

# Guide For Preparing An Appraisal Scope Of Work

The Scope of Work is a written set of expectations that form an agreement or understanding between the appraiser and the agency as to the specific requirements of the appraisal, resulting in a report to be delivered to the agency by the appraiser. It includes identification of the intended use and intended user; definition of fair market value; statement of assumptions and limiting conditions; and certifications. It should specify performance requirements, or it should reference them from another source, such as the agency's approved Right-of-Way or Appraisal Manual. The Scope of Work must address the unique, unusual and variable appraisal performance requirements of the appraisal. Either the appraiser or the agency may recommend modifications to the initial Scope of Work, but both parties must approve changes.

**SCOPE OF WORK:** The appraiser must, at a minimum:

1. Provide an appraisal meeting the agency's definition of an appraisal. *The definition of appraisal should be in the State DOT's FHWA-approved Right-of-Way or Appraisal Manual. For Federal-aid projects the definition must be compatible with the definition found at 49 CFR 24.2(a)(3).*
2. Afford the property owner or the owner's designated representative the opportunity to accompany the appraiser on the inspection of the property. *How this is to be handled should be in the State DOT's FHWA-approved Right-of-Way or Appraisal Manual.*
3. Perform an inspection of the subject property. *This should be specified in the State DOT's FHWA-approved Right-of-Way or Appraisal Manual.* The inspection should be appropriate for the appraisal problem, and the Scope of Work should address:
  - The extent of the inspection and description of the neighborhood and proposed project area,
  - The extent of the subject property inspection, including interior and exterior areas,
  - The level of detail of the description of the physical characteristics of the property being appraised (and, in the case of a partial acquisition, the remaining property),
4. In the appraisal report, include a sketch of the property and provide the location and dimensions of any improvements. *Also, it should include adequate photographs of the subject property and comparable sales and provide location maps of the property and comparable sales as called for in the State DOT's FHWA-approved Right-of-Way or Appraisal Manual.*
5. In the appraisal report, include items required by the acquiring agency, usually including the following list: *This should be in the State DOT's FHWA-approved Right-of-Way or Appraisal Manual.*
  - The property right(s) to be acquired, e.g., fee simple, easement, etc.,
  - The value being appraised (usually fair market value), and its definition
  - Appraised as if free and clear of contamination (or as specified),
  - The date of the appraisal report and the date of valuation,
  - A realty/personalty report is required per 49 CFR 24.103(a)(2)(i),
  - The known and observed encumbrances, if any,
  - Title information,
  - Location,
  - Zoning,
  - Present use, and
  - At least a 5-year sales history of the property.
6. In the appraisal report, identify the highest and best use. If highest and best use is in question or different from the existing use, provide an appropriate analysis identifying the market-based highest and best use.
7. Present and analyze relevant market information. *Specific requirements for market information should be in the State DOT's FHWA-approved Right-of-Way or Appraisal Manual.*

*Manual and should include research, analysis, and verification of comparable sales. Inspection of the comparable sales should also be specified.*

8. In developing and reporting the appraisal, disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired, or by the likelihood that the property would be acquired for the project. *If necessary, the appraiser may cite the Jurisdictional Exception or Supplemental Standards Rules under USPAP to ensure compliance with USPAP while following this Uniform Act requirement.*
9. Report his or her analysis, opinions, and conclusions in the appraisal report.

## **Additional Requirements For A Scope Of Work**

**INTENDED USE:** This appraisal is to estimate the fair market value of the property, as of the specified date of valuation, for the proposed acquisition of the property rights specified (i.e., fee simple, etc.) for a Federally assisted project.

**INTENDED USER:** The intended user of this appraisal report is primarily the acquiring agency, but its funding partners may review the appraisal as part of their program oversight activities.

**DEFINITION OF FAIR MARKET VALUE:** This is determined by State law, but includes the following:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, each acting in what he or she considers his or her own best interest;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
5. 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.

**CERTIFICATION:** *The required certification should be in the State DOT's FHWA-approved Right-of-Way or Appraisal Manual.*

**ASSUMPTIONS AND LIMITING CONDITIONS:** The appraiser shall state all relevant assumptions and limiting conditions. In addition, the acquiring agency may provide other assumptions and conditions that may be required for the particular appraisal assignment, such as:

- The data search requirements and parameters that may be required for the project.
- Identification of the technology requirements, including approaches to value, to be used to analyze the data.
- Need for machinery and equipment appraisals, soil studies, potential zoning changes, etc.
- Instructions to the appraiser to appraise the property "As Is" or subject to repairs or corrective action.
- As applicable include any information on property contamination to be provided and considered by the appraiser in making the appraisal.

## Appraisal Review

### 49 CFR 24.104

#### Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, Section 301

It is the responsibility of the acquiring agency to review all appraisal and specialty reports of real property to be acquired in connection with Federal-aid programs or projects and to establish an amount which it believes to be just compensation for such acquisition before the initiation of negotiations.

The Federal regulation, **49 CFR 24.104** requires that:

- a. A qualified review appraiser (see 49 CFR 24.103(d)(1) and appendix A, 24.104) shall examine the presentation and analysis of market information in all appraisals to assure that they meet the definition of appraisal found in 49 CFR 24.2(a)(3), appraisal requirements found in 49 CFR 24.103 and other applicable requirements.
- b. If the review appraiser is unable to recommend (or approve) an appraisal as an adequate basis for the establishment of the offer of just compensation, and it is determined by the acquiring agency that it is not practical to obtain an additional appraisal, the review appraiser may, as part of the review, present and analyze market information in conformance with 49 CFR 24.103 to support a recommended (or approved) value.

The purpose is to ensure that a qualified review appraiser determines the estimate of fair market value (FMV) is reasonably supported by an acceptable appraisal. Waiver valuations are not appraisals and therefore are not subject to the review requirement. The review appraiser plays an important role in the acquisition process and is charged with a great deal of valuation and administrative responsibility.

Before acceptance of an appraisal, the review appraiser will determine that the appraiser's documentation, including valuation data, demonstrates the soundness of the appraiser's opinion of value. The level of explanation for the reviewer's recommended or approved value depends on the complexity of the appraisal problem.

### SUMMARY

The review of all appraisals made in connection with Federal-aid projects or programs is required. This chapter deals with how appraisal should be reviewed to meet Federal and state requirements.

The review appraiser's certification and the recommended or approved value of the property should be set forth in a signed written statement which identifies the appraisal report(s) reviewed and contains whatever explanation is necessary to support the recommended value. In the case of a partial taking, damages or benefits, if any, to the remaining property shall also be identified in the review appraiser's statement.

An appraisal review is a technical review of an appraisal by an experienced, competent, qualified review appraiser. Appraisal review is a critical quality control element in the valuation/acquisition process. In some agencies, the review appraiser acts for the agency in estimating the just compensation to be offered for the acquisition. An appraisal review is not only an arithmetic or grammatical review of an appraisal report. It is a comprehensive technical examination of the appraisal, as reported by the appraiser.

## 8.1. REVIEW CONSIDERATIONS

The review appraiser has many responsibilities in the evaluation of an appraisal report. The first involves reviewer objectivity. An appraisal is an estimate of value based on certain valuation related information and conclusions. It is the reviewer's responsibility to determine if a report (or reports) contains factual information, proper documentation and appropriately supported conclusions. The reviewer will assure that the report conforms to applicable laws and regulations.

The review appraiser should field inspect the appraised property and the comparable sales included in the report. If a field inspection cannot be made, the review appraiser should document the files explaining why such an inspection was not made.

The reviewer should examine the appraisal report to determine the following:

- a. That it has been completed in accordance with the state Department of Transportation (DOT) appraisal specifications in the procedural manual or the contract scope of work in the case of contract or fee appraisers.
- b. That it follows accepted appraisal principles and techniques in the valuation of real property in accordance with state law as set out in chapter 7.
- c. That it contains or makes reference to the information necessary to explain, substantiate, and thereby document the conclusions and estimate of FMV.
- d. That it includes consideration of compensable items, damages, and benefits, if any, and does not include compensation for items that are non-compensable under state law.
- e. That it contains identification, including ownership, of the buildings, structures, and improvements on the land, the fixtures which were considered as part of the real property, and items identified as personal property.
- f. That it contains an estimate of FMV for the acquisition, and as appropriate in the case of a partial acquisition, an allocation of the estimate of FMV for the real property and for damages to the remaining property.

Prior to approving or recommending approval of an estimate of just compensation, the review appraiser should request and obtain from the appraiser any needed corrections or revisions to a deficient appraisal report. The appraisal(s) are to satisfy the acquiring agency's appraisal report specifications. Any corrections and/or revisions should be documented and retained in the parcel file. The review appraiser may make minor corrections, such as mathematical ones, and note and initial his/her action. Likewise, the review appraiser may make comments and provide additional supporting data as necessary, while initialing them.

The review appraiser should not substitute his/her judgment for that of the appraiser, but where the review appraiser finds analytical and/or factual deficiencies in the appraisal report, remedial action should occur. The review appraiser should first ask the appraiser to consider making the required corrections in the appraisal report. Any needed factual data or analytical changes that cannot be handled this way require that the review appraiser, in the review report, in effect become the appraiser and assume the burden of substantiating and documenting the valuation in accordance with recognized appraisal standards such as set out in chapter 7. The appraisal report itself should not be changed by the review appraiser.

Upon completion of the review, the review appraiser should place in the parcel file a signed and dated statement setting forth:

- a. The estimate of just compensation including, when applicable, an allocation of compensation for the real property acquired and for damages to the remaining real property, and an identification or listing of the buildings, structures and other improvements on the land as well as the fixtures which are considered to be a part of the

- real property to be acquired, if such allocation or listing differs from that in the appraisal(s).
- b. That as a part of the appraisal review, there was or was not a field inspection of the parcel to be acquired and the comparable sales. If a field inspection was not made, the reason(s) should be recited.
  - c. That the review appraiser has no direct or indirect present or contemplated future personal interest in the property or in any monetary benefit from its acquisition.
  - d. The estimate of just compensation has been reached independently, without collaboration or direction, and is based on appraisals and other factual data.
  - e. If appropriate, a value estimate of items compensable under state law but not eligible for Federal reimbursement.
  - f. Which appraisal is recommended as the basis for establishing the estimate of just compensation; which are accepted or not accepted.

## **8.2. REVIEW APPRAISER QUALIFICATIONS**

A review appraiser is a thoroughly qualified appraiser who is completely familiar with the type of appraisal problem being reviewed and the techniques required to address that problem. The review appraiser will be completely familiar with the agency's appraisal and other relevant requirements. It is very difficult for an individual who does not meet both of these qualifications to provide an appropriately thorough appraisal review for an acquiring agency.

Since reviewers have the responsibility for not just approving appraisal reports prepared by other appraisers but also for obtaining corrections and/or revisions to those reports when necessary, it is important that reviewers be tactful and effective in their contacts with the appraiser(s). The review appraiser performs a management function by assuring that agency appraisal related requirements have been satisfied. To represent management needs in the appraisal process, the review appraiser is considered part of the management team in project or acquisition development.

## **8.3. APPRAISAL REVIEW TECHNIQUES**

Appraisal review is a critical function that bridges pure, technical appraisal and agency policy and requirements. The review appraiser should be well schooled and experienced in appraisal technology. Just as important are the knowledge, background, and understanding of the agency's requirements. The review report, especially if the review appraiser is charged with estimating just compensation, must reflect both technical appraisal evaluation and agency requirements. The appraisal review function is important due to its appraisal management responsibilities. The review appraiser will assure that each appraisal is independently acceptable, and that there is consistency (in land values, for instance) throughout the project.

The reviewer must identify the appraisals as recommended, accepted, or not accepted. The review appraiser should reconcile two (or more) acceptable, but divergent, appraisals of the same property. The review appraiser may develop a figure based on, but not necessarily identical to, one of the approved appraisals. Or the review appraiser's estimate can be based on the best parts of two or more appraisals. The exact function or "powers" of a review appraiser in determining an approved figure are not defined in Federal regulations, or in appraisal custom. It is an area where the acquiring agency must establish operating policy and procedures.

As discussed above, the review appraiser may make minor corrections and comments in an appraisal report, but not change any data or analysis.

The proper way to handle an unacceptable appraisal is first request the appraiser update the appraisal and if that cannot be done, the review appraiser should, if it is not possible to get another appraisal, take corrective action in the appraisal review report. When this is necessary, the review appraiser may draw from any sources available, including other appraisals of the property. If necessary, the reviewer may independently develop market data and/or provide an independent analysis. For this independent work, the review appraiser will adhere to all the applicable appraisal standards that are required of the appraiser.