

PREPARING AN APPRAISAL SCOPE OF WORK

GUIDE FOR PREPARING AN APPRAISAL SCOPE OF WORK

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

2. EXAMPLE. The example below is intended to be a guide for recipients preparing a Scope of Work for real estate appraisals.

a. Scope of Work: The appraiser must, at a minimum:

(1) Provide an appraisal meeting the recipient's definition of an appraisal, or, at a minimum, the definition of an appraisal must be compatible with the definition found at 49 CFR § 24.2(a)(3).

(2) Afford the property owner or the owner's designated representative the opportunity to accompany the appraiser on the inspection of the property.

(3) Perform an inspection of the subject property. The inspection should be appropriate for the appraisal problem, and the Scope of Work should address:

a) The extent of the inspection and description of the neighborhood and proposed project area,

b) The extent of the subject property inspection, including interior and exterior areas, and

c) The level of detail of the description of the physical characteristics of the property being appraised (and, in the case of a partial acquisition, the remaining property).

(4) In the appraisal report, include a sketch of the property and provide the location and dimensions of any improvements. Also, the report should include adequate photographs of the subject property and comparable sales and provide location maps of the property and comparable sales.

(5) In the appraisal report, include items required by the acquiring recipient, usually consisting of the following:

a) The property right(s) to be acquired, e.g., fee simple, easement, etc.,

b) The value being appraised (usually fair market value), and its definition,

c) The appraisal of contaminated property that would get at the difference in value, were the property clean,

d) The date of the appraisal report and the date of valuation,

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- e) The realty/personalty report required at 49 CFR § 24.103(a)(3)(i)–(v),
 - f) The known and observed encumbrances, if any,
 - g) The title information,
 - h) The location,
 - i) The zoning requirements and restrictions,
 - j) The property's present use, and
 - k) At least a 5-year sales history of the property.
- (6) In the appraisal report, identify the highest and best use. If the highest and best use is in question or different from the existing use, provide an appropriate analysis identifying the market-based highest and best use.
- (7) Present and analyze relevant market information. Specific requirements should include research, analysis, and verification of comparable sales. Inspection of the comparable sales should also be specified.
- (8) In developing and reporting the appraisal, disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired or by the likelihood that the property would be acquired for the project. If necessary, the appraiser may cite the Jurisdictional Exception or Supplemental Standards Rules under Uniform Standards of Professional Appraisal Practice (USPAP) to ensure compliance with USPAP while following this Uniform Act requirement.
- (9) The appraiser's analysis, opinions, and conclusions must be included in the appraisal report.

b. Additional Requirements for a Scope of Work:

- (1) Intended Use: This appraisal is to estimate the fair market value of the property, as of the specified date of valuation, for the proposed acquisition of the property rights specified (i.e., fee simple, etc.) for a federally assisted project.
- (2) Intended User: The intended user of this appraisal report is primarily the acquiring agency (ultimately the recipient), but its funding partners may review the appraisal as part of their program oversight activities.
- (3) Definition of Market Value: This is determined by state law, but includes the following:
 - a) The buyer and seller are typically motivated;
 - b) Both parties are well informed or well advised, each acting in what he or she considers his or her own best interest;
 - c) A reasonable time is allowed for exposure in the open market;
 - d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

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e) 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.

(4) Certification: The required certification should be in the State's approved Appraisal Procedures or part of state law.

(5) Assumptions and Limiting Conditions: The appraiser shall state all relevant assumptions and limiting conditions. In addition, the acquiring agency may provide other assumptions and conditions that may be required for the particular appraisal assignment, such as:

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

3. ENVIRONMENTAL CONDITIONS. One of the persistently difficult issues is the valuation of property with potential and/or known hazardous materials or contamination. Therefore, it is important that the environmental conditions of all parcels considered for acquisition be assessed according to ASTM standards. The following guidance will assist recipients in developing a Scope of Work for assessing the environmental conditions of parcels and for appraising those that are found to be contaminated or have hazardous materials present.

Recipients must investigate the environmental conditions of all parcels proposed for purchase in order to identify potential contamination on the property. This site investigation work includes conducting a Phase I Environmental Site Assessment (ESA) (in accordance with ASTM standards) for all parcels. If the Phase I ESA identifies potential contamination or recognized environmental concerns, a Phase II ESA should be conducted to confirm the presence and extent of any contamination. The ESAs should have been completed as a part of the overall environmental review process undertaken during an early phase of the project. If not, the recipient should conduct ESAs for all parcels prior to the appraisal.

The presence of contamination is regarded as a detriment to the property and should be handled like other negative characteristics or limitations of a property relative to the determination of its highest and best use (HBU) or greatest market value. From an appraisal perspective, dealing with contamination is much like addressing other conditions affecting the use and value of the property. It is FTA policy that the effect of contamination on the value of a property should be considered in the appraisal to the extent feasible. If the contaminant is a detriment for the property, the reduction in value of the property attributable to that detriment should be considered by the real estate appraiser.

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Appraisers are not expected to be experts in the field of property contamination. Therefore, the results of the previously mentioned ESAs must be provided to the appraiser before the appraisal work is initiated, whenever feasible. The recipient or its environmental consultant should be available to answer any questions that an appraiser may have regarding the environmental testing report(s) that pertains to the HBU and the value of the property. The appraiser is expected to be competent in the analysis of the impact of contamination on the value of the parcel being appraised.

The environmental reports, estimated remediation costs and specifications for the required remediation, along with any specific direction from the recipient regarding the applicability of state law or agency procedures related to the valuation of contaminated property, must be provided to the appraiser. The existence of detrimental contamination must also be defined by the recipient in analyzing the approach to the appraisal problem. The approach will necessarily involve an understanding of the purpose and use of the property within the context of the construction design plans of the project, specifically in terms of excavation that may be required for the intended use or use only as surface parking, as examples. These issues as they pertain to the subject site should be included as an element of the Appraisal Scope of Work that is mutually agreed to by the recipient and the appraiser. Recipients must not offer a conclusion of the impact of the contamination, but should insist that the appraiser evaluate the value impact of its presence using the expert site reports and project construction plans.

The following guidance is offered to assist a recipient valuing a contaminated site. It is general and broad. FTA should be contacted for further specific direction.

a. For commercial/industrial properties:

- (1) Situation: The property contains contaminants or hazardous materials that must be mitigated before any use of the property is practical. Approach: In cases such as this, generally, the cost to mitigate the contaminated materials to permit the HBU should be deducted from the potential estimated value to achieve that highest and best use.
- (2) Situation: The property is contaminated, but can be used at its highest and best use without remediation. Approach: In this situation, the appraiser would value the property at its highest and best use and only make an adjustment if the market indicates such an adjustment is necessary. Other similarly contaminated property would be a good indication of value and any further adjustment may not be required.
- (3) Situation: An improved property has building components that contain hazardous materials (asbestos, lead paint, etc.) and the market considers these items to be a detriment to value. Approach: In this situation, the appraiser should consider the appropriate cost to cure such deficiencies, based on market dynamics.
- (4) Situation: The property formerly was contaminated but is now remediated. Approach: In this situation, the appraiser should consider any residual "stigma" that might be caused by possible future requirements or the market resistance to such remediated properties when similar clean substitute properties are available. Comparable sales of similarly remediated property would be the best indication of value.

b. For residential properties:

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(1) Situation: The building contains hazardous material, but the market apparently does not adjust for such items (e.g., asbestos shingles, asbestos floor tile). Approach: In this situation, the appraiser should note the items and note that the market does not make an adjustment for them. Valuation would be unaffected by the presence of the contaminant in such a case. If remediation is only necessary because of the development of the transit project, that remediation would be an eligible expense under the Award given that the expense cannot be recouped from the seller and would be needed for the project.

(2) The building contains hazardous materials and the market typically requires remediation or adjustment (friable exposed asbestos, chipping lead paint). Approach: In this situation, the estimated cost to cure the detriment to value should be considered and deducted from the value as clean, unless this cost to cure is greater than the present value of the structure. Regardless of the type of property, it is important that the effect on value of the contamination or hazardous material be measured by the impact on the value of the property assuming a typical market transaction based on HBU analysis and the degree of non-contamination dictated by the project construction specifications regarding construction activity on that parcel property.