisal activity in connection with the purchase, sale, transfer, financing, or development of real property if his or her compensation is dependant on or affected by the value determined by the appraisal.**

This standard does not limit the ability of a public agency to award a contract based upon appraiser qualifications, including designations, experience, or other factors deemed necessary to perform an appraisal on a specific assignment, that exceed the qualifications of this standard.

The principle appraiser who is responsible for developing the appraisal report must certify that they have inspected the subject property and comparable property data whenever physically possible. The following standards, specifications and guidelines are required when applicable to the assignment.

# DGS APPRAISAL SPECIFICATIONS

## Reporting Format

Reports to be used by the Department of General Services for state business must be prepared to the minimum standard of a "Summary Report" as described in Standard 2 of USPAP. In addition, reports should generally include the following when possible.

- Title page with sufficient identification of appraisal project.
- Letter of transmittal summarizing important assumptions and conclusions, value estimate, date of value, date of report, purpose of the appraisal, intended users etc.
- Table of contents.
- Assumptions and Limiting Conditions including clearly identified Extraordinary Assumptions or Hypothetical Conditions.
- Description of the scope of work as required by the "Scope of Work Rule" in USPAP.
- Definition of Fair Market Value, as defined by California Code of Civil Procedures, Section 1263.320.
- Photographs of subject property and comparable data, including significant physical features and the exterior and interior of improvements if applicable.
- Copies of Assessor's maps with the subject parcels marked and an assemblage of all Assessors' parcels that depicts the property being appraised.

## Report Content and Process Requirements

- 1) Provide a complete and thorough discussion of the Scope of Work and the appraisal problem to be solved and demonstrate that the level of work performed is sufficient to develop a credible result. Describe the process involved in the investigation and verification of the subject property characteristics and market data. Describe the sources of data and adjustments utilized and provide sufficient information to allow the intended users to understand the scope of work performed.

**Guideline** Demonstration of compliance with the "Scope of Work Rule" in USPAP is a minimum requirement in the level of information provided in the appraisal report. In particular, verifiable data on the development potential of the land and what would be required for a development project to proceed and discussion of any know reports documenting suspected environmental contamination must be included.

- 2) If the property being appraised is a part-take or carve out of a larger parcel, provide a legal description of the subject property if available. If less than fee simple interest, fully describe property rights being appraised. If no legal description is available, provide a detailed informal description such as a list of Assessor's Parcel Numbers, with a map or sketch that includes reference points and/or a depiction of the subject property boundaries.

## DGS APPRAISAL SPECIFICATIONS

**Guideline** For large, remote, or inaccessible parcels, provide aerial photographs or topographical maps depicting the subject boundaries. If interest appraised is partial interest or easement, the report should fully describe permitted uses, prohibited uses, limitations, restrictions, and all other salient issues.

**3)** Under all circumstances include a copy of a recent preliminary title report (within the past year) as an appraisal report exhibit and discuss the effect of title conditions on fair market value. The existence of significant title conditions cannot be ignored and must be analyzed for their effect on value, if any. The statement that “a preliminary report was not available and the property is appraised as though free and clear of any liens or encumbrances” is not sufficient and reports that do not include a discussion of title matters will not be accepted.

**Guideline** The existence of certain vesting limitations or title exceptions such as easements, agreements, restrictions, or reservations may adversely affect value. Failure to address these matters in the appraisal report may lead to a delay and additional costs associated with an acquisition since they will ultimately need to be addressed.

**4)** Provide a three year subject property history, including sales, listings, leases, options, zoning, applications for permits, or other documents or facts that might indicate or affect use or impact value.

**Guideline** Analyze any past or present Agreement of Sale, option, or listing of subject property that the appraiser is aware of. This issue requires increased diligence since state agencies often utilize non-profit organizations to quickly acquire sensitive-habitat parcels using Option Agreements. However, due to confidentiality clauses, the terms of the Option are often not disclosed. If the appraiser discovers evidence of an Option, or the possible existence of an Option, and the terms cannot be disclosed due to a confidentiality clause, then the appraiser is to cease work and contact the client. Current DGS policy requires disclosure of any Option or Purchase Agreement. If the Agreement is not made available, DGS will not review the appraisal.

**5)** Analysis of regional, area, and neighborhood market conditions and trends, including identification of the relevant market area. This should include a discussion of supply and demand within the appropriate geographic range of competitive properties (or other areas of competition), and a discussion of the significant factors impacting supply and demand and the principle of substitution as it applies to competitive properties.

**Guideline** Address exposure time as provided for in USPAP and marketing time as indicated in Advisory Opinion (AO) 7 of USPAP. Discuss data collected and analyzed to formulate a highest and best use conclusion as well as market conditions that are anticipated to influence the marketability of the subject property under the proposed highest and best use, both Before and After if applicable.

## DGS APPRAISAL SPECIFICATIONS

- 6) Discussion of subject land/site characteristics (size, topography, current use, zoning and land use issues, development entitlements, General Plan designations, utilities, offsite improvements, access, easements and restrictions, timber potential, mineral rights, flood and earthquake information, potential hazardous materials, taxes and assessments, etc.) In addition a discussion of the subject property lease/rental income and operating cost history should be included when applicable.

**Guideline** Address the effect of Certificates of Compliance, Tentative Maps, Parcel Maps, Final Maps, the existence of legal lots, soil class and/or percolation conditions, encumbrance by the Williamson Act, and the status of any existing residences or structures as non-conforming or otherwise. Related to this issue do not make assumptions that are not supported by reports from qualified professionals, or official written or recorded documentation. (See Highest and Best Use section below)

- 7) Description of the subject improvements if any, including all structures, square footage, physical age, type of construction and materials, quality of construction, condition, and site improvements. This discussion should include a market based analysis and conclusion of depreciation from all causes and an estimated Remaining Economic Life of the improvements. In addition, a discussion of the subject property lease/rental, income and operating cost history should be included when applicable.

**Guideline** Analysis of the Remaining Economic Life of improvements should consider not only the physical condition of improvements but obsolescence from all causes, as well as market conditions and the regulatory climate prevailing at the time that may influence the highest and best use conclusion.

- 8) Discuss the Highest and Best Use decision for the subject property, including an in depth analysis of the data, assumptions if any, and the conclusions supporting the use. If the Highest and Best Use is a development project include verifiable data on the development potential of the land, such as what would be required for a development project to proceed and any known reports documenting suspected environmental contamination.

**Guideline** Such support typically requires a discussion of the criteria or tests utilized to determine the highest and best use of a property including relevant legal, physical and economic factors. If alternative feasible uses exist, explain and support market, development, cash flow, and risk factors leading to the ultimate highest and best use decision.

- 9) All approaches to fair market value applicable to the property type in the subject market should be utilized. Explain and support the exclusion of any usual approaches to value.

**9A) Sales Comparison Approach (Market Approach)**

This approach requires an in depth discussion and analysis of all relevant comparable data, including similarities and differences, comparisons and adjustments to the

## DGS APPRAISAL SPECIFICATIONS

comparable data, and discussion of the reliability and credibility of the data as it relates to the indicated subject property value. The appraiser should fully justify and explain the reasoning and methodology applied to comparisons and adjustments.

**Guideline** It may be necessary to consider other relevant data including current listings, expired listings, pending sales, options, and dated sales as well as current sale activity if it can be adequately confirmed as reliable, credible and is useful in the development and presentation of a value estimate. The data used should also make reference to comparable government and conservation transactions when available. This data should be compared and analyzed for similarity or dissimilarity to private sector sale data and reconciled and explained if it is to be used to significantly influence the final value conclusion.

### Comparable data sheets:

1) For sales, include information on grantor/grantee, sale/recordation dates, listed or asking price as of date of sale, financing, conditions of sale, buyer motivation, sufficient location information (street address, post mile, and/or distance from local landmarks such as bridges, road intersections, structures, etc.), land/site characteristics, improvements, source of any allocation of sale price between land and improvement, and confirming source. 2). For listings, also include marketing time from list date to effective date of the appraisal, original list price, changes in list price, broker feedback, if available. 3). For leases, include significant information such as lessor/lessee, lease date and term, type of lease, rent and escalation, expenses, size of leased area (ground/building), tenant improvement allowance, concessions, use restrictions, options, and confirming source.

Map(s) showing physical location and address if possible of all comparable properties used in the analysis in relation to subject property and photographs and plat/Assessor's maps of comparable properties.

### 9B) Cost Approach

A Land value opinion to be used as part of the Cost Approach should be analyzed, documented and concluded based upon a thorough Sales Comparison Analysis as described above when possible. Include a discussion of construction cost methodology, data source used, costs included and excluded, depreciation methodology, and a discussion of accrued depreciation from all causes, and remaining economic life if applicable.

**Guideline** Supply copies of construction cost data including, section and pages of cost manual (date of estimate or date of publication of cost manual must be provided if not indicated on page), copies of cost estimate if provided from another source, and supporting calculations including worksheets or spreadsheets.

In cases where the Highest and Best Use determination assumes the demolition or removal of existing improvements the appraiser must identify the source of the cost of the demolition estimate and account for the cost of the removal of the improvements in the valuation of the property.

## DGS APPRAISAL SPECIFICATIONS

### 9C) Income Approach

The Income Approach may be appropriately utilized when the identified highest and best use includes an income producing asset which would typically be valued by market participants based upon an anticipated income stream. The use of this approach requires adequate documentation by the appraiser as to income, operating expense and capitalization rates extracted from the market.

**Guideline** This approach should include an adequate supply of comparable rental/income and sale data with an analysis of this data leading to supportable conclusions of estimated subject market rent, vacancy and collection loss, operating expense and capitalization rate. If the subject property has a history of income production, a minimum of three years of income and operating expense should be supplied and analyzed. Any conclusion of market rent and expenses which varies from this historical data should be discussed and documented. Vacancy, expense and capitalization rate estimates should be fully supported by a market survey and comparable data.

### 10) Easement Valuation – Partial Acquisition Appraisals

The appropriate valuation of partial acquisitions, both fee and lesser interests requires the use of specific methodology. The three most common categories of appraisal problems encountered in this area are part take fee acquisitions, Appurtenant and In Gross easements (valuing the right to use land owned in fee by others), and Conservation Easements (restricting the use of land to certain identified purposes and prohibiting others).

The most common and appropriate methodology for these valuation problems is the “Before and After” valuation process. This process requires the utilization of one or more of the Sales Comparison Approach, the Cost Approach or the Income Approach as appropriate for the property and the identified highest and best use or uses. It also should potentially identify and assign a value estimate to the whole or larger parcel (before), the part acquired, the remainder with and without benefits (after), and the diminution of value or damages, depending upon the scope of the assignment and the intended use of the report. In part-take situations, a discussion of special benefit and severance damages valuation process must be addressed as per California Civil Code Sections 1263.410-450

Conservation Easements present a special appraisal problem and are becoming more common and widely used for resource land preservation. Typically the “Before and After” methodology should be used for the valuation of these easements. Generally the process includes the estimation of a value “as is” before implementation of the proposed easement; and then after implementation of the easement with a changed highest and best use reflecting the use restrictions imposed by the easement. The difference between these two value estimates represents the “value” of the conservation easement or more correctly stated the diminution in property value due to the impact of the easement.

## DGS APPRAISAL SPECIFICATIONS

The appraisal of Conservation Easements may be accomplished using information from the "Valuation of Conservation Easements Certificate Program" created by members of the Appraisal Foundation and the Land Trust Alliance as guidelines.

**Guideline** Sales of conservation easements to the state or to other public agencies or non-profit organizations should not be relied upon as a primary indication of the value of the conservation easement being appraised. This is because such purchases are made by a comparatively limited number of special interest buyers that occur within a relatively closed market that is not subject to traditional economic market forces within the open market. However, such sales may be used as support for non-conservation easement market data if it can be determined that the sales meet the test of an arm's-length transaction. If considered by the appraiser, any such sale requires complete analysis of the easement rights acquired and the particular terms and conditions of the sale, including any elements of a bargain sale or other rationale for a below market sale.

### 11) Subdivision Development Approach

If it can be demonstrated that there is too little or inadequate comparable market data available due to the extraordinary nature of the subject property or its Highest and Best Use, the Subdivision Development Approach may be utilized under conditions that include the use of verifiable data on the development potential of the land and what would be required for a development project to proceed, such as evidence that the development is legally, physically, and economically feasible, including adequate water supply and sewage disposal capacity.

**Guideline** The test of legally and physically feasible is best accomplished by having a current approved Tentative Map. This will also generally document water and septic/sewer availability. In the event a fully approved Tentative Map is not available, other strong verifiable data on the development potential of the land must be supplied, including a description of the progress made to date on securing an approved Tentative Map and a detailed discussion of the remaining obstacles to development and how they impact the likelihood of success.

The documentation and support for the economic feasibility of a potential development should come from evidence of market absorption and demand for the lots as subdivided. Market data, administrative costs and discount rates must be based upon verifiable data extracted from similar and/or competing projects.

All direct and indirect cost estimates associated with a proposed development of the property must be supported, either by an estimate from a registered civil engineer, documented based upon other similar development projects, or the actual costs identified in bids and/or construction documents for the proposed development.

Due to the significant number of variables and estimates required in this approach, and the resulting level of speculation, diligence should be used in the documentation and support of the variables and estimates used, so that the reader is confident that the analysis of development potential is reliable.

## DGS APPRAISAL SPECIFICATIONS

### 12) Implied Dedication

Consideration and discussion of Implied Dedication is required. A property may have a history of physical access by others which may or may not constitute implied dedication. Examples may include informal trails, and use of streams or ponds. A limited investigation should be conducted to identify and quantify the risks associated with Implied Dedication. It is not the responsibility of the appraiser to make a legal determination of Implied Dedication, but the appraisal report must address the issue and what impact, if any, it may have on the market value of the subject property.

**Guideline** The appraiser is directed to the Supreme Courts Goin-Deetz decision for guidance. The appraisers' investigation shall include a physical inspection of the subject property land area to locate paths, roads, trails, or any evidence of public use in areas not otherwise identified as a public right of way, an easement, permitted use, licensed use or use with posted permission. If evidence of access is directed toward a stream, river or coastal beach area the State Lands Commission should be consulted for potential public trust issues. The report shall include a discussion of the extent of the investigation and the basis of the conclusion.

**13)** Reconciliation and final value estimate. Fully explain and support conclusions reached. Consistent with USPAP the report must reconcile the quality and quantity of data available and analyzed, as well as the applicability and relevance of the approaches, methods and techniques used to arrive at the value conclusion.

**14)** Signed Certification consistent with language found in USPAP.

### 15) Telecommunication Site Appraisals

Appraisals of telecommunication sites (radio, microwave, cellular) must include a discussion of market conditions and trends including identification of the relevant market, a discussion of supply and demand within the relevant market area and a discussion of the relevant market factors impacting demand for site acquisition and leasing within the market area. This should include an analysis of other (ground and vault) leases comparable to subject property.

**Guideline** Factors to be discussed in the analysis include the latitude, longitude, type of tower, tower height, number of rack spaces, number of racks occupied, placement of racks, power source and adequacy, back-up power, vault and site improvements description and location on site, other utilities; access, and road maintenance costs.

### 16) Special Valuation Problems

On occasions when properties being appraised include personal property, business interests, water rights, minerals, or merchantable timber, a separate valuation may be necessary. If the appraiser determines that there are such property interests or rights requiring a separate valuation, the appraiser shall notify his/her client. The client may choose to modify the appraisal request to include a separate valuation by an appropriate

## **DGS APPRAISAL SPECIFICATIONS**

credentialed subject matter specialist. In such cases, the appraisal package submitted to DGS for review should include the real estate appraisal and a separate appraisal/valuation of the personal property, business interests, water rights, minerals, or merchantable timber by a credentialed subject matter specialist, together with a review of this separate appraisal/valuation by a second credentialed subject matter specialist.

DRAFT