Appraisal Specifications for Appraising Real Property for the Healthy Forests Reserve Program (HFRP)

A. Appraisal Specifications

(1) The United States of America, acting through the U.S. Department of Agriculture (USDA), Natural Resources Conservation Service (NRCS), is considering purchasing a conservation easement to assist the landowner in protecting, restoring, and enhancing the forestland resources on private lands. The objectives of Healthy Forest Reserve Program (HFRP) are to promote the recovery of endangered and threatened species, improve plant and animal biodiversity and enhance carbon sequestration. These lands may be placed under a conservation easement through HFRP.

(2) All appraisals completed for this program must comply with Uniform Standards of Professional Appraisal Practice (USPAP) and appraisal instructions issued by NRCS.

B Appraiser Qualifications

Appraisers must—

(i) Be State-certified general real property appraisers or obtain a temporary practice permit in the State or States where the subject property is located.

(ii) Be in good standing with the licensing authority where the credential was issued.

(iii) Have demonstrated competency in compliance with USPAP in conducting appraisals of agricultural properties with and without conservation easements of the requested type.

(iv) Give the NRCS authorized official documentation of appraisal education courses attended, including eminent domain or conservation easements. The documentation must be provided to the NRCS authorized official prior to issuing any work order.

C. Purpose of Appraisal Reports

(1) The purpose of the appraisals is to provide an opinion of market value, as defined below, of the subject property proposed easement area before acquisition of an easement (before value) and an opinion of market value of the subject property after the proposed easement has been placed (after value) as of a current date of value. The appraiser must recognize that in a before and after appraisal, the partial interest being acquired is not actually being appraised.

(2) The purpose of two opinions of value is to establish the effect on value resulting from the imposition of a conservation easement. The compensation for the easement is the before value minus the value of the property as encumbered by the HFRP Conservation Easement Deed, after value, if there are not adjustments, such as excess irrigation water rights explained below, that would equal the price of the easement. The appraisals must be completed in compliance with USPAP and NRCS appraisal instructions.

D. Market Value Definition

(1) The following market value definition will be stated and used in developing and reporting this assignment:

"Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the

buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised and acting in what they consider their own best interests;
- A reasonable time is allowed for exposure to the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal considerations for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

(2) No other definition of market value is acceptable.

E. Background for Appraisal Report

(1) Prepare two opinions of value of the subject property proposed easement area: one prior to placement of the easement (before value) and one after placement of the easement, considering the effects of the easement (after value). The "after" condition will be based upon a hypothetical condition that the conservation easement is in place and the effects on value that may be created.

(2) Irrigation water rights that are owned and used on the subject property proposed easement area will be valued in the "before" appraisal. The appraiser will document whether or not any portion of these irrigation water rights can be removed from the subject property. If the irrigation water rights can be removed from the property, the appraiser will provide a value opinion of each irrigation water right. The appraiser will consider only the irrigation water rights required to be retained on the subject property, as identified by NRCS in the "after" appraisal.

(3) Irrigated units may have excess irrigation water rights in the after condition due to land-use change. If the excess irrigation can be sold or leased, the appraiser will provide a value opinion of the excess irrigation water rights, and it will be deducted from the difference between the before and after values. This is necessary to determine compensation for rights obtained by the Federal Government and rights retained by the property owner.

(4) The client is USDA/NRCS and any other specific organization or entity that may be involved in the specific transaction, unless otherwise directed by the client.

(5) Intended user should be identified as USDA/NRCS unless otherwise directed by the client.

(6) Intended use will be for USDA/NRCS consideration in determining the effect on the value of the conservation easement of lands entering into the HFRP.

(7) Exclusions of approaches to values, as stated in USPAP, must be strongly supported with solid reasoning.

(8) Property rights to be appraised will be surface rights; improvements, such as houses, barns, sheds, and fencing; timber, orchards, or other permanent plantings; and any irrigation water rights. The irrigation water rights include wells, ditches, reservoirs, ponds, and lakes that provide irrigation on the subject property. The value of any standing timber will be considered by a timber cruise and included in any valuations. Other permanent plantings located on the subject property will be appraised and included in any valuations. The appraiser will be responsible for obtaining the timber cruise. Special attention should be given to the restrictions in the HFRP forest

management conservation plan together with the provisions and prohibitions required by the HFRP conservation easement deed and restoration plan.

(9) The after value will include consideration of the planned restoration activities as being installed. Selection of comparable sales will be based upon similar encumbered properties that have similar circumstances for restoration potential.

F. Information Provided by USDA/NRCS to the Appraiser

(1) Aerial photograph of the subject property with the location of the proposed easement area identified, access to the easement area identified, easement boundary identified, and an estimate of the acres in the proposed easement identified.
(2) Legal description of subject property owned.
(3) Preliminary legal description of the proposed easement area (survey to be completed later).

Example: "On attached aerial photograph, approximately 10.5 (outlined in dark ink) acres located in the NW ¼, NW 1/4 of Section 10 T55N R20W of 5th PM."

(4) Aerial photograph indicating the location and acreage of any conservation agreement, contract, or easement of any type that is associated with the proposed easement area.
(5) When crop base is included within the easement area, a copy of the completed Farm Service Agency (FSA) Form CCC-505 executed by the landowner for crop base located on the proposed easement area. This form will not be processed by FSA until the easement is closed. The appraiser will verify the amount of crop base to be retired or moved on the proposed easement area and if any remaining crop base exists on the easement area. Documentation of production data will be provided to NRCS by landowner.

Note: Any crop base or allotment acquired by NRCS must be retired from Federal Government programs.

(6) Documentation provided by NRCS will identify the volume of irrigation water rights to be retained for the subject property in the after condition as necessary to ensure the function of the forestry operation and other habitat conservation values.
(7) Copy of Title 440, Conservation Programs Manual (CPM), Part 511, Subpart G, "Easement Valuation"
(8) Recorded landowner's name, address, and telephone number.
(9) Written permission from the landowner or an authorized representative authorizing the assigned appraiser to enter the property for appraisal purposes.
(10) Specific details of any existing easements, reservations, or other restriction currently encumbering the subject property as provided by the landowner.
(11) Current information about the status of ownership, such as copies of deeds.
(12) Completed Preliminary Certificate of Inspection and Possession (Subpart I, Exhibits, Section _____), Hazardous Substance Examination Checklist (Subpart I, Exhibits, Section _____), and any available information pertaining to the probability of existence of hazardous substances that might be found on the property to be appraised.
(13) Documentation of water rights owned, including wells on the property to be appraised.
(14) Copy of the HFRP conservation easement deed (Subpart I, Exhibits, Section _____).
(15) Copy of the completed HFRP forest management conservation plan of the proposed easement area and a copy of the restoration plan.

G. Appraisal Report Requirements

(1) The appraisal or appraisals must meet the requirements of the USPAP and appraisal instructions issued by NRCS as a self-contained appraisal report.

(2) The appraisal report can consist of a form report, a narrative report, or a combination of the two. The appraisal report must comply with USPAP NRCS appraisal instructions and must use the following guidelines, as stated in these standards.

(i) Restricted-use reports are not acceptable.

(ii) The contract appraiser must personally inspect the subject property and comparable sales.

(iii) The appraiser must talk personally to the property owner or the owner's agent or representative, and the property owner or the owner's agent or representative must be given an opportunity to accompany the appraiser during his or her inspection of the subject property. This contact must be documented in the appraisal.

(iv) The Uniform Residential Appraisal Report (URAR) is not acceptable.

(v) Reports must contain a table of contents and sequentially numbered pages, including addenda. Reports may contain handwritten page numbers.

(vi) Reports must reference all environmental documents utilized by the appraiser in completing the appraisal. The environmental documentation as provided by NRCS will be required in the appraisal report in addition to any other factors the appraiser observes during the site inspection. The appraiser is a key individual in identifying potential environmental problems that may affect the value of the subject property.

(vii) The appraiser will contact NRCS or its designated client to resolve problems and clarify questions, letters of engagement (call orders), or other issues. Issues relating to the appraisal process will be discussed with the technical review appraiser, who will keep NRCS or its designated client advised of such discussions.

(viii) The effective date of the appraisal report is the date the property was personally inspected by the appraiser.

(ix) The appraiser will prominently state any crop base and allotment history located in the easement area and if any of the crop base or allotment has been included in the value.

(x) The appraisal or appraisals must be in typewritten or legible ink print form, automated or computerized form, or both.

(xi) Only reports completed and submitted on 8½- by 11-inch paper will be accepted.

(xii) The appraisal report must be placed in a durable report cover with appropriate identification.

(xiii) The appraiser must provide three originals of the appraisal or appraisals to NRCS. Reference the above instructions, including exhibits, for details on appraisal reports, appraisal forms required, and required methodology and supporting documentation.

H. Required Elements for HFRP Appraisals

(1) Part 1. Introduction

(i) Title page

(ii) Letter of transmittal

(iii) Table of contents

(iv) Appraiser's certification, including the following:

"I have made a personal inspection of the appraised property that is the subject of this report and all comparable sales used in developing the opinion of value. The date of inspection was _____, and the method of inspection was _____." (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property and sales. The contract appraiser must inspect the appraised property.)

In my opinion, as of ___[date]_____, the market value of the easement parcel before conveyance of the partial interest is $_____, and the market value of the easement parcel after conveyance of the partial interest is $_____.

By: [signature]

Print Name

Printed Name and Professional Accreditation

State Certification #

(v) Summary of salient facts.

(vi) Photographs of subject property. Provide original color photographs or high-quality color copies of photographs of the appraised property. Photographs may be a separate exhibit in the addenda or included with the narrative description of the appraised property and comparable sales. Show the following information with each photograph:

- Identify the photographed scene. Indicate direction of view, vantage point, and other pertinent information. An aerial photograph should be used to show the location of the photos.
- The name of the photographer.
- The date the photograph was taken.

(vii) Statement of assumptions and limiting conditions.

- All appraisal reports submitted to NRCS for review become the property of the United States and may be used for any legal and proper purpose. Therefore, a condition that limits distribution of the report is not permitted.
- If the appraisal has been made subject to any encumbrances against the property, such as easements, that must be stated. It is unacceptable to state that the property has been appraised as if free and clear of all encumbrances except as stated in the body of the report; the encumbrances must be identified in this section of the report.
- The use of an uninstructed assumption or hypothetical condition that results in other than "as-is" market value will invalidate the appraisal. Include only factors relating to the appraisal problem. Assumptions and limiting conditions that are speculative in nature are inappropriate. Do not include limiting conditions that significantly restrict the application of the appraisal.
- A contract appraiser cannot make an assumption or accept an instruction that is unreasonable or misleading. Client instructions must have a sound foundation, be in writing, and be included in the appraisal report.

(viii) Scope of the Appraisal

- This section must fully describe the extent of investigation and analysis. The scope of work should be consistent with the intended use of the appraisal.

- Identify the appraisal as a partial acquisition case appraisal. Describe the part being conveyed and the principal differences in the property in the before and after conditions. Describe the before and after methodology to be used.
- Purpose of the appraisal will be as stated in section 511.32.

(ix) Summary of the appraisal problem.

(2) Part 2. Factual Data

(i) Legal description

(ii) Area, city, and neighborhood data

(iii) Property data

(iv) Site

(v) Improvements

(vi) Fixtures, livestock and forage production structures, and facilities

(vii) Use history

(viii) Sales history

- Include a 3-year record of all sales of the appraised property and, if the information is available, offers to buy or sell. If no sale has occurred in the past 3 years, the appraiser must report the last sale of the property, irrespective of date.

(ix) Rental history

- A 3-year rental history is required. An unsupported statement that the rent does not represent market or economic rent is unacceptable.

(x) Assessed value and annual tax load

(xi) Zoning and other land-use regulations

(xii) The contract appraiser must identify, in addition to zoning, all other land-use and environmental regulations, outstanding rights, and reservations that have an impact on the highest and best use and value of the property.

(xiii) Appraised property map or plat.

(xiv) Show the dimensions and topography of the appraised property in detail on a large-scale topographic map, at least 2 inches to the mile. The map may be placed here or in the addenda.

(3) Part 3. Data Analysis and Conclusions Before Acquisition

Analyses of highest and best use

- For acquisition appraisals, highest and best use is defined as, "The highest and most profitable use for which the property is adaptable and needed or likely to be needed in the reasonably near future." The contract appraiser may also refer to definitions as found in "The Dictionary of Real Estate Appraisal."
- The highest and best use conclusion must be clearly supported by market evidence. Sale or exchange to the United States or other public entity is not an acceptable highest and best use. The use to which the Federal Government will put the property after it has been acquired is, as a general rule, an improper highest and best use. A noneconomic highest and best use, such as "conservation," "natural lands," "preservation," or any use that requires the property to be withheld from economic production in perpetuity, is not a valid use upon which to base an estimate of market value.
- If the highest and best use is for assemblage, describe and explain the relationship of the appraised property to the property to which it would be joined.

- If speculation or investment is the highest and best use of the property, describe and explain its interim and most probable ultimate use.
- When there is a claim that the highest and best use of a property is something other than the property's existing use, the burden of proof is on the contract appraiser.

(2) Market value cannot be predicated upon potential uses that are speculative and conjectural.

The contract appraiser's opinion of a reasonable probability of a zoning change must have a factual foundation. The appraisal report must include a description of the investigation undertaken to determine the probability of rezoning. The investigation must include thorough research of the uses and zoning of properties situated similarly to the subject property within the area covered by the zoning authority. The stated rezoning conclusion must be supported by facts surfaced in the research. A property cannot be valued as if it were already rezoned for a different use. The property must be valued only in light of the probability of obtaining a zoning change.

(3) Land valuation

(i) Value estimate by the cost approach

(ii) Estimate the value of the land as though vacant and available for its highest and best use. Estimating land value by the use of confirmed sales of comparable, or nearly comparable, lands having like optimum uses is the preferred method.

(iii) Value estimate by the sales comparison approach

(iv) Nearby arm's length transactions, comparable to the land under appraisement, and reasonably current, are the best evidence of market value.

(v) Analyze the last sale of the subject property if relevant. If not used, explain why. An unsupported claim that a sale of the subject property was a forced sale or is not indicative of its current value is unacceptable.

(vi) When supportable by market evidence, the use of quantified adjustments is preferred. Percentage and dollar adjustments may, and often should, be combined. Resort to qualitative adjustments only when there is inadequate market data to support quantitative adjustments. Factors that cannot be quantified are dealt with in qualitative analysis. When quantitative and qualitative adjustments are used in the adjustment process, all quantitative adjustments should be made first.

(vii) Include a sales adjustment chart summarizing the adjustments and showing the final adjusted sale prices and how the sales compare with the subject property.

(4) The documentation of each comparable sale must include the following:

(i) Parties to the transaction

(ii) Date of transaction

(iii) Confirmation of the transaction

- Confirm the transaction with the buyer, seller, broker, or other person having knowledge of the price, terms, and conditions of sale documented by names.

(iv) Buyer motivation

(v) Location

(vi) Size

(vii) Legal description

(viii) Property rights conveyed

(ix) Consideration

(x) Financing terms

(xi) Sale conditions

- Verify if the sale was an arm's length or distressed sale.

(xii) Improvements
(xiii) Physical description
- Describe topography, vegetative cover, water influence, improvements, irrigation water, soils, and other characteristics.

(xiv) Nonrealty items
(xv) Economic characteristics
(xvi) Zoning
(xvii) Current use
(xviii) Topographic map
(xix) Photographs
- In order to make meaningful comparisons between the sales and the appraised property, NRCS requires inspection of all sales directly compared with the appraised property. Waiver of the comparable sale inspection requirement must be made in writing by an authorized official in the form of a supplemental appraisal instruction. The requirement for inspection of the appraised property may not be waived.
- Include a list of the sales considered, but not actually used, in the addenda. Cite pertinent facts such as date, size, buyer and seller, price, terms, and location and explain why each sale was not used.

(xx) Value estimate by the income approach
- All data must be market supported.

(xxi) Correlation and final estimate
- The contract appraiser must avoid making a summation appraisal.
- Appraisers are responsible for the final opinion of value even if it relies upon estimates developed by others (such as timber cruisers or cost estimators). Value estimates developed by others are the appraiser's responsibility, if needed.

(5) Part 4. Factual Data After Acquisition
(i) Legal description
(ii) If only a portion of the bundle of rights pertaining to a specific parcel of real estate is being acquired, this will be the same as in the before condition.
(iii) If the partial interest being acquired is only a portion of the property rights associated with the parcel, the rights being acquired are outstanding rights for the after appraisal.
(iv) Neighborhood factors
(v) Property data
(vi) Site
(vii) Improvements
(viii) Fixtures
(ix) History
(x) Assessed value and annual tax load
(xi) Zoning and other land-use regulations

(6) Part 5. Data Analysis and Conclusions After Acquisition
(i) Analysis of highest and best use
(ii) Land valuation
(iii) Value estimate by cost approach
(iv) Value estimate by sales comparison approach
(v) Value estimate by income capitalization approach
(vi) Correlation and final value estimate

(7) Part 6. Acquisition Analysis

(i) Recapitulation

(ii) Show the difference between the value of the entire property and the value of the remainder by deducting the property's after value from its before value.

(8) Part 7. Exhibits and Addenda

(i) Location map

- Maps must clearly identify the property and be of sufficient quality to enable the review appraiser to locate the property on the ground. Maps must be dated and include a legend, scale, and north arrow. The original copy of the report must contain original maps or vivid color copies.
  -- Area Map.—This is a small-scale map showing the general location of the subject market area.
  -- Neighborhood Map.—This map shows the appraised property and its immediate neighborhood.
  -- Tract Map or Plat.—This is a large-scale (2 inches per mile) U.S. Geological Survey (USGS) or similar quality map that shows the appraised property and pertinent physical features such as roads, streams, and improvements. If portions of the appraised property are assigned separate contributory values to the whole, these areas must be delineated on this map or on a separate map.

(ii) Comparable data maps

- This map must show the location of the appraised property and the sales. Delineate the boundaries of the appraised properties and comparable sales when the map is of sufficient scale to be meaningful. If all pertinent comparable sales cannot be shown on the same map as the appraised property, a smaller-scale map (such as a State road map) may be included in addition to the larger-scale map.

(iii) Detail of comparative data

- Include a completed form showing all information for each comparable transaction used in the appraisal. Include a plat (if available), a USGS topographic map (if appropriate), and color photographs of each sale. The transaction number must match the number of the transaction listed in the report.

(iv) Plot plan

(v) Floor plan

(vi) Title evidence report

- Include a copy of the preliminary title report for the non-Federal land, if available.

(vii) Other pertinent exhibits

- Present additional data, such as documents and charts pertinent to the valuation and referred to in the body of the appraisal. Exhibits may include the following:
  -- A copy of the conservation easement deed, timber management plan, and restoration plan.
  -- A copy of technical reports from specialists. This may include a timber cruise summary signed by a timber cruiser or a road plan signed by an engineer.
  -- Property owner permission to appraise.

(viii) Qualifications of appraiser

- Include the qualifications of all contract appraisers or technicians who made significant contributions to the completion of the appraisal assignment. The

contract appraisers must provide evidence of compliance with the certification requirements of the States where the properties are located.

I. Appraisal Reviews

(1) All appraisal reports are subject to a technical appraisal review conducted for compliance with NRCS appraisal instructions and USPAP before acceptance by NRCS as determined by NRCS. If any deficiencies are found, the appraisal report will be returned to the appraiser for revisions, additional support or explanation, or corrections. All revisions will be subjected to an appraisal review for compliance with the original instructions and acceptance as stated above.

(2) Any revisions to the appraisal report required by the technical review must be completed and returned to the Government within 14 calendar days of the verified date of receipt of the requested information by the appraiser. NRCS will only submit revised appraisal reports to the technical reviewer a maximum of two times. If, after the second submission, the report is still found to be unacceptable, the report will be rejected, disapproved, or both. The review appraiser will clearly show why the appraisal report is inadequate.

J. Format for Supplemental Appraisal Reports

Supplements or amendments to appraisal reports, such as for corrections or additional documentation, updating value estimates, changes in acreage, change in actual land location, or title conditions must be referenced for incorporation with the original report in accordance with USPAP. The following format is recommended. All items must be addressed.

(i) Title Page
- Include the same information as on the original appraisal report. Label the report as a "supplemental appraisal report."

(ii) Summary of Facts
- Include each of the following:
  -- Owner's name or other identification of the property
  -- Size
  -- Highest and best use
  -- New estimate of value
  -- New valuation date

(iii) Summary of Original Appraisal
- Cite the date and value opinion from the original appraisal. If previous updates have been made since the original appraisal, cite value opinions and value dates from all updates as well as the original appraisal.

(iv) Changes
- Explain the reason for the appraisal supplement, such as to update an opinion of value, amend a previous appraisal report, add additional support or explanation, or other.

(v) New Opinion of Value
- Identify the changes and market activity that have occurred since the original appraisal (or previous update). Specify the method used to update the opinion of value and cite the evidence, analysis of trends, or both that support the updated value opinion. Conclude with a statement of the new opinion of value and the valuation date, followed by the contract appraiser's signature.

(vi) Certification

The appraiser must recognize that in a before and after appraisal, the partial interest being acquired is not actually being appraised; what is appraised is the parcel before and after the conveyance of the partial interest. Follow the USPAP guidelines required for certification as follows:

"I have made a personal inspection of the appraised property that is the subject of this report and all comparable sales used in developing the opinion of value. The dates of inspection were _____, and the method of inspection was _____." (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property and sales. The contract appraiser must inspect the appraised property and sales.)

In my opinion, as of ___[date]_____, the market value of the parcel before conveyance of the partial interest is $_____, and the market value of the parcel after conveyance of the partial interest is $_____.

By: [signature]

Print Name

Printed Name and Professional Accreditation

State Certification #

(vii) Addenda

- Include sales data detail for new sales cited, summaries of data and trend analyses, maps of sales analyzed, and any other information relied upon but not included in the text.

(viii) Binding

- If the supplemental appraisal report is more than four pages long, place it in a durable report cover with appropriate identification.