

APPRAISAL REVIEWS

The good, the bad and the ugly

(And we're not going to talk much about the good)



Dana Collins

- Grew up in Porterville
 - Dad ran a cow/calf operation and bred and raised quarter horses
 - Mom operated a local western clothing, tack and feed store
- Graduated from Fresno State
- Bachelors and Masters Degrees in Business



Dana Collins

- Real Estate Broker
- Certified General Appraiser
- ASFMRA courses completed through A-30
- Taught a variety of Real Estate and Appraisal courses at Porterville College
- 20 years as an IRS Appraiser



More about me...

- I was a loyal 4-H member and leader
- Served on the Porterville Fair Board for over 10 years
- Happily married with 2 great kids
- I coach cheerleading for fun
 - PHS is the current CIF State Champs!

A VERY SPECIAL NOTE

This particular presenter is expressing her own opinion, which may not reflect, precisely duplicate, or even remotely resemble the position and policy of the Internal Revenue Service. Keep in mind that the commentary I'm about to offer is mine alone. The IRS is not accepting any responsibility for the content.

ANOTHER SPECIAL NOTE

In every example used in this presentation, the city, appraiser, property size and any other identifying information has been changed to prevent identification or disclosure of the actual owner.

Other than that, the quotes and examples are accurate (Except for one, but you'll figure that out).



Report Review – Part 1

THE
GOOD



A Good Report

- Follows Generally Accepted Appraisal Practices and Procedures.
- Follows appropriate guidelines
 - USPAP
 - IRS Regulations



A Good Report

- Well written
- Easily understood
- Conveys the intended message



A Good Report

- Logically leads the reader from the initial presentation of the data to the value conclusion
- Has sufficient support for conclusions



A Good Report The Technical Review

- Internal Consistency
- Support & Analysis
- Are the computations correct?
- If it said it followed USPAP, did it?
- Did they follow IRS Guidelines?
- Is the analysis / approach used recognized as generally accepted appraisal practices?



Internal Consistency

- Information from one page should match the same information on another page.
- The subject property and the owner should remain consistent throughout the report.



Report Review – Part 2

THE
BAD



A Bad Report

Part 1

Let's Talk English



Grammar

“The residence was a merely composed of homesteaders, miners, loggers and cattle and sheep ranchers.”



Grammar

“As mentioned several times throughout this review, the valuation of the subject property consisting of 40 acres and should have concluded from the fee simple valuation on page 155 at a value of \$110,000 based on the appraiser’s calculations.”



Is this a sentence?

Skiing, fishing, hunting and hiking popular tourist activities.

What are you saying?

“The appraisers’ approach, which is labeled as Scenario “B,” the foregone development opportunity, is the before value, and that the after value, Scenario “A,” value of the raw land less the cost to remove the land from the flood plain, is the after value. In fact, Scenario “B” is not applicable, Scenario “A”, without deducting the cost to remove the land from the flood plain, is the before value, and there is no after value calculated.”



Easily understood?

“Indeed this area could to some extent also be thought of as The 100 Acre Woods exurban fringe, though that city’s own metropolitan area is so much smaller than the huge Metropolis conurbation that its economic influence is muted.”



Punctuation

- Punctuation saves lives
- Consider the difference between these:
 - Let's eat, Grandpa!
 - Let's eat Grandpa!



Follow USPAP

- “Title to the property was conveyed at a price of \$1,450,000 on December 25, 2000...”
- Less than 1 year later, appraiser I.M. Gud appraised this property at \$200,000, with a Conservation Easement value of \$150,000.
- Should the report have included a discussion of the prior sale?



Follow USPAP

- Second Draft – same property
- I.M. Gud added this: “It has been reported that the price paid regarding this transaction was severely inflated by an estimated \$1 million, and that fraud may have been involved. The actual price paid was closer to \$450,000.”
- Is this statement sufficient to comply with USPAP for a summary appraisal report?



Report Review – Part 3

THE UGLY

Unusual Valuation Assignments

- You name it, we've seen it...Or so we think, until we get the next assignment
 - City Parks donated



Bias

- A. May Zing after valuation:
 - “Although the highest and best use does not change, there is a nuisance issue with the placement of an easement on each parcel... This loss can range from 0% to a high of 15%. This range is drawn from conversations with other appraisers and knowledgeable people in the land trust business.”

Incorrect Highest & Best Use

- The wrong highest and best use equals the wrong value conclusion.

Highest & Best Use Example

- This property contains 15 acres located near Dairyville (not in California).
- It is zoned for Agricultural uses; the current zoning allows for 1 residence.
- The property didn't have water rights.
- The Cowabunga County Master Plan indicates the subject area has possible poor yield wells.

Highest & Best Use Example

- Properties of this size in this area had historically been utilized as single – family equestrian estates.
- Dairyville had issued between 1 and 5 residential building permits annually for 4 years prior to the valuation date.

Highest & Best Use Example

- “Current housing supply.. Is primarily rural residential homes on acreage parcels (35 to 100 acres) and values begin in the high \$400,000’s and some exceed \$1,000,000.”

Highest & Best Use Example

- “Building permits for new construction indicate there is not a significant amount of residential building activity. This is due to a lack of a supply of lots for entry-level housing and the high demand for such a product for those that cannot afford the acreage estates in the county. There is virtually no multi-family housing product in the town to accommodate residents with lower-income housing needs.”

Highest & Best Use Example

- “... I have concluded that it is reasonably probable that the property will be annexed to the Town of Dairyville and rezoned to PD (planned development) at 8.76 units per acre. Therefore the land is valued as if annexed to the Town of Dairyville and rezoned to PD for residential uses, and adjusted for the cost to annex.”



Lack of Support

- In my opinion...
- Based on my years of experience...



Red Flags

- Qualifications of the appraiser
 - Stay within the limits of your license/certification
- Math errors
- Obvious sign of cut and paste



Red Flags

- Inadequate or incomplete data
 - Fractional interest valuations need complete ownership information



Please Remember

- We are appraisers too
- We have encountered the same issues that every appraiser deals with
- We recognize that perfect market data rarely exist
- We just want to fully understand the steps you took to reach your conclusions



Any Questions?

Thanks for listening.

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