

# Appendix F

## Appraisal Standards Instructions for Applicants and Appraisers

### General Requirements

The Land for Maine's Future Board requires that all appraisal reports adhere to the Uniform Standards of Professional Appraisal Practices (USPAP). For proposals using other sources of funding (e.g. federal), additional appraisal standards may be required. Any appraisal submitted to LMF must be an arm's length appraisal conducted by a Maine Certified General Appraiser.

The Direct Sales Comparison Approach should be utilized as the primary method in valuing the property. The Cost Approach and Income Approach should only be used as the primary method of valuation if they are applicable to a specific property. A discussion of why they are being utilized should be included. If any secondary approach to value is used, the results should be compared against the Direct Sales Comparison Approach. If values do not closely agree, the reason for the divergence should be explained fully.

**Note:** The Board requires that the direct sales comparison valuation be accomplished primarily through comparison with sales between private parties. Sales to nonprofit conservation organizations or to government agencies must be limited to a supplementary role in the analysis. If any comparison sales are employed that involve governmental or non-profit "conservation" buyers, the use of the sale must conform to the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA – the so-called "Yellow Book"), and the requirements of the funding program. If the project involves donation of values as part of the transaction the appraiser should also consider if IRS appraisal standards must also be met. If the project involves USDA Forest Legacy Program funds there are additional unique requirements of that program.

Except in unusual cases, appraisals should not include Extraordinary Assumptions or Hypothetical Conditions. Applicants and appraisers should discuss with LMF project manager and director prior to including these approaches in the report.

The Board has adopted a tiered approach to the development of appraisals the applicant may consider. Parcels under 50 acres and less than \$100,000 in value may be eligible. See page 74.

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**Direct Sales Comparison Analysis**

- a) Comparable sales should be summarized (at least three and preferably five comparable sales between private parties should be utilized). Also relevant current listings should be included.
- b) A map showing the location of all comparable sales and listings should be included.
- c) Sales should be presented in table or grid form, showing adjustment for times, size, location, appeal, soils, improvements (buildings, etc.) and circumstances of the transaction that may affect value (as applicable to type of subject).
- d) Each sale must be discussed in the narrative.
- e) Differences between the zoning and other regulatory restrictions among comparable sales must be addressed.
- f) Appraisal practice generally recognizes the principal of a volume discount, i.e. larger parcels sell for less per acre (or front foot) than smaller parcels. Appraisers should strive to find comparable sales of similar size and when they are not available they should determine from paired analysis or other means an appropriate volume discount or other adjustments.
- g) Appraisers should use comparable sales that are similar in size, location, quality, potential, and amenity value. In addition to making adjustments for the presence/absence of utilities, appraisals should address qualitative factors such as privacy, quiet, view and usability of water frontage.

**Specifications for the Appraisal Report**

The following specifications pertain to all appraisals performed for projects. Appraisals involving easements have additional specifications that are listed toward the end of this Appendix. The specifications listed here are minimums; LMF staff may require greater requirements for properties with unique or special features that present unusual appraisal.

Applicants must submit an electronic copy and six hard copies of each appraisal report.

Appraisal reports must be presented in a complete, self-contained narrative report, rather than in "form" style. At a minimum, appraisal reports should contain the following:

1. Letter of Transmittal
  - a) Standard transmittal letter, including specification that landowner or designated representative was provided the opportunity to participate in the inspection of the property.

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- b.) Summary of appraisal assignment
  - c.) Size of property, effective date, and estimated value.
  - d.) Statement that the appraisal meets LMF standards
2. Title Page
- a) name of property owner(s)
  - b) street, town, and county
  - c) size of subject property
  - d) effective date of appraisal
  - e) name and address of appraiser
  - f) Report must identify the State of Maine as an intended user (also satisfactory is LMF, DMR, DACF, IFW, DMR, or MHPC).
  - g) Appraisal shall not contain statements limiting public availability
3. Table of Contents
4. Area Maps
- Maps or images adequate to locate and identify size and location of subject property. must show roads leading to subject. Delineate project boundaries on all maps.
5. Summary of Important Facts and Conclusions
6. Purpose of Appraisal and Definition of Market Value
7. Area and Neighborhood Analysis
- The appraiser should present all findings and conclusions about the external influences (social and economic) which could affect the value of the subject. The presentation should be analytical and related to the valuation problem at hand. Avoid itemization of facts and figures not pertinent to value.
- Include:
- a) Description of community (rural, suburb, resort, etc.)
  - b) Population trend
  - c) Reasons for trend, i.e., new industries, outward migration, etc.
  - d) Rate of construction activity in town
  - e) Utilities and public roads available in the area
  - f) Brief description of relevant municipal planning
  - g) Immediate neighborhood: enhancing or detrimental factors
  - h) Recent real estate market activity
8. Site Map
- A photocopy of a survey map is best. In the absence of a survey, a tracing of the property boundaries from an ortho-photo is preferred.

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9. Land Description as Appropriate for Type of Subject Property
    - a) total acreage being appraised
    - b) shape of parcel
    - c) total road frontage
    - d) land cover and topography, i.e., wooded, wetlands, mountain summit, etc.
    - e) brooks, rivers, ponds, etc.
    - f) brief soil description and analysis based on USDA Soil Survey, if appropriate
    - g) utilities available to site (how far, sewer, water, power lines, public road)
    - h) is there a local septic, building, lot size, or other development ordinance?
    - i) easements and title encumbrances affecting the value
    - j) existing state or local permits?
    - k) gravel, loam, sand, etc. -- commercial value?
    - l) use of adjacent land if pertinent
    - m) access
    - n) flood hazard
    - o) view/visibility
    - p) when timber or agriculture is a significant component of the value of the land, appraisers are expected to offer an informed discussion of timber values.
    - q) note a ten year history of conveyance of the property
  10. Improvements

Describe those that are present, discuss condition, present use, and how they contribute to highest and best use.
  11. Assessment

Current assessed valuation (state if property in Tree Growth or Open Space Program), tax rate, and copy of annual tax bill.
  12. Zoning
    - a) Describe zoning of subject property, including dimensional requirements of applicable zone.
    - b) If there are pertinent sections from municipal by-laws, include them in Addenda
  13. Legal Description
    - a) Include copy of recorded deed in Addenda
    - b) Indicate registry and book and page number
    - c) Note any deed restrictions or easements which would affect value
  14. Highest and Best Use

The report shall state the highest and best use that can be legally made of the property for which there is a current market.

15. Appraiser's reconciliation and certification of value
16. Addenda
  - a) Comparable sales maps
  - b) Photographs of subject and all recent comparable sales
  - c) Description of each comparable sale and listings
  - d) Applicable portion of zoning ordinances, by-laws, and other local regulations
  - e) Wetlands or flood plain map (delineate boundaries within the subject property)
  - f) Site plan sketch if Income or Development Approach is used
  - g) Appraiser's qualifications
  - h) Statement of limiting conditions
  - i) Copy of recorded deed

### ***SPECIFICATIONS FOR APPRAISAL REPORTS FOR APPRAISALS OF CONSERVATION EASEMENTS***

This section provides additional guidance for appraisal of projects involving conservation easements, farmland protection, working forest easements and other partial interest transactions.

The appraiser will need the following:

- Final draft<sup>2</sup> of the proposed conservation easement, or other similar protection agreement
- Copy of LMF model "Project Agreement"
- Appraisal standards from funding sources other than LMF, when applicable.

When possible, the appraisal should include sale of similar properties that are subject to easement provisions similar to those proposed for the subject property. In addition to, and in the absence of such comparable sales, the "before and after" method is accepted, with appropriate adjustments.

#### **General Description of Methodology**

Unless otherwise instructed by requirements of funding sources, the appraiser should use the following methodology.

##### **I. Before Value Analysis**

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<sup>2</sup> The easement should be, but may not always be, in final form (except for final formatting, etc.) but should be in complete enough draft that it is clear what rights are being retained and what rights are being conveyed, in order to do the valuation. Please discuss any questions regarding the easement provisions with the client, and with LMF.

The Direct Sales Comparison Approach as described on page 68 should be utilized as the primary method in valuing the unencumbered property. The Cost of Development Approach and Income Approach should only be used if they are applicable. A discussion of why they are being utilized should be included. If any secondary approach to value is used, the results should be compared against the Comparable Sales Approach. If values do not closely agree, the reason for the divergence should be explained fully.

## II. After Value Analysis

The Highest and Best Use (HBU) of property subject to the proposed restriction should be carefully considered. For farmland protection projects, while agricultural use may often be the highest and best use of the encumbered land, the after value should not be assumed to be synonymous with "Farm Value" due to the potential HBU of encumbered properties as non-farm "estates."

A careful discussion of the proposed restrictions should be included in the after value analysis. Make sure that the proposed restrictions including any reserved building rights or access easements are carefully considered as they may affect highest and best use. The Direct Comparable Sale Approach is considered to be the best indicator of value. An Income Approach should be used only as a secondary approach.

### a. Description of land to be subject to Grant of Development Rights and Conservation Restrictions.

A map must be included that identifies;

- land to be encumbered;
- land to be excluded (that are part of the conveyance but not part of the Conservation Easement) from the Grant of Development Rights and Conservation Restrictions.
- Any reserved building rights allowed in restrictions must be discussed in the appraisal and shown on the map of encumbered land.

### b. Direct Sales Comparison

1. Sales should be legally encumbered with similar easements or adjusted to best reflect the easement to be imposed on the subject property.
2. Physically restricted properties such as floodplain land, should be adjusted for soil productivity, physical restrictions, and any other factors associated with the proposed easement on the property which affect value.

3. Consider the diminution in value to the property by any requirement for grantee approval, restriction of timber, sand and gravel rights, other mineral rights, or Right of First Refusal, etc. Also describe any specific conservation or management practices in the easement that may affect value.
4. Enhancement value accruing to reserved lots, abutting land or lands in the same neighborhood under related ownership must be considered.

Due to limited market transactions involving restricted land, greater adjustments for time and location may have to be made.

5. Include a discussion of each comparable sale and point out any circumstances that could have an effect on value. All comparable sales should be confirmed with knowledgeable parties and must include documentation. This is especially true if the transaction included the sale of conservation restrictions to a government agency or a conservation organization.

The reports should be to the standards of the Uniform Standards of the Professional Appraisal Practice (and of Section 1.170 A-13(c)(3) of the Internal revenue Code; UASFLA, USDA Forest Legacy, or FRPP, if federal funds are involved in the transaction).

In addition to the reporting specifications on pages 67-71, appraisal reports for conservation easement projects should include the following:

1. A narrative description of the “before and after” of the conservation restriction.
2. Land Description - Soil description and analysis from USDA Soil Survey, include NRCS Farm plan if available.
3. Improvements - include agricultural and residential improvements - condition, present use and contribution to highest and best use.
4. Other components being appraised - public access rights, hunting/fishing rights, etc.
5. Highest and Best Use

The report shall state the highest and best use that can be legally made of the property for which there is a current market. In the appraisal of vacant land, the terms “highest and best use” and “feasible use” should be synonymous. Highest and Best Use should be applied to both the Before and After Analysis.

6. Certification of Value of “Before” and “After” and the resultant Value of the Conservation Restriction.
7. Addenda

A copy of proposed conservation easement (note reserved building rights)



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***THE TIERED SYSTEM APPRAISAL APPROACH AND PROCEDURES***

This approach differentiates between lower monetary value, simpler parcels (from an appraisal point of view) versus higher value or complex transactions. The goals of the proposed approach are to simplify and expedite the appraisal process for certain LMF projects, reduce costs for applicants and decrease LMF's administrative costs as well.

*The primary difference from current procedure is in the form of the required appraisal report. Standard appraisal practices would still be required. The appraiser would produce a simplified report versus the complete, narrative report which is now required.*

- “**Tier One**” is new.
- “**Tier Two**” is regular complete, narrative appraisal reports, including all conservation easement projects. These remain subject to Appendix F standards in the Workbook
- “**Tier Three**” is Working Waterfront Project appraisals, which continue to require 3<sup>rd</sup> party review. The Board may require a 3<sup>rd</sup> party review of any appraisal.

**Tier One Appraisal provisions for applicant**

1. Applicant must obtain approval in advance from LMF that the parcel meets requirements for “Tier One” appraisal, before engaging appraiser in contract
2. Appraiser may contact LMF to clarify questions; client to participate in discussion
3. The appraisals are not limited to being completed by a Maine Certified General Appraiser. The appraisal may be performed by Certified Residential Appraisers licensed in Maine.

**Tier One appraisal report instructions**

- Appraisal must meet LMF appraisal standards, with form report format being acceptable
- All other LMF policies and procedures remain in effect.
- The applicant is not required to provide a Complete, Narrative Summary Report if the parcel meets the following attributes.

**Required Parcel attributes**

1. Fee acquisitions only
2. Subject parcel size is  $\leq 50$  acres, and a value of  $\leq \$100,000.00$ .

**In addition:**

3. No “unique attributes” that make adjustments complicated
4. Sufficient, easily found sales comparable sales are available having similar attributes and characteristics as the proposed property



**Required information in a "Tier One" Appraisal Report**Sales Comparisons

1. Minimum of 4 sales and 3 listings within 18 months of the effective date of appraisal;
2. No sales to government or land conservation organizations;
3. All comparable sales are to be within 50 miles of "effective market area" of the project property.

Report Format

1. Cover letter, with appraiser's certification that appraisal meets USPAP standards
2. Photos of the subject property and all comparable sales
3. Deed of subject property
4. Grid of comparable sales, showing adjustments
5. Location Map showing subject parcel and a map showing locations of all comps
6. Addendum which includes appraiser's rationale and adequate reconciliation of final value, as appropriate
7. Land Appraisal Report Form.<sup>3</sup>

Not required in the "Tier One" Appraisal Report

1. Area, City, and Market Data, i.e. standard "boiler plate" information
2. Market trends
3. Comparable sales narrative, except as noted on Appraisal Report Form <sup>3</sup>

For more information contact: LMF Program Director at 207-287-7576

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<sup>3</sup> Appraiser may use a form such as the Appraisal Institute Land Appraisal Report form; the FNMA vacant land form FW- 68, or other *equivalent* forms they may have available. If a form is utilized, please include MLS sold/listing sheet for each comparable sales or listing.