

8.

APPRAISAL REVIEW

*Uniform Act Section 301
49 CFR 24.104*

REFERENCES

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

the initiation of negotiations. Federal regulations **49 CFR §24.104** require that,

"(a) A qualified reviewing appraiser shall examine all appraisals to assure that they meet applicable appraisal requirements and shall, prior to acceptance, seek necessary corrections or revisions.

"(b) If the reviewing appraiser is unable to approve or recommend approval of an appraisal as an adequate basis for the establishment of just compensation, and it is determined that it is not practical to obtain an additional appraisal, the reviewing appraiser may develop appraisal documentation in accordance with § 24.103 to support an approved or recommended value."

The purpose is to ensure that a qualified review appraiser determines the estimate of fair market value is reasonably supported by an acceptable appraisal.

The review appraiser plays an important role in the acquisition process and is charged with a great deal of valuation and administrative responsibility.

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

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

SUMMARY

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

An appraisal review is a technical review of an appraisal by an experienced, competent, qualified (see Section 8.2 below) review appraiser. Appraisal review is a critical quality control element in the valuation/acquisition process. In some agencies, the review appraiser acts for the agency in estimating the just compensation to be offered for the acquisition. An appraisal review is not only an arithmetic or grammatical review of an appraisal report. It is a comprehensive technical examination of the appraisal, as reported by the appraiser.

8.1. REVIEW CONSIDERATIONS

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

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

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

- a. That it has been completed in accordance with the State's appraisal specifications and/or contract (for fee appraisers).
- b. That it follows accepted appraisal principles and techniques in the valuation of real property in accordance with State law (see Sections 7.2.1. and 7.2.2.)
- c. That it contains or makes reference to the information necessary to explain, substantiate, and thereby document the conclusions and estimate of fair market value.
- d. That it includes consideration of compensable items, damages and benefits, if any, and does not include compensation for items that are noncompensable under State law.

e. That it contains an identification, including ownership, or listing of the buildings, structures, and improvements on the land as well as the fixtures which were considered as part of the real property.

f. That it contains an estimate of fair market value for the acquisition, and as appropriate in the case of a partial acquisition, an allocation of the estimate of fair market value for the real property and for damages to the remaining property.

Prior to approving or recommending approval of an estimate of just compensation, the review appraiser should request and obtain from the appraiser any needed corrections or revisions to a deficient appraisal report. The appraisal(s) must meet the acquiring agency's appraisal report specifications. Any corrections and/or revisions should be documented and retained in the parcel file.

The review appraiser may make minor corrections, such as mathematical ones, and note and initial his/her action. Likewise, the review appraiser may make comments and provide additional supporting data as necessary, while initialing them.

The review appraiser should not substitute his/her judgement for that of the appraiser, but where the review appraiser finds analytical and/or factual deficiencies in the appraisal report, remedial action must be taken. The review appraiser should first ask the appraiser to consider making the required corrections in the appraisal report. Any needed factual data or analytical changes that cannot be handled this way require that the review appraiser, in the review report, in effect become the appraiser and assume the burden of substantiating and documenting the valuation in accordance with recognized appraisal standards such as set forth in Sections 7.2.1. and 7.2.2. The appraisal report itself should not be changed by the review appraiser.

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

a. The estimate of just compensation including, when applicable, an allocation of compensation for the real property acquired and for damages to the remaining real property, and an identification or listing of the buildings, structures and other improvements on the land as well as the fixtures which are considered to be a part of the real property to be acquired, if such allocation or listing differs from that in the appraisal(s).

b. That as a part of the appraisal review, there was or was not a field inspection of the parcel to be acquired and the comparable sales. If a field inspection was not made, the reason(s) should be recited.

c. That the review appraiser has no direct or indirect present or contemplated future personal interest in the property or in any monetary benefit from its acquisition.

d. The estimate of just compensation has been reached independently, without collaboration or direction, and is based on appraisals and other factual data.

e. If appropriate, a value estimate of items compensable under State law but not eligible for Federal reimbursement.

8.2. REVIEW APPRAISER QUALIFICATIONS

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

Since reviewers have the responsibility for not just approving appraisal reports prepared by other appraisers but also for obtaining corrections and/or revisions to those reports when necessary, it is important that reviewers be tactful and effective in their contacts with the appraiser(s).

As implied above, a review appraiser performs a management function by assuring that agency appraisal related requirements are met. To fully represent management needs in the appraisal process, the review appraiser must be included as a part of the management team in project or acquisition development.

8.3. APPRAISAL REVIEW TECHNIQUES

Appraisal review is a critical function that bridges pure, technical appraisal and agency policy and requirements. The review appraiser must be well schooled and experienced in appraisal technology. Just as important is the knowledge, background and understanding of the agency's requirements. The review report, especially if the review appraiser is charged with estimating just compensation, must reflect both technical appraisal evaluation and agency requirements.

The appraisal review function is critical also because of its appraisal management responsibilities. The review appraiser must not only assure that each appraisal is independently acceptable, but that there is consistency (in land values, for instance) throughout the project.

The Reviewer must also reconcile two (or more) acceptable, but divergent, appraisals of the same property. The agency may require selection of one of the approved appraised values, or it may expect the review appraiser to accept a figure based on, but not necessarily identical to, one of the approved appraisals. Or it may expect the review appraiser's estimate to be based on the best parts of two or more appraisals. The exact function or "powers" of a review appraiser in determining an approved figure are not defined in Federal regulations, or in appraisal custom. It is an area where the acquiring agency must establish operating policy and procedures.

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