

# Anatomy Of An Appraisal

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**The most important thing to know about an appraisal report is how to review and critique it.**

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**BEFORE REVIEWING** an appraisal report, you should be clear about three very important things: why to review the report; what to look for in the report; and the anatomy of the typical report. This article will outline all three of these things.

### 1. Why To Review An Appraisal Report

- To understand the strengths and weaknesses of the opposing sides' valuation case;
- To understand the qualifications and experience of the opposing appraiser;
- To understand how the opposing appraiser thinks or analyzes keys issues;
- To assess settlement options and advise client;
- To prepare deposition questions;
- To prepare for cross-examination;
- To prepare rebuttal case and opinions;
- To assess whether pretrial motions should be filed.

### 2. What To Look For In An Appraisal Report

- Credibility of valuation opinion;
- Opinions based on speculation or conjecture;
- Flaws in logic and reasoning;
- Errors or omissions;

- Incomplete valuation analysis;
- Misleading valuation analysis;
- Value or damages given for non-compensable elements;
- Whether opinion is consistent with actual facts;
- Failure to consider relevant facts;
- Extraordinary assumptions;
- Limitations on value conclusions;
- Irrelevant or unnecessary information provided;
- Utilization of improper appraisal methodologies;
- Faulty adjustments;
- Quality of written report;
- Definitions used;
- Thoroughness of underlying investigation;
- Opinions beyond expertise of appraiser;
- Reliance on other experts;
- Verification, confirmation, and reliability of data considered;
- Transparency and understandability of underlying basis for opinion.

Uniform Standards of Professional Appraisal Practice (USPAP) Standards Rule 2-1 provides that each written or oral real property appraisal report must:

- Clearly and accurately set forth the appraisal in a manner that will not be misleading;
- Contain sufficient information to enable the intended users of the appraisal to understand the report properly; and
- Clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment.

### **3. Anatomy Of Typical Appraisal Report In A Condemnation Action**

#### **a. Letter of Transmittal**

- When was the report transmitted?
- Who was it transmitted to?
- Date of report;
- Date of value used and why;
- Co-signors of the report;
- Type of appraisal under USPAP that is performed;
- Update of prior appraisal or stand-alone appraisal.

USPAP states at Standards Rule 2-2 that each written real property appraisal report must be prepared under one of the following three options and prominently state which option is used: Self-contained Appraisal Report; Summary Appraisal Report; or Restricted Use Appraisal Report.

#### **b. Standard Contingent and Limiting Conditions**

- Nature and type of limiting conditions;
- Number of limiting conditions;
- Impact of limiting conditions on opinion.

#### **c. Extraordinary Assumptions**

- Nature and type of extraordinary assumptions;
- Number of extraordinary assumptions;
- Impact of extraordinary assumptions on opinion.

USPAP defines an “extraordinary assumption” as “an assumption directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions. USPAP Standards Rule 1-2 (f) states that an extraordinary assumption may be used in an assignment only if:

- It is required to properly develop credible opinions and conclusions;
- The appraiser has a reasonable basis for the extraordinary assumptions;
- Use of the extraordinary assumption results in a credible analysis; and

- The appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

#### **d. Hypothetical Conditions**

- Nature, type, and purpose of hypothetical condition considered.

The USPAP Definitions define a “hypothetical condition” as “that which is contrary to what exists but is supposed for the purpose of analysis” (e.g. Appraising property that is known to be contaminated as though it is not).

#### **e. Jurisdictional Exceptions**

- Any legal instructions or guidelines that have been given to the appraiser and why.

USPAP defines a “jurisdictional exception” as an assignment condition established by applicable law or regulation, which precludes an appraiser from complying with a part of USPAP.

#### **f. Summary of Salient Facts and Conclusions**

- Review for what the appraiser believes are the most relevant facts regarding the subject property.

#### **g. Appraisal Assignment And Function**

- How has the appraiser defined the appraisal assignment?
- How has the appraiser defined the nature of the proceeding for which the appraisal will be used?
- How is the appraisal intended to be use?
- What is the nature of the project requiring the appraisal?
- Are federal funds involved?
- Is a review appraiser involved?
- Are other governmental entities involved?

USPAP Standards Rule 1-2 states that in developing a real property appraisal, an appraiser must:

- Identify the client and other intended users;
- Identify the intended use of the appraiser’s opinions and conclusions.

#### **h. Definitions**

- What definition and sources are used by appraiser for key terms like “fair market value,” “reasonable market value,” “specific benefits,” and “damages?”
- The terms that the appraiser chooses to define and why;
- Consistency of definitions used with Colorado Jury Instructions, case law, and statutory law.

USPAP Standards Rule 10-2(vi) provides that an appraiser must state the “standard (type) and definition of value and the premise of value and cite the source of the definition.”

#### **i. Property Rights Appraised**

- Fee simple estate (mineral and water interests);
- Leasehold interest;
- Permanent easement (specific terms and conditions);
- Temporary construction easement (term);
- Application of undivided basis rule.

#### **j. Identification of Subject Property**

- Adequacy of legal description of property to be appraised;
- Is the property being appraised the same as the property that was the basis of the negotiations?
- Is the property being appraised the same as the property that is being condemned?
- Any unresolved survey or boundary issues;
- Any unresolved size or square footage issues;
- Larger parcel or effected area issues;

- Whether improvements are part of the property being appraised or strictly land value;
- Site improvements that are impacted.

#### **k. Ownership History**

- Identification of record owner of property;
- Any questions regarding state of title or ownership (whether appraiser reviewed title information or a commitment);
- Relevant encumbrances or easements;
- Recent sales, listings, offers or options.

USPAP Standards Rule 1-5 requires the appraiser to “analyze all agreements of sale, options, and listings of the subject property current as of the effective date of the appraisal; and analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.”

#### **l. Regional/Neighborhood Description**

- Regional and neighborhood demographics and influences;
- What is the appraiser’s definition of “neighborhood”?
- Statistical information;
- General development trends;
- Development projects;
- Competing projects.

#### **m. Market Conditions**

- How does appraiser describe the overall market leading up to and as of date of value?
- Has the appraiser reviewed relevant market indicators (i.e. building permits, number of foreclosures, vacancies, new projects coming on line, competing projects, available inventory, etc.);
- What information has the appraiser used to justify market (time) adjustment?

#### **n. Site Analysis**

- Date, time, and place of property inspection;
- Documents and materials examined;
- Expert reports that have been reviewed;
- Location;
- Size;
- Shape;
- Access;
- Zoning, platting, and other development approvals;
- Topography and terrain;
- Utility availability;
- Water rights;
- Mineral severance;
- Physical encumbrances;
- Floodplain;
- Reservations and buffer areas.

#### **o. Assessed Valuation and Taxes**

- How does the assessed value compare to appraiser’s value?
- Any discrepancies between site characteristics used by assessor versus those used by appraiser, e.g. square footage or size issues;
- Are taxes delinquent?
- Are there any tax liens on the property?
- Is there any indication that the owner has protested taxes?

#### **p. Highest and Best Use**

- Legal permissibility;
- Physically possible;
- Financially feasible (underlying data);
- Maximally productive;
- Reasonable probability issues;
- Credibility issues;
- Inconsistent highest and best uses;
- Interim uses;
- Multiple highest and best uses;
- Alternative highest and best uses.

USPAP Standards Rule 1-3 states that an appraiser must “develop an opinion of the highest and best use of the real estate,” after analyzing the relevant legal, physical and economic factors.

#### **q. Appraisal Methodology**

- Discussion of three traditional appraisal methods;
- Justification given for using a non-traditional appraisal method (e.g. special use property);
- Rationale behind selection of methodology or methodologies to be employed;
- Whether methodology selected conforms to the law.

#### **r. Application of Relevant Approaches**

- Characteristics of comparable sales selected;
- Conditions of sales;
- Market condition (time);
- Adjustments and methodology;
- Confirmation with buyers and sellers;
- Lease or rental data used;
- Other income information;
- Expense information;
- Cap rate selected;
- Cost information.

#### **s. Description of Parts Taken**

- Description of the takings;
- Location of the takings;
- Physical condition of the taking areas;
- Site improvements within the taking areas;
- Relationship of the taking areas to remainder parcel;
- Use of the taking areas in relationship to use of the remainder parcel;
- Maps, drawings, right of way plans.

#### **t. Specific Benefits and/or Damages**

- Has the appraiser adequately described the relevant details of the project in order to assess damages and/or benefits?

- Has the appraiser adequately described relevant project impacts, both positive and negative?
- Has the appraiser reviewed the most current construction plans?
- Analysis of specific benefits and damages;
- Is appraiser relying on opinions of other experts?
- Do the specific damages or benefits being considered comport with the law?

#### **u. Value of Remainder Before Taking**

- Generally a mathematical calculation.

#### **v. Value of Remainder After Taking**

- Discussion of specific benefits;
- Discussion of damages;
- Discussion of cost to cure issues;
- Quantification of benefits or damages;
- Value conclusion.

#### **w. Summary of Final Value Estimates**

- Reconciliation of value conclusions;
- Summary chart.

See USPAP Standards Rule 1-6, which states that in developing a real property appraisal, an appraiser must:

- Reconcile the quality and quantity of data available and analyzed within the approaches used; and
- Reconcile the applicability and relevance of the approaches, methods and techniques used to arrive at the value conclusion(s).

#### **x. Certificate of Appraisal**

- Is the certification complete?

USPAP Standards Rule 2-3 states that each written real property appraisal report must contain a signed certification that is similar in content to the following form:

- The statements of fact contained in this report are true and correct;
  - The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions;
  - I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
  - I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
  - My engagement in this assignment was not contingent upon developing or reporting predetermined results;
  - My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
  - My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice;
  - I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a Personal inspection of the appraised property);
  - No one provided significant real property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant real property appraisal assistance must be stated.)
- y. Professional Qualifications**
- Examined for past or current clients;
  - Examined for past or current appraisal assignments;
  - Articles that have been written;
  - Courses that have been taken;
  - Deposition testimony;
  - Extent of court testimony.
- z. Addendum Exhibits**
- What is included and why.

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