# 2.0 ELECTRONIC APPRAISAL MATERIALS

This section describes the technical requirements for preparing and submitting electronic real estate appraisals, objective reviews, Project Data Books (PDBs), and other appraisal related electronic documents to the Wisconsin Department of Transportation (WisDOT) via the ESubmit system, and assumes use of WisDOT appraisal formats and other related document templates.

## 2.0.1 Preparing Electronic Appraisals and Related Documents

This part describes basic requirements for creating and preparing real estate appraisals and related documents in an electronic Adobe Portable Document Format (PDF).

1. All PDFs must be compatible with Adobe Acrobat Version 5. PDFs created with a higher-version should be reduced. To reduce, with the completed PDF file open, select Document> Reduce file size. Make compatible with Acrobat 5.0 or later.
2. All pages shall be combined to form a single PDF. PDF documents as large as 90 MB may be submitted using ESubmit.
3. PDFs shall be created directly from source application (usually Microsoft Word). PDFs from scanned copy are generally not acceptable for several reasons. Scanned copy results in relatively poor document quality, requires about three times the disk storage space as electronic originals, and does not include searchable text.
4. Document properties for PDF, under Initial View, layout and magnification shall have navigation tab set to Bookmarks Panel and Page. To facilitate navigation within PDF, bookmarks should be set to jump to start of each major section within document (Possible appraisal bookmarks: Introductory Information, Appraisal Problem Analysis and Scope of Work, Presentation of Data, Analysis and Conclusions, Appraiser's Qualifications, Supporting Materials, etc.). Magnification should be set to Fit Width.
5. Document properties, under Security, shall have security method set to No Security.
6. Documents shall be portrait oriented 8½ x 11-inch PDFs. They could be landscape and 11 x 17 and still print portrait 8½ x 11-inch using the Acrobat print dialog.
7. Files must be named exactly as shown in "Naming documents:" paragraph described in Section 2.0.3. In summary, assuming 00000000 is Real Estate Project ID and 123 is three digit parcel number, PDFs <u>must</u> therefore be named as follows: 00000000_123_app.pdf [appraisals]; 00000000_123_obj.pdf [objective reviews]; 00000000_123_oth.pdf [other docs]; and, 00000000_123_pdb.pdf [Project Data Book]. Note: Imagery included in electronic documents should conform to the following:

   - Image resolution higher than 300 dots per inch (dpi) is generally not necessary.
   - Image resolution lower than 100 dpi is not recommended.
   - Use JPEG format, with medium compression, for photographic imagery.
   - Use TIF or GIF format for maps, drawings, etc. (non-photographic imagery).

   The free Windows XP Image Resizer is recommended for reducing image size. (Try a search on Google for: windows power tool image resizer.) PDF creation software can also be

obtained and downloaded for free from various web sources. (Try a Google search for: cute PDF software.)

## 2.0.2 ESubmit Access

To access the WisDOT ESubmit application, you must have both of the following: Wisconsin User ID and password; and, Authorization from WisDOT. The process to set-up access is:

1. Wisconsin User ID. If you do not already have a Wisconsin User ID, you need to obtain one. Individuals, not companies, are associated with Wisconsin User Ids (see Figure 1).

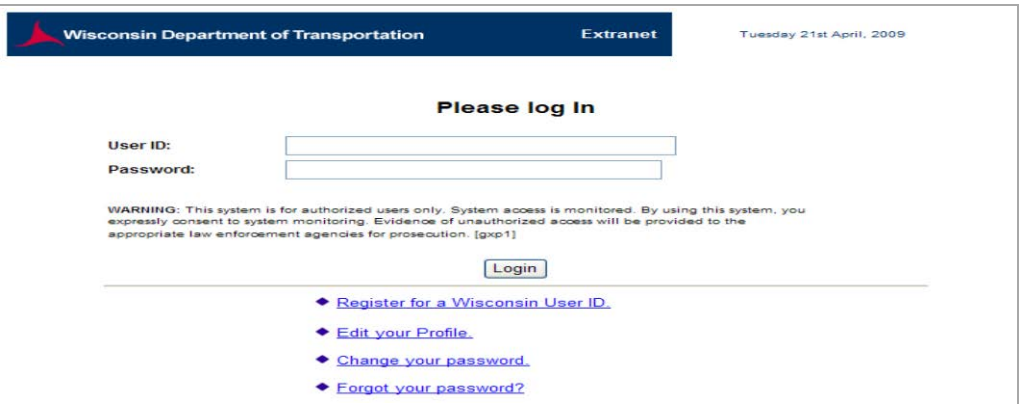


Figure 1 – Wisconsin User ID and Password Log In page

2. Authorization from WisDOT. After creating a Wisconsin User ID, send an email with "Requesting ESubmit access" in the subject line to: drew.kottke@dot.wi.gov. Include your name and phone number with request. When ESubmit access is granted, you will receive a confirmation email.

## 2.0.3 Submitting Electronic Appraisals and Related Materials

After access has been established, this is the process for submitting electronic real estate appraisals and related materials to WisDOT. Note: Submitted PDFs must be free of viruses. If an infected file is sent, the submitter will receive a confirmation, but the PDF will be immediately and automatically deleted and will not be accessible by WisDOT staff.

1. Browse to ESubmit application (capital "ES" in ESubmit). Logon using your Wisconsin User ID (see 2.0.2 above).
2. From "Electronic Submittal System" main page, select Real Estate Documents (see Figure 2).

Figure 2 – Electronic Submittal System main page

3. Next, the Submit Real Estate Documents page will appear (see Figure 3). Follow instructions to provide information about submittal. All fields are required:

   Comments (max 80 characters): Enter special information for recipients (example: name of review appraiser, enter: “Attention Rick Dickson,” “Brown County,” etc. Otherwise enter "NA").

   Submittal Status: From drop-down, select submittal status (Draft, Revision or Final).

   WisDOT Office: From drop-down, select appropriate WisDOT regional office (Eau Claire, Green Bay, La Crosse, Madison, Rhinelander, SE Freeways, Superior, Waukesha or Wisconsin Rapids).

   Real Estate ID (no dashes)**:** Enter 8-digit Real Estate project ID using this format: 00000000.

   Parcel (3 characters): Enter 3-digit parcel number (example: Parcel 1 must be entered as 001).

   Surplus Land: Check box only if materials are for WisDOT surplus land.

   WisDOT Contact/Phone: Enter WisDOT regional Real Estate contact name and phone number (e.g., Jane Doe; 999-999-9999).

   Consultant Contact/Phone (or “NA”): Enter consultant contact name, firm name and phone number (e.g., John Doe; ABC Inc.; 999-999-9999). If not applicable, enter "NA."

   Specify documents to submit (max is 90MB): Click Browse button to right of field. Using "Choose file" dialog, browse to document on your computer or network. Select document and click Open. Users will be able to submit up to four documents at a time. Appraisals, objective reviews, and other documents must all pertain to same parcel. Project Data Books pertain to projects and not parcels. However, a parcel number must always be entered, but is ignored for a Project Data Book submittal. When Other Documents are submitted, include in Comments section, a description of document being submitted.

   Assuming 00000000 is Real Estate project ID and 123 is three digit parcel number, PDFs must therefore be named as follows:

   Appraisals: 00000000_123_app.pdf (see explanation):

   - “00000000” is 8-digit Real Estate ID (no dashes).
   - “123” is 3-digit parcel number.
   - “app” identifies submittal as an appraisal.
   - Two underbars "_" must always appear as dividers in file name as shown.

   Objective Reviews: 00000000_123_obj.pdf (see explanation)

   - “00000000” is 8-digit Real Estate ID (no dashes).
   - “123” is 3-digit parcel number.
   - “obj” identifies submittal as an objective review.
   - Two underbars "_" must always appear as dividers in file name as shown.

Other Documents: 00000000_123_oth.pdf (see explanation)

- "00000000" is 8-digit Real Estate ID (no dashes).
- "123" is 3-digit parcel number.
- "oth" identifies submittal as an 'other' document.
- Two underbars "_" must always appear as dividers in file name as shown.

Project Data Books (PDBs): 00000000_123_pdb.pdf (see explanation)

- "00000000" is 8-digit Real Estate ID (no dashes).
- "123" is 3-digit parcel number (Note: PDBs pertain to projects, not parcels and while a number must be entered, the system ignores it. Entering '000' is okay.)
- "pdb" identifies submittal as a PDB.
- Two underbars "_" must always appear as dividers in file name as shown.

Notify additional affected parties - Emails. Additional email addresses may be entered manually on "Emails" line (separate multiple email addresses with commas).

Verify all information before pressing Submit button. Click Submit button once and wait. The files may take several minutes to upload. Note: Before clicking Submit button, review and verify that all information is correct and complete as you will not be prompted to confirm again after clicking. The submittal will begin immediately.

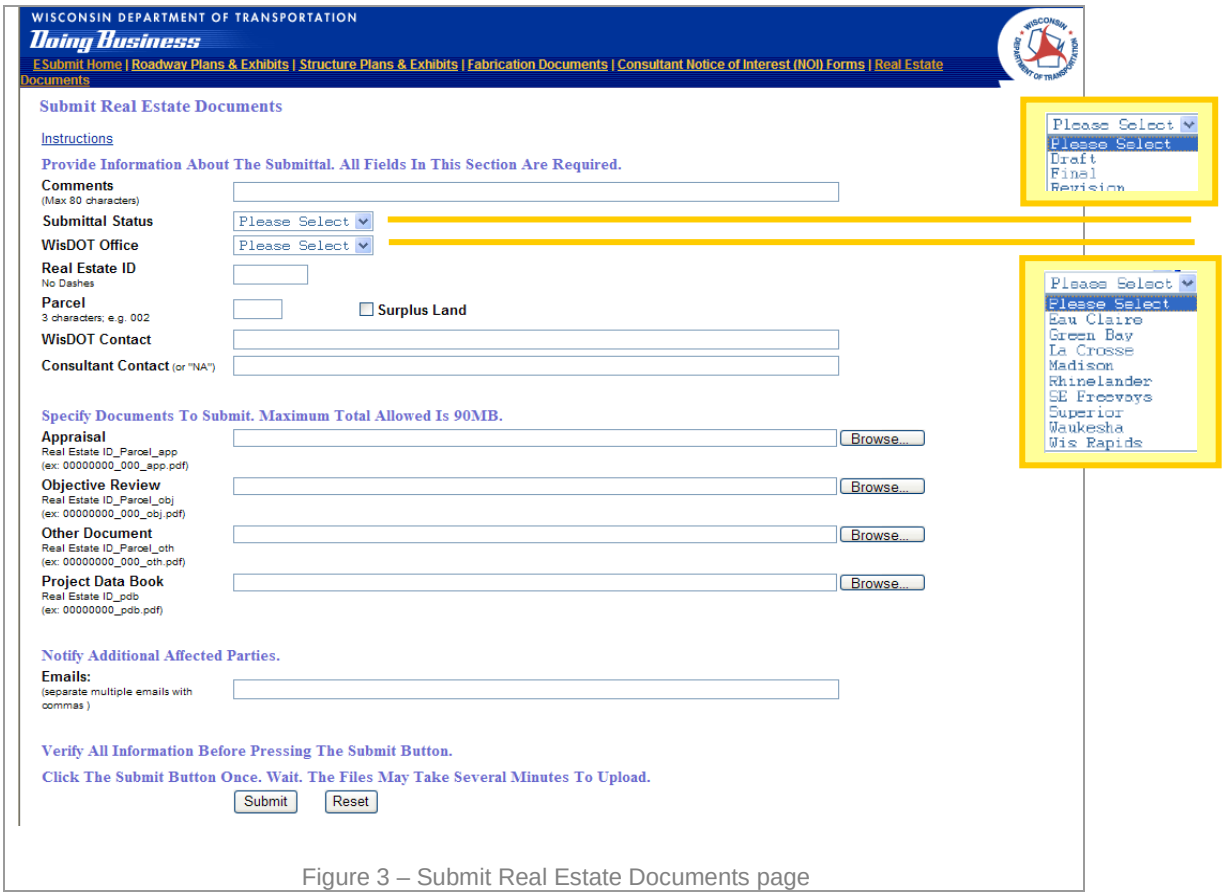



Figure 3 – Submit Real Estate Documents page

After clicking Submit, a progress bar at bottom of screen indicates document(s) is being transmitted (see Figure 4). File is being sent to a WisDOT ESubmit destination folder. Note: Only WisDOT staff can access destination folder. Using the project ID as the folder name, regional WisDOT staff are responsible for creating and managing project folders within the destination folder. As each new file is received, it must be moved to the appropriate project ID folder (see Figure 7).

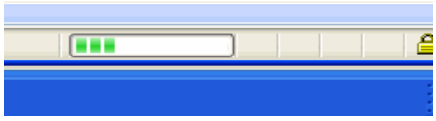


Figure 4 – Progress Bar

### 2.0.3.1 Confirmation Page

When processing is complete, you will see a confirmation page like the one shown in Figure 5. If you do not see the confirmation page, the submittal was not successful. Please attempt a second submittal before contacting the WisDOT computer help desk at: 608-266-9434 or 800-362-3050 or email: helpdesk.dbm@dot.state.wi.us.

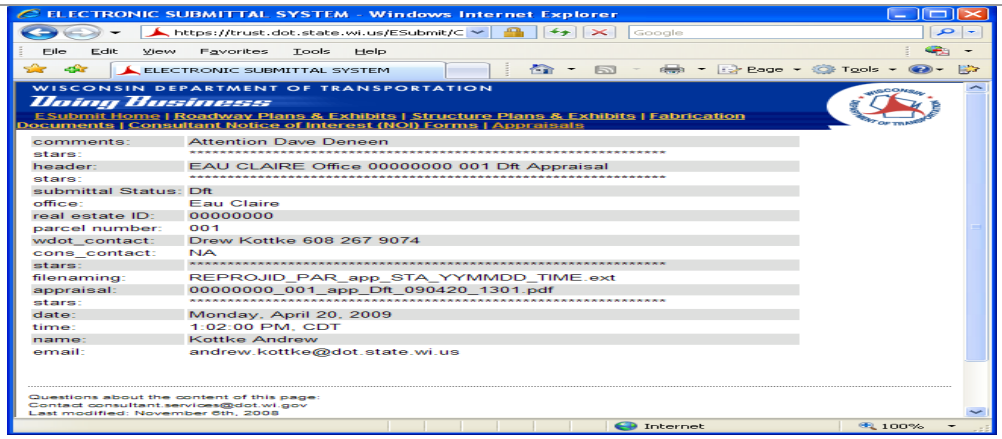
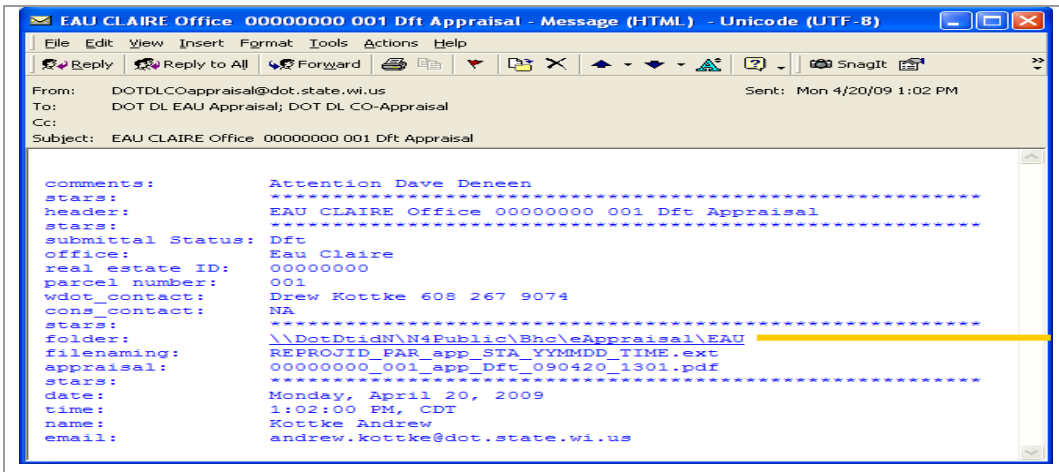



Figure 5 – Sample ESubmit Confirmation page

### 2.0.3.2 Email Notification

Several emails are generated automatically when an electronic document is submitted. Appropriate WisDOT BTS-RE and regional Real Estate staff should all receive copies of the email notification at the same time; the submitter receives a copy of the email notification at the email address associated with their Wisconsin User ID. If the Surplus Land box is checked, WisDOT surplus lands staff will also receive a copy. The content of the email notification is the same as the Confirmation Page, except WisDOT staff get a link to the destination folder where appraisals and appraisal related materials have been received (see Figure 6). Email to non-WisDOT staff does not contain this link.




Link included in emails to WisDOT staff.

Figure 6 – Sample Email Confirmation to WisDOT Staff page

### 2.0.3.3 Revising Appraisals and Related Materials

In general, when revising appraisals and/or related materials, the entire document must be re-submitted. WisDOT review appraisers may choose to grant permission to revise individual pages. In this case, include the words "revised individual pages" on comments line.

For each revision, keep the basic file name exactly as original (see “Naming documents,” Section 2.0.3), but adjust the submittal status to Draft, Revision or Final. The ESubmit system automatically records the current date (YYMMDD) and time (24-hour format) as each new file is transmitted to WisDOT; it adds these details as a suffix to basic file name, thus creating a receipt and revision history. Because the suffix information applied is unique for each electronic document submitted to WisDOT, each new transmittal and/or revision shows a unique file number and also shows up in the WisDOT destination folder as a new file. As each new file appears in the destination folder, regional WisDOT staff must remember to move the file(s) to the project folder for that project ID (see Figure 7), and follow-up with the assigned reviewer to ensure action. The suffix portion in an ESubmit file name looks like this: SSS_YYMMDD_TIME, where:

- “SSS” is Submittal Status (Dft, Rev or Fin).
- “YY” is year; “MM” is month; and, “DD” is date. Time is in 24-hour format.

Example: A draft appraisal for project 10201020, parcel 33 submitted at 4:03 PM on September 16, 2008 would be named: 10201020_033_app_dft_080916_1603.pdf. That same appraisal, only revised and sent again at 5:03 PM would be named: 10201020_033_app_rev_080916_1703.pdf.

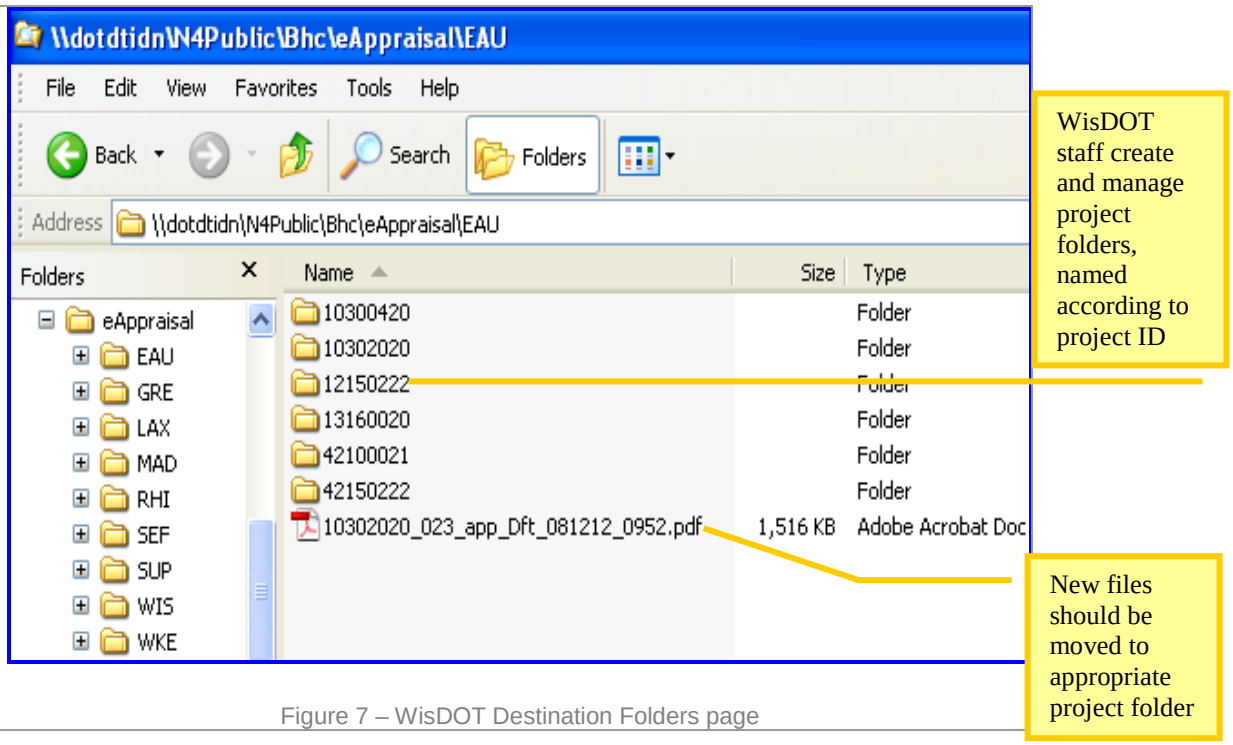



Figure 7 – WisDOT Destination Folders page

### 2.0.3.4 Error Messages

Review the confirmation page. Verify that it contains no error messages. Two possible errors are:

1. "File not found" indicates that the file specified cannot be found on your computer or network. Verify that the path and filename are correct and try again. This error will also occur if an empty file (zero bytes) is specified.
2. "Resource not found" or "destination folder does not exist" indicates that the required destination folder at WisDOT does not exist. Contact the individual responsible for receiving the electronic documents. Verify that they are expecting your submittal.

Also see our Appraisal Preparation Tips. This document can provide additional help in preparing electronic appraisals, using our template for Appraisal Report Short Format Summary (RE1005); Appraisal Report Short Format Surplus Parcel (RE1006); Appraisal Report Standard Detailed Format Before and After (RE1007); Appraisal Report Standard Detailed Format Surplus Parcel (RE1008); or, other appraisal formats as may be recommended and approved for use by WisDOT.

# 2.1 GENERAL APPRAISAL POLICY

The requirements for developing an appraisal report are established by the Bureau of Technical Services-Real Estate (BTS-RE) and are based on a number of state and federal laws and regulations:

- 49 Code of Federal Regulations Part 24
- The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970
- Wisconsin State Statute Sections 32.05 and 32.09

Definition of appraisal - The Code of Federal Regulations defines an appraisal as: "A written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information (Subpart A – General 49 CFR 24.2[3])." Note: See definitions of fair market value, larger parcel, part taken, and scope of work explained in detail in Section 2.6 of this manual; also see REPM/Definitions.

Requirements - The United States and Wisconsin Constitutions provide that no private property can be taken for a public use without just compensation. The Uniform Relocation Act (URA) sets forth requirements for acquiring agencies when property is to be acquired for projects using federal funds or federal-aid projects. Appraisers entering into contracts to perform eminent domain appraisal work will adhere to URA appraisal requirements. The appraiser must also be in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). The agency may have appraisal requirements that supplement these requirements, including, to the extent appropriate, the Uniform Appraisal Standards for Federal Land Acquisition. The URA requires:

- Acquiring agency to establish an amount believed to be just compensation for acquisition before initiation of negotiations.
- Acquisition of equal interest in all buildings, structures or other improvements.
- An appraisal of real property to be made before the initiation of negotiations.
- An offer to acquire uneconomic remnants.
- Appraisers shall not give consideration to, or include in their appraisals, any allowance for relocation assistance benefits.
- Owner or a designated representative shall be given opportunity to accompany appraiser on property inspection.
- There be an exclusion of consideration for increases or decreases in the before value determination caused by a planned public improvement.
- Valuation of tenant owned buildings, structures or other improvements.

WisDOT has the responsibility to assure that the appraisals it obtains are in compliance with its program requirements; reflect established and commonly accepted state, federal and federally-assisted URA program appraisal practice; comply with the definition of appraisal and include the following five components, as stated in the URA:

1. An adequate description of the physical characteristics of the property being appraised. A statement of the known and observed encumbrances, if any, title information, location,

zoning, present use and analysis of highest and best use, and at least a five-year sales history of the property.
2. All relevant and reliable approaches to value consistent with state and federally assisted program appraisal practices.
3. A description of comparable sales, including a description of all relevant physical, legal, and economic factors such as parties to the transaction, source and method of financing and verification by a party involved in the transaction.
4. A statement of the value of the real property to be acquired and, for a partial acquisition, a statement of the value of the damages and benefits, if any, to the remaining property.
5. The effective date of valuation, date of appraisal and signed certification of appraisal.

Effective February 2005, federal regulations regarding appraiser qualifications changed. The specific governing language is found in 49 CFR 24.103, Criteria for Appraisals. In sub-paragraph (d)(2), the regulation now reads: "If the Agency uses a contract (fee) appraiser to perform the appraisal, such appraiser shall be State licensed or certified in accordance with title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (12 U.S.C. 3331 *et seq.*)." This requirement applies to all federal aid projects. Therefore, WisDOT requires that any consultant hired to appraise on a WisDOT project be state licensed or certified, under Chapter 458 of the Wisconsin Statutes. Wisconsin statutory requirements include:

1. Sec. 32.05(2)(a), Wis. Stats. – Appraisal must be made of all property to be acquired and the appraiser must confer with one of the owners or their personal representative, if reasonably possible.
2. Sec. 32.05(2)(b), Wis. Stats. – Acquiring agency must provide the owner with an appraisal.
3. Sec. 32.05(3)(m), Wis. Stats. – Acquiring agency must offer to acquire uneconomic remnants concurrently with the required purchase. An uneconomic remnant is defined as "... the property remaining after a partial taking... of such size, shape, or condition as to be of little value or of substantially impaired economic viability."
4. Sec. 32.09, Wis. Stats. – Sets out standards which govern the determination of just compensation such as:

    - Allocation of damages.
    - Appraisers are not to consider an increase or decrease in value prior to valuation caused by proposed public improvement.
    - Appraising a property based on its most advantageous use but only such use as actually affects present market value.
    - Concluding damage figure based upon higher of before and after appraisal, or value of property taken as a separate entity. For separate entity information, see sub-section 2.2.1 of this manual.
    - Defining a comparable sale.
    - No compensation for police power action.
    - Proper easement appraisal techniques.
    - Special benefits and how they can offset damages.

Appraisals performed for federal or federally assisted real property acquisition must follow the URA requirements. An appraiser encountering conflicting requirements between the URA and USPAP may be able to work within USPAP standards via the Jurisdictional Exception Rule as found in USPAP. If any provisions of the Uniform Act or Wisconsin Statutes, case law or regulations conflict with USPAP, then the requirements of the Uniform Act or state statute or regulation take precedence. This is allowed under the jurisdictional exception provision of

USPAP. An appraiser encountering conflicting requirements between the Uniform Act and USPAP can still be consistent with USPAP standards via the Jurisdictional Exception Rule. The Jurisdictional Exception Rule states if any part of USPAP is contrary to the law or regulation of any jurisdiction, then the conflicting part of USPAP is void and of no force or effect in that jurisdiction, but only that part of USPAP becomes void for that assignment. Invoking the Jurisdictional Exception Rule will in no way undermine the intention of USPAP. If relying on the jurisdictional exception, the appraiser must:

1. Identify in the appraisal report, the law or regulation that precludes compliance with USPAP;
2. Comply with that law or regulation; and,
3. Clearly state in the report the part of USPAP that is voided by the law or regulation.

The income approach is generally not allowed in eminent domain valuations, and so a jurisdictional exception would likely be used in most eminent domain appraisals produced for WisDOT. When the appraisal does not include the income approach, the appraiser should site Leathem Smith Lodge v. DOT, 94 Wis. 2nd 406,288 N.W. 2d 808 (1980). For this, the appraiser would need to insert language on the order of one the following examples:

> Example 1: If the subject is an income producing property, the valuation analysis of the subject by the Income Capitalization Approach and Standards Rule 1-4(c) of USPAP would normally apply. However, Wisconsin case law pertaining to eminent domain states that "evidence of net income is ordinarily inadmissible for purposes of establishing property values in condemnation cases involving commercial enterprises because income is dependent upon too many variables to serve as a reliable guide in determining fair market value." Source: Rademann v. DOT, 2002, WI App 59, 252 Wis.2d 191, 642 N.W.2d 600, 00-2995. In accordance with Wisconsin case law, the Income Capitalization Approach has been omitted from this appraisal report.
>
> Example 2: Based on a Wisconsin Supreme Court decision in Leatham Smith Lodge, Inc. vs. State of Wisconsin (1980), the income approach is considered inapplicable in eminent domain valuations (so long as sufficient market data is available). Therefore the income approach will not be developed in this appraisal report. The omission of the income approach is not considered to be misleading or inappropriate for this valuation assignment.

# 2.2 RULES OF JUST COMPENSATION, THE PART TAKEN AND GENERAL REPORT INFORMATION

In all matters involving the determination of just compensation in eminent domain proceedings, s. 32.09, Wis. Stats., must be followed. Reference either the Wisconsin Statutes or the "Highway and Transportation Laws and Rules" book for specific detail. For a partial taking other than an easement, s. 32.09, Wis. Stats. requires WisDOT to pay the greater of either the fair market of the property taken or the sum determined by the difference in the before and after values.

## 2.2.1 Separate Entity

All appraisals require a statement addressing the issue of “separate entity.” The part taken is either a separate entity and is to be appraised as a separate entity or it is not a separate entity and it is to be appraised as the contributory value to the larger parcel. The acquisition, subject of the appraisal, is a separate entity if it can be recognized by the market as an independent marketable entity. A true separate entity meets the requirements of the highest and best use analysis to be considered a separate saleable site. The subject exhibits size and shape characteristics that make it marketable to a third party. The appraiser must consider all the characteristics which affect marketability including such things as zoning and its restrictions, location, soil suitability, demand for the considered use, access, etc. The subject’s relation to the remainder cannot be considered. If the appraiser determines that the part to be acquired has the potential to be independently saleable, he/she must make a separate analysis of the part. The same rules regarding support and documentation apply to this situation as if this were a separate whole taking. There may be instances where one portion of the taking could be separately saleable whereas other parts are not. In these cases the contributory value of the other portions of the acquisition may be severely diminished.

## 2.2.2 Contributory Value of the Part Taken

The value of the part taken lies in its contributory value to the value of the larger parcel. The value of the larger parcel determines a unit value (acres, feet, hectares, etc.) that is applied to the part taken. This value is arrived at using the federal rule before and after appraisal method. In these cases, unit value of the part taken shall be considered to be the same as unit value of the property in the before condition. A simple statement to the effect that it is your opinion the value of the part taken is no more than equal to its contributory value as part of the whole will suffice to satisfy the separate entity issue for these appraisals. In cases where both the separate entity and the contributory value are analyzed, the state will pay the greater of the two.

## 2.2.3 Special Benefits

Special benefits accruing to the property that effect its market value can be considered and used to offset the market value of the property acquired and any severance damages occurring to the property as detailed under s. 32.09(6) Wis. Stats. However in no event shall these

special benefits be allowed to exceed the damages to the property as measured by either the before and after basis or the part taken.

## 2.2.4 General Information Required

Limiting conditions - Clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment. An extensive list of conditions that remove responsibility from the appraiser for areas where the appraiser has control and expertise shall be avoided because this reduces the credibility of the report. The professional should determine limiting conditions.

Reports and recordkeeping - Only one appraisal for each parcel shall be obtained except in those cases where the acquisition presents a complex appraisal or negotiation problem, or when the owner has their own appraisal done. The complexity of the situation, extreme divergence of value between the owner's report and the state's report, or other situations can be cause for ordering an additional report. If possible, the need for an additional report and the timing of that report should be discussed at the project management conference. Regional Real Estate management, with concurrence from the central office review appraiser, will make the determination as to whether a second report is need and whether that report should be secured right away or after receipt of the owner's appraisal. Rejection of a report by the Bureau of Technical Services-Real Estate review appraiser is a determining factor in ordering a second report.

Subject property sales history - A chronological listing of all sales of the subject property in the last five years is required. Recent sales of the subject are important since the sale of the subject (other things being equal) will be its own best comparable. A sale of the subject property that took place beyond five years might still be one of the best comparables available if there are very few other sales of a similar nature. Carve outs of portions of the present subject property may also be extremely relevant and important as comparables. A detailed discussion by the appraiser is necessary if the recent sale of the subject is not considered a comparable property.

# 2.3 APPROACHES TO VALUE

## 2.3.1 Sales Comparison Approach

This approach to value is based on a comparison of the subject property to other similar properties that have recently sold. Based on this comparison and analysis, it should be possible to arrive at a logical, reasonably supported, defensible opinion of value for the subject property. This approach has been defined as an interpretation of the reactions of typical participants in the market. The sales comparison approach is also based on the principle of substitution that implies that a prudent person will not pay more to buy a property than it will cost to buy a comparable substitute property. In this approach the appraiser searches the subject's market area for sales of comparable properties and then compares them directly to the subject property. A specific investigation must be done of each sale to ensure that it is an "arms length transaction." Differences between the comparable sale properties and the subject are identified and logical market supported adjustments are made adjusting the sales to the condition of the subject property. The adjustments should be done in a grid. Sample formats illustrating typical grids for various types of property are included in attachments in this manual. In order to simplify the adjustment process the appraiser can allocate the sales prices into the basic components for that type of property. A proper sequence of adjustments has date of sale and market and/or financing conditions adjusted first with the rest of the adjustments made to an adjusted sale price. When adequate data exists, adjustments can be derived by paired sales analysis between the sales. All adjustments should be logically explained, supported and justified. After all adjustments are made, a range of value for the subject is indicated. The sales should then be correlated and a value for the subject should be based on the data that is best supported and most reliable. This approach to value is the approach that should be used and relied upon in all cases where adequate market data exists. In most cases, there is no need to develop the cost or income approaches.

## 2.3.2 Cost Approach

The cost approach to value is based on the principle of substitution, which implies that no rational person will pay more than the cost of buying a comparable site and constructing a building of equal desirability and utility. The process involves finding the market value of the land through the market analysis. The cost new of the improvements (either reproduction or replacement cost) minus depreciation from all causes is then added to the land value to arrive at a final value estimate. One of the more obvious problems with the cost approach involves the fact that many older buildings would not be built in the same manner (number of stories, spatial layout, etc.) or of the same materials today. Therefore, a decision must be made whether you should reproduce the exact building or go to a functionally equivalent replacement structure. The other major problem with the cost approach is estimating depreciation. Depreciation has traditionally been broken down into physical, functional and economic. The physical and functional can be further broken down into curable and incurable. Although the curable portions of depreciation can be measured by the cost of the necessary work or repair, the only meaningful measure of <u>total</u> depreciation is from the market. In order to make meaningful adjustments in the market approach and documented depreciation rates, it is necessary to

allocate your sales. The cost approach is generally considered to be the most significant in the valuation of public buildings or certain types of special use properties for which market data is limited. The cost approach is also used to value minor buildings and site improvements that are acquired when there is no market evidence available to logically support their values. The cost new of improvements is obtained from cost data reference books and services. When using cost manuals a reference should be made regarding the name of the source and page numbers from which the costs are obtained. Cost new can also be based on contractor estimates.

## 2.3.3 Income Approach

The income approach to market value involves various techniques of capitalizing or converting net income into value. The process includes a gross income or economic rent estimate based on market rental data with deductions for vacancy and rental losses and all operating expenses. The net income can then be capitalized by various techniques (each based on a particular set of assumptions) into a market value estimate. Since the capitalization rate should also be obtained from the market, there ought to be enough market data for the appraiser to prepare a sales comparison approach that would have greater reliability than would the income approach. Typically there will be few, if any, properties involved with our acquisition program that will require use of an income approach. Discounted cash flow analysis is a recent variation of the income approach which has some application for valuing income producing portions of property such as sign sites or as a method of estimating damages due to projected rent loss.

# 2.4 APPRAISAL FIELD WORK

## 2.4.1 Owner Interview and Comments

It is a requirement for the appraiser to invite the owner on the inspection of the property (s. 32.06[2] Wis. Stats. and 49 CFR 24.102). This is an opportunity to gain trust and respect of the owner, plus obtain information not always readily apparent. For non-complex short form appraisals, a letter to the owner giving the owner an opportunity to request a joint inspection is sufficient. If the property is tenant occupied, try to arrange the inspection/interview with both the owner and the tenant. The owner's attitudes and concerns should be recognized and noted but, in most cases, need not be made a part of the formal appraisal report. Relevant comments made by owners should be jotted down and given to the acquisition supervisor for consideration and appropriate action. Sometimes a design change will result. Sometimes the assigned negotiator will benefit from the information obtained by being able to have the appropriate information when meeting with the owner.

Before interview, appraiser shall:

- Be familiar with and able to explain right of way (R/W) plat and plans associated with project, and take them with you on appraisal call.
- Be familiar with overall project design, purpose and schedule of job.
- Check for grade change, access control, number and location of driveways being replaced, new location of existing utility lines, location of drainage structures on new road and any other factors that may affect after condition of subject.
- If buildings are being acquired, check cost manual to see what information will be needed to determine its cost.
- Prepare a pencil sketch of property and fill in details during property inspection.
- Review property history (title search), zoning, tax assessment, aerials, soil book (if applicable) and any other data regarding subject property. Write down specific questions to ask.

At interview, appraiser shall:

- Ask about age of buildings, when renovated, date of additions, specific work performed in renovating, etc.
- Ask about any/all items you cannot actually inspect (insulation in walls, thickness of concrete, type of covered wiring, location of septic tank and well, plumbing and duct work, drain tiles, etc.). Verify this information to the extent possible and pertinent.
- Ask if there is any land or buildings being rented by them in area.
- Ask owner if there are any tenant-owned buildings or improvements (including machinery, equipment and fixtures).
- Discuss highway project in general, the design, purpose and schedule.
- For before and after appraisals, inspect entire property with owner.
- For strip appraisals, field-inspect the acquisition area with owner and note type, description and location of improvements being affected. Ask the owner if they have any knowledge of underground improvements in or near acquisition area.
- Get information on age of heating, air conditioning, roof and other replacement items.

- Let owner know person(s), address and telephone number to contact for answers to special questions not relating to appraisal.
- Make a list of what is and what is not real property.
- Obtain copies of any applicable leases.
- Request copies of any recent surveys or building plans, if available.
- Take all necessary photographs at this time. Try to show acquisition and its effect on remainder, if possible. Get at least one photo of owners concerns, if any. If buildings are to be acquired, close-up photos of any deferred maintenance would be helpful.
- Verify any recent sale of subject or sell-off.

Use your judgment in the owner interview as far as details and depth of the interview. A very simple strip taking does not require or warrant an in-depth inspection or interview. Conversely, a major acquisition will require much more of an interview and inspection. Some “Do Not's” for the property inspection/owner interview:

- Do not argue with owner about potential damages or benefits.
- Do not ask owner's opinion of value.
- Do not attempt to find or broker replacement property.
- Do not attempt to negotiate price.
- Do not discuss value ranges with owner or indicate a "ball park" estimate.
- Do not give information relating to possible relocation benefits.
- Do not make comments leading to expectations of a valuation in excess of market value.
- Do not make negative comments about property, regardless of condition, location, etc.
- Do not suggest or recommend any firm or individual for an owner obtained appraisal.
- Do not try to give opinions of likelihood of damages or benefits.

As part of appraisal process:

- A key provision requires the relocation specialist to accompany the appraiser on the scheduled appointment date to review the site to be acquired. Differentiating realty/personalty issues at this time is required and WisDOT will make every effort to implement this provision. This requirement is also tied to 49 CFR Part 24 Subpart B requirements for determination in the appraisal.
- In farm operations, the appraiser and the relocation specialist should carefully review the issue of circuitry of travel during the appraisal process to determine the effect on the farm operation and whether a relocation of the farm is warranted. Such discussions may also include Real Estate management, project management and engineering staff.
- Circuitry of travel and access issues may impact other types of businesses. This issue should be carefully reviewed during the project development phase of the highway project (preliminary engineering) and during the appraisal process. Such reviews should be considered in determining whether relocation is warranted.
- The appraisal process should validate and/or substantiate any change that has an impact on the business and may signal a significant reduction in functional utility to the present business.

All these complex situations may require discussions with expertise from other functional areas within WisDOT. Referral and discussion with the project design engineers and other work groups must take place prior to completing the appraisal/relocation interviews, so that all the issues can be adequately addressed, in order to provide relocation assistance and accomplish the move in a timely manner.

## 2.4.2 Inspection of Land Improvements and Structures

Adequate notes should be taken as to the type of material, size, age, condition and location of each land improvement. The scope of the appraisal's structure inspection will depend on the complexity of the appraisal problem. When a short form appraisal report is to be used, a brief exterior inspection of the structures will usually be sufficient with notes kept in the appraiser's file. In the standard appraisal report, where damages due to the acquisition are likely to occur, a more detailed inspection of the structures will be required and a description of the improvements must be included in the appraisal report.

### 2.4.2.1 Residential Improvements and Structures

Land improvements - The inspection of the residential land improvements should be thorough and concise for both the short form and standard appraisal reports so that it can be determined if any of the improvements are to be effected by the acquisition. This can be done at the same time as the inspection of residential structures. This is also a good time to take measurements and pictures of R/W staking across the front lawn of the property. These measurements and photos will indicate the improvements and landscaping to be acquired. It will also indicate the before and after setback distances of structures from the centerline and R/W lines. Some of the typical land improvements on residential properties are paved driveways, patios, planter boxes, on premise signs, lanterns and ornamental fences. Some typical land improvements located underground are: wells, septic systems, drainage fields, water lines and fuel storage tanks. The location of these underground improvements can usually be verified with the property owner.

Structures - The actual age of the dwelling should be determined to the best extent possible from the owner or public records. The appraiser estimates the effective age, based on condition. The appraiser should estimate the remaining economic life of the improvements. When making the exterior inspection of the dwelling, the appraiser should note the architectural style, make a precise measurement of the perimeter of the structure, and identify and measure porches, vestibules, patio decks, or other projections from the main structure. Note the type of siding (wood, metal, brick veneer, etc.), roof style and type of shingles. Also note type, style and number of windows and doors and the chimney's exterior (brick, stone, metal, etc.). Additional items to be noted during the exterior inspection of the dwelling are type of foundation, full or part basement, concrete slab or piers, combination storm windows and doors, rain gutters and down spouts, brick or stone floral planters, television antennas, on roof or attached towers, central air conditioning and insulation in walls and attic. The property owner is usually a good source to verify the amount of insulation in place.

- Interior description of the dwelling should include the size of the total living area in square feet, room count and the location of these rooms. If the home is being acquired, the interior room sizes are also needed to help with relocation calculations. A general description of the interior finish should be noted such as floor and wall coverings (i.e., carpet, tile, hardwood floors and trim, plastered walls or drywall), acoustical ceiling tile and ceramic tile bathrooms.
- Kitchens are an integral part of the dwelling, so take time to adequately describe them. Indicate the room size, wall and floor covering, dining area, length and type of cabinetry, built-in appliances such as oven & range, dishwasher, vent hood, disposal, etc.
- Bathrooms should also be adequately described as to where they are located (i.e., main floor, second floor, basement, etc.); indicate the number of fixtures, tile work, vanities and vent fans. Bedrooms should be identified by location, size, wall and floor covering and whether adequate closet space is available.

- Basement descriptions should note if full or partial; and, indicate type of foundation and walls, floors, supports, finished recreation rooms, laundry room, workshop, etc. Include an inventory of the utilities in the basement such as the furnace and type of fuel used, water heater, laundry facilities, floor drains, sump pump and exterior entrances, if any.
- Garages should indicate if attached to the dwelling or detached; and, indicate the type of construction, roof style, and measurement around the perimeter and square foot area. Note special features as to floor type, number of doors, entrance and overhead, automatic door openers, electricity, floor drain, insulation and heat, if available. Indicate actual age and observed condition.
- Other small structures on a residential property such as garden and tool sheds should be described as to use, style, construction, size and observed condition of the structure.

### 2.4.2.2 Agricultural Improvements and Structures

The following is a list of typical farm structures and items to be noted for each:

- Barns
  - Actual age and observed physical condition.
  - Attached structures such as milk house, lean-to and feed rooms.
  - Barn type (i.e., dairy), construction (i.e., frame) and size around the perimeter and square foot area.
  - Basement construction (masonry, wood, stone, etc.).
  - If use is other than dairy farming, indicate the use and related equipment.
  - Milk house construction (frame, masonry), size, age, equipment (milking system, bulk cooler, wash tanks, water heater, etc.).
  - Roof style (gable, gothic gambrel, etc.) and type of roofing (asphalt, metal, wood, etc.).
  - Special equipment (pipeline milking system, water system, feeding systems, barn cleaner, vent fans, number of stanchions, calf pens, etc.).
- Frame buildings
  - Age and observed condition.
  - Size (perimeter sq. ft.) and measurement.
  - Use and type of construction.
  - Utility of older frame buildings if considered adequate for newer machinery or other related farm uses.
- Fuel stations and underground tanks
  - Age and observed condition.
  - Capacity.
  - Location.
  - Size.
- Metal buildings
  - Age and observed condition.
  - Floor (surface concrete or partial).
  - Size (perimeter sq. ft.).
  - Style (i.e., gable roof).
  - Use (crop storage, machinery storage, work shop, etc.).
  - Wall height, doors, windows and skylights.
- Miscellaneous structures (corn cribs, feed/grain hoppers, automated fee bunks, etc.)
  - Capacity age and observed condition.
  - Location.
  - Size (perimeter sq. ft.).

  - Use and type of construction.
- Silos
  - Age and observed condition.
  - Construction (concrete stave, tile, harvester, etc.).
  - Location.
  - Size, height and diameter.
  - Special equipment (i.e., un-loaders).

### 2.4.2.3 Commercial / Industrial Improvements and Structures

The inspection of commercial or industrial improvements should include, but not be limited to:

- Access - number/type of doors (entrance or overhead), entrances to street, etc.
- Age and observed condition of the structure overall
- Basement area
- Exterior finish and condition
- Fixtures or special equipment, especially in industrial buildings such as elevators, loading docks, conveyance systems
- Fuel stations and underground tanks
- Interior finish, room arrangement and condition
- Number of floors
- Present use and utility
- Size, perimeter and square foot calculations
- Roof type
- Utilities - number of restrooms, type of heat, electrical service, ceiling height, special lighting, sprinkler systems and municipal or private water and sewer systems, etc.

#### 2.4.2.3.1 Determination of Fixtures

Definition of fixture - “An article that was once personal property but has since been installed or attached to the land or building in a rather permanent manner so that it is regarded in law as part of the real estate.” Attached improvements can be real or personal property. If attached to the realty in such a manner that its removal would damage the real property or the fixture, the fixture is realty. If the fixture is removable without damage, it is generally considered personal property. An item of equipment that, because of the way it is used, the way it is attached, or both has become an integral part of a building or other improvement. A fixture, such as a bathtub, is classified as real property, but trade fixtures (fixtures used in the conduct of business) are classified as personal property. The common law tests of "intent," "adaptability" and "annexation" for determining when an item becomes a part of the realty have generally been used by the courts to resolve conflicting status claims. These tests are particularly pertinent for disputes in mortgagor-mortgagee, buyer-seller or lessor-lessee relationships. These tests, however, have limited application in condemnation matters as the issue in those relationships (ownership) is not the same issue that arises in a condemnation proceeding. Therefore, no further discussion of the common law tests is considered necessary. The issue we are involved with is not ownership of the item, but economic consequences. Therefore, the test as to whether or not an item is a fixture to be appraised as part of the real estate will *consider* whether the item will lose substantially all of its value on removal from the premises. If it will, the owner is entitled to be paid its in-place value, if the value of the real estate has been so enhanced. This rule or guideline is subjective and thus can be subject to many shades of interpretation and opinion. Each

parcel and each item will have to be evaluated on a case-by-case basis. Generally, however, the intent of this rule is to interpret close calls in the owner's favor.

Procedure - Initial discussions regarding if specialists are required, etc. should take place at the project management conference. Generally, the assigned appraiser should proceed as follows:

1. Obtain or prepare a complete listing of all the machinery, equipment, fixtures, etc. that the owner and/or tenant want us to include in the acquisition. If applicable, a separate listing should be made for owner and tenant. The listing should give a name or description of the item(s), serial or identification numbers if applicable, estimated age and condition. Items that the owners wish to retain and move should be listed separately.
2. The regional and BTS-RE review appraisers will then consult with the appraiser and decide what items, if any, should be excluded from the acquisition.
3. The appraiser (or specialist) will then be advised to proceed on the basis of this agreed upon list.
4. If a specialist is retained to value any of the items, they will be requested to provide:
   - Cost new and source of cost - Is this a catalog price, wholesale, or retail? Are installation or hook-up costs included or additional?
   - In place value - How was depreciation determined, age/life factor, condition? Function and efficiency compared to current state of the art for that item?
   - Salvage value - What would the item bring at auction knowing it would have to be moved to another location?
5. A staff or fee appraiser may use the same process to value these fixtures. It may be possible, or more desirable, for an appraiser to value the fixtures on an analysis and allocation of sales. This technique, which more closely follows the thoughts and actions of buyers and sellers, requires sufficient sales and enough detailed information to make logical and meaningful comparisons. This technique would result in a lump-sum value for the fixtures rather than the itemized valuation. The region would then have to prepare an itemized list or schedule of salvage values (for property management purposes) for submittal and final approval of an offering price.

## 2.4.3 Cost Estimates

It is often necessary to get cost estimates for parking lots, building repair, replacement of septic systems, well drilling, etc. It’s important that the contractor or consultant understand exactly the extent of the work to be done and that detailed specifications of the work and cost are required. The appraiser or regional staff, rather than owner, is to meet with the contractor and spell out exactly what is needed. If there is anything questionable about the estimate, it should be reviewed for acceptability by regional staff and the review appraiser prior to including it in the appraisal. Dimensions, materials required, labor, and specifications when appropriate, are the critical part of the written estimate. A sketch showing where parking is to be replaced, for example, may be necessary in addition to dimensions and specifications. If possible, the proposal should be in the form of an actual bid to do the work. These estimates are not valuation or specialty reports; and, therefore, do not need a certification.

# 2.5 THE PROJECT DATA BOOK (PDB)

Project Data Books (PDB) are required on most projects when more than four parcels are being acquired. A PDB must be completed if Short Format Summary Appraisals are being done on a project. PDBs are useful for a variety of project and acquisition types. A PDB is a collection of market data and analysis that relates to more than one appraisal report. The PDB is especially useful when there are several appraisers working on the project since considerable duplication of effort will be eliminated. The PDB has the supporting data and analysis for the Short Format Summary Appraisal. Items in Short Format Summary Appraisals, such as: area and neighborhood data, project description, zoning, floodplain, soils, etc. can be referenced in this format as appropriate and deleted from the boilerplate of the appraisal report document or addenda. The PDB eliminates considerable duplication of data/project information being repeated in multiple appraisals on the same project. The PDB then becomes part of the appraisal file to meet Uniform Act reporting requirements.

Why a PDB and not a sales study? The PDB is intended to be an extension of the Short Format appraisal report. If a region thinks it is not appropriate or cost-effective to have a PDB completed, they must discuss it with either a statewide review appraiser or regional reviewer (depending on types of reviews for the project) before an appraiser is contracted. The reviewer can waive the PDB requirement, and instead allow for a sales study to be completed. If a project involves more than four parcels, either a PDB or a sales study must typically be completed; and, the reviewer must be consulted before the region contracts with an appraiser.

A thorough knowledge of the parcels on the project and the effects or potential effects of proposed acquisitions on remainders should be developed before data collection begins. Depending on the complexity of the project and the scope of work required to appraise the subject parcels, data book content can and will vary between projects. Urban project data collection needs, for example, may differ substantially from rural projects. Appropriate data collection should be given strong consideration for discussion in project management conferences. All PDBs will contain at a minimum:

1. Area and neighborhood data and analysis.
2. Individual sales data sheets for comparable sales with all required data related to appropriate units of comparison included. Data sheets should be grouped by property type (i.e., improved commercial, single family residential, vacant land, etc.). Note: An allocation of the sales components can be part of a sales data sheet analysis or the appraiser may opt to allocate sales in the report itself. Care should be taken to maintain allocation consistency when using sales on different appraisals.
3. Right of way project description.
4. Sales location map(s).
5. Scope of work description, including: jurisdictional exception rule, limiting conditions, definitions, etc. for Short Format Summary Appraisals. The scope of work narrative should include a tabulation of the number and type of subject parcels to be appraised, complexity of acquisitions involved, along with type and extent of market data researched to facilitate appraisal problem solutions.

6. Summary tables of property types grouped as appropriate related to land sizes, property types, date of sale, etc. If there will be appraisal waivers on a project, the PDB preparer is required to write a narrative conclusion with regard to appropriate land values to be utilized for the nominal payment parcel report.
7. Zoning information, including zoning maps, depicting all subject parcels on the project, if available, and the zoning ORD narrative for appropriate zoning designations only.

The following PDB items are considered required/optional depending on the project type and subject parcel/comparable sale characteristics. Items included would be those anticipated to come into play in solving the subject parcel appraisal problems. If, for example, data is anticipated to be used on only one or a few parcels on a project, the appraiser may opt to include the data in the addenda of the appraisal report. One of the purposes of the PDB is to eliminate the need to replicate this information in the addenda and/or report boilerplate for Short Format Summary Appraisals.

- Aerial maps of project area.
- Comparable rental data if appropriate and available.
- Comprehensive land use plans.
- Cost data if anticipated to be used extensively on a project. Fencing cost data on large rural projects where fencing is being acquired extensively is an example.
- Flood plain maps and restrictions.
- Matched pair or other sales and physical or economic data useful in determining severance damages.
- Other unique data on a project specific basis.
- Sewer/water, or other utility maps or data where these units of comparison come into play in the appraisal process.
- Soils maps and pertinent data if data useful in solving appraisal problems.
- Topographical maps of project and sale areas.

The PDB is considered a “living document” in that it can be added to and expanded during the course of a project. This will be especially true on larger projects that take months to complete where additional relevant comparable sales data becomes available as time passes. It’s recommended that the appraiser utilize a loose-leaf type of document organization with a chapter/page numbering system to facilitate additions. The PDB should be organized so that needed data can be referenced easily. The ‘Table of Contents’ for a typical PDB will include:

“SAMPLE”

**Project Data Book**

**TABLE OF CONTENTS**

**I. INTRODUCTION**

1. Title Page
2. Letter of Transmittal
3. Supplemental Certification
4. Scope of Work Assignment
5. Project Description
6. Important Definitions
7. Assumptions and Limiting Conditions
8. Qualifications of the Appraiser and Specialists

**II. FACTUAL DATA**

1. Area Data
2. Neighborhood Description
3. Flood Plain Data
4. Soil Data
5. Average Daily Traffic Volume
6. Utilities
7. Zoning, Future Land Use Plans and Special Codes

**III. DATA STUDIES**

1. The Comparable Sale Adjustment Process
2. Conditions of Sale
3. Market Conditions
4. Location/Physical Characteristics
5. Rate Indicators
6. Parking Study

**IV. MARKET DATA**

1. Sales Considered But Not Used
2. Agricultural Land Sales (over 40 acres and under 40 acres)
3. Residential Land Sales
4. Commercial Land Sales
5. Retail Store Sales
6. Restaurant Sales
7. Warehouse Sales
8. Rentals
9. Other

An appraiser may choose to reference the PDB rather than include narrative located in the PDB and not critical for the user to understand the appraiser's solution to the appraisal problem. If this occurs, the PDB page(s) must be referenced. Pertinent data that is needed to complete appraisals on the project, but which is omitted from the PDB, will be basis for rejection of the PDB document by the review appraiser assigned to the project.

## 2.5.1 Sales Data Collection

The Department of Revenue is an excellent source for sales data collection. Statewide real estate transfer information can be obtained online or at the regional area property assessment office. The real estate transfer information provides a wealth of information about each particular transaction such as:

- Improved, bare land, water frontage, woodland tax exemption, etc.
- Information acquired by the Department of Revenue agent during an interview with grantor or grantee such as "to settle divorce judgment and corporate restructuring."
- Latest assessed values.
- Legal description and land type (agriculture, residential, recreational, commercial, etc.).
- Measurements of smaller tracts.
- Name of grantor and grantee and address of each.
- Opinion as to if the sale is market value.
- Purchase price (whether personal property is involved).
- Sale date.

- Size (square foot or acres).
- Type of instrument used in the conveyance (Warranty Deed, Land Contract, Quit Claim Deed, executor's deed, sheriff's deed, etc.).
- Whether the grantor and grantee are related.

There are other sources for comparable sales data that includes, but are not limited to:

- County Register of Deeds - provides the official recorded listing of all transactions up to present time and can be used to verify sales that are not as yet included in regional Department of Revenue files (which usually run 2 to 3 months behind).
- County tax list - provides appraiser with a sketch or drawing of "sell-offs" or a division of properties and recording dates when deed of record can be located at the Register of Deeds. They will usually provide actual measurements or a copy of the Certified Survey Map for smaller parcels.
- Local and area real estate agencies - also good sources to locate current or pending transactions and properties listed for sale.
- Media - check advertisements of real estate for sale and sold in newspapers, magazines, television and shopper guides.
- Multiple listing services.
- Property owners - owners of property being appraised may be aware of recent sales and listings for sale in their immediate neighborhood.

## 2.5.2 Sales Data Verification

There are several sources with which to verify a comparable sale. They are the grantee, grantor, real estate broker or the attorney who closed the transaction. It is essential that every effort be made to verify the transaction with the grantee and grantor. It is also preferable that the appraiser contact the above parties in the order listed. These are the most reliable sources for verification. If the verifier refuses to give any information about the sale, don't press for information, and seek an alternate source. Prepare a basic list of questions to obtain the data that you need concerning a comparable sale. This list will differ with each property type or appraisal problem. The appraiser should prepare a basic interview outline for each type of property to insure necessary data can be gathered during the original interview. The data collected should include, but is not limited to:

- Address of sale.
- Date of sale.
- Gross income and net income.
- Identification of sales actual location.
- Improvement data (square footage, room counts, bedrooms, bathrooms, apartments, etc.).
- Improvements made to property after sale.
- Owner or real estate broker marketed.
- Personal property included.
- Relationship of grantor-grantee (relative or non-related).
- Rental or leasehold data.
- Sale price.
- Terms of sale and financing; special motivation that could affect sale price.
- Underground improvements (underground tank, etc.).
- Verifier's opinion of sale price (fair market value, or not).

When verifying sales, it is suggested that the appraiser, ask about:

- Financing, terms, conditions of sale.
- How long was property on market.
- How property was marketed.
- If any improvements or additions have been made since sale occurred.
- If personal property was involved.
- Inspection of interior and improvements on sale, request permission to view.
- Recorded data about sale, and explain that you want to verify the data.
  - Example: The sale price was $_____, and could this price be verified.
- Rentals, leases, etc.
- What was price based on (appraisal, etc.).
- Why this property was picked over others and what intended use will be.

Other basic suggestions:

- Always introduce yourself and present identification.
- Be pleasant, polite and professional. Please also dress accordingly.
- Be prepared to answer any reasonable questions about the project.
- Explain your role and that you are seeking verification of sale data.
- Request their cooperation and assistance.

## 2.5.3 Sales Data Analysis

An analysis of the comparable data book along with consideration given to offerings and listings for sale should provide some indication of conclusions and trends in the project area. The most comparable sales to the project should be included in the PDB, even when they may be older than others in the area. Current sales, when available, will be needed for time adjustment. The most recent sales should always be considered. Other things to consider when analyzing sales information include:

- A large number of similar properties for sale in a given area may indicate an imminent land use change.
- In cases where there is a lack of comparable sales, asking prices and listings for sale can help document appraiser's opinion of value.
- Number of similar type properties for sale may indicate degree of balance in supply and demand.
- Offering and listings will probably set upper limit of value for similar properties.

Property values can be affected by their location in school districts, different zoning districts and near external distractions such as industrial or commercial areas. The sales should be summarized in groups by use, location, size, or other categories that will provide a reasonable division of the sales. Typically, size and type will indicate value ranges. Each group must be analyzed and followed by a short summary write-up that concludes a specific unit value for a typical property of this type. These unit values can then be used to establish values for appraisal waivers and Short Format Summary Appraisals.

## 2.5.4 Comparable Sales Data

### 2.5.4.1 Comparable Sales Data Sheet Instructions

The items detailed below should be included for each comparable sale (also see attached outline for a quick overview and sample comparable sales data sheet):

1. Comparable sale number: A systematic method of numbering sales should be used. The preferred method is Township - Section - and Sale No., such as Town of Center, Section 1, and Sale 1 would be called C-1-1.
2. Photos: Include a photo that gives a good overall view of the sale property. If more photos are needed to properly show features of the sale property that will require adjustments in the market approach, an extra page for photos should be added.
3. Sketch: Include a sketch of the property from plat book, soil survey map, and aerial photo from A.S.C.S. or appraiser's drawing. The sketch is to be an aid in locating the property and making adjustments regarding the property. The degree of detail needed depends on the appraisal problem for which the sale will be used. For example, if the sale is being used to demonstrate proximity damage, the sketch should show the setback on the sale property.
4. Location: This area should be used to give the address of the sale property. The address should consist of house number or fire number, road or street name, name of municipality or township and county. If any special directions are needed to find the property, they can also be given here.
5. Sale date: The date the deed or land contract is signed by the grantor and not the date it is recorded. Caution: If the deed is in fulfillment of a land contract, the only meaningful sale date would be the date of the land contract.
6. Sale price: The amount that you personally verified by talking to the grantor, grantee or their agents. On farms and business property, you should determine whether or not the sale included personal property, fixtures, license, etc.
7. Net size: To get net size, appraiser must subtract any land in existing roadways.
8. Unit price: Divide sale price by appropriate unit of comparison to indicate price per acre, price per square foot or, price per front foot, etc.
9. Grantor: Name of grantor. If there are a number of grantors, first name can be given followed by the notation "et al," which means "and others."
10. Grantee: Full name of grantee. If there are a number of grantees, first name can be given followed by the notation "et al."
11. Zoning: Zoning of comparable sale property should be checked and stated here in general terms by zoning class such as Ag., R-1, R-2, B-1, M-1, etc. The appraiser should check into and know all restrictions that result from the zoning and what uses are allowed. It’s also important to know if comparable is conforming to zoning requirements.
12. Intended use: Buyer's intended use generally represents the highest and best use of the comparable sale. Intended use may be stated in general terms such as agricultural, residential, commercial, industrial, etc., but should be more specific if a particular use is known, such as fast food restaurant, assemblage to neighboring farm, etc.
13. Type of document: Indicate type by WD = Warranty Deed, LC = Land Contract, QCD = Quit Claim Deed, FJ = Final Judgment, etc.
14. Recording data: Volume and page, jacket and image or document number from Register of Deeds.
15. Legal description: For rural properties, give a brief legal description as to quarter, section, town, and range in which the comparable is located. For urban properties, give lot and block numbers or reference to certified survey map, etc.
16. Conditions of sale: Refers to how the property was sold. Was the sale private or through a broker? How long was the property on the market? What was the asking price? How was the sale price determined (i.e., seller set price, buyer made an offer, price determined by an appraisal, price was negotiated between buyer and seller, buyer

paid listing price, buyer rented land for several years prior to the sale)? Include information that would indicate any particular motivation to buy or sell that might have affected the price. If a trade was involved, explain in detail the value of the properties traded or used as down payment. A trade or exchange is often a poor sale to use because of the difficulty of determining the value involved. If the sale was for assemblage or to support a nearby farm operation, indicate the size of operation and distance to main farm. If assembled as a site, indicate the total assembled price of the property. Give information as to why the buyer wanted the property. How many other sites were considered? Why was this property selected? Find out if the seller had a particular reason to sell that may have affected the price such as being transferred out of state, being friends with buyer, or needing money to meet other obligations. The above list is not all-inclusive; however, the more information of this type that the appraiser knows about the sale, the easier it will be to fit into the market and determine if any motivation adjustment is required. Sales involving family transfers, sales in connection with foreclosures or bankruptcies, sales with intra-corporate affiliations and sales to municipalities or government agencies with the power of condemnation are not considered arms length transactions and should not be used.

17. Financing: Indicates the type of financing used in this sale. Find out as much information as you can to help determine if the type of financing or terms affected the sale price. On sales with seller provided financing, the terms should be stated. Land contract terms are usually stated as part of the land contract. Data that should be listed is the down payment, interest rate, length of contract, amount of payments, any escalation clauses, frequency of payments of principal, interest, and date when total balance is due. This information is necessary in order to determine if a financing adjustment is appropriate for the sale.
18. Verified by: Full name of person verifying price should be given. If either the named grantor or grantee does not verify price, relationship of this person to grantor or grantee should be stated. This is often true in transfers involving corporations or other groups. Verification by the tax assessor or transfer return is acceptable as a last resort only.
19. Verified to: Name of real estate appraiser who verified sale price. If more than one appraiser is working the same project, it is acceptable to use a sale verified by another appraiser, however, each appraiser is still responsible to make sure that facts they are using are accurate so if there is any doubt about the information on a sales sheet of a verified by another or if additional information is needed, the sale should be reverified by the appraiser planning to use the sale. A good method of reverifying a sale is to talk to the opposite party to the transaction that has not yet been contacted. This will provide additional insight into the conditions of the sale.
20. Verification date: Date you talked to person verifying sale price.
21. Description of property:
    - Land - Description of the property depends on how or why sale will be used in the appraisal. All sales should include size of the property. Dimensions for small sites should also be indicated. For land sales, total acreage shown should be either net or gross with a breakdown showing the amount in public roads. Rural properties are usually analyzed on a per acre basis. Urban sites may be analyzed by square foot, front foot or on a site basis depending on what the market dictates.
    - Improvements - Degree of detail in the improvement description depends on how sale is to be used in the appraisal. Generally, any item that will require an adjustment in the market approach should be described with enough detail to determine the amount of adjustment needed. If a sale is being used to appraise a house on a before and after basis, the size of the house in square feet should be given. Other details about a house would include: number of rooms, bedrooms and

baths, exterior and interior finish, type of heat, basement, garage, age and condition. The size and type of farm buildings should be indicated along with a description of included equipment and condition. For commercial buildings such as taverns or supper clubs, the fixtures included and the amount of the sale price allocated to these items should be stated. Any personal property, inventory, or license value included in a sale should be allocated separately.

22. Allocation: All sales should be allocated as to major components of value, such as land types, dwellings, farm buildings, site improvements, landscaping and equipment. This will make the adjustment process in the market approach more meaningful and easier to understand. In some cases, the allocated unit value for a particular item may be carried directly forward to the market approach. For example, an 80-acre tract of agricultural land that sold for $120,000 contains 2 acres in existing roads, 2 acres in ditches and 8 acres in woods. The existing roads and ditches might be allocated out at no value and the woods allocated at $1,500 per acre based upon sales of wooded property. This would leave 70 acres of tillable land at $112,000, or $1,600 per acre. The indicated price of $1,600 per acre for tillable land can be used directly in the market approach as long as it is properly identified as an allocated price.
23. Project ID: Project's state (and federal, if applicable) identification number(s) (i.e., 1300-00-21).
24. Parcel #: Parcel's unique identification number (i.e., 1, 32, 100, etc.).

# 2.6 APPRAISAL FORMATS

## 2.6.1 Appraisal Standards

Appraisals performed for federal or federally assisted real property acquisition must meet federal requirements under the Uniform Relocation Assistance and Real Property Acquisition Policy Act of 1970 (Uniform Act) requirements, must meet definition of appraisal under 49 CFR Part 24.2(a)(3), and must meet the requirements of 49 CFR Part 24.103(a)(1) through (5). WisDOT appraisals must also satisfy the requirements of s. 32.09, Wis. Stats. and the Wisconsin Department of Transportation Real Estate Program Manual (REPM), which is intended to be consistent with the Uniform Standards of Professional Appraisal Practice (USPAP).

If any provisions of the Uniform Act or Wisconsin Statutes, case law or regulations conflict with USPAP, then requirements of the Uniform Act or state statute or regulation take precedence. This is allowed under the jurisdictional exception provision of USPAP. A certification/license at the level of Certified General Appraiser is required when doing appraisal work for the department. As such, the appraiser is expected to comply with all USPAP requirements while fulfilling federal and state requirements for eminent domain appraisal assignments. Further, it is understood that the appraiser doing work for the department commands a full understanding of USPAP and is fully capable of complying with both departmental and USPAP requirements. USPAP has been written to allow the appraisers flexibility when doing eminent domain appraisal work requiring adherence to certain federal and state regulations and laws. It is the appraiser's responsibility to use and understand the adaptable features of USPAP when complying with federal and state regulations and laws. For example, the income approach is generally not allowed in eminent domain valuations. A jurisdictional exception would likely be used in most eminent domain appraisals produced for WisDOT; and, the appraiser would need to insert language on the order of one the following examples:

- Example 1: If the subject is an income producing property, the valuation analysis of the subject by the Income Capitalization Approach and Standards Rule 1-4(c) of USPAP would normally apply. However, Wisconsin case law pertaining to eminent domain states that "evidence of net income is ordinarily inadmissible for purposes of establishing property values in condemnation cases involving commercial enterprises because income is dependent upon too many variables to serve as a reliable guide in determining fair market value." Source: Rademann v. DOT, 2002, WI App 59, 252 Wis.2d 191, 642 N.W.2d 600, 00-2995. In accordance with Wisconsin case law, the Income Capitalization Approach has been omitted from this appraisal report.
- Example 2: Based on a Wisconsin Supreme Court decision in Leatham Smith Lodge, Inc. vs. State of Wisconsin (1980), the income approach is considered inapplicable in eminent domain valuations (so long as sufficient market data is available). Therefore the income approach will not be developed in this appraisal report. The omission of the income approach is not considered to be misleading or inappropriate for this valuation assignment.

## 2.6.2 Definitions

Appraisal - A written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information. See 49 CFR Part 24.2(a)(3)).

Larger parcel - In condemnation, that portion of a property that has unity of ownership, contiguity and unity of use. These are the three conditions, which must be present to establish the larger parcel for the purpose of considering the extent of severance damages in most states.

Scope of work - The amount and type of information researched and the analysis applied in an assignment. Scope of work includes, but is not limited to:

- Description of appraisal problem;
- Degree to which property is inspected or identified;
- Extent of research into physical or economic factors that could affect property;
- Extent of data research; and,
- Type and extent of analysis applied to arrive at opinions or conclusions.

See definitions for Fair Market Value, Part Taken and more explained in greater detail below; also see REPM/Definitions section.

## 2.6.3 Classifications of WisDOT Appraisals

The department accepts these appraisal formats:

- Appraisal Report Short Format Summary (RE1005)
- Appraisal Report Short Format Surplus Parcel (RE1006)
- Appraisal Report Standard Detailed Format Before & After (RE1007)
- Appraisal Report Standard Detailed Format Surplus Parcel (RE1008)

According to USPAP standards (USPAP Standard 2-2), each appraisal must identify whether it is self-contained or summary. WisDOT does not accept restricted appraisals, except for surplus land appraisals. See Section 6.5 of this manual for more about surplus lands and appraisal. Each type of appraisal, its appropriate use, and the necessary components are described in the sections below.

## 2.6.4 General Requirements for all Appraisals

Property owner contacts and property inspection - Before the initiation of negotiations, the real property to be acquired shall be appraised and the owner, or the owner's designated representative, shall be given an opportunity to accompany the appraiser during the appraiser's inspection of the property. State law requires that the owner be given the right to accompany the appraiser on an inspection of the property. This can be accomplished by having the appraiser contact the owners for an appointment or the offer can be made in a general letter sent to the owner(s) allowing them to decide if the joint inspection is necessary. The appraiser must make all reasonable attempts to contact the owner, including sending a certified letter if necessary. The letter should explain that the appraiser will be looking at and taking photos of the area and should ask for their input regarding any underground or nearby improvements that could be affected. The owners shall be asked to write or call by a specified date if they want a joint inspection or conference. During the inspection, enough detail should be recorded in notes

and photographs so that it can later be used to prepare a full before and after appraisal if the property is acquired through an Award of Damages and the property owner appeals. On very simple acquisitions, the extent of inspection should reflect the complexity of the acquisition.

Jurisdictional exception - USPAP includes a Jurisdictional Exception Rule. This rule enables an appraiser to comply with all applicable state and federal laws and regulations, even if there is an inconsistency between these and USPAP. If any applicable law or regulation precludes compliance with any part of USPAP, only that part of USPAP becomes void for that assignment. In these cases, the appraiser must:

1. Identify in the report, the law or regulation that precludes compliance with USPAP;
2. Comply with that law or regulation;
3. Clearly state in the report that part of USPAP that is voided by the law or regulation.

Appraisal performed for federal and federally assisted real property acquisition must follow the requirements in this manual, which conform to 49 CFR 24.

## 2.6.5 Appraisal Report Short Format Summary

The Appraisal Report Short Format Summary (RE1003) can be used for non-complex acquisitions where the acquisition is less than $10,000. These types of acquisitions are considered nominal acquisitions and the corresponding appraisal used to acquire them is sometimes called the short format summary appraisal. It is written in a short summary style for convenience and to expedite the project. Examples of non-complex acquisitions include:

- Parcels that include minor out-buildings, wells, septic systems, driveways or items of landscaping or other improvements that can be valued by the cost approach, or as in the case of landscaping, the contributory value method. See Section 2.7 of this manual for a discussion of special improvements.
- Parcels that include vacant land or land with minor improvements and damages to the remainder can be measured by a cost to cure that is economically justified and does not result in betterment.
- Parcels where damages to remaining land do not exceed $5,000 and can be simply explained.
- When damages do not result in a change of highest and best use.
- Where the sales comparison approach can be used to determine the fair market value, with only minor adjustments.
- Whole or partial strip acquisitions < $10,000.

The purpose of the Appraisal Report Short Format Summary (RE1003) is to provide the property owner a value estimate for noncomplex acquisitions that have a value of $10,000 or less, and a very brief summary of the value findings regarding the proposed acquisition supported by the appropriate level of market research, while at the same time avoiding excessive, unnecessary reporting documents. All Appraisal Report Short Format Summary (RE1003) forms must be supported by a Project Data Book (PDB) of sufficient market research to credibly report a value of the property being acquired. See Section 2.5 of this manual for a discussion of PDB requirements. The Appraisal Report Short Format Summary (RE1003) may be used when owners are unwilling to sign a Nominal Payment Parcel - Waiver of Appraisal Recommendation and Approval (RE1897), if the parcel is non-complex and the value is less than $10,000. See Section 2.10 of this manual for discussion of waivers of appraisals. The

Appraisal Report Short Format Summary may also be used when the parcel is non-complex and less than $10,000 in value, but the region is facing a tight timeframe and needs to initiate the real estate process with an appraisal. However, if a property owner has serious doubts about the effect of the acquisition on the value of the remaining property, an Appraisal Report Standard Detailed Format Before & After (RE1007), should be considered.

Minimum requirements for Appraisal Report Short Format Summary (RE1003):

1. A before value of the property based on market sales or the equalized assessment must be given. Caution: When using the assessment be careful to present it only as the assessment.
2. An acceptable Project Data Book (PDB) needs to be prepared, see Section 2.5 of this manual for PDB requirements. A waiver of this requirement maybe considered under certain circumstances.
3. Fairly consistent unit prices, for the various categories, with few adjustments work best.
4. Land types must be categorized and conclusions rendered in the PDB.
5. Appraisal Report Short Format Summary (RE1003) must be completed (with applicable sales attached).

## 2.6.6 Standard Abbreviated Appraisal Format

The Standard Abbreviated Appraisal Format is the most commonly used format for WisDOT acquisitions. The Standard Abbreviated is developed by using our sample Appraisal Report Standard Detailed Format Before & After (RE1007) and deleting those sections that are not necessary to solve the appraisal problem. Most often, this means that the after value components are not included in a Standard Abbreviated report. The Standard Abbreviated is used in appraisal situations where the appraisal problem is too complex for the Appraisal Report Short Format Summary (RE1003), but does not require a Appraisal Report Standard Detailed Format Before & After (RE1007). Situations typically appropriate for the Standard Abbreviated Appraisal Format include:

- Acquisition of entire property.
- Acquisition where part to be acquired could be sold as a “separate entity” and can be separately appraised.
- Strip type acquisition where same unit value (i.e., dollars per acre or dollars per square foot apply to both before and after valuations).
- There are no damages to remaining property or damages are not substantial. A separate market analysis of after value is not required.

A complete narrative description of the property being appraised and a detailed analysis of value are required. A comprehensive after analysis is not required in the Standard Abbreviated Appraisal because there is either no remainder or there are no significant damages to the remainder.

| Categories & Levels of Standard Abbreviated Appraisal Format |
| --- |
| Category 1 – “Vacant Land Report”<br><br>This category includes both vacant land and improved properties where the buildings are not affected by the acquisition and need not be appraised. Sales of comparable improved properties are not required. This category includes acquisitions where land values are |

difficult to establish so the Appraisal Report Short Format Summary (RE1005) is not appropriate. Market sales are not readily available and/or require considerable adjustment. Examples might be properties where highest and best use is not readily ascertained, land is in transition from the existing use to a higher and better use or good comparable land sales are not readily available. Damage to the remaining property is not substantial so a complete separate after analysis is not required.

Category 2 – "Improved Property Report"

- *Level 1:* Complete acquisition of relatively non-complex, improved properties. Examples include: residential properties, taverns, repair shops, small retail outlets, and hobby farms, and other similar properties. Since the acquisition consists of the entire property, an after value is not needed.
- *Level 2:* Complete acquisition of improved properties of greater complexity than those properties described in Level 1 and where comparable sales are not usually available. Examples would include manufacturing facilities, dairy farms, motels, supper clubs, specialty properties such as churches or schools and multiple use properties.

## 2.6.7 Appraisal Report Standard Detailed Format Before & After

The Appraisal Report Standard Detailed Format Before & After (RE1007) is required when the appraisal problem is complex in nature and a complete detailed before and after appraisal is necessary. It is applicable to parcels classified as major or complex, both vacant and improved, in the Real Estate staffing matrix. The Standard Detailed Before & After is required in appraisal situations where damages to the remaining property are so substantial that a complete analysis of the after value is required in addition to the analysis of the before value. It is, in effect, two appraisals in one report. The contents of the Standard Detailed Before & After will depend upon the complexity of the appraisal problem. A Standard Detailed Before & After must also be used when neither the Short Format Summary (RE1005) nor the Standard Abbreviated Appraisal formats are appropriate. The following is a list of typical examples of complex acquisitions, where the Appraisal Report Standard Detailed Format Before & After (RE1007) would be required:

- Acquisitions that cause a change of highest and best use.
- Acquisitions where land value is not apparent from the initial analysis of market.
- Appraisals needing more explanation than can be provided on the Appraisal Report Short Format Summary (RE1005) or Standard Abbreviated Appraisal format.
- Appraisals with cost to cure that are not obvious or economically justified.
- Commercial properties other than bare land with no damage to remainder.
- Industrial properties other than bare land with no damage to remainder.
- Land only acquisitions that include extensive or unique landscaping (i.e., trees, shrubs, walkways, etc.).
- Partial takes that cause severance damage to improvements due to proximity, change of grade, reduced utility, etc.
- Partial takes that cause severance damage to land over $5,000 for items such as access control, land locking, reduced size, irregular shape or where uneconomic remnants result.
- Partial takes that cause significant damages or benefits to remainder.
- Properties that require a specialty report.
- Properties where the cost or income approach may be relied on or weighed heavily in the reconciliation.
- Properties with improvements not in harmony with highest and best use of the land.

- Residential properties with unique features not normally found in the market.
- Special purpose properties.
- Transitional properties where highest and best use is changing.

## Categories & Levels of Standard Detailed Format before & After

These examples of categories and levels of the Standard Detailed Before & After appraisal are to assist in making the choice as to which appraisal format should be used:

Category 3 – "Vacant Land Report"

This category includes both vacant land and improved properties where buildings are not affected by the acquisition and need not be appraised. Sales of comparable improved properties are not required. Acquisitions in this category include substantial reductions in value to the remaining land so that a complete after land value analysis is required separate from the before land value analysis. Examples of damages might be change of grade, restriction of access, reduction in size, change in shape, and change in highest and best use.

- *Level 1:* Acquisitions where highest and best use is obvious and land value is readily determined from comparable sales. The building improvements are not affected by the acquisition and need not be appraised. The acquisition may include minor land improvements such as landscaping, driveway, wells and septic systems. What differentiates this appraisal type from the Standard Abbreviated Appraisal format is that damages to the remaining land are so substantial that a complete analysis of after value of the land is required separate from the analysis of before value of the land.
- *Level 2:* Acquisitions where land values are difficult to establish. Examples might be properties where highest and best use is not readily ascertained, land is in transition from the existing use to a higher and better use or good comparable sales are not readily available. Substantial damages to the remainder would still occur. Although difficult to determine from comparable sales, a separate after analysis and land valuation would be required.

Category 4 – "Improved Property Report"

This category includes improved properties where the buildings are not acquired but are adversely affected by the acquisition and must be appraised. Comparable sales of improved properties are required. An analysis of after value is required separate from the analysis of before value. In most cases different comparable sales should be used to document the after value. In all cases and especially when different comparable sales are not available, a complete rationale for the damages to the remaining property is required.

- *Level 1:* Residential properties of four units or less. Damages to the remaining property require analysis of the after value. A typical example would be damage to a single-family residence caused by proximity to a heavily traveled highway.
- *Level 2:* Improved properties other than small residential properties of four units or less which are adversely affected by the acquisition and must be appraised on a before and after basis. Sales of these type properties occur on a regular basis in the market. Examples would be loss of parking from small business properties, restriction of access to small business properties, loss of cropland from farm operations and similar situations.

- *Level 3:* Complicated acquisitions from large farms, businesses, manufacturing or unique special purpose properties where the acquisition severely affects the site and improvements. Sales of these type properties are very infrequent in the market. Examples would be loss of substantial parking from a shopping center, interference with a manufacturing facility, and other similar situations. Substantial takings from special purpose properties such as a school playground or a golf course are also considered complex as are highway relocations that split large farming operations.

What differentiates Level 3 from Level 2 is that the properties are more difficult to appraise in the before condition because the properties are more unique and good comparable sales are not readily available; or, the damage to the remainder is more difficult to substantiate or a combination of both appraisal problems. Minimum requirements for the Standard Before & After (or Detailed) Appraisal format are outlined in the following sections. The areas that must be included are those that may have an effect on the property. The detail of information will vary depending on the complexity of the appraisal problem. If the property's after value is not affected, don't include an analysis of the after condition. If the property's building improvements will not be affected by the project, it is not necessary to give a detailed description of the buildings or do a comparison and analysis of the property's improvements. Details of the contents for the individual appraisal report will depend upon complexity of the appraisal problem. The Appraisal Problem Analysis (APA) (RE1004) will be useful in determining complexity of the problem. The report, however, must conform to the general appraisal report standards for complete narrative appraisals published by USPAP and it must be consistent with federal (49 CFR 24.103(a)) and state (s. 32.09, Wis. Stats.) laws and regulations.

## 2.6.8 Instructions for Appraisal Report Standard Detailed Format Before & After

The example that follows is an Appraisal Report Standard Detailed Format Before & After (RE1007). Reminder: Protocol for deciding the degree of detail and areas that need to be included in the report is - if the highway acquisition does not affect something on the property (i.e., buildings), it is not necessary to give a detailed description of the buildings or do a comparison and analysis of the property's improvements. This format can be used for both the Standard Detailed Before & After appraisal and the Standard Abbreviated appraisal. When conducting a Standard Abbreviated appraisal, delete those sections of the Standard Detailed Before & After example that are not necessary to solve the appraisal problem. Most often, this means that the after value components are not included in a Standard Abbreviated appraisal. The bottom of each appraisal page must identify the project ID, page number and parcel number. The order of the sections and valuation methods are mandatory.

| Appraisal Report Standard Detailed Before & After (RE1007)<br>or Standard Abbreviated Format |
|---|

Table of Contents*

1. Executive Summary
2. Parcel Description
3. Scope of Work
   a. Purpose of Appraisal Report, Intended Use and Intended User
   b. Type and Definition of Value

   c. Estate being Appraised/Relevant Property Characteristics
   d. Effective Date of Appraisal
   e. Assumptions and Limiting Conditions
4. Certificate of Appraiser
5. Project Information
6. Area and Neighborhood Data
7. Subject Property Information
8. Comparable Sales
9. Vacant Land Value Before Acquisition
10. Explanation of Adjustments
11. Conclusion of Vacant Land Value Before Acquisition
12. Vacant Land Value after Acquisition
13. Explanation of Adjustments
14. Conclusion of Vacant Land After Acquisition
15. Value of Improved Land Before Acquisition
16. Explanation of Adjustments
17. Conclusion of Value of Improved Land Before Acquisition
18. Value of Improvements After Acquisition (not required for Abbreviated format)
19. Explanation of Adjustments for Improvements after Acquisition
20. Conclusion of Value After Acquisition
21. Total Damages and Allocation
22. Property Sketch
23. Photographs
24. Sales Location Map
25. Sales Data Sheet or Comparable Sales Sheet
26. Appraiser's Qualifications

## 1. EXECUTIVE SUMMARY

The executive summary should include a summary of the subject property, the appraisal problem being addressed, the approach to value used in the appraisal, and the fair market value as determined by the appraiser, based on information in the appraisal.

## 2. Parcel Description

The parcel description *must* include:

1. Property owner (owner's name).
2. Property address (where property is located).
3. Owner's address (address where owner lives).
4. Phone (owner's telephone number).
5. Size and type of property (a brief synopsis of type and size of property, excluding any easements; also include whether or not property has improvements or is vacant).
6. Sales history (include any sales in last five years and last sale of subject property).
7. Volume and page, grantor, grantee, sale, date and price.
8. Present use (either as vacant or improved).
9. Zoning (summary of present zoning).
10. Highest and best use - before (prior to the acquisition or project) and after (following the acquisition or project).

11. Area and interest to be acquired (land fee as described on R/W plat).
12. State if full acquisition or partial acquisition.
13. Existing right of way/no compensation (area described on R/W plat).
14. Improvements (list all major and minor improvements in acquisition area)
15. Other interests (permanent, temporary easements, access rights, etc. from plat, as shown on the right of way plat sheets. Include page numbers from plat, and plat date. Total assessment divided by tax rate).

## 3. SCOPE OF WORK

The appraisal report must include a scope of work. The scope of work is a written statement agreed upon by the appraiser and the agency describing the appraisal work the appraiser is to do. The scope of work defines the general parameters of the appraisal. In the scope of work the appraiser must identify the problem to be solved. This identification requires an explanation of the elements of the assignment that specifically identify the problem that appraiser sets forth to resolve. The appraiser must explain the research necessary for a credible report and the process to arrive at a credible solution. If the typical appraisal would include all three types of valuation, the appraiser would cite the jurisdictional exception, and explain the processes considered in the appraisal. If the typical appraisal would not use a specific approach, the appraiser would make this determination and state it clearly. The appraiser is contracted by the department to appraise a parcel by using the Appraisal Report Short Format Summary (RE1005), Short Format Surplus Parcel (RE1006), Standard Detailed Format Before & After (RE1007), Appraisal Report Standard Detailed Format Surplus Parcel (RE1008), or the Standard Abbreviated appraisal format. These formats each require a degree of research and analysis the department has determined will be necessary for the appraisal problem. However, the appraiser must be aware that USPAP requires:

> *"An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use. An appraiser must not all the intended use of an assignment or a client's objectives to cause the assignment to be biased."*

The scope of work shall reflect the needs of WisDOT and the requirements of federal and federally assisted appraisal practice. It should be developed cooperatively between the appraiser, regional Real Estate staff or management, and the review appraiser for the project or parcel. The scope of work defines the complexity of the appraisal. In all cases, it should describe what the appraiser and WisDOT are each to do, and what is the mutually expected outcome of the appraisal assignment/contract. The Appraisal Problem Analysis (APA) (RE1004), if completed, may contain relevant information for this section. The scope of every appraisal assignment includes an investigation of the market area to discover factors affecting property value, a search of the market area for sales of comparable property, an analysis and determination of the highest and best use of the subject, an inspection of the subject property to determine the physical characteristics of the land to be acquired and any improvements that are being acquired or affected. The scope of work must consider the requirements in 49 CFR Part 24.103(a)(1) through (5), and address them as appropriate. In developing the scope of work, the appraiser must consider:

1. What are the concerns of the department?
2. What actions would peers* of the appraiser take in performing actions under a similar type of assignment?

* Peers, in this case, would be defined as appraisers who do eminent domain appraisal work on a regular basis.

The scope of work *must* include:

a. Elements of the assignment/intended use - Sample language: "This appraisal is being prepared for the Wisconsin Department of Transportation, the intended user, to estimate fair market value to be used in the determination of just compensation for the acquisition of real property interests for a transportation project. A copy of the report will be given to the property owner as required under s. 32.05, Wis. Stats. compensation due to the owner for the acquisition of property and property rights, as indicated above. This shall be done in accordance with the provisions of s. 32.09, Wis. Stats., which state that compensation shall be based on market value. The owner may have their own appraisal prepared." The Appraisal Problem Analysis (APA) (RE1004), if completed for the parcel, should be referred to when writing this section.

b. Type and definition of value - The appraiser should discuss the approaches to value used or not used with specific reasoning for their inclusion or exclusion. As a matter of public policy with consideration given to federal regulations, WisDOT may limit the analysis to include the sales comparison approach only if it is determined that this approach will be adequate to yield credible results. Only those valuation approaches that are applicable should be included in the report. The appraisal should consider the unencumbered fee simple estate of the real property only as basis for all value components of the report. Any encumbrances that affect the market value of the property should be fully described. Personal property should not be included in the reported value. Fixtures atypical to the property type, if any, should be itemized and valued separately.

   *Fair market value definition* -- Fair market value is defined as the most probable price which a property would 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 the following conditions:

   1. Buyer and seller are typically motivated;
   2. Both parties are well informed or well advised, and acting in what they consider their best interest;
   3. A reasonable time is allowed for exposure in the open market;
   4. Payment is made in terms of cash in United States 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.

   Section 32.09(5)(b), Wis. Stats., states: Any increase or decrease in fair market value of real property prior to the date of evaluation caused by the public improvement for which the property is acquired, or by the likelihood that the property would be acquired for such improvement, other than physical deterioration within the reasonable control of the property owner, may not be taken into account in determining just compensation for the property.

   *Larger parcel and separate entity definition* -- The appraiser is to define the larger parcel for the given appraisal assignment. Larger parcel is an important concept unique to

condemnation appraisals and is important in the appraisal problem definition and scope of work considerations. The larger parcel is typically defined in relation to contiguity, unity of use, and unity of ownership. In relative terms, the appraiser must consider the larger parcel in the follow terms, as well, contiguity or proximity as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use. The property's highest and best use, for purposes of just compensation will be its most advantageous use as actually affects the present market value. In most cases the larger parcel is all of one parcel defined by the right of way plat. However, the larger parcel may be part of a parcel or several parcels, depending to varying degrees on unity of ownership, unity of use and contiguity.

*Part taken (separate entity test)* -- For a partial taking other than an easement, s. 32.09, Wis. Stats., requires WisDOT to pay the greater of either the fair market of the property taken or the difference in the before and after values. If the value of the part taken would result in a higher value because, (a) area acquired could be a building site or (b) area acquired could have a higher value on its own independent of the larger parcel, a separate valuation section entitled "Part Taken" should be developed. See Section 2.2 of this manual for guidance. The appraiser should make a statement here as to applicability of this statutory requirement to the appraisal assignment.

c. Estate being appraised and relevant property characteristics - A full explanation of the rights or interests being appraised must be included here.

d. Effective date of appraisal - Most often, this will be the date of inspection.

e. Assumptions and limiting conditions - The appraiser may, if relevant, include limiting conditions that are appropriate to the appraisal problem. If there are extraordinary assumptions or limiting conditions, the appraiser should discuss them in the scope of work with emphasis. The scope of work must also acknowledge compliance with URA appraisal requirements.

## 4. CERTIFICATE OF APPRAISER

At a minimum, this language *must* be included and *must* be signed by the appraiser:

"To the best of my knowledge and belief, the statements contained in the appraisal report are true and the information upon which the opinions expressed herein are based is correct, subject to the limiting conditions herein set forth:

- This appraisal has been made in conformity with appropriate Wisconsin Statutes, regulations, policies and procedures applicable to the appraisal of right of way. To the best of my knowledge, no portion of the value assigned to this property consists of items that are non-compensable under Wisconsin laws.
- The statements contained in this report are true and correct. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is my personal, unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Neither my compensation nor my employment are contingent upon the 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 the appraisal.

- Any decrease or increase in the market value of the real property prior to the date of valuation caused by the public improvement for which this property is to be acquired, or by the likelihood that this property would be acquired for such improvement, other than that due to physical deterioration within the reasonable control of the owner, was disregarded in determining compensation for this property.
- My analyses, opinions and conclusions were developed, and this report has been prepared in compliance with the Uniform Act, and is consistent with the Uniform Standards of Professional Appraisal Practice (USPAP).
- No one provided significant real property appraisal assistance to me in making this report, unless noted. I have not revealed the findings and results of this appraisal to anyone other than the proper officials of the acquiring agency or the Federal Highway Administration and I will not do so until authorized by said officials, or until I am required to do so by due process of law, or until I am released from this obligation by having publicly testified as to such findings. I have not given consideration to nor included in this appraisal any relocation assistance benefits.
- I have not given consideration to nor included in this appraisal any relocation assistance benefits."

On _____, I invited _____ (☐verbally ☐in writing) to accompany me on an inspection of the property. My invitation was ☐accepted ☐rejected. On _____, I made a personal inspection of the property. I have made a field inspection of and verified the sales relied upon in making this appraisal. The subject and sales relied upon in making this appraisal are as represented in this appraisal. It is my opinion that as of _____, the total loss in market value to the property herein described is: _____.

_____
(Appraiser's name / date / level of certification)

## 5. PROJECT INFORMATION

Project information is a brief discussion of the type of construction to be accomplished for which the following acquisition is necessary. Much of the information is available from the design study report, plans and cross sections, or directly from the design staff of the region involved. Include such things as:

1. Grade changes.
2. Relocation of part or the entire existing highway.
3. Major changes in traffic pattern including any anticipated detours or other significant impacts that may occur which would influence area or neighborhood where project is taking place.

The appraiser may refer to the Project Data Book (PDB) and exclude this narrative from the appraisal report in the Standard Abbreviated Appraisal format if the construction of the proposed project does not enhance or cause damages to the remaining property.

## 6. AREA AND NEIGHBORHOOD DATA

Show what economic, physical and social trends are at force in the market area of the subject property. In this area, the appraiser needs to report only appropriate data that directly affects

the value of the subject property. The type of data used in this area depends on what type of property is being appraised. On projects where there are a number of standard appraisals required for similar type properties, the same general area analysis can be used in each report. If properties or neighborhoods vary, the analysis should be modified to fit the specific neighborhood and subject property. The data in this section should be organized from general to specific. The type of data that should be considered for this section is:

- Location in regard to county, city or village.
- Path of development.
- Policies of local government that affect value, such as recent annexations and willingness to extend utilities.
- Population and growth trends.
- School district boundaries that affect on demand and value.
- Sewer district boundaries that affect property values.
- Sub areas within market area with different taxation policies that affect value.
- Subsoil conditions in an area that affect land use.
- Transportation linkages and availability of public transportation.
- Typical use of land in area and projected changes in use.

The neighborhood section of this analysis should more directly relate to how the subject fits into the general area by stating where the property is located in the area and what the adjacent land uses are (along with any changes occurring or predicted that affect the value of the subject). The appraiser may refer to Project Data Book (PDB) and exclude this narrative from the appraisal report in the Standard Abbreviated Appraisal format if neighborhood dynamics are not causing major adjustments to comparable sales utilized.

## 7. SUBJECT PROPERTY INFORMATION

The appraisal must adequately describe the subject property and include:

Site - Items that may be appropriate to report under site are shape, amount of frontage, grade along frontage, drainage characteristics and access. On farm properties, the site description is an overall description of the total land of the farm. This should include an acreage breakdown of road R/W, cropland, pasture, woods, lowland and building sites. The field layout entrances and driveways should be explained. Field drainage ditches and tile should be reported in detail if affected by the acquisition. The predominant soil types should be given. If there are any sand, gravel or mineral deposits of value in the acquisition area, these should also be reported. These items are valued on a per acre basis from sales of other properties purchased to extract the sand, gravel or minerals.

Legal description - A reference to volume and page of the local registry, reference to the plat, when it contains such information, or a very brief statement of the legal description, such as reference to the recorded plat of the property. Detailed metes and bounds descriptions are time consuming and mostly irrelevant for the purpose of the appraisal and should be avoided whenever possible.

Assessment and taxes - Indicate the current equalized assessment for the subject property, including a separate assessment of land and improvements and a total of both. The tax assessment ratio should also be reported. An indicated before value based on assessment could be reported here if a Standard Detailed Before & After appraisal is not on the subject

property. This should include all of the major physical dimensions, conditions and other attributes that would have an influence on the value of the various buildings (dwellings, barns and other outbuildings). The amount of detail needed will depend on if the buildings are being valued in the appraisal because they are being acquired or just affected by the acquisition. If a building is being acquired, a complete description is needed. When buildings fall outside the R/W area, but may be affected by the highway acquisition, the detail of description will vary depending on the situation. The distance to the R/W line should be given if the building is already close or if there is a zoning required setback. These items can be listed in a tabulation format rather than a narrative. The tabulation is preferred because it will generally take less time to list and report and will be easier to read. Often a combination of listing the basics and a short narrative of items not conclusive to listing (remodeling, extent of insulation or weatherization, special features) will be most appropriate. The following listings are not intended to be a complete menu of items, only examples:

- Agricultural buildings (i.e., barns): age, size, type, additions, number and type of stanchions, water, electricity, barn cleaner, special feeding systems, pipeline milking, condition, etc.
- Commercial or industrial structures: age, size, height, type, interior/exterior finish and condition, basement, special equipment, heat, special construction features, comment on usefulness, condition, etc.
- House: age, ground and second floor areas, total living area, basement, room count, interior/exterior finish and condition, type of heat, special features, condition, etc.

Site or other improvements - This would include other fixtures or improvements that would lend or detract from the value of the property. Be sure to cover all items of improvements that lie in the acquisition area and comment on their condition. Some of these items could be, but are not limited to:

- Concrete and blacktop driveways.
- Fencing (location, type, age and condition).
- Fixtures and other equipment, see topic 2.4.2.3.1 for more information.
- Landscaping (general description and quality).
- On premise signs.
- Planters.
- Septic system (location and type).
- Sewer and water.
- Sidewalks.
- Underground wiring.
- Well (location, depth and type).

Zoning - Priority should be given to discussing the minimum size of the lot in relation to its zoned highest and best use with a statement covering the minimum setback from centerline and R/W line from all roads involved. A short paragraph would suffice unless there are some limiting or unusual restrictions or covenants, which, it is believed, would affect value.

Highest and best use - State the most likely highest and best use of the property at the date of the appraisal. This should be based on its most valuable utilization in considering its legal, physical, and economic attributes in its location. Discuss interim use if highest and best use vacant is different than improved. The reasonable probability of rezoning must be discussed here if the appraiser values the land under that premise and the land has not been rezoned to a more intense use as of the date of appraisal. The property's most advantageous use with

respect to present market value must be discussed. See scope of work and Section 2.8.1 of this manual for more on determining highest and best use.

Larger parcel - The larger parcel as addressed in the scope of work should be emphasized here as it relates to the highest and best use. The appraiser is to comment on the "most advantage use" as it relates to eminent domain appraisal problems (see scope of work).

Acquisition - Describe, in detail, the land type(s) and whether they are to be acquired in fee or permanent easement. If there will be any temporary interests or construction permits, state the reason they are needed, for what length of time they are needed and what changes will take place in these areas. List in detail, any improvements located on the land being acquired. Note any access restrictions. Indicate the location and relationships of the acquisition area to the rest of the property. State the amount of existing R/W being acquired and that there is no monetary consideration for it.

Remainder / after analysis - Discuss the condition of the property following the acquisition and completion of the project. Describe any changes to the site and/or improvements including the reduced size of the property. Include an analysis of its highest and best use. Explain construction details as they affect the subject. List the effects of the acquisition on the subject property and comment briefly on each. Include the following if applicable:

1. A statement that acquisition or restriction of access will or will not cause damage to remainder and why.
2. Effect of the loss of improvements or ancillary structures on remainder.
3. Effects that may have taken place as a result of R/W line shifts, centerline migrations, or grade changes, etc.
4. List number and location of driveways or field entrances and whether they will be reconstructed at no expense to owner or paid for in the appraisal.
5. Explain reasoning and support for any damages to remainder. For example:
    - An analysis of highway grade, especially at entrances and reasons why a grade change will or will not cause damage.
    - Describe any severed or landlocked parcels and uneconomic remnants that are left and how their value is affected.
    - Explain items that are handled on a cost to cure bases (relocation of septics, drives, or other movable items). If a cost to cure is utilized, it must be economically justified.
    - If proximity damage is considered, give the distance to the structure from both the centerline and highway R/W line and state the reason why you think the value of the improvement is reduced.
    - If severance damage is considered, describe area of the property that will have a lower value and explain why.

Damages - Relate the items which have resulted in a loss of market value to the property from the acquisition as indicated by the changes between the before and after condition of the subject. These would include, but are not limited to, the loss in value of the land and improvements acquired, landscaping and ancillary improvements, as well as losses due to proximity damages resulting from setback changes, change of grade, etc.

Special benefits - Describe any betterment's or special benefits which have the effect of increasing the value of the property remaining. These benefits may be used to offset other

damages, land and improvements acquired. The added value of betterment should be based on its contributing market values, not cost.

Separate entity - In a partial acquisition appraisal, the appraiser must consider the value of the part taken as a separate entity. The just compensation is the greater of the value produced by the before and after analysis or the value of the parcel as a separate entity.

## 8. COMPARABLE SALES

A discussion of each of the comparable sales, which are attached as an addendum to the appraisal report, should be included at this point. Such items as sale date, sale size, sale price, price per unit, allocation of improvements, etc., should be addressed. These may be presented in a narrative or grid format. A sample comparable sales grid follows:

| Sale Number | Sale Date | Sale Size | Sale Price | Improvements | Unit Price |
|---|---|---|---|---|---|
| MTG-1 | 11/28/95 | 26 acres | $10,000 | -$3,000 | $269.23 |
| TWC-4 | 01/06/95 | 35 acres | $11,115 | -$3,800 | $209.00 |

## 9. VACANT LAND VALUE BEFORE ACQUISITION

In order to arrive at an estimated range of value for the subject property, the following comparison between the subject and sales is used. In this columnar grid, the sales will be compared to the subject. When the subject is better than the sale in a given area, a plus (+) adjustment will be used in the grid. Conversely, when the subject is worse than the sale in a given area, a minus (-) adjustment will be used. The adjustment categories will depend on the type of property being appraised. A dollar adjustment or a percentage adjustment is strongly recommended.

| ADJUSTMENT GRID – “Before” Acquisition | | | | |
|---|---|---|---|---|
| Property | Subject | Sale # | Sale # | Sale # |
| Sale Price | | | | |
| Sale Date | | | | |
| Property Rights* | | | | |
| Financing Terms* | | | | |
| Conditions of Sale* | | | | |
| Expenditures Made Immediately After Sale* | | | | |
| Market Conditions (time)* | | | | |
| Adjusted Sale Price | | | | |
| Location | | | | |
| Topography | | | | |
| Utilities | | | | |
| Access | | | | |
| Size/Shape | | | | |
| Other (describe) | | | | |
| Total/Adjustments | | | | |
| Indicated Value of Subject | | | | |

*These items must be analyzed in sequence

## 10. EXPLANATION OF ADJUSTMENTS

Comparative analysis is the general term to identify the process in which quantitative and/or qualitative techniques to derive a value indication in the sales comparison approach. These adjustments are not mutually exclusive. Each adjustment in the previous grid requires a brief explanation of what it was for, how it was applied, and why it was necessary. This is required for each adjustment category, even when a zero adjustment is applied. This explanation must establish the reasonableness of the adjustment. It must be tied to some recognized physical evidence or logical reasoning such as a paired sale analysis. There has been some confusion as to the appraisers' use of adjustments in the narrative appraisal. The issues arise from the explanations for adjustments that do not appear to be market data driven. The market recognizes two types of adjustments in the narrative report. The first is the quantitative adjustment, which can be measured in the market through paired sales analysis, statistical analysis, mathematical analysis, grouped data analysis, graphic analysis, cost analysis, direct comparisons, capitalization of income, direct capitalization, or some other quantifiable process. Quantitative adjustments are either dollar adjustments or percent adjustments. The appraiser explains in depth the process used to arrive at and make the adjustment. These adjustments are market driven and it is the appraiser's responsibility to explain the quantification process and the corresponding adjustment. The second type of adjustment is the qualitative analysis. This type of adjustment is used only when adequate market data does not exist. This adjustment process relies on relative comparison analysis, ranking analysis, and personal interview. These adjustments are based on opinions and are not quantifiable. They result in small adjustments relating to superior, inferior, etc. qualities. At times they result in a weighted average for value determination. When appraisers use both types of adjustments, the qualitative adjustments must be made first. The appraiser must recognize that when they use these types of adjustments, they will often require more extensive narrative discussion to explain the reasoning. When using the qualitative analysis, it is critical that the appraiser bracket the subject. Bracketing the subject with superior and inferior sales avoids the tendency to merely be demonstrating that a property is worth more than a certain number or less than a certain number.

## 11. CONCLUSION OF VACANT LAND VALUE BEFORE ACQUISITION

Utilizing the range of value established in the above grid, the appraiser must conclude a value within that range. A statement of why a particular adjustment value was chosen must accompany this decision. A simple appraisal problem may be concluded with the calculation of the value of the part taken as a part of the whole. This calculation is needed if it is anticipated that there may be damages or benefits to the remainder as a result of the acquisition. In this case the value of the remainder as a part of the whole should be calculated which is the simple mathematical difference between the before value of the site and the value of the part taken as part of the whole.

## 12. VACANT LAND VALUE AFTER ACQUISITION

This section is only required for the Appraisal Report Standard Detailed Format Before & After (RE1007). In order to arrive at an estimated range of value for the subject property, the following comparison between the subject and sales is used. In this columnar grid, the sales will be compared to the subject. When the subject is better than the sale in a given area, a plus (+) adjustment will be used in the grid. Conversely, when the subject is worse than the sale in a given area, a minus (-) adjustment will be used. A typical grid follows. This method would normally be used if severance damage or special benefits were anticipated to occur to the land. The comparable sales used should be similar to the subject in the after condition and will likely

not be the same sales that were previously used to value the before condition. Individual remnants should be valued separately, as they contribute to the remainder.

| ADJUSTMENT GRID – "After" Acquisition | | | | |
|---|---|---|---|---|
| Property | Subject | Sale # | Sale # | Sale # |
| Sale Price | | | | |
| Sale Date | | | | |
| Property Rights* | | | | |
| Financing Terms* | | | | |
| Conditions of Sale* | | | | |
| Expenditures Made Immediately After Sale* | | | | |
| Market Conditions (time)* | | | | |
| Adjusted Sale Price | | | | |
| Location | | | | |
| Topography | | | | |
| Utilities | | | | |
| Access | | | | |
| Size/Shape | | | | |
| Other (describe) | | | | |
| Total/Adjustments | | | | |
| Indicated Value of Subject | | | | |

*These items must be analyzed in sequence.

## 13. EXPLANATION OF ADJUSTMENTS

Comparative analysis is the general term to identify the process in which quantitative and/or qualitative techniques to derive a value indication in the sales comparison approach. These adjustments are not mutually exclusive. Each adjustment in the previous grid requires a brief explanation of what it was for, how it was applied, and why it was necessary. This is required for each adjustment category, even when a zero adjustment is applied. This explanation must establish the reasonableness of the adjustment. It must be tied to some recognized physical evidence or logical reasoning such as a paired sale analysis. There has been some confusion as to the appraisers' use of adjustments in the narrative appraisal. The issues arise from the explanations for adjustments that do not appear to be market data driven. The market recognizes two types of adjustments in the narrative report. The first is the quantitative adjustment, which can be measured in the market through paired sales analysis, statistical analysis, mathematical analysis, grouped data analysis, graphic analysis, cost analysis, direct comparisons, capitalization of income, direct capitalization, or some other quantifiable process. Quantitative adjustments are either dollar adjustments or percent adjustments. The appraiser explains in depth the process used to arrive at and make the adjustment. These adjustments are market driven and it is the appraiser's responsibility to explain the quantification process and the corresponding adjustment. The second type of adjustment is the qualitative analysis. This type of adjustment is used only when adequate market data does not exist. This adjustment process relies on relative comparison analysis, ranking analysis, and personal interview. These adjustments are based on opinions and are not quantifiable. They result in small adjustments relating to superior, inferior, etc., qualities. At times they result in a weighted average for value determination. When appraisers use both types of adjustments, the qualitative adjustments must be made first. The appraiser must recognize that when they use these types of adjustments, they will often require more extensive narrative discussion to explain reasoning. When using qualitative analysis, it is critical that the appraiser bracket the subject. Bracketing

the subject with superior and inferior sales avoids the tendency to merely be demonstrating that a property is worth more than a certain number or less than a certain number.

## 14. CONCLUSION OF VACANT LAND VALUE AFTER ACQUISITION

Utilizing the range of value established in the previous grid, the appraiser must conclude a value within that range. A statement of why a particular adjustment value was chosen must accompany this decision. If the property is vacant, total damages can be determined by subtracting the after value from the before value and the appraiser can proceed to the final allocation of damages. Damages or benefits can be determined by comparing the after value to the value of the remainder as a part of the whole that was calculated as a part of the conclusion of the before value. If the after value is lower there are damages and if it is higher, there are benefits. This method is also helpful in making the final allocation. If there are severance damages to the remainder, the appraiser must include the following statement in the final conclusion of value:

> *"I have considered the property evaluated in this appraisal both from the before and after as well as the part taken. I have concluded, as of result of this comparison, that the value of the part taken does not exceed the value attained by the before and after approach."*

## 15. VALUE OF IMPROVEMENTS BEFORE ACQUISITION

If the property being appraised involves a major acquisition or damage to the improvements**,** a grid similar to the vacant land grid, but with different items of adjustment, should be used. The following grid may be used to reflect the value of the combined land and improvements prior to the improvement project. Justification for each item of adjustment should be provided following the grid. This format should also be used in the total acquisition of an improved residential property. Items listed for consideration are only an example. The appraiser should use those items of adjustment that are appropriate for the type of property being considered.

| IMPROVED GRID – "Before" Acquisition | | | | |
|---|---|---|---|---|
| | Subject | Sale # | Sale # | Sale # |
| Item | | | | |
| Address | | | | |
| Sale Price | | | | |
| Sale Date | | | | |
| Property Rights* | | | | |
| Financing Terms* | | | | |
| Conditions of Sale* | | | | |
| Expenditures Made Immediately After Sale* | | | | |
| Market Conditions (time)* | | | | |
| Construction Quality | | | | |
| Age | | | | |
| Condition | | | | |
| Above Ground Room Count | | | | |
| Gross Living Area | | | | |
| Basement and Finished Rooms Below Ground | | | | |
| Functional Utility | | | | |
| Heating and Cooling | | | | |
| Garage/Carport | | | | |
| Porches, Patios, Pools, etc. | | | | |
| Special Energy Efficient Items | | | | |

| | | | | |
|---|---|---|---|---|
| Fireplaces | | | | |
| Kitchen Equipment Remodeling, etc. | | | | |
| Other | | | | |
| Setback, Grade, etc. | | | | |
| Net Adjustment Total | | | | |

*These items must be analyzed in sequence

## 16. EXPLANATION OF ADJUSTMENTS

Comparative analysis is the general term to identify the process in which quantitative and/or qualitative techniques to derive a value indication in the sales comparison approach. These adjustments are not mutually exclusive. Each adjustment in the previous grid requires a brief explanation of what it was for, how it was applied, and why it was necessary. This is required for each adjustment category, even when a zero adjustment is applied. This explanation must establish the reasonableness of the adjustment. It must be tied to some recognized physical evidence or logical reasoning such as a paired sale analysis. There has been some confusion as to the appraisers' use of adjustments in the narrative appraisal. The issues arise from the explanations for adjustments that do not appear to be market data driven. The market recognizes two types of adjustments in the narrative report. The first is the quantitative adjustment, which can be measured in the market through paired sales analysis, statistical analysis, mathematical analysis, grouped data analysis, graphic analysis, cost analysis, direct comparisons, capitalization of income, direct capitalization, or some other quantifiable process. Quantitative adjustments are either dollar adjustments or percent adjustments. The appraiser explains in depth the process used to arrive at and make the adjustment. These adjustments are market drive and it is the appraiser's responsibility to explain the quantification process and the corresponding adjustment. The second type of adjustment is the qualitative analysis. This type of adjustment is used only when adequate market data does not exist. This adjustment process relies on relative comparison analysis, ranking analysis, and personal interview. These adjustments are based on opinions and are not quantifiable. They result in small adjustments relating to superior, inferior, etc. qualities. At times they result in a weighted average for value determination. When appraisers use both types of adjustments, the qualitative adjustments must be made first. The appraiser must recognize that when they use these types of adjustments, they will often require more extensive narrative discussion to explain the reasoning. When using the qualitative analysis, it is critical that the appraiser bracket the subject. Bracketing the subject with superior and inferior sales avoids the tendency to merely be demonstrating that a property is worth more than a certain number or less than a certain number.

## 17. CONCLUSION OF VALUE OF IMPROVEMENTS BEFORE ACQUISITION

Utilizing the range of value established in the previous grid, the appraiser must conclude a value supported by that range. A statement of why a particular adjustment value was chosen must accompany this decision. If damages or benefits are anticipated to result to the improvements the value of the part taken as a part of the whole needs to be calculated and broken down between land and improvements. The remainder as a part of the whole can also be calculated mathematically by subtracting the value of the part taken from the before value and using information from the vacant land approach to allocate between land and improvements. The items acquired or affected should be described and valued in this section. Section 2.7 of this manual has instructions for valuing landscaping, fencing and other minor improvements. All items included in this area must have logical support and justification. Minor items can be handled by a cost-to-cure if economically justified. It may be more logical to pay the moving

cost of a minor improvement such as an "on-premise sign" and if so this would be a justified cost to cure. It may also be necessary to pay for the realignment of items such as wells, septic systems or driveways to avoid major damages to a property. If a cost to cure is used, an allocation is needed between the items acquired and the balance of the cost to cure. After all items have been properly explained, move forward to the final "Allocation of Damages."

## 18. VALUE OF IMPROVEMENTS AFTER ACQUISITION

This section is only required for the Appraisal Report Standard Detailed Format Before & After (RE1007). If the property being appraised involves major acquisition or damage to improvements, a grid should be used that is similar to the before grid but with sales that show the after condition. The following grid may be used to reflect the value of the combined land and improvements after the improvement project. Justification for each item of adjustment must be provided following the grid. Items listed for consideration are only examples. The appraiser is to use those items of adjustment that are appropriate for the property being considered.

| IMPROVED GRID – "After" Acquisition | | | | |
|---|---|---|---|---|
| Item | Subject | Sale # | Sale # | Sale # |
| Address | | | | |
| Sale Price | | | | |
| Sale Date | | | | |
| Property Rights* | | | | |
| Financing Terms* | | | | |
| Conditions of Sale* | | | | |
| Expenditures Made Immediately after Sale* | | | | |
| Market Conditions (time)* | | | | |
| Adjusted Sale Price | | | | |
| Site/View | | | | |
| Construction Quality | | | | |
| Age | | | | |
| Condition | | | | |
| Above Ground Room Count | | | | |
| Gross Living Area | | | | |
| Basement and Finished Rooms Below Ground | | | | |
| Functional Utility | | | | |
| Heating and Cooling | | | | |
| Garage/Carport | | | | |
| Porches, Patios, Pools, etc. | | | | |
| Special Energy Efficient Items | | | | |
| Fireplaces | | | | |
| Kitchen Equipment, Remodeling, etc. | | | | |
| Other | | | | |
| Setback, Grade, etc. | | | | |
| Net Adjustment Total (must be subtracted from adjusted sale price) | | | | |
| Indicated Value of Subject | | | | |

*These items must be analyzed in sequence.

## 19. EXPLANATION OF ADJUSTMENTS FOR IMPROVEMENTS AFTER ACQUISITION

Comparative analysis is the general term to identify the process in which quantitative and/or qualitative techniques to derive a value indication in the sales comparison approach. These adjustments are not mutually exclusive. Each adjustment in the previous grid requires a brief

explanation of what it was for, how it was applied, and why it was necessary. This is required for each adjustment category, even when a zero adjustment is applied. This explanation must establish the reasonableness of the adjustment. It must be tied to some recognized physical evidence or logical reasoning such as a paired sale analysis. There has been some confusion as to the appraisers' use of adjustments in the narrative appraisal. The issues arise from the explanations for adjustments that do not appear to be market data driven. The market recognizes two types of adjustments in the narrative report. The first is the quantitative adjustment, which can be measured in the market through paired sales analysis, statistical analysis, mathematical analysis, grouped data analysis, graphic analysis, cost analysis, direct comparisons, capitalization of income, direct capitalization, or some other quantifiable process. Quantitative adjustments are either dollar adjustments or percent adjustments. The appraiser explains in depth the process used to arrive at and make the adjustment. These adjustments are market drive and it is the appraiser's responsibility to explain the quantification process and the corresponding adjustment. The second type of adjustment is the qualitative analysis. This type of adjustment is used only when adequate market data does not exist. This adjustment process relies on relative comparison analysis, ranking analysis, and personal interview. These adjustments are based on opinions and are not quantifiable. They result in small adjustments relating to superior, inferior, etc. qualities. At times they result in a weighted average for value determination. When appraisers use both types of adjustments, the qualitative adjustments must be made first. The appraiser must recognize that when they use these types of adjustments, they will often require more extensive narrative discussion to explain the reasoning. When using the qualitative analysis, it is critical that the appraiser bracket the subject. Bracketing the subject with superior and inferior sales avoids the tendency to merely be demonstrating that a property is worth more than a certain number or less than a certain number.

## 20. CONCLUSION OF VALUE FOR IMPROVEMENTS AFTER ACQUISITION

Utilizing the range of value established in the previous grid, the appraiser must conclude a value supported by that range. A statement of why a particular adjustment value was chosen should accompany this decision. If there are severance damages to the remainder, the appraiser should include the following statement in the final conclusion of value:

> *"I have considered the property evaluated in this appraisal both from the before and after as well as the part taken. I have concluded, as of result of this comparison, that the value of the part taken does not exceed the value attained by the before and after approach."*

Severance damages and/or benefits are determined by comparing the after value concluded in this approach with the value of the remainder as a part of the whole that was calculated as a part of the conclusion of the before value.

## 21. TOTAL DAMAGES AND ALLOCATION

The following allocation process needs to be used to determine the amount of severance damages and benefits. This process needs to be done for each remaining parcel because some remainders may be benefited and some may be damaged and the net result needs to be determined. If a benefit is general and not special it must be disregarded.

A. Value of whole property $_____
B. Value of part taken as part of whole $_____

C. Value of remainder as part of whole $_____
D. After value of remainder $_____
E. Severance damages (C-D) $_____
F. Benefits (D-C) $_____

When using the Standard Abbreviated format, the appraiser may use the assessed value of the improvements added to the land value derived from comparable sales. A statement should be made to inform the reader of that fact.

| TOTAL DAMAGES |
|---|
| Before Value $* |
| After Value $* |
| Total Damages $ |
| Rounded to $ |

* Only required on the Appraisal Report Standard Detailed Format Before & After (RE1007).

| ALLOCATION OF DAMAGES |
|---|
| Land $ |
| Improvements $ |
| Access Rights $ |
| Severance Damage $ |
| Fixtures $ |
| Permanent Easements $ |
| Change of Grade $ |
| Additional Cost of Fencing $ |
| Other $ |
| Total Damages $ |

Categories can be added or deleted to this list as needed, depending on damages accruing to the subject. (The allocation of damages is required by 49 CFR.)

## 22. PROPERTY SKETCH

If only a strip taking is involved (no major improvements), a copy of the right of way plat colored to show the acquisition should be included. If the acquisition is more complex, such as partial removal of the residences or of major outbuildings, a hand drawn sketch (not necessarily to scale) should be included. All items acquired or affected by the acquisition should be shown on the plat or sketch. For rural properties, show the location of the well and septic system. Location of driveways should also be shown. Include any other sketches that will assist an owner in understanding the appraisal and damages (i.e., a before and after sketch for a cost-to-cure a loss of parking). If a residential improvement is being acquired, a separate floor plan sketch is required. In business properties enough detail to determine different areas of use and value of the floor space should be provided.

## 23. PHOTOGRAPHS OF SUBJECT PROPERTY

Include pictures of the subject property in sufficient quantity and quality to show both the interior and exterior layout. There should be photo's of both the before and after conditions of the subject, as well as, the acquisition area. When the photo is of the acquisition, a felt tip pen line showing the R/W line can be drawn on the photo to show perspective. Photos can be scanned and digital can be used.

*(Place photos here)*

*Photo taken date* _____
*Subject* _____
*From* _____
*Camera pointed from* _____

## 24. SALES LOCATION MAP

Locate the subject with sufficient detail for another person to drive to the site.

## 25. SALES DATA SHEET OR COMPARABLE SALES SHEET

Get sample of a sales data sheet.

## 26. APPRAISERS QUALIFICATIONS

The appraiser must include a resume that indicates his or her experience and education.

# 2.7 SPECIAL IMPROVEMENTS

## 2.7.1 Fencing

The cost approach is generally the most practical method of valuing the various types of fencing that can be encountered during a highway acquisition (such as: farm, residential, commercial or industrial fence). Depreciation, however, is the most difficult cost determination to make in such a valuation. In considering the amount of depreciation, the appraiser should try to keep the contributory value of the fence in reasonable proportion to the value of the entire property. A detailed description of the fence acquired and photos showing the construction detail should be included in the appraisal to help in the processing of any future fencing claims. The location of the fence in relation to the existing right of way (R/W) line should be checked since it can vary depending on the circumstances. These three different scenarios can exist:

1. Legal width of road was established by statute;
2. Centerline varies from center of R/W; or,
3. Road is laid out along a section line that does not follow centerline as road is constructed.

Fencing should not be considered to be in the existing R/W if it is constructed within a reasonable distance of the R/W line. If the fence has utility and is within reasonable proximity to the property line, it should be considered as part of the acquisition. Clear and intentional encroachments should be reported and are not considered compensable. The value of cross fences should be included in the fence computation. The cost to cure to establish new end posts where old end posts are removed may be considered. The contributory value of gates should also be considered, and a cost to cure to relocate a gate may be necessary in some situations. Temporary electric farm fences can be estimated based on the cost to move them. The appraiser should state that the in-place contributory value is equal to the cost of moving the fence. In some cases, when the size of a fenced-in area is reduced by an acquisition, it may lose its utility due to its reduced size or change in shape. This could happen in the case of a dry lot or barnyard. It may be possible to cure this severance damage by enlarging the area, moving an interior fence or building a new fence. If the cost to cure is less than or equal to the severance damage, it should be included in the appraisal. As a rule, no contributory value is placed on fencing remnants when the fences are in disrepair and there's no longer an obvious need for the fencing. Additional compensation is also not warranted when acquiring the end of a line fence that is not connected to other fences. There are many types of residential fences and generally they are valued on a depreciated cost basis. If the fence is unique and it can be moved for about the same cost as its contributory value, a cost to cure can be considered. It should be stated, however, that compensation has been included to acquire the fence. Replacement cost should be considered only if:

1. Fence will definitely be replaced, and
2. Will serve as a cost to cure to avoid larger severance damages to remaining property.

A current fencing cost guideline will be provided to the appraiser at the project management conference. Get sample of fencing cost guide. These guidelines can be used with most

agricultural fencing. The guidelines should be used wherever possible to save appraisal and review time. If a particular type of fence cannot be found in the table, the appraiser can do his/her own fencing cost estimate. The material supply source consulted and the method of calculating labor costs should be included in the appraisal. When a different cost data manual is used as a source for fencing costs, the name and page where the cost is obtained should be given. If an estimate from a fencing contractor is used, it should be included in the appraisal. Prices may be lower for larger projects. Prices may also vary by area and because of soil or topographic differences. When considering functional utility of a fence, it is acceptable to use the replacement cost of a fence with steel posts rather than wood if there is no practical reason why wood is required. The difference between the cost of wood and steel may be considered as functional obsolescence depending on the circumstances. Depreciation is based on age, condition, and utility. Depreciated value of the fence or contributory value is subject to the same economic factors as other agricultural improvements.

## 2.7.2 Driveways

Driveways and access rights are related issues that must be addressed by the appraiser. An appraiser may see a wide variety of situations, ranging from a complete restoration of all existing driveways to the acquisition of all access rights. Generally, all needed driveways are restored. The definition or determination of "needed" can be somewhat subjective; however, the appraiser and review appraiser must come to an agreement prior to completing the appraisal in order to avoid unnecessary revisions and expense. In the property description under site or land, the appraiser should give the location and width of all access points that serve the property. The purpose of the driveways and the need for them should also be assessed. A good way to handle location of the driveways is by reference to the property sketch where they can easily be placed and noted. Under the description of the acquisition, any change in the property's access rights should be stated. The description of the remainder should state any change that will occur from the before condition and what effect it has on the property. The appraiser should find out which driveways will be replaced during construction and report this in the appraisal. If a driveway is being replaced, no compensation should be included for the part in the acquisition area unless it is needed for parking or for turning around and must be replaced on a cost to cure basis. If a driveway is not being replaced and it is necessary to the utility and value of the property, a cost to cure to provide internal access to the same area is a possible solution. When a driveway through a residential site is not replaced, it may be necessary to calculate a cost to cure to remove the old driveway from the R/W line to a convenient location and landscape the area to match the rest of the yard. Sometimes, although a driveway won't be reconstructed, the owner can replace it by permit. In these cases, if the driveway is necessary, the cost of replacing the driveway should be included in the appraisal. Good judgment should be exercised in making a determination of what driveways are necessary to a property. The use of the property, natural divisions of the property, and the safety of driveway locations should be considered. If driveways can be relocated to a side road, they are generally safer than on the main highway. A current fencing cost guideline will be provided. Get sample of driveway cost guide.

## 2.7.3 Septic Systems

Often times on rural highway projects, part or all of a septic system is located within a strip acquisition. The first determination that must be made is whether the system is legal or legal non-conforming to current codes. The treatment of the system in the appraisal will depend on this determination. If there is any doubt by the appraiser, it is suggested that the county

sanitarian be asked to inspect the system and make a determination. The main criteria for determining whether a system is illegal is if there is seepage of effluent into the highway ditch or any other drainage way. An old fashioned drywell is not illegal if it is not leaking or does not have an overflow pipe that is discharging. If it is determined that a system is illegal and orders for replacement are issued by the county, the appraiser should state this in the appraisal and not pay for replacement of the system in the appraisal. In some areas septic systems need to be inspected and brought up to code prior to a sale. In these cases a substandard system may only have an interim value. In general, if part of an operating legal system is disturbed, the entire system must be replaced and brought up to code. The cost of septic systems varies depending on the soil conditions.

One of the first things an appraiser should do on a project is look for possible septic systems that will be affected. Systems can often be located by the location of vent pipes, tile lines discharging into the ditch, depressions in ground surface, or extra green grass in the area of a suspected system. It may also be necessary to consult with the contractor who installed the system for a location sketch. If a legal system is extending only slightly into the required R/W, the appraiser should report it to the design section to see if it is possible to change the R/W plat and slopes to avoid the system. The locations of all wells and septic systems on or off the right of way should be shown on the property sketch.

When a legal system must be acquired, the appraiser should obtain an itemized estimate or estimates from reliable local contractors to bring the remaining system into compliance with the code or to replace it with a new system. If percolation tests are needed, the owner's permission should be obtained and the tests should be paid for by the state as a separate item and not included in the appraisal. If winter is approaching, an effort should be made to get all tests taken before the ground freezes. The cost to replace or modify the system should be included as a cost to cure in the appraisal. The proper method for allocation is to pay for the contributory value of the acquired system as an improvement acquired and subtract that amount from the cost to cure that is allocated as a damage item.

Many times the only way to replace a system is with an upgraded or mound system. The fact that a new system costs more than the system in place is not a special benefit. In the cases where it is not possible to replace the system with a conventional in-ground or mound system, a holding tank must be installed. In some areas of the state holding tanks are very common and there is little or no damage to the remainder recognized in the market for this situation. If this is the case, no additional damage should be considered. When the installation of a holding tank will affect the value of a property, one way of measuring the damage is to determine what the annual pumping charges will be over and above the cost of maintaining a conventional system. Then determine what amount of money would have to be invested at a safe rate of return in a long- term, quality investment (5-10 year AAA Bond or Certificate of Deposit) to return the additional annual pumping cost to the owner. This amount could be a measure of severance damage to the remainder.

Where the location of the septic system cannot be determined, the system does not have to be included in the appraisal. However, a statement should be made that it is possible that a system may be affected and if during construction it is discovered that the system must be replaced, this item will be handled as an additional parcel cost. In areas where municipal sewer is available, cost to cure may be the cost of providing a lateral to hook up to the municipal system. If the property would have been required to hook up to the municipal system even if the highway were not reconstructed, then no damage will result. In all cases, the damage for

affecting a septic system should be the lowest cost of the available options. Where the building improvements are acquired and the well or septic are on the remainder there may be a required cost to cure to properly abandon or cap these improvements. They also may have a reduction in their contributory value, which would be classified as severance damage.

## 2.7.4 Landscaping

Any adjustment for differences in properties because of landscaping must be based upon the contributory value of the landscaping, trees, shrubs, lawn, etc. to the overall market value of each of the properties. Landscaping, as defined here, refers to growing items and does not normally include such things as retaining walls and decorative fence. The appraiser may consider replacement cost in arriving at contributory value but must recognize that replacement cost does not necessarily represent market value. Landscaping can be expensive but in poor arrangement. Imaginative use of less expensive planting can result in a larger contribution to market value than occurs when premium plants are not aesthetically arranged or grouped. In most cases, mature trees do not contribute what it would cost to replace them, so replacement is not economically feasible. Replacement with a similar specimen of smaller size is probably a better indication of market value. For example, the cost to purchase and plant a similar specimen one-half the size may be a good indication of the contributory value of a mature item of landscaping which is properly located and appropriate for the property being appraised. For small items of landscaping, 100% of replacement cost may be appropriate.

Landscaping is a very subjective adjustment based on the appraiser's understanding and analysis of the market. The best way an appraiser can understand and explain the contributory value of landscaping is by allocation of improved sales into the various components (i.e., lot value, value of house and garage, value of well, septic system and driveway, and finally landscaping). True understanding of the value of landscaping can occur only after the appraiser has allocated a large number of sales. It is recommended that the appraiser attempt to allocate each of the improved sales in the sales data book in order to improve understanding of how the various components affect market value. The following chart shows the results of such a study. These results can be used as a guide in the appraisal of improved properties. Care should be taken to test the results of any application of this type for reasonableness as it is applied to the property being appraised. The value of landscaping varies according to the quality and arrangement of the landscaping and also according to the market value of the overall property. For example, it is appropriate to spend a considerable amount of money to landscape a very expensive home, but the same landscaping would be super adequate for a modest home and would contribute less to market value. The various components of a property must be in balance to achieve maximum value.

Following is a chart of landscaping values that was formulated by allocating a large number of improved residential sales. The chart shows typical ranges of value for landscaping of varying quality for residential properties in three different price ranges. The chart demonstrates how the contributory value of landscaping changes according to the quality of the landscaping and the market value of the property.

| Contributory Value of Landscaping Changes | | | | |
|---|---|---|---|---|
| Quality | Description | Landscaping Contribution | Property Price | Landscaping Contribution |
| Excellent | Landscape designer or equal with well-maintained trees and shrubs. | 8 to 10% | $ 50,000<br>$100,000 | $ 4,000 - $ 5,000<br>$ 8,000 - $10,000 |

| | | | | |
|---|---|---|---|---|
| | Lawn quality similar to new sod. | | $150,000 | $12,000 - $15,000 |
| Good | Well-designed and good placement. Maintenance, pruning and fertilization above average. Lawn fertilized and sod thick. | 6 to 8% | $ 50,000<br>$100,000<br>$150,000 | $ 3,000 - $ 4,000<br>$ 6,000 - $ 8,000<br>$ 9,000 - $12,000 |
| Average | No particular plan, but plans and lawn show some indications of maintenance, pruning and fertilization. Lawn has some weeds and thin areas. | 4 to 6% | $ 50,000<br>$100,000<br>$150,000 | $ 2,000 - $ 3,000<br>$ 4,000 - $ 6,000<br>$ 6,000 - $ 9,000 |
| Fair to Poor | Native trees not pruned shrubs few and poorly maintained, thin areas and weeds. | 3 to 4% | $ 50,000<br>$100,000<br>$150,000* | $ 1,500 - $ 2,000<br>$ 3,000 - $ 4,000<br>$ 4,500 - $ 6,000 |

** It is unlikely that you would encounter a residential property in the $150,000 range with landscaping of this type.*

The appraiser must make landscaping contribution estimates in a very subjective manner based upon observations of the market. The appraiser should also make a comprehensive search of the market that will logically support the landscaping contribution. Greater explanation will be required if the value of the landscaping falls outside the typical range. It is also important that each appraiser rely upon the above definitions for the quality of landscaping so that the terms "fair," "average," "good" and "excellent" are used consistently by all appraisers. For partial acquisitions, the preferred method of adjustment would be the percentage of total landscaping value that is acquired with an explanation of how the percentage was calculated. In the case of acquisition of a few items of landscaping which are properly located and important to the landscaping scheme, replacement cost or replacement with a smaller specimen of the same species may be representative of contributory value and a proper method of appraisal.

## 2.7.5 Drain Tile and Irrigation Systems

Drain tile - Drain tile can be encountered in the form of field tile or clear water drains from buildings into adjacent highway ditches. The appraiser should report all tile discoveries to the design section so that they can be investigated and put on the construction plans. In general, any clear water discharges from field tile, basement drains, down spouts, springs or any other clear water source will be incorporated into the highway drainage system, if possible. When it is not possible because of a change in ditch elevation, a cost to cure should be determined to discharge the water elsewhere or a damage determination from appropriate market data should be made. Overflow tile lines from drywells are not legal, and there should be no compensation for them. Milk house drains and laundry drains are also generally illegal. In most cases, there is no damage to a discharge tile line when it is intercepted and perpetuated. In the case of field tile systems, the appraiser should get a tile location map from the owner or installer. Parallel lines can be abandoned in place and feeder lines can be cut off, providing that the ends are plugged. If it is necessary to relocate part of a system in order to keep the remaining system functional, this can be considered as a cost to cure item. In general, field tile has a contributory value that can be determined in the market by comparing land sales that have tile and sales where tile is needed. When comparing tiled land to high, well drained land, there usually is not much of a difference in the per acre price. The tile may be considered as a negative factor because it must be maintained.

Irrigation systems - When portions of irrigation systems are located in the acquisition area, a cost to cure should be investigated. Generally there is a substantial difference between the value of irrigated and non-irrigated land. It is best to get a bid from an expert irrigation contractor for modification of the system. As with any other cost to cure, the cost should not exceed the loss in value if uncured. If an irrigation system rotates onto the strip we're buying, we must pay to modify the system or the severance damage to the remainder if the system is not replaced. It may be possible to have a partial cost to cure and still have remaining uncured severance. If a tenant occupies the land, the appraiser must also determine who owns the equipment in order to allocate the damages.

## 2.7.6 Valuation of Mineral and Timber Rights

The general rule for the valuation of lands containing minerals is that the existence of mineral deposits in or on land is an element to be considered in determining the market value of such land. The value of the mineral deposits cannot be determined independently of the land of which it is a part. For instance, it is not proper to value gravel bearing lands by taking the quantity of gravel and multiplying it either by a royalty rate per yard or by a price gravel is currently bringing per yard. The value of the land should be measured by what a willing buyer would pay and a willing seller would accept in an arm's length transaction with both parties knowledgeable about the deposits. In other words, sales of other lands with similar deposits are the true measure of value. The presence of minerals and timber may be considered as a factor influencing the value of the land as contrasted with the value of the mineral or timber apart from the land. The potential value of minerals and timber are relevant only to the extent that they enhance the value of the whole property. They are best measured by market comparison. If mineral rights of a property being appraised have been conveyed to an entity other than the current property owner, the appraiser should address this property right in the appraisal by stating if it has any contributing value. The only measure of value to be considered is the value that the mineral/timber add to the land, if measurable. It is not proper to value the mineral/timber based on the value for sale after removal from the land.

## 2.7.7 Signs

The first step is to determine if the sign is on premise or off premise. Normally an on premise sign (advertising goods and services produced or sold on the site) is real property and belongs to the owner of the site. If the sign is not likely to be replaced or moved the appraiser can get the replacement cost from a sign company or other reliable source and then make an independent determination of depreciation which when subtracted from the replacement cost will indicate the contributing value. If it is very likely that the sign will be moved because it is part of an on-going activity at the site that would suffer from its loss, the cost to move the sign can be used as a cost to cure. Moving cost could also be obtained from a sign company or other reliable source. If there is little or no difference between the cost to move the sign and the in-place value of the sign, the appraiser can state this in the appraisal. If there is a significant difference and the property must be acquired by condemnation, a revised offer should be processed prior to issuing a jurisdictional offer to include the contributing value of the sign. Off premise signs should be indicated as a separate parcel on the plat. In most instances off premise signs (advertising goods and services not produced or sold on the site) are personal property belonging to a sign company and located on a leased site. These signs are considered to be personal property of others and are eligible for moving expenses on a relocation claim. If the sign is non-conforming, the sign should be purchased. If this type of sign is handled by relocation then any agreement should include a statement that the relocation payment is

considered to be full payment for the value of the sign. If the sign is not moved it will then be considered acquired by WisDOT. Off premise signs should not be included in the appraisal of the land. Conforming signs are only eligible for moving expenses. An exception occurs when a sign company owns the site and in those cases an off premise sign is considered to be real property as a site improvement and is appraised and purchased with the land acquired.

Special circumstances - Certain signs that would have been eligible for purchase under the Highway Beautification Act must still be acquired due to a Wisconsin court ruling. At least one of the two criteria listed below must be met to determine the need to purchase.

1. Sign must be legal non-conforming to zoning and have been in existence prior to 3/18/72.
2. Sign must be on a highway that was added to Federal Aid Primary Highway System at a later date. In that case, date highway was added to system applies.

## 2.7.8 Sign Sites

Income received by the sign site's landowner (similar to rent for cropland or apartments) should be included in the value of the property acquired if a sign is located in such a manner that it does not interfere with the highest and best use of the site or is the highest and best use. The added value of this lost income stream may be considered to the extent that it exceeds the typical return of the property. In many situations sign sites are situated in such a manner that the typical return to the land is not affected. Example: A sign site on a fence line or in the corner of a field. A discounted cash flow analysis could be used for the projected remaining term of this income stream. If the sign owner has a favorable "below market" site lease, the bonus value of the sign owner's interest should be recognized and included in the payment made to the sign owner. The courts generally consider the leasehold interest to be the difference between the contract rent and market (or economic) rent, particularly in short-term leases. In other words, the sign owners have the right to recover the sum or bonus value (difference between the market and contract rent) that would have been saved during the remaining term of the lease. If the market rent does not exceed the contract rent, the leasehold has no value. Caution: The total value of the sign sites cannot exceed the sum of the leased fee and leasehold interest.

### 2.7.8.1 Example of Payments for Acquired Sign Sites

The following are two payment determinations that would be made to the landowner of a sign site and to the sign owner of a sign acquisition that assumes:

- Five-year lease to sign owner at $300/year (contract rent).
- Highest and best use of the site is agricultural and sign site.
- Interest rate of 8%.
- Typical market rent of $500/year.

Calculation of payment to landowner (leased fee interest): Below are two methods for determining compensation to the landowner based on the present value of the income stream. Apply only if contract rent exceeds the normal return to the land.

1. Using a financial calculator.

| | | | |
|---|---|---|---|
| Enter payment (PMT) of $300 | Enter number of years(n) of 5 | Enter interest rate (I) of 8 | Press PV to calculate present value $1197.81, say $1200 |

Or,

2. Using appropriate factor from Column 5 of the financial tables titled "Present worth of 1 per period." Factor for this example is: 3.99271.

| | | | | |
|---|---|---|---|---|
| Payment | Times | Factor from Financial Table Column 5 (3.99271) | Equals | Present Value $1197.81, say $1200.00 |

Calculation of bonus value lost to sign owner (leasehold interest): Below are two methods for determining any compensation to the sign owner based on a bonus value that was lost. In this example, the sign owner has had the benefit of paying $200 less than market value for the sign site. (Market rent = $500; contract rent = $300). This difference in contract and market rent ($200) is either entered as "payment" in the financial calculator or is multiplied by the present worth factor from the financial tables. Note: This applies only if the market rent exceeds the contract rent.

1. Using a financial calculator.

| | | | |
|---|---|---|---|
| Enter Payment (PMT) of $200.00 | Enter Number of Years (n) of 5 | Enter Interest Rate (i) of 8 | Press PV to calculate Present Value $798.50, say $800.00 |

Or,

2. Using appropriate factor from Column 5 of the financial tables titled "Present worth of 1 per period." Factor for this example is: 3.99271.

| | | | | |
|---|---|---|---|---|
| Payment (PMT) of $200.00 | Times | Factor from Financial Table Column 5 (3.99271) | Equals | Present Value 798.50, say $800.00 |

## 2.7.9 Leasehold Interests

If the subject property is leased the appraiser should report which property, if any, is owned by the tenant. The ownership can be determined by asking the owner and the tenant and by reviewing the lease. All property must be included in the appraisal, regardless of ownership.

Personal property is covered by relocation. Fixtures generally go with the real estate. See topic 2.4.2.3.1 of this manual for more discussion on fixtures. An allocation with each item listed separately is very helpful. The owner's interest is called the leased fee and the tenant's interest is called the leasehold. The value of these interests varies depending on the terms of the lease and the market. The appraiser should not attempt to divide the total payment between the owner and the tenant. On a negotiated settlement the payment can be split provided all parties of interest sign off and are in agreement.

# 2.8 COMMON APPRAISAL PROBLEMS

## 2.8.1 Highest and Best Use

Highest and best use traditionally has been defined as that use which is most likely to produce the greatest net return. The appraiser must determine the highest and best use of the parcel being appraised in the before condition and in the after condition. There are four tests that must be met by the property to illustrate the highest and best use. The use must be legally permissible, physically possible, financially feasible and maximally profitable. The analysis must be done in a consecutive order. That is, the parcel must meet the physical and legal tests before the other tests are applied. Each of these four tests must be analyzed with respect to the three-part legal test for acceptance of the valuation of a prospective highest and best use.

1. Physically possible:
   1) Most advantageous use as permitted by shape, size, soil stability, etc.
   2) Reasonably probable with respect to demand, location, market trends, etc.
   3) Not speculative or imaginary, but based on reasonably foreseeable future as determined by neighborhood trends, demographics, political decisions, etc.
2. Legally permissible:
   1) Most advantageous use as permitted for all land regulations, restrictions, zoning ordinances, environmental remediation orders, government delineations, etc.
   2) Reasonably probable use with respect to legal restrictions.
   3) Legally permissible must not be conjectural, speculative, etc. Must pass reasonableness test.
3. Financially feasible:
   1) Most advantageous use, by definition, when revenue of subject is not a fundamental consideration (for WisDOT purposes). Economic soundness is based on need for and desirability of property for a particular purpose.
   2) Reasonably probable use cannot be too speculative but must be based on demographics of region, market analysis and trends in area, etc.
   3) Interim use properties must be appraised on basis of projected use as reasonably probable in foreseeable future, not speculative or imaginary.
4. Maximally profitable:
   1) Most advantageous use that maximizes position of grantor. Very important when appraising contaminated property. Appraiser is charged with determining damages to condemnee not benefits to condemnor. That is fair market value.
   2) Using all above considerations, most reasonably probable use that maximizes condemnee's position.
   3) Use cannot be speculative or imaginary.

Where a site has existing improvements that are not consistent with the highest and best use of the land as though vacant, it should be recognized that the existing use will continue until the land value exceeds the total value of the property in its existing use. Although care should always be taken in comparing like to like, it is especially important and critical to be aware of changing uses in transitional areas. Existing improvements in such areas may have value under an interim use concept.

### 2.8.1.1 Interim Use

The definition of "interim use" is an existing but temporary use awaiting transition to highest and best use. One problem an appraiser can experience is the valuation of structures that are not proper improvements for the highest and best use of the land. Their value is based on some "interim use" of the structures pending their removal to allow use of the land at its highest and best use. Example: An older residence situated on land that, if vacant and available, would have a highest and best use of commercial. The valuation of existing buildings on land that has actually attained a higher and better use and where the buildings do not contribute to value is another problem. Such buildings may create a negative effect on value whereby the land, if vacant, would most likely sell for more. This negative contribution may be properly estimated based on the cost of demolition and removal less any salvage value. It is incorrect to base the present value of a property on a highest and best use to be attained in the probable future without discounting for the fact that a prudent buyer would not likely pay as much for a property not yet ready for that use as he would pay for one immediately ready for such use. It would be most appropriate for the appraiser to estimate value from sales which reflect what buyers are currently willing to pay for properties in anticipation of a change in highest and best use at a reasonably foreseeable future time. It is reasonable to conclude that if existing buildings are estimated to have an interim contributory value, then the land will also have an interim value or transitional value. Land should always be valued based on its highest and best use as vacant.

### 2.8.1.2 Zoning and Probability of Rezoning

Value must be based upon a permitted use, or use that is reasonably expected to be permitted. In determining the highest and best use of a parcel, the appraiser should consider only uses that are permitted by existing zoning unless it can be shown that there is a reasonable probability of rezoning and that this reasonable probability is reflected in the market. Existing zoning is not an absolute control over the use of any property. When the market actually reflects an increased price based on a probability that a particular property or area could be rezoned to a higher and more valuable use, the appraiser must recognize this possibility. One of the preliminary steps in appraising is to determine the zoning of the property being appraised and the zoning of all comparable sales that are being considered. Obtain a copy of the current zoning map and zoning laws pertaining to your subject and comparables from the local zoning authority. Existing zoning regulations can seriously affect and control the highest and best use and value of a property when there is no reasonable probability of a zoning change. The lack of adequate enforcement of existing zoning can affect value. Generally, values are maintained or increased in relatively homogeneous and stable type neighborhoods. Zoning, if properly enforced, can provide protection against inharmonious influences. Zoning laws usually limit land to specific land uses or types. These laws usually have two methods of change that do not require new legislation:

1. Variances. These grant relief to individual property owners by "varying" minor requirements. It isn't a change of zoning, but requirements can be slightly changed to meet individual situations. An example of a variance is when a smaller set-back is allowed than what is required in the ordinance.
2. Rezoning. This changes a property's zoning classification. An example of rezoning is a change from residential to commercial classification on a property.

Many times the value of a property would be higher if it could be rezoned to a higher and better use than the use allowed by its existing zoning. The best evidence of value is recent land sales in the immediate area where the purchase prices are based on the purchaser's anticipation that the properties can be rezoned to permit a higher and better use of the land. A property with the potential of being rezoned should not be valued as if the rezoning has already occurred, but rather should be evaluated under current zoning giving consideration to the probability of rezoning and the cost, delays and time involved in obtaining such a rezoning.

Documenting probability of a rezoning - In determining that a probability of rezoning exists or does not exist, there are several factors that the appraiser must consider:

- Age of existing zoning ordinance.
- Analysis of specific prior actions of zoning authority in granting changes. Should show specifically the property where zoning change was permitted, original zoning, revised zoning, date action was taken, property location and its neighborhood in relation to subject. Analysis should also include zoning change requests denied and reasons.
- Availability of sewer, water and other pertinent utilities to subject property as opposed to other properties recently rezoned.
- Demand in area for certain types of land uses, particularly use to which subject is proposed to be rezoned.
- Neighborhood changes affecting the highest and best use of subject property.
- Sales in a similar position regarding potential for change in use. Prices of these properties would reflect market value of the probability of rezoning.

Down zoning - A type of rezoning that may, in contrast to the above actions, diminish utility of the property. The appraiser must be sensitive to both increases and decreases in the value of the property that may result from local zoning action.

## 2.8.2 Proximity

Proximity generally refers to the nearness of a property line to a building or improvement. In many cases, a WisDOT project will involve moving the new highway right of way line closer to the front of a residence. Some of the questions resulting from this situation are:

- Do we confuse proximity damages with loss of landscaping, changes in ditch configurations, change of grade, etc.?
- Does a new highway property line closer to a house cause a loss in value to the property if the centerline of the traveled way of the highway remains the same?
- Is it only a perceived loss to the owner because of the change in the property?
- Is there a loss in the market value of the property beyond the loss of the land and land improvements located in that strip?

In an effort to promote more consistent treatment of these issues, the following should be considered in your evaluation:

- A house already close to the right of way will not be damaged as much by a further reduction in setback as compared to a house with a reduction from a normal setback.
- Amenities and aesthetics are a larger or more important part of valuing higher priced homes, and will be damaged more by same acquisition than with lesser priced homes.

- Each house has a basic "shelter" value that will not be damaged.
- Other changes, such as change of grade and landscaping, may be part of after situation.
- Other things being equal, a rural home will tend to suffer more damages than same house in an urban situation.
- Setbacks of existing homes should be examined in effort to discern "normal" setback on that particular highway. Reductions from normal setback may cause damage.

Giving consideration to the above assumptions, we recommend that the appraiser give consideration to and discuss these specific relevant items:

- Analyses as to what setbacks are typical on state trunk highways in area.
- Change of grade or loss of landscaping as contributing factors.
- Does centerline shift or does it remain in same place.
- Setback from right of way line both before and after.
- Value of house.
- Zoning requirements as to setback.

Documentation would require an economic study of the prices of homes in both before and after situations compared to the sales of similar homes in a control group or area where no such physical changes have taken place. When doing the sales study for the project, the appraiser should always watch out for sales of property that have less than the typical setback. In lieu of a complete study, the appraiser should describe both the situation and his/her thought process with specific mention of the above factors. Do not overlook a proximity situation, but on the other hand, do not blow the situation out of all reasonable proportions. Obviously, less discussion is required or warranted if you conclude little or no damage than if you conclude there are considerable damages. However, if the owner has indicated concern over the proximity of the new right of way and you, as the appraiser, conclude there are little or no damages, it would be wise to indicate in detail your logic and reasoning. If change of grade is also involved, it will be part of your overall evaluation of the after situation. If a substantial amount of landscaping is involved, care should be taken that duplication of damages are not being considered. The total damages should be in reasonable proportion to the before value of the property. There is no magic formula in dealing with proximity. What is needed is a fair and honest assessment of the property in the after situation. A full consideration of all the factors affecting the property should lead to consistency in how these situations are handled.

## 2.8.3 Change of Grade

It’s necessary to be quite specific when speaking of change of grade. Are you referring to a change in elevation of the centerline, a ditch configuration or the back slope? Many times elevation of the road doesn’t change, but because the new right of way line moves closer to a garage or property, restoration of that driveway may require additional work on the owners remaining land to get an acceptable grade. Change of grade can affect value of a property when the change affects the property’s access, highest and best use or the view of or from a property. Access to a property is affected when the grade of the driveway is increased beyond acceptable standards (typically a 10% slope) because of an elevation change in the road. When slopes will exceed this standard, it is best to look for a cost to cure, such as extending the driveway grading to reduce the slope, relocating the driveway to a more acceptable location where the grade difference is less severe, or constructing a driveway parallel to the road to attain an acceptable grade. When these types of cost to cure are considered, any additional land required from the owner or any modifications to the remaining property to have the building or site improvements

realigned with the access should also be considered. This could include such items as landscaping, interior driveways, parking, garage doors, asphalt paving to help maintain steeper slopes, etc. A way to document these damages is with itemized contractor estimates. Loss in value due to the appearance of a property is much harder to determine. In these cases, the amount of change must be considered along with blocked views, percent of back slope, and the proximity of the slope to the improvement. In this regard, change of grade damage and proximity are so closely related and intermixed that they should be considered together. Drainage can also be affected by a change of grade and may be a factor to consider. A change of grade itself does not cause damage. Many times safety and entrances to a property are improved by changes of grade. The farther back improvements are located from the R/W line, the less chance any damage will occur. In general, it is more acceptable for an improvement to be located above the grade of the road than below grade. In these cases, the appraiser must use good judgment in assessing possible damages. As with proximity damage, market evidence should be used whenever possible to support damages. The use of "paired sales" is suggested. Paired sales are properties that are similar in all aspects except for the difference being measured, in this case, the grade difference with the road. A before and after evaluation is required when there are damages to the building improvements. Different sales for each approach in the before and after condition should be used to demonstrate the difference in value when a change in highest and best use occurs because of a grade change.

## 2.8.4 Access Rights

Access changes can affect the value of a property. When access rights are being acquired, the appraiser must consider them in the appraisal. On many highway projects, access rights are included with acquisitions as necessary due to design changes of the highway and as a means to control future access to the reconstructed highway. The appraiser must analyze the effect on the remaining property, and if there is a reduction in value, damages must be included in the appraisal. The effect can range from very minor, such as in the case of restricting a 100 foot wide improved residential site to one access point, to very severe when access is completely restricted and a property becomes landlocked.

Reasonable access - Deprivation or restriction of an existing right of access is compensable under s. 32.09(6), Wis. Stats.; however, deprivation of direct access to a highway does not constitute a taking of property provided reasonable access remains. In cases regarding potential compensation for deprivation or restriction of access, there must be a determination whether or not WisDOT has provided “reasonable access” prior to or as part of the valuation process. Any loss of value that occurs or might occur due to the loss of access is non-compensable as long as reasonable access continues to exist. Statutory references:

- Section 32.09(4), Wis. Stats. If a depreciation in value of property results from an exercise of police power, even though in conjunction with the taking by eminent domain, no compensation may be paid for such depreciation except as expressly allowed in subs. (5)(b) and (6), and in s. 32.19, Wis. Stats.
- Section 32.09(6)(b), Wis. Stats. Deprivation or restriction of existing right of access to highway from abutting land, provided that nothing herein shall operate to restrict the power of the state or any of its subdivisions or any municipality to deprive or restrict such access without compensation under any duly authorized exercise of the police power.

Whether there is reasonable access depends on the specific facts of the case. No hard and fast rule can be stated as to whether an abutting property owner has been denied access that is

reasonable. In most instances the question is one of fact, not of law, and its determination depends largely upon evidence in the case. Criteria for determining reasonable access:

- Alternative designs.
- Comparability to competing businesses.
- Costs.
- Site suitability.
- Traffic safety.
- Travel distance/travel time.
- Visibility and apparent access route.

The loss of reasonable access is compensable. The determination of whether reasonable access remains can often go to court and go to a jury to decide. Example: In the National Auto Truck Stops case, the Supreme Court remanded the issue of reasonable access to the circuit court for a jury determination whether the change of access was reasonable. The court said that if the jury found that the changed access was reasonable, then no compensation would be awarded to National Auto due to the change in access. However, if the jury found that the changed access was not reasonable, then National Auto would be entitled to just compensation for the deprivation or restriction of its right of access. Access changes to parcels must be discussed as early as possible in the design process. Once an appraiser has been selected for the parcel, the appraiser should be invited to project meetings to discuss the proposed access changes and potential impacts. Regional Real Estate staff should work with planning and design early enough in the project development process to ensure that, if feasible, design changes can be made to leave the parcel with reasonable access. A separate study of reasonableness of access may be required if the appraiser does not feel he/she can answer the question. If WisDOT determines that reasonable access remains on a parcel, this should be discussed with the appraiser, and the appraiser should include this determination in the scope of work. Suggested generic language:

> *Design standards implemented with consideration to access changes reflect reasonable access in the after condition. Consideration of damages due to an access change implies the change is not reasonable. It is the opinion of WisDOT that access is reasonable and this should be reflected in the appraisal, unless the appraiser finds evidence to the contrary. If the appraiser finds evidence to the contrary, it should be brought to the attention of WisDOT so the scope of work can be amended if necessary.*

<u>Relevance of police power</u> - As part of the valuation determination, it needs to be decided whether the governmental regulation of private property is a legal “taking” that requires payment of just compensation to the private property owner, or is merely a function of police power.

1. A taking by police power involves the power of government to adversely affect property interests without compensation. Control of access is a police power. The control of access to state highways is a proper exercise of that power. See Stefan Auto Body v. State Highway Commission, 21 Wis. 2d 363, 368-69, 124 N.W.2d 319 (1963); Sippel v. City of St. Francis, 164 Wis. 2d 527, 533, 476 N.W.2d 579 (Ct. App. 1991) (citation omitted).
2. It is not a taking if owner can still apply for access permit.

These situations are all exercises of "police power" and resulting damages are considered non-compensable:

- Closing of a street or highway intersection.
- Construction of median barriers.
- Creation of a controlled-access highway.
- Placement of a property on a frontage road.

The Wisconsin Department of Justice has also persuaded the trial court that the general rule of law is that there is no compensation due if there has not been a taking, or acquisition of property. More-Way North Corp. v. State Highway Comm., 44 Wis. 2d 165, 169, 170 N.W.2d 749 (1969): The "constitutional term 'just compensation' has never been construed as requiring payment for all injuries imposed upon persons or property by acts of government... At the cornerstone of all condemnation proceedings giving rise to a claim for just compensation there must be a taking."

Other considerations - Each may affect value due to changes in access.

- Change in highest and best use. Is there a change in the highest and best use of the property? Is the change in the highest and best use the result of the change in access? Why? Highest and best use changes do not automatically indicate a loss in value. For example, since the department has minimum requirements and standards for the location of access to properties, a parcel that has 1320 feet of frontage on a highway that has an AADT of greater than 5000 would, based upon driveways on adjacent parcels, only be allowed one access point when applying for a permit. Therefore, if the appraiser says that the highest and best use in the after condition is two acre residential parcels, the owner would not, in the before condition, be able to get more than one access point. Thus, the property is really not being damaged by the acquisition of access rights. When there is a change in highest and best use, the best way to measure the damage is probably with a before and after valuation. This process requires the analysis of recent sales that are comparable to the after situation to quantify the damage. See below for more on before and after appraisals of access changes.
- Cost to cure. If the access changes are not severe, they may be curable and a cost to cure would be the most appropriate measure of damage. For example, in the case of a horseshoe driveway, when only one driveway will be allowed, the cost to remove the second driveway and re-landscape the affected area is the cost to cure. If the owner must construct internal driveways in order for the property to have the same utility as it had before, this is the cost to cure. This situation sometimes occurs in agricultural properties when the number of field entrances is reduced. If the owner has to put in a driveway to the side road to replace one to the main road that will not be reconstructed, the cost for doing this would be the cost to cure.
- Commercial sites. Two driveways on commercial properties are often necessary. If the traffic on the interior of the site is affected and other site improvements must be modified because of access control, a cost to cure to modify the property to conform to the restricted access may be appropriate. If the cost to cure damage is higher than the loss in value of converting the property to a different use, it is not appropriate. This could be the case in extensive realignment of a service station property.
- Vision corners. When access is restricted at vision corners or very close to intersections, usually no damage results, because it is doubtful that an owner would have been able to get a permit for access in this type of location anyway. This is also the case when access is reduced to one point, when the property previously had full width access across the entire frontage. This situation can be handled by police power, ditching, or beam guard to delineate one access point to the frontage.

- Circuity of travel. There are at least two different kinds of "circuity of travel" situations. There is "internal circuity," which occurs when a partial acquisition cuts off one or more pieces from the remainder. In this situation, access is restricted causing increased travel to get from one part to another part of the same property. Such a situation will usually result in a diminution in value to the severed tract that may or may not be measurable with a cost to cure. Such loss is a compensable damage. The second situation could be called "external circuity of travel" whereby a property, which has direct access to a main highway, is placed on a frontage road or some secondary location in the after situation. In this case, the property may or may not suffer a decrease in value. The right of access does not include the right to the flow of traffic on a particular highway. If there is a compensable damage, it must be because of the loss of access, not traffic.
- Medians. The decision to build a median in front of a commercial driveway is not a compensable taking. WisDOT's decision to build a median is made in lawful exercise of its police power. Holding otherwise would lead to absurd results. Nobody disputes that the WisDOT and other authorities that build, maintain, and regulate roads have the power to convert roads to one-way streets or limit the ability of drivers to make turns or u-turns. If a court were to conclude that construction of a median strip constitutes a compensable taking, then it opens WisDOT, counties, and municipalities to an endless array of takings claims based on decisions to convert two-way streets to one-way streets or to restrict left turns at certain times of the day.

Research an appraisal with access changes - First, examine the language of recorded documents carefully (deeds, permits and similar). Next, ask:

- Does property have access to a highway in before condition?
- Is access reasonable in after condition?
- Is existing access point legal?
- Is existing access reasonable?
- Is parcel on a controlled access highway?
- What is the nature of right, if any, to existing access?

Ways to collect this information, search for:

1. Chain of title for highway as well as for affected property owner. Previous deeds/awards may indicate whether public has acquired all access rights or if property owner retains a right of access by deed. Some are silent. Some are clear. Sometimes there are recorded restrictive covenants that deny any future right of direct access to a highway.
2. Current jurisdiction over highway may also have some effect on extent of any abutting owner right of access.
3. Freeway or expressway designation. Sections 84.29(4) and 84.295(5), Wis. Stats.
4. Local ordinances, development agreements, and conditions of permit.
5. Official mapping. Including, WisDOT under s. 84.295(10), Wis. Stats.
6. Permits for existing access. Permits generally are not recorded. Check current and past maintenance jurisdiction. Find permits that allowed work on highway that provided access. Terms of permit are important and may indicate existing access was subject to modification or revocation by maintaining authority as circumstances change. May also limit nature of use, of existing access, or be term limited. Because a permit was issued once, does not mean a new permit will be issued.

7. Recorded controlled access highway designation -- Wis. Stats. s. 84.25(6) [WisDOT], s. 83.027(6) [counties], local ordinances – police power – no compensation. Don't be wasteful. Narloch v. DOT, 115 Wis.2d 419, 432, 340 N.W.2d 542, 549 (1983).
8. Restrictions on access recorded on subdivision plat or certified survey map. May also be in form of dedication. Subdivision plat may contain restrictions or prohibitions on access on its face.

Other sources for collecting information on the nature of the existing access include:

- Field visits, photo inventory at site and at competitive sites.
- Interview owners regarding site conditions, market, and competition.
- Local planning departments, zoning and land use regulations.
- Local police departments and/or WisDOT's accident history records.
- Roadway project plat map and project plan.
- RPC/county, current and historical aerials/maps.
- WisDOT environmental studies, needs analyses.
- WisDOT regional office files on existing access rights.
- WisDOT traffic volume data (historic and projected).

Doing a before and after appraisal to determine if access changes are compensable and the amount (if any). When doing a before and after appraisal to determine damages due to access changes (if any), the appraiser must try to isolate the physical characteristics of access from other characteristics to determine its contribution to the overall value of the parcel. When appraisers value the impact of acquiring access rights, they should support their analyses by data developed from the market. Sales of comparable properties in the before condition and in the after condition should be found and used. Ideally, the appraiser would find the sale of a parcel of land like the subject without access, and then find the sale of an identical parcel with access. However, it is not likely two identical parcels, one with access and one without, will be found. Therefore, adjustments will be necessary. Adjustments to the comparable sales should follow the same criteria as for any narrative appraisal. The appraiser should lay out the analysis and the value conclusion in a logical manner that would lead the reader to the same conclusion. The analysis should also include whether there are any special benefits from the project that may offset compensable damages, including access restrictions. That is standard procedure in all appraisals when dealing with compensable damages.

Appraisers must recognize when doing a before and after appraisal that identifying and measuring a loss in value due to access restriction/changes by this method may also include non-compensable damage items. Examples of non-compensable damages are: loss of business, circuity of travel or changes in traffic patterns. Likewise, when doing a before and after appraisal for other types of compensable damages, such as proximity issues, non-compensable damages due to access restrictions (when reasonable access remains, etc.) may also be identified. A careful analysis of the comparable sales used to establish the before value and those establishing the after value is needed. Any non-compensable damage components included in the before and after comparison should be identified and quantified in the appraisal narrative, but they are to be segregated out and not included in the final value conclusion. The final value is the basis for just compensation and by law can only include compensable damages. Since there is no inherent value for access, the loss in value to the larger parcel is the measurement that is used for valuing compensable access restriction damages. When considering damages for loss of access rights, existing access locations should be shown on the site sketch or R/W plat sheet in the appraisal. Include photos of the driveways to show the use and need for the driveways.

## 2.8.5 Circuity of Travel

There are at least two different kinds of "circuity of travel" situations. There is "internal circuity," which occurs when a partial acquisition cuts off one or more pieces from the remainder. In this situation, access is restricted causing increased travel to get from one part to another part of the same property. This situation will usually result in a diminution in value to the severed tract that may or may not be measurable with a cost to cure. Such loss is a compensable damage. The second situation could be called "external circuity of travel" whereby a property that has direct access to a main highway is placed on a frontage road or some secondary location in the after situation. In this case, the property may or may not suffer a decrease in value. The loss of reasonable access is compensable. Although any property is entitled to reasonable access, the right of access does not include the right to the flow of traffic on a particular highway. If there is a compensable damage, it must be because of the loss of access, not traffic.

## 2.8.6 Special Benefits

Definition: An enhanced value that occurs to a specific property because of a public improvement. Section 32.09(6) Wis. Stats., requires that compensation for a partial taking be based on the greater of the difference between the before and after value or the value of the part taken. In cases where there are likely to be increases in the after value for any reason, a before and after appraisal shall be done. The formula to determine damages is the before value minus after value. If the after value increases, total damages by this method will decrease. The difference between this amount should be compared to the value of the part taken as a part of the whole to determine correct compensation. If the unit value increases due only to a reduction in size, the before and after damages will be less than the value of the part taken as a part of the whole and compensation should be based on the part taken calculation. The principle is that you cannot assess benefits to a property just because land was taken from it. If the after unit value increases because of a change caused by the project or construction outside of the site being considered, then a benefit to the remaining property has occurred.

A "general benefit" is an increase in the value that is common to many properties in the area that may be either on or off the project. Examples: A new street with parking, curb and gutter instead of ditches, etc. Increase in the after value should not be used to offset damages. Even though the after value may be higher, the owner should still receive the value of the part taken.

A "special benefit" would be unique to the subject property and caused by the project or construction off the site, such as: a change in the highest and best use to a more valuable use, improved access that increases value, or an interchange location that creates a commercial site on land that was previously farmland. In these cases, the benefits would be considered to be special benefits and can be used to offset damages or even to the value of the land acquired as per s. 32.09(3) Wis. Stats. Special benefits cannot be charged in excess of the value of the land acquired and damages to the remainder. CAUTION: The assessment of special benefits should not be speculative. The benefit should be obvious and well supported because there is an increased chance of litigation and an exposed risk because of the 15% rule for payment of owner's litigation expenses.

## 2.8.7 Determination of Larger (Entire) Parcel

The term "larger parcel" means the entire property that should be appraised in the before situation and in the after situation. It is important in eminent domain to include all the owner's lands that qualify in order to establish the tracts that may be damaged or benefited by the acquisition. Historically the concepts of "unity of use" and "unity of ownership" have been the primary considerations in making this determination. These concepts generally mean that the parcels must be devoted to the same use and must be held under the same quality of ownership to be considered as one property. As usual, exceptions and variations abound. Courts have held that diversity of ownership is not necessarily preclusion to considering tracts as part of a larger parcel where the tracts abut and are used in common by the owner's pursuant to some sort of agreement. Also, a situation where one parcel is held by a corporation solely owned by a single person, and the same single person owns the adjoining tract, does not preclude consideration as one parcel. Unity of use means that the parcels must be used in connection with each other. The criterion generally is the highest and best use of the parcels involved rather than their existing use. The fact that parcels are not contiguous does not necessarily mean they are not part of the same larger tract. The region should, as far as they are able, review each project for potential problems in this regard prior to a project management conference so that a final decision can be made at said conference.

## 2.8.8 Carve-Outs

Allocated values of parts of larger properties are often needed to establish the basis for a relocation payment. These allocations are referred to as carve-outs and may include such items as the value of a residence and with a typical site for the area, the value of living quarters that is part of a tavern, etc. If these types of value estimates are needed, the appraiser will be informed as a part of the appraisal assignment. Carve-outs can be included in the appraisal if they do not conflict with appraisal premise. The allocation of the various components of the property is normally required and this allows relocation specialists to make their own carve-outs.

## 2.8.9 Easement Valuation

### 2.8.9.1 Highway Easements

Occasionally land for highways is acquired by easement rather than fee title. This may be done for a contaminated property where it is desirable to keep the owner in the chain of title because of liability for cleanup costs. This is also an alternative in some cases to avoid severance damages due to minimum site size requirements. Highway easements usually convey all of the rights of ownership except for taxation and the right of reversion if sometime in the future the land is no longer needed for highway purposes. Since the owner loses all control of the property, this type of acquisition is generally valued in the same manner as a fee title acquisition.

### 2.8.9.2 Permanent Limited Easements

An easement is an interest is real property that conveys limited use, but not ownership of a portion of the owner's property. Each easement document contains specific controls and restrictions and must be carefully analyzed to determine how it affects the encumbered property. The partial interest burdens the real property estate and the property owner is entitled to just compensation. The acquisition of an easement through eminent domain does not give an appraiser a license to guess. The same logic and reason must be applied

to appraising easements as would be to any other partial acquisition. The appraiser should always keep in mind the before and after concept when valuing an easement. The appraiser should use sound reasoning and logic to determine what percentage of the total ownership interest is affected. A before and after analysis using comparable sales affected by permanent easements may be helpful if the data is available. If sales with easements are used, the easements should be having similar affects on the sales properties as the easement being considered affects the subject. The most common type of easements found on comparable sales includes easements for access, utilities, overhead electric transmission lines, and pipelines. The appraiser should be aware of the amount paid by private utilities for easements; however, the compensation is often not based on market value because of the utilities lack of the power or use of eminent domain. If there is no sales data to support the valuation of the easement, the appraiser's justification should include an analysis of how the easement will affect the use of the property. Any percentage of loss of value for an easement should be proportionate to the loss of use of the property by the owner. It is possible that a permanent easement could also cause a severance damage or benefit to the property remaining. Either of these would be evident if the value of the remainder is permanently changed as a result of the easement.

### 2.8.9.3 Temporary Limited Easements (TLE)

A Temporary Limited Easement (TLE) (RE1577) is an interest in land that is limited in purpose and time. It must be acquired and compensation paid to the owner when the department has a need to temporarily use a portion of the property owner's land to construct the highway project. TLEs must be shown on the R/W plat and schedule of interests and identified and cleared as part of the project's R/W certification. The value of a temporary easement shall be estimated based on the damages caused to the property. This is similar to the way compensation for a permanent easement is estimated with the added dimension of a time period. A TLE is not the same as a land lease. The value of compensation for a TLE will typically be something less than for a land lease. Factors that need to be estimated in order to value a TLE are:

- Amount of land affected (stated in plat's schedule of interests).
- Amount of time property will be impacted (determined by project engineer).
- Degree/extent of impact (loss to owner from "bundle of rights").
- Rate of return/rental rate (determined by market).

The general formula for determining compensation for a TLE (assuming area of impact is one acre) is:

- 1 acre x economic rate of return x degree of Impact (between 0 – 100%) x number of years impacted = value of TLE taking.

<u>Extent of impact</u>: The appraiser must determine the degree/extent of impact to the property owner's land. The appraiser must explain their reasoning as to the degree/extent of impact. Compensation for a TLE will vary depending on the impact to the property. If the work involves minor aesthetic blending or reconstruction work, there may be no payment. In this case, the words "one dollar and other good and valuable considerations" will be entered in the instrument's compensation link. Where the impact is more substantial, a percent must be applied. The degree of impact will be based on the extent of limitation of use placed on the land by project-related activities.

Amount of land affected: This is stated in the plat's schedule of interests. There can be many different applicable methods used to determine damages due to acquisition of a TLE. One method, the return on investment, is shown below an example of how to apply the method in agricultural areas. Return on investment may not be the applicable method in every case and the valuation expert must give consideration to the purpose of the TLE as well as the affect of construction limits on the TLE area when determining the most applicable method to use in the valuation of the specific TLE.

Rate: Damages that result from temporary limited easements are usually based on economic return on investment. For example, in agricultural areas land rental rates are available in the market. Rental rates can also be estimated by establishing the relationship between rent and value for other properties in the area. If a parking lot valued at $100,000 is being rented for $500/mo, the rental rate in relation to value can be estimated as: $500/mo x 12 = $6,000 yr.; $6,000/$100,000 = 6% as the rental rate for the property. If a TLE is one acre, then: 1 acre x 6% rate x fee value/acre x degree/extent of impact x number of years impacted = value of TLE taking. If rental data is not available, it is acceptable for the appropriate rate of return to be estimated. Land could be compared to a monetary asset through the principle of substitution and an appropriate rate of return based on risk could be estimated. This is done using the fee value of the land from market sales and the term for the easement period as described by the region. An example of this technique for a two-year temporary easement would be to use the rate for a two-year certificate of deposit and the fee value of the land to estimate the value of a temporary interest.

Time: Compensation for a TLE is paid from the effective date of the appraisal to completion of the project. To determine the appropriate length of time for which compensation is to be paid, the appraiser must find out how long the property owner will be inconvenienced by project-related activities. The appraiser must find out: when will construction start; when will it end; and, will other activities of the department prior to or after construction affect the owners' use of their land? The appraiser is attempting to determine how long the owner will be prevented from full use of the property. The appraiser needs to discuss these questions with regional Real Estate and Engineering staff and/or management. The document should state the purpose of the temporary interest and include a statement that "This TLE expires at the completion of the construction project for which this instrument is given." If the department is asked by a bank, attorney, etc. to qualify if a TLE has been released, a Release of Temporary Limited Easement (RE1019) can be provided. This document may be modified as appropriate. Every TLE parcel on a particular plat can be included in this document if necessary.

### 2.8.9.4 Construction Permits

There can be uncertainty about if to use a Construction Permit Recommendation and Approval (RE1732) or acquire a TLE. A Construction Permit, which is not an interest in land, can only be used if the temporary need to use the land is for the benefit of the owner and not needed for the project.

### 2.8.9.5 Consistency

If there is more than one appraiser on a project or if there is a mixture of nominal/waiver parcels on a project, the negotiator and/or review appraiser shall discuss the various methods and the supporting data available prior to the start of the appraisals or acquisition

of the nominal parcels. Appraisers are required by USPAP to support their valuations and should not be asked to use arbitrary unsupported percentages or lump sum payments. Minimum parcel payments for a project can be handled administratively.

# 2.9 THE OFFERING PRICE

Upon completion and receipt of an appraisal report, the region must prepare an Offering Price Report and Submittal (RE1894) for every appraised parcel. The area to be acquired must correspond with the latest right of way plat. Any additional interests being acquired (TLE, PLE, access rights, etc.) should be noted. The area of a limited highway easement need not be indicated. The Offering Price Report and Submittal (RE1894) along with the Appraisal Objective Review (RE1000) and the appraisal are then submitted to a reviewer. Reviewer assignments will be made using the Appraisal Review Request (RE1010). Note: Regional staff and consultants must enter all appropriate and necessary data into the Real Estate Automated Data System (log on required to access READS), thus enabling many of these forms, reports and processes to be produced and managed directly within or from READS. Staff and consultants must stay alert to developing technology, processing and process developments. The amount offered (just compensation) is determined by the Bureau of Technical Services-Real Estate (BTS-RE) review appraiser, who also has authority to approve the offering price. Only WisDOT staff review appraisers have the delegated authority to approve offers on federally funded R/W projects. See sub-section 2.12.7 of this manual for limitations on use of fee (or consultant) review appraisers. Additionally, BTS-RE approves and maintains a list of designated regional review appraisers who have limited review and approval authority. An appointed regional review appraiser's authority is limited to:

1. Parcels that have been identified or could be identified for the waiver of appraisal process. See waiver requirements in Section 2.10 of this manual.
2. Appraisal Report Short Format Summary (RE1005) (non-complex and less than $10,000). For example, a regional review appraiser may conduct the reviews for:

    - Appraisals containing a cost to cure that are economically justified and do not result in betterment.
    - Appraisals of land that can easily be valued by the market approach with little or no adjustment to sales.
    - Appraisals that include minor outbuildings or improvements that can be valued by the cost approach or contributing value.
    - Appraisals where damages to the remaining land do not exceed $5,000 and can be logically explained.
    - Appraisals with no change of highest and best use.

Upon approval of the offering price, the reviewer shall enter the approval into READS and complete the Appraisal Review (RE2128). See Chapter 2/Sections 2.12 and 2.13 of this manual for detailed guidance on appraisal reviewer responsibilities and the review process.

## 2.9.1 Summary of Values

A Summary of Values (RE1639) will be required if supplementation to the appraisal is needed to explain special situations, clarify ambiguity, etc. This is also required when the review appraiser does not accept the appraisal in its entirety. Where two or more appraisals have been obtained

or the owner's appraisal is also being reviewed, the various allocations must be set forth and the review appraiser's recommendation must be explained in detail and the justification should not be limited. The amount of justification needed will vary with the parcel being considered. Extra detail will likely be required for complicated parcels to enable adequate and full explanation. The review appraiser must provide support to a recommendation with full, detailed and adequate explanation. The name of the staff person preparing and justifying the summary is a critical piece of information. All related READS information needs to be complete with documentation and records maintained as appropriate.

## 2.9.2 Uneconomic Remnants

The initial indication of an uneconomic remnant comes from the appraisal. The appraiser's determination of severance damages to the remainder gives the agency an indication of the remaining value. Based on the remaining value indication, region management will make a determination if the remainder is an uneconomic remnant. Once an uneconomic remnant has been determined to exist, the region will request an alternate offer approval from the review appraiser. The alternate offer will be made to the owner. The owner has the right to accept or reject the alternate offer. The ultimate decision lies with the owner. In the state statute, note the reference to "little or no utility or value" to the owner. The following is the whole statement for clarity: uneconomic remnant means a remainder property that the acquiring agency has determined has little or no utility or value to the owner. Ultimately, the decision to accept or reject that part of the offer lies with the owner. The appraisal indicates remaining value, but the concept of utility to the owner is difficult to discern by anyone other than the owner. See 32.05(3m) Uneconomic remnant. In this section, "uneconomic remnant" means the property remaining after a partial taking of property, if the property remaining is of such size, shape or condition as to be of little value or of substantially impaired economic viability. If the acquisition of only part of a property would leave its owner with an uneconomic remnant, the condemnor shall offer to acquire the remnant concurrently and may acquire it by purchase or by condemnation if the owner consents.

## 2.9.3 Alternate Offers

The Alternate Offers to Purchase (RE1975) form is used to detail an offer made to the property owner to acquire remnants that are not needed for highway construction. This is often done for relocation purposes when the value of the entire site must be included to complete a relocation payment. There are other times when it may relieve an owner's concern about damages to the remainder, or when it is in the best interest of the department to purchase remnants. Note: The purchase of such remnants cannot be handled as administrative revisions. The possibility of an alternate offer situation should be identified, whenever possible, prior to negotiations and prior to the approval of the offering price. The review appraisers and the regions must work together to ensure that all processes are followed, double-check to ensure all applicable READS and regional file information is up-to-date, available and complete with adequate justification and proper documentation. There are two types of alternate offers: Alternate A, which is acquisition of an entire property; and, Alternate B, which is acquisition of one or more remnant tracts. If a decision is made by the region to acquire the entire property (Alternate A) or parts of the remnant that are economically viable (Alternate B), an Alternate Offer to Purchase (RE1975) must be submitted to a BTS-RE review appraiser for approval (exception, a regional review appraiser may approve total offers of less than $10,000). A copy of the Alternate Offers to Purchase (RE1975) (except for dollar amount) needs to be sent with the appraisal review packet and Offering Price Report and Submittal (RE1894) to the review appraiser. The review

appraiser will review and approve both the offering price and alternate offer. The review appraiser shall enter the applicable approval data into READS. Note that the Alternate Offers to Purchase (RE1975) allows for entry of several remnant tracts, but because we don't know which remnant or combination of remnants an owner may choose to accept, READS entry can be delayed until details of the alternate offer are known. In such cases, the process can be handled as follows:

- An agent shall inform the review appraiser of the alternate offer options according to current practices (via READS and/or paper) and reviewer will, upon approval, provide the agent with the necessary documentation and authority to present various offer options to the owner. Once it has been determined which alternate offer is acceptable to the owner, the agent will enter all applicable details in READS, with the reviewer entering their approvals.

## 2.9.4 Revisions to Offering Price

After an offering price is originally approved there are times when additional information is discovered during the negotiation process that may affect WisDOT's estimate of just compensation. These revisions are handled either as a new offering price or as an administrative revision. See Section 3.3 of this manual for more information on alternate offers and changes to original offering.

# 2.10 WAIVER OF APPRAISAL PROVISIONS

## 2.10.1 General Policy

A waiver of appraisal is allowed in the following circumstances:

1. WisDOT determines that the valuation problem is uncomplicated and the anticipated value of the proposed acquisition is estimated at $10,000 or less and there is no severance to the remaining property (except fencing, see below) based on a review of available market data.
2. Owner is donating property and releases WisDOT from its obligation to appraise the property.

A waiver of appraisal is not considered to be an appraisal as defined by the Uniform Act (URA) and 49 CFR 24. Therefore, appraisal performance requirements or standards regardless of their source are not required for waivers of appraisals. Owner accompaniment is not required and an appraisal review is not necessary. The waiver of appraisal needs to be performed by a person with sufficient understanding of the local real estate market. A reasonable basis for the established value must be documented. The availability of consistent market data is necessary to support the value estimates that are required. Adequate time and effort must be spent analyzing each parcel for such items as change of grade, driveways, landscaping, fencing, proximity and other factors that would affect the property values and eligibility for the waiver process. A department official must approve an amount believed to establish just compensation for the acquisition.

Fencing - Fencing values are allowed to be included in the waiver of an appraisal because Wisconsin has a statute that allows compensation for the replacement of this item when it is affected by an acquisition. This item can also be handled outside of the waiver of appraisal process by a relocation claim if there is a question whether or not the fence will actually be replaced. In either case the contributory value of the existing fence should be allocated in the nominal parcel and the cost to cure or claim would be the difference between contributory value and the replacements cost. All other cost to cure items require a standard appraisal in order to include the necessary analysis to determine that the cost to cure is economically justified. The same Real Estate specialist should do the entire waiver of appraisal process. Typically the same specialist who prepares the Project Data Book (PDB) and waiver of appraisal estimates will then make the offers and prepare any appraisals that may be required when an appraisal waiver is not obtained. It is permissible to use a PDB prepared by other staff or a contract appraiser; however, the person preparing the waiver of appraisal offers and appraisals should be familiar with the sales. To ensure accuracy and consistent valuations a qualified Real Estate agent with at least a working knowledge of PDB preparation and non-complex appraising should be utilized for this process. In the event that an appraisal is required, the same agent can serve as the negotiator, only if appropriate and as long as the total compensation remains under $10,000.

Consistency of payment - The regional Real Estate supervisor is responsible for maintaining consistent payments throughout each project and closely monitoring the waiver of appraisal process for compliance with the following procedures.

## 2.10.2 Waiver of Appraisal Identification

Parcels identified for this procedure must meet the following criteria:

- Can be appraised with the Short Format Summary Appraisal if a waiver cannot be obtained.
- No damage to improvements.
- Non-complex, $10,000 or less in value.

Regions should make an effort to identify waiver parcels early and indicate the parcel number and type in "Column 1" of the R/W Parcel Cost Estimate–Worksheet (RE1778) that accompanies the relocation order. This will notify the WisDOT Bureau of Technical Services-Real Estate (BTS-RE) not to prepare folders for these nominal parcels. The final, signed Nominal Payment Parcel-Waiver of Appraisal Recommendation and Approval (RE1897) is kept in the region's files. Parcel folders can be created later if the waiver turns into an appraisal because an owner is unwilling to sign the waiver or it is determined later that the appraisal problem is actually complex. An acquisition may be minor; however, the lack of supporting sales data or change of use causes the appraisal problem to be complex.

## 2.10.3 Preparation of the Project Data Book (PDB)

A thorough study of comparable sales must be prepared and presented in the Project Data Book (PDB). Sales should be grouped by size and use categories. The sales ranges should allow value selection without further analysis or adjustments. Allocation of mixed-use sales may help tighten these value ranges. An individual unit value must be concluded for each category that will be the basis for the nominal payment. See Section 2.5 of this manual for more detail on the PDB.

Waiver of Project Data Book (PDB) - The PDB requirement can be waived by BTS-RE, either a manager or a BTS-RE review appraiser, for projects where all of the payments fall under the amount that has been established as the minimum payment in the region or for the project. This may happen when all of the parcels are temporary interests and are being valued based on a rental rate or rate of return where regardless of the land value the payments would need to be rounded up to the amount of the minimum offer. An example of this situation is as follows: 0.05 ac TLE x $1,000/ac @ 10% = $5.00. At $10,000/ac the amount would be $50.00. In this type of situation a $50.00 or $100.00 minimum payment would cover all of the nominal parcels within this value range. Regions have discretion in establishing the amounts for minimum offers. Regions must document the file containing the Nominal Payment Parcel-Waiver of Appraisal Recommendation and Approval (RE1897) with appropriate justification for the unit value chosen, whether it is comparable land sale raw data or listing data.

## 2.10.4 Waiver of Appraisal Preparation

1. Review appraiser and appropriate regional representative scope project to identify parcels for potential waivers based on complexity.
2. Indicate type of fencing, if any, for future claims and list on Waiver of Appraisal (RE1897).
3. Agent/appraiser keeps notes and calculations for any additional items included in waiver so they are available if needed to convert to an appraisal.
4. Include at least one photo of parcel and, if applicable, one or more close-up photos of fencing in regional file. Make sure all items in acquisition, or affected by it, are in photo(s).

5. The BTS-RE review appraiser or the regional review appraiser must approve PDB prior to any payments being processed. The responsible party here will depend on the complexity of the project and can be determined in the project management conference. This is done on the "project cost allocation" screen in READS. The review appraiser should also enter a date if the PDB requirement is waived. Any request to waive the PDB requirement should be in writing and the reviewer can file the request and approval, if granted, in the project file. It is a good idea to prepare at least one appraisal in each size and property type category prior to initiation of the appraisal waiver acquisition process to ensure that the value ranges are supportable. This can also support offers for very minor parcels if the sales require more adjustment than can be done in the PDB. In this case waiver amounts would be based on the appraised value of adjacent parcels. An example of this process would be to appraise one parcel in a line of the same size city lots and then use the same unit value in waivers for the rest of the lots. The review appraiser must approve any exceptions or other methods used to justify the nominal amounts.
6. A summary of all nominal parcels must be listed on Nominal Payment Parcel Report (RE1889). Real Estate management must approve report before any offers to owners.
7. The agent should fill out the Nominal Payment Parcel-Waiver of Appraisal Recommendation and Approval (RE1897) in advance of personal contact. After the owner signs the form, if there is no change in the offer the agent can sign the approval. Regional Real Estate management must sign the approval if changes are made.

## 2.10.5 Waiver of Appraisal Negotiations

1. The owner's rights brochure and appropriate cover letter from READS must be given/sent to owner(s) prior to negotiation. Date of delivery must be noted in Negotiation Diary (RE2058).
2. Owners must be notified of right to have property appraised and be agreeable to waive that right.
3. Offers should be made in person if possible. Group meetings to explain the project to multiple property owners at one time work well for urban projects with minor acquisitions. Owners are then given the opportunity to meet individually with Real Estate staff to complete the transactions. Owners should be shown the sales study used to establish the price. Negotiation by mail is not prohibited and in some cases may be the most cost effective. If the negotiation is done by mail, copies of the sales sheets from the sales study used to establish the price must be included with a letter explaining the offer and process.
4. The completed Nominal Payment Parcel-Waiver of Appraisal Recommendation and Approval (RE1897) is given to the owner to sign and left with the owner if an immediate agreement is not reached.
5. A Negotiation Diary (RE2058) must be completed for each parcel. Justification for change or increases must be documented on the form. Changes must be made in pen on the Nominal Payment Parcel - Waiver of Appraisal Recommendation and Approval (RE1897) and initialed by the Real Estate specialist and the property owner.
6. Specialists should make no reference to "leeway" or percentage increases. Under no circumstances should the owner be pressured to waive their right to an appraisal.
7. It is allowable to make a second follow-up visit if the owners want to think about it or not all of the owners are present. The specialist can complete the appraisal inspection at that time so the owner can be presented an appraisal at the next meeting. If they are in agreement, have them sign the deed and complete the paperwork.
8. If the owner chooses not to waive the right to an appraisal or is reluctant, tell the owner someone will be coming back to do an inspection. If any facts were discovered at the meeting that would make the valuation problem complex, such as an unanticipated damage to the remainder, the appraiser should inform regional management and an appraisal

addressing the problem should be made. The appraisal must be submitted to the project review appraiser to have an offering price established. Once an offering price is approved, a revised offer must be approved to change the offer. If condemnation is going to be used a final offer should be considered that covers any risks to the agency.

9. A deed is required to convey land interest. The agent must be a notary public to witness the deed. If payment is $600 or more, owner should be asked to complete an IRS1099 form (see current IRS instructions) so that an IRS Form W-9 can be prepared for the owner. The closing statement prepared in advance may be modified in the field if necessary.
10. Any changes from the previously approved amount must be made in ink on the waiver form, initialed by the owner and agent and documented in the Negotiation Diary. Owners should be made aware that such changes are subject to regional management approval.
11. A statement to the construction engineer must be completed for all waivers of appraisal. This form lists all commitments made to the property owner. If no commitments are made, the form should say "none" and still be given to the construction section with a copy to the owner. This form should be signed by the owner and the agent.
12. The specialist or other regional RE staff must enter all nominal payment data into READS.
13. Payment can be requested by submitting a copy of the signed Waiver of Appraisal (RE1897) to the BTS-RE/Finance along with a Payment Request (RE1630) from READS.

## 2.10.6 Converting a Waiver of Appraisal into an Appraisal

If an agreement is not reached the agent/appraiser should ask to accompany owner on an inspection of the property. An Appraisal Report Short Format Summary (RE1005) should be prepared in accordance with the established WisDOT format. The PDB can be referenced in the sales analysis or comparable sales data sheets can be inserted into the appraisal.

## 2.10.7 READS Entry for Nominal Acquisitions

Regional Real Estate specialists or other appropriate regional staff is responsible for entering all nominal payment data into READS (with the exception of the sales “study approval” field which is entered by the review appraiser). Below are some tips for entering nominal information into READS.

<u>Project Data Book (PDB) approval</u> - As stated in 2.10.3 above, the assigned review appraiser is responsible for entering the PDB approval date into the “project cost allocation” screen in READS. If the reviewer determines that it is appropriate to waive the sales study requirement for projects with all temporary interests or minimum payment parcels, for example, the reviewer will still enter a date into the "sales study approved" field. Note: No waiver payments will be processed until the sales approval date is entered into READS.

<u>Parcel type vs. current status</u> - For parcel type and current status fields, use “Parcel Type” screen; these directions apply:

1. Nominal parcels, as defined in 2.10.2 above, which are acquired without an appraisal.
   - In "parcel type" field, *choose* "nominal."
   - In "current status" field, *choose* "nominal."
2. Nominal parcels, as defined in 2.10.2 above, which are appraised.
   - In "parcel type" field, *choose* "nominal."
   - In "current status" field, *choose* "appraisal.”

3. Parcels originally defined as nominal, according to 2.10.2 above, but later determined to fall outside the nominal criteria due to complexity or cost.
   - In "parcel type" field, *change* "nominal" to appropriate parcel type, such as “minor,” “intermediate,” etc. Parcel is treated as an appraised parcel in READS.

Increases to original nominal offer, from Nominal Payment Parcel Report (RE1889) - Changes from the previously approved waiver amount must be made in ink on the original waiver form and initialed by the owner and agent. Do not print a new Nominal Payment Parcel - Waiver of Appraisal Recommendation and Approval (RE1897) for the file. In the “appraisal/negotiation” screen of READS, do not delete the original nominal offer amount. Simply change the amount to match the increased nominal offer. Neither a revised offer nor administrative revision should be created in READS. Instead, the original Waiver of Appraisal is used to indicate the revision amount (by the pen and ink change) and the Negotiation Diary (RE2058) is used to document the reason for the revision. It is the agent’s responsibility to ensure that the nominal allocation originally entered in READS on the “appraisal/negotiation” screen is revised accordingly.

# 2.11 EARLY APPRAISAL PROCEDURE

Expanding programming schedules do not always allow enough lead time for Real Estate procedures to be followed in the typical manner. Sometimes it is necessary to start the appraisal process as early as possible in order to meet project delivery dates. This early appraisal procedure is intended for projects that will not be able to meet the project deadlines without the ability to start the appraisals prior to relocation order approval, and where it is not in the best interest of the state to defer the project. Regional Real Estate management has been delegated the authority to determine which projects would justify the use of such a procedure.

To successfully utilize this process, it is imperative that the plat has developed to a stage where the real estate needs can be clearly defined. Project Data Books (PDBs) can be developed, property inspections can be done and the appraisers may complete their reports and submit them to the review appraiser. The reviewer, however, cannot approve the offering price until the design study report is complete and a relocation plan (if applicable) and relocation order has been approved. It is the responsibility of the regions upon submittal of these early appraisals, to inform the reviewer if a Relocation Order (RE1708) has not yet been approved and followup with notification to them when such approval has been accomplished. It is equally important to make sure that the appraisal process is not started too early. Appraisals can become outdated quickly. The time frame between the appraisal completion date and the date of the relocation order should not exceed 60 days.

To utilize the early appraisal process, it will be necessary for Real Estate to work with regional Planning units to authorize the Real Estate project ID for charging according to the procedures defined in Section 1.4 of this manual. Appraisers must be given a plat that has developed to the stage where lands to be acquired are accurate and clearly defined.

# 2.12 REVIEW APPRAISER STANDARDS, RESPONSIBILITIES AND QUALIFICATIONS

## 2.12.1 Standards and Requirements for Review

The term “review appraiser” is used rather than “reviewing appraiser,” to emphasize that “review appraiser” is a separate specialty and not just an appraiser who happens to be reviewing an appraisal. Federal and state agencies and the Wisconsin Department of Transportation (WisDOT) have long held the perspective that appraisal review is a unique skill that, while it certainly builds on appraisal skills, requires more. The review appraiser should possess both appraisal technical abilities and the ability to be the bridge between the agency’s real property valuation needs and the appraiser. Agency review appraisers typically perform a role greater than technical appraisal review. They are often involved in early project development. Later they may be involved in devising the scope of work statements and participate in making appraisal assignments to fee and/or staff appraisers. They are also mentors and technical advisors, especially on agency policy and requirements, to appraisers, both fee and staff. Additionally, review appraisers are frequently technical advisors to other agency officials. The Bureau of Technical Services-Real Estate (BTS-RE) establishes standards and requirements for the review of appraisal and specialty reports of real property needed for highway and related purposes. The standards comply with and meet the intent of applicable provisions of the Uniform Relocation Assistance and Real Property Acquisition and Policies Act of 1970 (URA or Uniform Act), and the Uniform Standards of Professional Appraisal Practice (USPAP), as well as, the Uniform Appraisal Standards for Federal Land Acquisition (UASFLA) to the extent appropriate. The purpose of these requirements is to ensure that the approved estimate of just compensation is reasonable and adequately supported.

## 2.12.2 Responsibility

Review appraisers can be members of BTS-RE or region staff who are delegated the authority to determine offering prices based on the fair market value of real property. See sub-section 2.12.7 below for use of fee (or contract) review appraisers. The review appraiser is authorized to approve the appraisal for the establishment of the offering price (CFR 49 Part 24.104(a)). It is the responsibility of the assigned review appraiser to review all appraisal and specialty reports of property to be acquired or sold in connection with highway or related programs and to establish an amount which establishes just compensation for such acquisitions or disposal before the initiation of negotiations. The review appraiser is the person responsible for appraisal quality, value determinations, and establishing or recommending just compensation. The review appraiser’s responsibilities are to examine the analysis and presentation of data to assure all appraisal requirements are met and the report meets the definition of appraisal (see Section 2.1 of this manual) and is in compliance with applicable state and federal requirements. The appraisal review is to be a technical review by an appropriately qualified review appraiser. The qualifications of the review appraiser and the level of explanation of the basis for the review appraisers approved value depend on the complexity of the appraisal problem.

## 2.12.3 Functions of Review Appraisers

Under CFR 49 Part 24.104(a): The review appraiser is to review the appraiser's presentation and analysis of the market information and that it is to be reviewed against Section 24.103 and other applicable requirements. The review appraiser shall examine the presentation and analysis of market information in all appraisals to assure that they meet the definition of appraisal (24.2(a)(3)) and appraisal requirements found in 49 CFR 24.103 and state requirements, including, to the extent appropriate, the UASFLA, and support the appraiser's opinion of value. The level of review analysis depends on the complexity of the appraisal problem. As needed, the review appraiser shall, prior to acceptance, seek necessary corrections or revisions. See Section 2.13 of this manual for detail on appraisal review.

The review appraiser shall identify each appraisal report as recommended (as the basis for the establishment of the amount believed to be just compensation), accepted (meets all requirements, but not selected as recommended or approved), or not accepted. As authorized by WisDOT and allowed under 49 CFR Part 24.104, the review appraiser shall also approve the appraisal (as the basis for the establishment of the amount believed to be just compensation), or develop and report the amount believed to be just compensation.

If the initial appraisal submitted for review is not acceptable, the review appraiser is to communicate and work with the appraiser to the greatest extent possible to facilitate the appraiser's development of an acceptable appraisal. In doing this, the review appraiser is to remain in an advisory role, not directing the appraisal, and retaining objectivity and options for the appraisal review itself. The review appraiser is responsible to establish the amount believed to be just compensation for the agency.

If the review appraiser is unable to recommend (or approve) an appraisal as an adequate basis for establishing an offer of just compensation, and it is determined by either BTS-RE management or regional Real Estate management that it's not practical to obtain an additional appraisal, the review appraiser may, as part of the review, present and analyze market information to support a recommended (or approved) value, that is, the amount believed to be just compensation. If there are multiple appraisals, review appraiser can accept two (or more) and recommend (or approve) one. See Section 2.13 for more on review appraiser options.

In developing an independent approved value, the review appraiser may reference any acceptable resource, including acceptable parts of any appraisal, including an otherwise unacceptable appraisal. When a review appraiser develops an independent value, while retaining the appraisal review, that independent value also becomes the approved appraisal of the fair market value for Uniform Act Section 301(3) purposes. It is within agency discretion to decide whether a second review is needed if the first review appraiser establishes a value different from that in the appraisal report or reports for the property.

The review appraiser may supplement existing appraisals with documentation that supports a differing estimate of value or write a new appraisal if satisfactory revisions cannot be obtained. The review appraiser must also prepare a written report using the Appraisal Review (RE2128) form that identifies the appraisal reports reviewed and documents the findings and conclusions arrived at during the review of the appraisal(s). Any damages or benefits to any remaining property shall be identified in the review appraiser's report. The review appraiser shall also prepare a signed certification that states parameters of the review: the approved value and amount believed to be just compensation for the acquisition.

Under federal regulations no person shall attempt to unduly influence or coerce an appraiser, review appraiser or waiver preparer regarding valuation or other aspects of an appraisal, review or waiver. The review appraiser must remain independent and must not be subject to undue influence or pressure from anyone to arrive at a particular value. The review appraiser should be kept informed of all matters affecting the appraisal process and schedule.

Staff review appraisers must have a broad and comprehensive knowledge of the technical aspects affecting and influencing property valuation. They must possess knowledge and skill in the selection and application of the techniques and processes required to adequately support and document an appraisal. The review appraiser must be capable of reading, analyzing, and interpreting maps, plan specifications and legal descriptions. The review appraiser must have the ability communicate ideas and factual data to the appraiser in a manner that reflects both professionalism and integrity.

## 2.12.4 Delegated Authority and Qualifications of Regional Staff Reviewers

The review and approval of certain non-complex appraisals has been delegated to regional staff review appraisers. These non-complex appraisals include the following:

1. Parcels that have been identified or could be identified for the waiver of appraisal process. See waiver requirements in Section 2.10 of this manual.
2. Appraisals that are non-complex and less than $10,000. For example:
   a. Appraisals containing cost to cure that are economically justified and do not result in betterment.
   b. Appraisals of land that can easily be valued by the market approach with little or no adjustment to sales.
   c. Appraisals that include minor outbuildings or improvements that can be valued by the cost approach or contributing value.
   d. Appraisals where damages to remaining land do not exceed $5,000 and can be logically explained.
   e. Appraisals with no change in highest and best use.

Regional staff review appraisers must have the following qualifications:

1. Completion of a basic appraisal principles course such as Appraisal Institute Course 110, International Right of Way Association (IRWA) Course 101, or a comparable technical school or college program course <u>and</u> IRWA 401, 404, or 405.
2. A minimum of two years experience preparing the type of appraisal being reviewed.
3. A BTS-RE sponsored appraisal review training course.
4. Regional Real Estate supervisor or BTS-RE management may require other additional courses.

Staff who do not meet these requirements are subject to conditional approval of BTS-RE and their work will be monitored until the requirements are met. BTS-RE will determine the proficiency of regional staff review appraisers by review of their qualifications and experience and maintain a pre-approved list of qualified region personnel. If they are both involved in the same project, the work of the regional reviewer appraiser will be coordinated with the BTS-RE review appraiser for the area or project. This will be accomplished by holding project management meetings early in the process.

## 2.12.5 Delegated Authority and Qualifications of BTS-RE Staff Review Appraisers

The BTS-RE staff review appraiser will review all detailed (complex) appraisal reports, and those over $10,000. The definition of a detailed appraisal is found in Section 2.7 of this manual. The BTS-RE staff review appraiser must meet the following qualifications:

- A minimum of two years experience working with the type of reports being reviewed.
- Advanced appraisal education. This includes either having a Wisconsin Certified General Appraiser designation, or working towards this certification.
  - See new requirements effective January 1, 2008. The Appraiser Qualifications Board of the Appraisal Foundation determined these appraiser qualification requirements.
- Completed a basic appraisal principles course, such as: Appraisal Institute Course 110 or International Right of Way (IRWA) Course 101. Or, completed a comparable technical school or college program course <u>and</u> IRWA 401, 404 *or* 405.
- Supervisor may require other additional courses.

## 2.12.6 Importance of Appraisal Review

Review appraisers act as technical advisers to management. The review appraiser must remain reasonably autonomous and not be subject to undue influence or "directed values." The review procedure is a quality control step in working to maintaining the integrity of the appraisal process. The review helps to provide:

- An assessment of the work product of appraisers.
- Confidence in the report.
- Credence and reinforcement to the appraiser's conclusions.
- Increased levels of professionalism among appraisers.
- Professional relationships between department and appraisers.
- Quality performance for both staff and fee appraisers.
- Support for litigation and dispute resolution.
- Test of reasonableness for user of appraisal report.
- Test of the methods and techniques employed in the appraisal process, and determines if they are appropriate to the assignment.

## 2.12.7 Use of Fee (or Contract) Review Appraisers

The use of fee (or contract) review appraisers on federally funded R/W projects requires FHWA approval, whether on a project by project basis or on a blanket basis. Some cautions in the use of fee review appraisers include:

- If the project has federal funding in the R/W phase, a fee reviewer can only make a recommendation. The recommendations must still be a reviewed by a qualified WisDOT review appraiser to establish an offering price.
- The fee review appraiser may not be adequately knowledgeable of required state and federal policies, regulations, and laws.
- There is less control over the way the fee reviewer manages time. This can result in reviews not being completed in desired order or in a timely manner.

- Per 49 CFR 24.103(d). Fee (or contract) appraisers doing detail appraisal work must be a "Certified Residential Appraiser" for residential properties and non-residential properties with a value under $250,000; and, must be "Certified General Appraiser" for non-residential properties with a value greater than $250,000. These same standards apply to use of fee (or contract) review appraisal work.

The most common use of fee review appraisers is by local public agencies (LPA's). Frequently LPA's have neither right of way staff not administrative experience in right of way acquisition. Often it is necessary for LPA's to hire turnkey consultants to handle the entire right of way function or a specialist for one aspect of the project such as appraisal review, negotiations, relocation assistance, or property management. If it becomes necessary to use a fee review appraiser on federally funded R/W projects, the duties and responsibilities must be clearly spelled out in writing. It is essential that fee reviewers understand that their responsibility is to recommend an estimate of just compensation for use by the agency. The fee review appraiser is responsible for the contents of the appraisal, for seeing that any needed corrections are made, and for making certain that value conclusions are properly documented. The fee review appraiser must understand the type of written report the agency requires and the nature of the required reviewer's written certification. These expectations should all be included in the agency's contract with the fee reviewer. Fee (or contract) appraisers sometimes indicate that their appraisals have been reviewed (in house) before releasing the appraisal to the client. This is an internal control mechanism of the appraisal firm and does not constitute a review as required by a federal agency. The remarks in this document are not meant to cover the internal reviews by an appraisal firm and will not be discussed further. See Chapter 2/Section 2.13 of this manual for detailed guidance on the appraisal review process.

# 2.13 APPRAISAL REVIEW GUIDELINES

## 2.13.1 Purpose

The appraisal report forms the basis for establishing an offering price that is fair, both to the property owner and to the public. The purpose of the appraisal review process is to ensure that factual data, assumptions and techniques within each appraisal are reasonable and sufficient to support the appraiser's conclusion, and that the appraisal meets all applicable state and federal requirements.

## 2.13.2 Overview of Appraisal Review Process

A qualified review appraiser 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; state requirements; and, other applicable requirements, including to the extent appropriate, the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) by the Interagency Land Acquisition Conference (see link). They must also support the appraiser's opinion of value. The level of review analysis depends on the complexity of the appraisal problem. As needed, the review appraiser shall, prior to recommendation and/or acceptance, seek necessary corrections or revisions. The review appraiser shall identify each appraisal report as:

1. Recommended - meets all appraisal requirements, and should be used as basis for establishing amount believed to be just compensation;
2. Accepted - meets all appraisal requirements, but not selected as recommended or approved; or,
3. Not Accepted.

The review appraiser shall also approve the appraisal (as basis for establishing the amount believed to be just compensation), and recommend the amount believed to be just compensation.

## 2.13.3 Functions of Regional and BTS-RE Review Appraisers

The responsibility for appraisal review and offering price approval has been divided between the regions and Bureau of Technical Services-Real Estate (BTS-RE). The review and approval of certain non-complex appraisals has been delegated to “regional” review appraisers. Non-complex appraisals include:

1. Parcels that have been identified or could be identified for the waiver of appraisal process. See requirements in Section 2.10 of this manual.
2. Short Format Appraisals (non-complex and less than $10,000). Examples:

    - Appraisals containing cost to cure that is economically justified and does not result in betterment.
    - Appraisals including minor outbuildings or improvements that can be valued by the cost approach or contributing value.

- Appraisals of land that can easily be valued by the market approach with little or no adjustment to sales.
- Appraisals where damages to remaining land do not exceed $5,000 and can be logically explained.
- Appraisals with no change of highest and best use.

3. Whole takings of residential properties if < $10,000.
4. Project sales studies/data books.

BTS-RE review appraisers have been delegated the authority to review and approve all appraisals, complex and non-complex where the value is greater than $10,000. Any appraisal that is required due to the breakdown of negotiations for a waiver of appraisal must be reviewed by a review appraiser.

**Appraisal Problem Analysis (APA) Form**

Appraisers, at the time of contracting/bidding or assignment on a project, will be given a completed Appraisal Problem Analysis (APA) (RE1004) for each parcel to be appraised. The intended purpose of this form is to highlight areas of potential concern, as noted by WisDOT, in a partial taking acquisition appraisal assignment and to assist the appraiser in determining and submitting an appropriate bid for services. An APA will not be provided in a “total acquisition” assignment. Items noted in the APA do not necessarily indicate the existence or absence of the item, only that a perception of a potential impact (or lack thereof) was observed by WisDOT, and should be investigated as part of the appraisal process. The information provided is in no way to be considered "all-inclusive" or "definitive" and is not intended to limit the scope of the appraiser’s efforts in providing a reliable value estimate. Information provided herein has NOT been verified by WisDOT. As such, the information is deemed to be reliable but is NOT guaranteed, and the appraiser is advised to verify all data upon receipt of the appraisal assignment. The review appraiser will also be provided copies of all APA’s and, to the greatest extent possible, should be involved in their initial preparation. The appraiser’s response to the items noted in the APA, or lack thereof, can be considered in the appraiser’s performance evaluation.

## 2.13.4 Objective Phase Appraisal

After an appraisal is complete, it must be submitted to the regional office. An objective review must be completed in the region before the appraisal is submitted to the review appraiser. The assigned “negotiator” for the project is the most appropriate person to perform the objective review portion of the appraisal review. The objective reviewer must take care that they are not performing a “subjective review” of the report but none-the-less are encouraged to point out to the review appraiser conceptual problems they may observe in the report. In no event is the objective reviewer to contact the appraiser and discuss revisions to the appraisal. When completed, the person in the regional office preparing the objective review report will state that the objective review has been completed in the submittal memo (or a checklist can be used). The objective reviewer must also make check marks on the appraisal report submitted to the reviewer to show what items have been checked. If there are any revisions needed as a result of the objective phase of the review these revision requirements should be noted and forwarded along with the appraisal to the review appraiser. At a minimum, the following questions are to be answered in the objective review report:

1. Are all math calculations correct?

2. Does area and interest to be acquired agree with latest approved right of way plat or pending revision?
3. Does date of opinion coincide last inspection date?
4. Is appraisal of the type that was contracted for?
5. Is certificate of appraisal included?
6. Was owner or his/her designated representative offered an opportunity to accompany appraiser during inspection of property? Was his/her response noted?

The objective reviewer then forwards the objective review report, along with the appraisal, to the review appraiser.

## 2.13.5 Subjective Phase (by Review Appraiser)

The sufficiency and correctness of data must be considered. The reasonableness of the appraiser's assumptions can be measured by comparison with the assumptions of another appraisal of the same property, comparison with other appraisals, by direct investigation by the reviewer. The review appraiser then conducts a technical review of that appraisal and answers the following questions:

1. Did appraiser discuss his/her rational for concluded value by referencing logic to most comparable sale(s)?
2. Does area/interest to be acquired agree approved plat? (Assumes relocation order was filed prior to review process.)
3. Does comparable sale sheet include an adequate roadside photo?
4. Does format of appraisal agree with contractual requirements of region?
5. Has appraiser included any “non-compensable” items?
6. Has appraiser indicated if report is self-contained, summary or restricted use?
7. Is effective date of appraisal same as last inspection date?
8. Was “larger parcel” identified with respect to accepted definition and in consideration of historical court decisions?
9. Was a separate entity analysis of acquisition area acknowledged and discussed per s. 32.09(6) Wisconsin Statutes?
10. Was acquisition area discussed in an understandable manner?
11. Was an adequate sale location map included identifying location of each comparable sale by street/road and crossroads?
12. Was appraisal analysis reasonable, logical and defensible, based upon an adequate sample of informed data?
13. Was full market assessment information of improvements discussed, if used in before value analysis of property?
14. Was owner or his/her designated representative offered an opportunity to accompany appraiser during inspection? Did owner or his/her representative accompany appraiser?
15. Was remaining property and effects of acquisition explained in an understandable manner?
16. Was scope of work sufficient to address appraisal problem?
17. Was there a discussion of existing zoning on property and whether that zoning agrees with chosen highest and best use?
18. Was there a discussion of highest and best use of property both as vacant and as improved with a logical conclusion?
19. Was there adequate discussion and illustration of physical characteristics of improvements?
20. Was there adequate discussion of area and neighborhood as it relates to subject?
21. Was there adequate discussion of physical characteristics of land?

22. Were a sufficient number of quality comparable sales analyzed?
23. Were an owner's CSM or subdivision lot changed as a result of acquisition, and was it subsequently corrected on a cost to cure basis?
24. Were appraisal methods and techniques used in compliance with latest USPAP and supplemental standards of WisDOT and FHWA?
25. Were comparable sales verified by a party to transaction using format suggested in Real Estate Program Manual (REPM)?
26. Were concluded damages allocated?
27. Were grid adjustments and/or narrative discussion within boundaries of reasonable probability?

## 2.13.6 Technical Review

The review appraiser must make reasonable efforts to verify that the factual data within the appraisal is correct. If the appraiser's opinion of value is based on errors of fact, no amount of explanation, logic, or supporting data will result in a valid conclusion.

1. Plans: Reviewer should be familiar with right of way and construction plans, and should specifically check whether appraiser has properly interpreted construction features. Review appraiser needs to verify conclusions about nature of proposed construction and its effects on after condition of property being appraised. In complex appraisal assignments, reviewer must assure that appraiser has good understanding of effect of proposed construction before beginning appraisal process.
2. Data verification: Mathematical calculations must be verified, but factual data about items such as: site size, building size, zoning, availability utilities, or sales price of a comparable can, at reviewers discretion, be verified on a spot-check basis. Example: reviewer is not expected to verify all sales or measure all buildings. Reviewer should, however, randomly check some factual information and should check any information appearing questionable (i.e., if appraiser says a property is zoned residential and it is surrounded by commercial development, reviewer should verify zoning).

One of the best ways to check for factual errors is to compare appraisals on a project basis. On any given project, factual information will likely be found in more than one appraisal and may have been compiled by more than one appraiser. When two appraisals differ on factual data, for example, the sales price of a comparable sale, the reviewer should verify which information is correct and inform the appraisers accordingly. Where there is more than one appraisal of the same property, the reviewer should always compare the appraisals for discrepancies of fact.

## 2.13.7 Valuation Conclusion

The ultimate objective of any appraisal is to arrive at an opinion or estimate of value. For the appraisal to have validity, it must be based on data that is both factual and relevant, and the reviewer must judge whether the data meets those requirements. It is the reviewer's responsibility to recognize when an appraiser's conclusion is not supported, for example, because the supporting data is inadequately analyzed. The appraiser may have overlooked the existence of pertinent data or ignored or failed to analyze data that was available. If the problem is that the appraiser has overlooked or failed to consider relevant market data, the reviewer should ask that the data search be expanded. Good comparable market information can be limited or simply not available. This is particularly true with right of way acquisitions since they often involve partial takes and/or damages. When market data is limited, the appraiser is often forced to compensate by careful analysis and explanation of the data that does exist. If data is carefully and

appropriately analyzed, an opinion of value based on limited data can be acceptable. If the appraiser has provided the essential factual data, has analyzed that data fully, thoroughly explained how it relates to the subject property, and has given the reasoning and logic for the conclusions, the final value conclusion will likely be reliable.

## 2.13.8 Requests for Revisions

After the subjective review is completed the reviewer is to contact the appraiser and request all revisions, both objective and subjective. The review appraiser shall document any request for revisions and notify (via email or in writing) the regional office that revisions have been requested. Revisions made by the appraiser shall be sent to both the review appraiser (for final review and approval) and to the regional office. Questions by the appraiser regarding requested revisions must go to the reviewer. The region shall keep track of the time that the appraiser is taking to make the revisions and enforce any contract provisions they may have regarding timeliness of the appraiser. If the appraiser fails to return all of the requested revisions it may be necessary to request revisions again. Revisions must be completed and returned to the review appraiser within working ten days, unless other arrangements have been made.

The review appraiser may make minor changes and corrections that do not affect value. Examples of such minor changes are insignificant math errors, misspellings, and typographical errors. Whenever a reviewer makes such a correction, the reviewer will initial the correction. The region should be notified to make the same corrections in the region and owner's copy of the report. The reviewer shall send a copy of any minor corrections to the appraiser. This informs the appraiser that the reports are being checked in detail and it notifies the appraiser of the change.

When a review appraiser finds a need for significant changes or corrections that may affect the value outcome of the appraisal, the concerns must be presented to the appraiser in writing (e-mail notification is considered to be ‘in-writing’). The appraiser should be asked to make these corrections and submit them back to the reviewer within ten working days. The appraiser's response must also be in writing (e-mail notification is considered to be ‘in-writing’). All such correspondence should then become either a part of (incorporated into) the appraisal report or a part of the review file. If the revisions are not received within ten days, the regional Real Estate supervisor and regional contract specialist must be notified. 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, there are several options that can be considered:

- An additional appraisal may be obtained. If there are multiple appraisals, review appraiser can accept two (or more) and recommend (and approve) one.
- If it is determined by either BTS-RE management or regional Real Estate management that is not practical to obtain an additional appraisal, reviewer may, as part of review, present and analyze additional or more relevant market information to support a recommended (or approved) value – an independent value determination – that is, the amount believed to be just compensation. Reviewer then becomes the appraiser and is responsible for value conclusions. Significant changes by review appraiser must be supported with same level of documentation as all other appraisals. Typically, a new appraisal report will not be required; however, when changes are so extensive that they would constitute a new appraisal, a review by another review appraiser is required.
- Review appraiser may write a new appraisal, if approved by BTS-RE management.
- Review appraiser may request that BTS-RE manager have another review appraiser review the appraisal.

## 2.13.9 Divergent Values – Two Appraisals

Identification of divergences - Often a review appraiser will be required to review more than one appraisal of the same property. When there is more than one appraisal, the reviewer should compare the appraisals on all elements within the appraisal and compare the differences. The reviewer should keep in mind that appraisals can have similar final value conclusions but differ significantly on individual elements within the appraisal. Where there is more than one appraisal on a parcel it must be remembered that before a value determination is made, all appraisals must meet the documentation standards and agency requirements. Technical divergences involve factors such as the size of the property, the age of improvements, the property's zoning, the selling price of a comparable, whether the property is leased or encumbered by an easement, or the physical characteristics of access to the remainder.

Appraisers may disagree on the highest and best use, the damages to the remainder, the selection of a capitalization rate, the contributory value of improvements types and amounts of depreciation whether an item is real or personal property, or the appropriateness of using a certain comparable sale. The review appraiser has a responsibility to explain or reconcile all significant differences between divergent appraisals. Then a factual error is found the reviewer should inform the appraiser in writing and have the appraiser verify the facts and revise the appraisal. Usually errors of fact can be readily resolved.

When appraisers disagree on matters of judgment, the reviewer should ask one or more of the appraisers to reconsider their position on the elements of value in question or to provide additional data or rationale. The reviewer must be careful not to direct or dictate a different opinion from the appraiser. All value related communication between the reviewer and the appraisers must be in writing and become part of the review file. After the attempts to reconcile divergences, the reviewer will usually have at least one appraisal that can be approved as the basis for the offer of just compensation. If at this point significant divergences remain, the review appraiser's written report should point out the differences and explain why the reviewer agrees with one and not the other.

If the review appraiser agrees with one appraiser on some points and with another on other points, elements of both appraisals may be combined into a final "Review Appraiser's Determination of Value." Under unusual circumstances, the "determination" may be so complex that it stands alone as a separate appraisal. The "Reviewer's Determination" requires the same level of documentation and support as any other appraisal. In order to reconcile appraisal differences, a review appraiser may suggest that a third appraisal be conducted. Ideally, the new appraisal will confirm the value of one of the original appraisals. However, there is a risk that the new appraiser may come up with an entirely different approach. When this happens, the review appraiser must resolve the problem with a "Review Appraiser's Determination."

## 2.13.10 Appraisal Review Form

The amount of detail required in the appraisal review report will be based on the complexity of the appraisal. Some important functions of the Appraisal Review Report (RE2128) are:

1. Certain troublesome or key requirements such as owner accompaniment, uneconomic remnants, non-compensable items, allocation of final estimate of value, or realty versus personality determinations can be documented and/or supplemented.
2. In many cases, report supports and strengthens appraiser's value conclusion.

3. Report documents extent of review, and gives reviewer an opportunity to document that an in-depth and complete review for appraisal was accomplished.
4. When review appraiser cannot agree with appraiser, reasoning is documented in report.

## 2.13.11 Valuation Consistency

Neighbors will often talk to each other about the price for their properties. They compare the amounts of money they were offered together with the amount of land needed from them for the new highway facility. Property owners know that land normally sells for so much per unit ($/sq. ft., or $/acre, or $/foot of frontage). One of the responsibilities of the review appraiser is to assure that closely similar properties on a project have like unit values placed on them or be prepared to explain why not.

## 2.13.12 Non-Compensable Items

While federal and state laws require that compensation to owners be "just," there are some items for which a property owner cannot be legally compensated. These items vary from jurisdiction to jurisdiction, but a few common examples include: sentimental value, loss of anticipated future profits, inconvenience, changes in traffic direction or density, and circuity of travel where reasonable access is maintained. Some items are compensable under state laws that are not compensable under federal law.

1. State elements: Review appraisers must know allowable elements of compensability under state law, and assure appraised value does not include items that are not compensable under state law in estimate of just compensation.
2. Federal participation: Review appraisers must also be aware of compensability under federal law, and assure that appraisals conform to federal criteria or compensability. Reviewers must be aware of these items and identify them as ineligible for federal participation. Acquiring agency must have accounting procedures preventing items identified as ineligible from being claimed as participating for federal funding purposes.

## 2.13.13 Property Owner Appraisals

49 CFR Part 24, paragraph 24.102(f), states: "The owner shall be given reasonable opportunity to consider the offer and present material which the owner believes is relevant to determining the value of the property, and to suggest modification in the proposed terms and conditions of the purchase. WisDOT shall consider the owner's presentation." An appraisal submitted by a property owner must be considered. The review appraiser must consider any new information not previously considered or known (new sales, for example.) Significant new information might be given to the appraiser for further consideration or the review appraiser may choose to update the just compensation offer based on the additional data. The property owner's appraisals first come into the regional offices, and the region shall submit the reports to the BTS-RE review appraiser if there was BTS-RE review appraiser on the project. The review appraiser or designated region reviewer must document the review and consider all property owner material submitted, in order to comply with Wisconsin statutes. The review appraiser can change his or her offer of just compensation based on new information that appears in a property owner’s appraisal. The owner’s appraisal must meet these three criteria before they can be reimbursed for the cost of the appraisal. The review appraiser or the regional Real Estate supervisor must also review the owner’s appraisal to ensure that:

1. All appraisal requirements are met.
2. Analysis and presentation is documented w/logical and reasonable conclusions of value.
3. Fees are reasonable and charges are typical for type of appraisal.

## 2.13.14 Appraisal Updating

The need for updating an appraisal most often occurs at the time WisDOT is preparing to condemn the property. The data used to estimate the value should be reviewed and an effort made to investigate pertinent sales up to the date of taking. In a fast moving and very active market, it may be necessary to update a relatively recent appraisal. New sales are sometimes brought to the negotiator's attention and subsequently to the appraisers' attention during the negotiation phase of the acquisition. If negotiations become protracted or the acquisition is otherwise delayed on the project, the appraisal may need to be updated. It must be updated if it is older than six months.

## 2.13.15 Poor Performance by Appraiser

If, during the appraisal or appraisal review process, but prior to the completion of the appraiser evaluation, an appraiser fails to perform satisfactorily according to the terms of the contract, the region must notify the appraiser immediately. They must indicate: what the appraiser is doing (or not doing) that is substandard; what they (the appraiser) need to do to correct the deficiency; and, a time line to get into compliance. Also see sample consultant bid documents for standards – including appraisal work order and special provisions.

## 2.13.16 Appraiser Performance Evaluation

An Appraiser Performance Evaluation (RE2127) is to be completed within 30 days of the completion of the appraisal. The regional contract specialist administering the contract will initiate the evaluation on the date of receipt of the final appraisal report for the appraisal to be reviewed. The contract specialist will consult with the appropriate regional Real Estate staff to complete the regional portion of the evaluation. The contract specialist will then send the partially completed form, electronically, to the BTS-RE review appraiser who will complete their portion of the evaluation, sign it, and return it to the contract specialist. The contract specialist will next obtain the regional Real Estate supervisor’s signature and then forward the completed evaluation form to BTS-RE, where it will be inserted into a database available to all Real Estate staff. At a minimum, the original report must meet USPAP standards, regulatory requirements, and WisDOT criteria outlined in the contract. The rating should consider competency, professional judgment, consistency, adequacy of support, and the reasonableness and soundness of conclusions. The ratings should reflect the review of the appraiser’s original work product, not that of the final corrected and approved report. The contract specialist will also send a completed copy of the appraiser performance evaluation (electronically or mail).

# 2.14 PROJECT MANAGEMENT CONFERENCE

A project management conference shall be held on all projects. If the region believes, however, that a project management conference is not needed, they must make the recommendation to the Bureau of Technical Services-Real Estate (BTS-RE) review appraiser. The BTS-RE review appraiser must concur with this recommendation. The purpose of the project management conference is for the region and BTS-RE to jointly develop a plan for the appraisal and review of the parcels in the project. The major elements of this plan are a time schedule, assignment of appraisers and reviewer(s), the completion of the Appraisal Problem Analysis (APA) (RE1004), and the identification of the scope of the work required. Decisions need to be made at this time regarding if the appraisals needed, will be complex or non-complex, or whether the BTS-RE reviewer or the region will handle the review. BTS-RE and regional review on the same project should be coordinated in order to operate efficiently and maintain consistency. A time schedule must be developed. This will identify the following:

1. When appraisers will start work.
2. When sales study will be complete.
3. Order in which appraisals will be done.
4. Dates when critical appraisals need to be complete.
5. Date of final approval of offering prices.

The assignment of appraisers will include such considerations as the use of region staff or fee appraisers and the possible need and types of specialty reports. These reports may involve fixtures, perc tests, contractor/s estimates, timber cruises, etc. The type and complexity of the appraisal problem should be matched against the experience and qualifications for the appraiser on a parcel-by-parcel basis. Preliminary decisions will be noted on a parcel-by-parcel basis under the scope of work regarding such things as the possible waiver of appraisal, appraisal format, identification of appraisal problems, approaches to be used, and the identification of any possible uneconomic remnants.

Attendance at the project management conference shall depend upon the size and complexity of the project. At a minimum, the region real estate supervisor or the lead acquisition staff person responsible for the project together with the region review appraiser, and the BTS-RE review appraiser should be in attendance. Others in attendance may include the potential appraisers, relocation agent(s), LPA representatives, etc. Plats and plans should be available. It may also be necessary to make a field inspection of the project as part of the conference.

Depending upon circumstances and the size and complexity of the project, it may be desirable to break the meeting into several conferences with the matters of timing and assignment appraisers basically decided at the first conference and some of the details regarding scope of the work left for a second conference where the assigned appraisers can be involved in the process. This second conference should ordinarily not be held until the appraisers have completed their sales work and made a few calls on property owners so that some idea of the problems and land values will be known and so that decisions on nominal value parcels can be made.

## 2.14.1 Project Management Conference Agenda

Project management conferences should include discussion of the following:

1. Appraisal assignment:
   a. Can one appraiser handle entire project? How will work be divided? Who will appraise?
   b. If relocation is involved – establish need for on-site meeting between relocation specialist and appraiser to discuss personal property/fixture issues.
   c. Which appraisals should be completed first?
   d. Which approaches will be required?
   e. Will any special reports be required (i.e., fixtures, timber cruise, perk tests, septic system replacement, cost estimate, etc.)?
   f. Will second appraisals be required on any parcel?
2. Are there any potential legal problems or legal opinions required?
3. Are there any railroad appraisals?
4. Are there any uneconomic remnants?
5. Are there sensitive parcels?
6. Date of relocation order?
7. How will public relations be handled?
8. Review appraiser assignment, central office or region?
9. What are appraisal completion dates?
10. What is letting date?
11. What is sales study completion date?
12. When will plans and cross-sections be available?
13. Who will be regional contact for appraisers (if non-region appraiser)?
14. Who will handle negotiations?
15. Will appraiser be furnished with title search and information gathered at P.R. call?
16. Will project be staked? When?

As part of the project scoping process, an Appraisal Problem Analysis (APA) (RE1004) must be filled out for every parcel where there is a partial taking. See Section 2.13.3 of this manual for details. WisDOT will fill one out at a project scoping meeting then will give one to each bidder on each parcel before they bid on the project. The analysis on the form is intended to point out to all bidders the potential areas of concern in a partial taking acquisition. One will not be provided in total takings. Items checked or not checked do not necessarily indicate the existence or absence of the item, only that a perception of its potential or lack thereof was observed by the client (WisDOT). Any discrepancies between this analysis and the appraiser's judgment of the appraisal problem must be communicated to WisDOT.