

## 4. Appraisals & Waiver Valuations

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### 4.1. Introduction

This chapter is designed to guide persons involved in the preparation of appraisals and waiver valuations and the management of appraisal functions. It presents guidelines that:

- conform to State and Federal policies regarding the appraisal of real estate for the purpose of acquiring ROW;
- ensure that the appraiser has considered all the required elements in arriving at the conclusion of value; and
- provide a uniform method of appraisal report writing that conforms to industry standards and supports DOT&PF’s review, acquisition,

relocation, disposal, and property management functions.

The format and level of documentation required in a valuation are dependent on the assignment and the complexity of the valuation problem.

For the purposes of this chapter, the terms “appraisal” and “appraisal report” are used interchangeably.

Unless otherwise specified, all instructions in this chapter refer to the ROW Section designated to do this work or a contractor retained to perform one or more appraisals, or specialty appraisals. The person preparing an appraisal or specialty appraisal is generally referred to as the “Appraiser.” A person providing appraisal review services is referred to as the “Review Appraiser”. This chapter guides persons completing appraisals or waiver valuations. Chapter 5 guides Review Appraisers. Chapter 4 applies when the Review Appraiser must also act as an Appraiser and come to their own value conclusion. Note that a person preparing a Waiver Valuation is not necessarily an appraiser (see Sec. 4.7).

The term “Appraisal Supervisor” refers to the position that has supervisory authority over staff, regardless of titles used by the regions.

The Fifth Amendment to the United States Constitution states: “No person shall . . . be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use without just compensation.” The Alaska Constitution, Art. I, Sec. 18, Eminent Domain, reads in pertinent part: “Private property shall not be taken or damaged for public use without just compensation.”

Title III of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 as amended (referred to as the “Uniform Act”) requires that real property be appraised before the initiation of negotiations.

The 1987 amendments to the Uniform Act define 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.”

The State of Alaska, by adopting the Uniform Standards of Professional Appraisal Practice (USPAP), requires the appraiser to perform competently when completing the assignment. USPAP is the generally recognized ethical and performance standards for the appraisal profession in the United States. Adopted by Congress in 1989 and updated every two years, USPAP contains standards for all types of appraisal services including real estate, personal property, business, and mass appraisal. Compliance is required for State-licensed and State-certified appraisers involved in Federally-related real estate transactions. In lieu of appraisals waiver valuations may be permitted under certain circumstances (see Sec. 4.7).

For parcels that require an appraisal, the DOT&PF Review Appraiser must establish the amount believed to be just compensation for the property in accordance with Chapter 5 of this manual. The Recommendation of Just Compensation may be no less than the approved appraisal of the property’s market value.

#### **4.1.1. Acceptable Appraisal**

The Appraisal Review staff (or authorized contractor) provides guidance on the acceptability of specific techniques or processes, policy, or technical guidance.

An acceptable appraisal will fulfill all the requirements of this chapter and the reports will contain enough factual support, documentation, and sound reasoning to make clear conclusions. An appraisal report that fulfills all requirements as to form may still be unacceptable due to substance (inadequate investigation or interpretation of market facts; improper application of appraisal techniques; analysis or conclusions based on misleading, inaccurate, or incomplete data, etc.).

For various reasons, DOT&PF may find more than one appraisal acceptable for a parcel, but there will be only one approved appraisal per parcel (Sec. 5.1).

All Appraisers must give the owner of the property or the owner’s designated representative the opportunity to accompany the Appraiser during the property inspection. Appraisers are required to use the [Opportunity to Accompany the Appraiser Form 25A-R405](#) or include equivalent information

in the report to document compliance. If unable to locate the owner, or if the owner refuses to sign the form acknowledging that they were given that opportunity, then the ROW Agent documents this and the documentation is placed in the appraisal report.

#### **4.1.2. Forms**

DOT&PF forms are preferred and in some cases mandatory. If elective DOT&PF forms are not used, replacement forms must include all of the elements required by DOT&PF’s forms.

#### **4.1.3. Market Value**

Each Appraisal Report must state the type, source, and definition of value that it intends to establish.

For purposes of Federal law, wherever the term “market value” is used in this manual, it means “fair market value.” The Uniform Act and [49 CFR](#) refer to “fair market value”, while the Appraisal Foundation refers to “market value”.

The Alaska Supreme Court has defined fair market value as “the price in (terms of) money that the property could be sold for on the open market under fair conditions between an owner willing to sell and a purchaser willing to buy, with a reasonable time allowed to find a purchaser” [*State v. 7.026 Acres*, Sup. Ct. Op. No. 601, 466 P.2d 364, 365 (1970)]. The opinion further reads, in part: “The highest and most profitable use for which the property is adaptable is to be considered, to the extent that the prospect of demand for such use affects the market value while the property is privately held.” Fair market value is normally based on a parcel’s fee simple value.

Do not consider (or allow for) the involuntary nature of the taking, the lack of desire of the owner to part with the property, or inconvenience and possible hardship caused to the owner. The Appraiser should be concerned exclusively with estimating market value. DOT&PF has established administrative, relocation, and property management programs to assist with “making the owner whole” and these considerations must not enter into the valuation process.

## **4.2. General**

[49 CFR 24.102\(n\)\(2\)](#) provides that no person shall attempt to unduly influence or coerce an appraiser, Review Appraiser, or waiver valuation preparer

regarding any valuation or other aspect of an appraisal, review or waiver valuation.

A person functioning as a negotiator may not supervise or formally evaluate the performance of any Appraiser or review appraiser who is performing appraisal or appraisal review work. FHWA may waive this requirement if it determines the requirement would create a hardship for DOT&PF.

#### **4.2.1. Number of Appraisals Required**

At least one appraisal is required for each parcel that will be acquired or damaged, except where a waiver valuation may be acceptable and prudent (see Sec. 4.7).

DOT&PF requires two appraisals on parcels where the total compensation (or the value determined in a specialty report) exceeds or can reasonably be expected to exceed \$500,000, or where extensive damages or complex issues require a second opinion. The Regional ROW Chief may waive the second appraisal with concurrence from the Review Appraiser. The Regional Acquisition Supervisor or ROW Agent assigned to the project must present any waiver request in writing, listing the reasons a second appraisal is not necessary (vacant land, large acreage, strip take, high-unit value, no apparent damages, etc.).

### **4.3. Appraisal Assignments and Contracts**

Appraisal reports shall be of sufficient detail, consistent with legal and professional requirements for format and documentation, to present a clear and accurate opinion of value.

For DOT&PF purposes, Appraisers (including Review Appraisers) and estimators are divided into three classifications: staff, fee (contract), and specialty.

#### **4.3.1. Fee or Specialty Appraisal Contracts**

DOT&PF may enter into a Professional Service Agreement (contract) with a certified Appraiser or Review Appraiser licensed by the State of Alaska [49 CFR 24.103(d)], professional estimator, or specialty appraiser for any of the following reasons:

- there are insufficient staff to perform the work within a reasonable time;

- the complexity or unusual nature of the assignment requires a specialized or experienced person; or
- the appropriate ROW Chief determines that DOT&PF's interests will be better served through employment of a contractor.

An Appraiser may not have any direct, indirect, present, or prospective interest in the property to be valued and is required to so certify when he/she signs the Certificate of Appraiser (Sec. 4.15.3).

The ROW Agent assigned to the project must handle contracts for professional services in accordance with the State Procurement Code and the [Professional Services Agreements Manual](#).

Compensation (fees) for appraisals must be on a parcel-by-parcel basis in the contract, rather than on a lump-sum or other basis. Other valuation, consultation, or appraisal review services may be contracted on an hourly basis as appropriate.

#### **Contract Extensions**

A contract Appraiser or Review Appraiser must submit any request for extension of the assignment due date to the ROW Agent, listing the reasons for the delay (design changes, change in appraisal scope, delay in response from the property owner, etc.). The ROW Agent must provide all approvals in writing.

#### **4.3.2. Information Provided to the Appraiser**

The ROW Agent must provide the following information to the Appraiser (whether staff or fee):

- project and parcel numbers;
- appraisal (valuation) problem and recommended format (Appraisal Report or Restricted Appraisal Report);
- special appraisal instructions (proposed easement information, legal instructions, etc.);
- due date;
- pertinent information available to the department, such as current ROW plans, parcel plats, title report, design plans, profiles and cross sections, etc.; and
- specialist reports, estimates, and legal opinions.

The ROW Chief (or designee) must provide a copy of the appraisal and the appraisal contract to the Review Appraiser.

#### **4.3.3. *Intended Users' Pre-Appraisal Field Inspection***

As soon as the assignment is made the Appraiser and Review Appraiser should conduct a pre-appraisal field inspection of the project and discuss any potential problems and their effect on the appraisal or appraisal review scope. This is also a good time to note whether or not there may be significant value estimated in sand, gravel, minerals, timber, or other such resources that should be considered in the appraisal and possibly delineated in the appraisal scope.

#### **4.4. Routing and Retention of Reports**

The Appraiser sends the original appraisal report directly to the Statewide Right-of-Way Chief or designee. The ROW Agent may request a copy of the appraisal for informational purposes but to avoid confusion if the Review Appraiser has any revisions, these copies must be destroyed when the approved original is received. For airport projects, a copy may need to be sent to FAA after appraisal review is approved (See Sec. 10.3). The ROW Agent retains a copy. Appraisers, Review Appraisers, contractors, and other consultants are responsible for maintaining and securing their own confidential, identical copy of the report and work file to comply with USPAP or other professional requirements. Appraisal reports are subject to a review for contract compliance and general content and a formal appraisal review by an authorized Review Appraiser. The Appraiser and the Review Appraiser must directly respond to all requests for explanations, corrections, additional support, documentation, and revisions in a timely and complete manner. Failure to respond may result in cancellation of the contract without payment and ineligibility for future assignments. Waiver valuations, when completed as intended, are not subject to formal review. However, when a waiver valuation is actually an appraisal performed by a certified or licensed contract appraiser, that appraisal is subjected to a formal review.

When a report is approved, the Review Appraiser directs the Appraiser to submit clean (i.e. all corrections made) copies for final review (the number will depend on the assignment or contract). Submissions must not be stamped "Draft" or be otherwise incomplete. The Review Appraiser must

then forward each appraisal to the region with a [Review Appraiser's Recommendation of Just Compensation Form \(25A-R505\)](#) and a Recommendation for Payment of Appraisal Services.

The Review Appraiser must retain the original appraisal report, appraisal review report, and related work file in headquarters until project certification or final judgment (if condemned), and then may dispose of it. Retention schedules must comply with [23 CFR 710.201\(e\)](#) and USPAP.

#### **4.5. Revisions, Updates, and Reappraisals**

Minor changes (spelling errors, etc.) may be initiated from the Regional ROW Agent. This section addresses substantive changes.

A revised appraisal report or revised appraisal review report nullifies the original report and all prior revisions. Revisions to a report are made by inserting corrected pages or supplemental sheets in the original report.

##### **4.5.1. *Request for Revisions or Updates***

The Review Appraiser or the appropriate ROW Chief may request an appraisal revision or update. The request, along with the due dates, should be in writing. A revision or update would be appropriate if:

- acquisition has been delayed and the valuation does not reflect current just compensation;
- Department of Law requests that the value be updated to the date of taking in a condemnation action;
- a design or ROW plan change occurs that may affect value; or
- new information is discovered that may change an existing valuation.

##### **4.5.2. *Procedure***

When asked to update or revise a report, the Appraiser takes the following actions:

- contact the Appraisal Supervisor for any necessary modification to the contract or assignment; the Appraisal Supervisor must coordinate this action with the Review Appraiser

(and the Department of Law, if necessary), through the appropriate ROW Chief;

- gather current information concerning ROW plans, construction features, title information, appraisal premise, pertinent legal opinions, and recommendations from the Review Appraiser;
- reexamine the market for any sales, rents, leases, costs, or other information that may be pertinent to the appraisal (valuation) problem; and
- reexamine the parcel being appraised for any changes (physical conditions, ownership, property rights, damages, etc.) and contact the owner, if necessary.

Prepare a package that contains a reason for the revision in a revised Purpose of Appraisal, any new information and analysis, and a new Certificate of Appraiser (Sec. 4.15.3).

#### **4.5.3. Identification of Revisions**

Make any revisions by correcting existing pages or supplementing the report with additional pages. You may use any sheets of the previous appraisal that remain pertinent to the appraisal. The Review Appraiser must mark replaced pages as VOID and fasten them to the back of the original appraisal report. Clean copies of the appraisals may not contain any void sheets or errors noted during the review.

#### **4.5.4. Delivery of Revisions**

The Appraiser delivers the revised appraisal report or supplemental pages to the Review Appraiser. When notified by the Review Appraiser that an appraisal is approved, the Appraiser submits the required number of clean copies of each report to the Review Appraiser for a final review and transmittal to the Region or designee as specified in their contract.

The Review Appraiser delivers the revised appraisal report and Recommendation of Just Compensation to the appropriate Right-of-Way Chief or designee as assigned.

#### **4.5.5. Updates with No Change in Value**

If the market indicates that no change is evident, inform the Review Appraiser of these findings by letter and include a revised Certificate of Appraiser (see Sec. 4.15.3) for each parcel. The date of the new

certificate then becomes the date of valuation, unless otherwise stated.

#### **4.5.6. Request for New Appraisals or Appraisal Reviews**

The Review Appraiser or the appropriate ROW Chief should request a new appraisal or appraisal review when one or more of the following occurs:

- revised ROW plans nullify the previously reported value;
- legal advice from the Department of Law nullifies previous instructions;
- an appraisal (valuation) problem changes;
- additional appraisal requirements become apparent; or
- contract specifications, appraisal guidelines, or appraisal review guidelines have not been satisfied and attempts to remedy the situation have been unsuccessful.

Mark the cover sheet and Summary Sheet of any revised report “VOID--See Revision Dated...”

Completely new reports do not require the “Revised” notation.

#### **4.5.7. Minor Change or Addition**

If the ROW plans are changed after the appraisal is approved and a simple addition or reduction to the acquisition area is required, the appraisal report may be revised using the [Adjustment to an Approved Appraisal for Minor Change or Addition Form \(25A-R415\)](#) but the following criteria must be met:

- approved report is valid for current valuation purposes;
- there are no apparent damages or benefits caused by the change in the acquisition;
- there is no change in the unit value other than updating for time; and
- the form is completed and signed by the original Appraiser.

The ROW Agent notifies the Appraiser, who follows the procedures in Sec. 4.5.2, completes the [Adjustment to an Approved Appraisal for Minor Change or Addition Form \(25A-R415\)](#), and prepares

a new Certificate of Appraiser (see Sec. 4.15.3). The Review Appraiser reviews the information, signs the form, and transmits it with a revised [Review Appraiser's Recommendation of Just Compensation Form \(25A-R505\)](#) to the appropriate ROW Chief.

If, in the original Appraiser's opinion, a new report is necessary, then the Appraiser should advise the ROW Agent in writing and request further written instructions.

#### 4.6. Condemnation Appraisals

As soon as the DOT&PF's attorney determines it is necessary, the Appraiser is directed to submit an updated condemnation appraisal to the Review Appraiser. This document is protected by the attorney-client privilege.

The Appraiser must personally reconfirm *all* market data once the appraisal report is in litigation. The Department of Law may request further updates or revisions through the Region (See Ch. 8).

To facilitate timely review of condemnation appraisals, the Appraisal Supervisor should routinely inform the Review Appraiser and Statewide Right-of-Way Chief or designee of masters' hearings, trials, and settlements.

Unless otherwise instructed by the Department of Law, mark any comments and recommendations concerning the appraisal **CONFIDENTIAL ATTORNEY-CLIENT INFORMATION** and direct them to DOT&PF's attorney.

The Department of Law requests that all confidential condemnation correspondence be maintained next to the parcel file in a separate, red, condemnation file folder.

The Review Appraiser transmits the appraisal and any needed revisions to the Department of Law. The Review Appraiser recommends final payment of the Appraisers' fees when the report meets DOT&PF standards.

#### 4.7. Waiver Valuations

Waiver valuations are a tool available to DOT&PF under certain circumstances. Subject to further guidelines and limitations:

- FAA has waived the requirement for an appraisal of an airport parcel with an estimated value of \$10,000 or less;

- FHWA has waived the requirement for an appraisal of a highway parcel with an estimated value of \$25,000 or less;
- FHWA has waived the requirement for an appraisal of a donated highway parcel unless the owner requests an appraisal; or
- DOT&PF has waived the requirement for an appraisal of a parcel for a State-funded project (Sec. 2.1.1) with an estimated value of \$50,000 or less.

Further guidelines and limitations include:

- The property owner must be offered the option of having an appraisal made on any parcel exceeding \$10,000 in value for a parcel in a Federal-aid project. When determining whether or not this requirement must be met for a particular parcel, the ROW Agent should consider whether or not the project could be Federally funded in the future.
- The Regional ROW Chief must establish just compensation for the property from the estimate generated from the waiver valuation, which is stated on the [Value Estimate Form 25A-R420](#) in accordance with this chapter.
- The Waiver Valuation is completed by a qualified State employee, contractor, or subcontractor who is not a certified or licensed Appraiser or otherwise required to comply with USPAP or other similar professional practices that consider a waiver valuation as an appraisal.

Although a waiver valuation is not intended to be an appraisal, it retains many of the elements of an appraisal, including the use of comparable sales data, and may meet the Appraisal Foundation's definition of an appraisal under USPAP. Because waiver valuations are used in lieu of appraisals and are prepared in a similar (though significantly abbreviated) manner, they are discussed in this chapter.

Waiver valuations are not intended to be appraisals and do not require a Certificate of Appraiser (see Sec.4.15.3). However, signing the Waiver Valuation form is a certification that the person who estimated the parcel's value and the Regional ROW Chief who approved the valuation have no direct, indirect, present, or prospective interest in the property.

These abbreviated processes are intended to be simple, quick, and low cost, freeing up Appraisers to concentrate on more complex analyses. While DOT&PF does not intend to require an Appraiser complete waiver valuations, the person must have sufficient understanding of the local real estate market to be qualified to make the value estimate. A qualified contractor (or subcontractor) may be used if DOT&PF ROW Agents are unavailable. Certain contractors completing a waiver valuation may end up providing an appraisal (and charging the related fee for this additional service) because of their requirement to comply with USPAP. In the case of a contractor (or subcontractor) that must comply with USPAP, the resulting product is considered an appraisal and not a Waiver Valuation and it must be reviewed as an appraisal.

When completing a Waiver Valuation the preparer shall use the [Value Estimate Form 25A-R420](#) or an equivalent format that includes the form's information to value simple acquisitions under the permitted value limits. A waiver valuation includes:

- a description of the land to be acquired;
- nominal improvement values, the contributory values of which can be readily supported by estimates of depreciated replacement cost; each improvement to be acquired must be listed for property management purposes; and
- minimal costs to cure, supported by reference to research or documented discussions with professional estimators.

A waiver valuation shall not be used if any of the following conditions exist:

- highest and best use changes as a result of the acquisition, or the highest and best use is questionable;
- damages exist that cannot be mitigated by a minimal cost to cure (a construction cost to correct the damage caused by the partial acquisition);
- land values are not easily identified (e.g. requiring adjustments or not comparable);
- valuation issues exist that are complex or not uncomplicated; or

- the preparer is required to comply with USPAP or other applicable practices (as in the case of a certified or licensed Appraiser or affiliate or member of a professional organization whose definitions consider waiver valuation as an appraisal).

#### **4.7.1. Procedures**

1. If appropriate and practical, inspect and photograph the area to be acquired. If the estimated value is under \$10,000 owner contact for the inspection may not be required but may be advisable.
2. Complete each item on the required form (or an equivalent document providing the same information).
3. Obtain information from evaluations of similar properties, sale and comparable files, Appraisers, current listings, and other informed real estate professionals to establish a unit value that adequately reflects the current market. Note: assessed value may or may not be a valid indicator and caution should be exercised if using this as the sole basis for value.
4. State the source of the unit value selected. Comparable data sheets, sales location maps, or tabulated sales should not be included in the report. Include the referenced source value for support.
5. Briefly explain:
  - a. necessity of any costs to cure (Sec. 4.18.2) and name their source;
  - b. depreciated value (and the source) of any improvements to be acquired; and
  - c. any specific contingent or limiting conditions, or any special circumstances relating to the parcel.
6. If damages or complex issues exist or if the value is likely to exceed the permitted limits, reassign the work as an appraisal.
7. Show all calculations, add any cost-to-cure items, and state the estimated value of the acquisition and the date of the estimate. The date of the estimate must be current.
8. Sign and submit the complete waiver valuation to the appropriate ROW Chief for review and

approval. Approval by the ROW Chief constitutes the DOT&PF Recommendation of Just Compensation.

#### 4.7.2. Updates or Revisions

For updates and revisions:

- complete and sign a new [Value Estimate Form 25A-R420](#);
- attach any new plats or photographs that show the changes; and
- submit the package to the appropriate ROW Chief for approval.

#### 4.8. Project Influence to Property Before Acquisition

In a valuation, the consideration of any decrease or increase in the before value of a property attributable to the pending project is generally prohibited ([AS 34.60.120](#)).

#### 4.9. Determining the Larger Parcel

*The Dictionary of Real Estate Appraisal* (published by the Appraisal Institute) defines a larger parcel. The Appraiser is responsible for determining the larger parcel. The Appraiser should support a larger parcel decision using the principles of substitution, demand, and applied economics.

#### 4.10. Highest and Best Use

The Appraiser must identify the highest and best use for which the property may be privately held, to the extent that the demand for that use affects market value.

Demonstrate highest and best use in the report, showing that the use meets the following criteria:

- physically possible;
- legally permissible;
- financially feasible; and
- maximally productive.

Estimate the value of the subject's land as though vacant, unless the land is improved with legally nonconforming improvements. Consider the highest and best use of the land as though vacant in relation to its existing use, as well as all potential uses.

#### 4.11. Legal Considerations

The Appraiser must exercise care to see that all legal issues are clearly defined and resolved through early coordination with the Department of Law. Obtain legal opinions or advice early in the process.

Document in the report any legal opinions or advice involved in the valuation process. Provide copies of pertinent legal opinions to the Review Appraiser for distribution and coordination.

#### 4.12. Contaminated Properties Appraisals

The Appraiser must not simply value the property impacted by a hazardous substance by deducting the typical remediation cost, or discovery cost, from the total value, as if "clean". Consider the possibility of other changes affecting value, such as a change in highest and best use, marketability, and stigma. See also Sec. 7.22 dealing with moving of hazardous materials.

#### 4.13. Market Data Collections

Valuations must contain accurate, current comparable sales information. Data must be of sufficient quality and quantity to demonstrate that all conclusions are representative of the current market. Data must provide a sound basis for valuation of both the before and, in the case of a partial acquisition, the after-acquisition condition of the parcel.

Three comparable sales are generally considered the minimum acceptable market support for simple valuations; more are recommended when available, especially for complex appraisal (valuation) problems.

Improvements are valued as they contribute to the overall property value. If depreciated replacement costs are presented as a measure of value, include a demonstration showing that the market responds in that manner. The standard of valuation is the market value of the *entire* property. Simply totaling the independent money values of a property's separate parts is unacceptable.

The appraisal must contain an analysis of all recent sales of similar properties in the subject neighborhood. The Appraiser must discuss and analyze the existing supply of available similar properties. Discuss the sales history of pertinent comparables: time on the market, changes in the



advertised price, repeated sales, or sales that fell through.

If a timely field inspection is not possible, the Appraiser must include additional documentation to demonstrate familiarity with the comparables (dates of previous inspections). Inspect the comparables at the earliest opportunity. Under extreme or unusual circumstances, the appropriate ROW Chief may grant a waiver of inspections of comparables. A waiver request must be in writing to the appropriate ROW Chief and must be fully explained or supported.

#### **4.13.1. Value Indicators**

Include the following indicators of value in the body of the report *for the purpose of illustrating trends or extremes* (do not use them as the *sole* basis for value):

- listings;
- earnest money or other recent sale agreements;
- offers to purchase;
- lease or purchase options;
- sales to or from agencies with the power of eminent domain;
- estate sales and transactions between relatives or other influenced parties;
- trades and/or exchanges;
- transactions with generous financing terms;
- foreclosure sales;
- transactions made under duress;
- unconfirmed transactions;
- bankruptcy estate sales; and
- auctions.

Any deviation from the foregoing is unacceptable unless approved by the Review Appraiser. Sufficient market data are not always available to evaluate all properties. When market data are limited or weak in comparability demonstrate and document a legitimate, concerted effort to obtain other types of supporting data.

#### **4.13.2. Confirmation of Sales**

The Appraiser is expected to personally confirm and inspect all market data. Exceptions must be supported by an explanation of the quality of the data (who collected it, independent verifications of the data, and the reliability of photos). All comparables used in the report must be personally verified if the case goes to court. DOT&PF considers comparables to be most reliable when the Appraiser verifies the facts with both buyers and sellers. If a sale cannot be confirmed by personal interview with the buyer and the seller, verify the data with other sources of reliable information and state the conditions of verification in the report. Discuss any special considerations motivating either the buyer or seller.

#### **4.13.3. Date of Sale**

Use the date of the meeting of the minds or earnest money agreement date as the date of sale, if possible.

#### **4.13.4. Use of Data Compiled by Others**

DOT&PF may share market data on file (with analysis removed) with no obligation on the part of DOT&PF for its accuracy or relevance. Any Appraiser who uses data obtained through DOT&PF work must verify, inspect, and further independently research the data. Appraised values, values from a Recommendation of Just Compensation, administrative settlements, waiver valuations, or other compensation or valuations or value analysis are not to be disclosed to third parties.

#### **4.13.5. Comparable Sales Data**

For each market indicator referenced in the report include one [Comparable Sales Data Form 25A-R425](#) (or equivalent documentation), which must include all the information on the approved form. Descriptions must be clear enough to locate the comparable in the field.

Estimate the land and improvement allocation on each improved property. Provide the basis for the allocation (supporting data, reasoning, and correlation). A statement that the purchaser or seller allocated the values, or that the allocation came from another appraisal, is unacceptable without further support.

Include recent photographs of each comparable property to provide the reader with a clear view of

the property. Use a [Photographic Sheet Form 25A-R430](#) or equivalent.

Include a [Summary of Comparable Sales Form 25A-R435](#).

Include a Sale Map (or maps) that show the location of the subject and (by comparable number) the location of each property involved in the referenced market transaction. The map must also show a north arrow and be clear enough to follow in the field.

#### **4.13.6. Adjustments to Comparable Sales Data**

Make adjustments to comparable sales data when there is a *measurable* market reaction to a specific item. Support and document each adjustment and consistently express them in either percentage or dollar amounts. When there are a great number of adjustments or a larger-than-typical single adjustment, the comparability, validity, and acceptability of the comparable are lowered.

If a sale is not comparable, do not use it. Cumulative adjustments (multiplied by each other) are acceptable only if each factor has a causative relationship to the other. To encourage independent analysis DOT&PF sets no arbitrary limits on adjustments, either percentage or dollar.

If the Appraiser uses qualitative adjustments (for example, plus (+) and minus (-)) because of the lack of available data, provide some market-related basis to support the reasoning. Broad, unsupported statements such as “based on my vast experience...” or “a reasonable person would...” are not adequate support.

If a *small* item of comparison requires consideration, but the Appraiser cannot support the adjustment with market data but it is adequately supported in some other way, DOT&PF’s Review Appraiser may accept it. If a contract Review Appraiser is hired in lieu of a DOT&PF Review Appraiser, the Regional Right-of-Way Chief may accept it. Conference with a qualified appraiser is recommended.

In addition to time, location, and size consider the following elements as a minimum for an acceptable appraisal:

- Financing terms/cash equivalency: investigate the sale prices of comparable properties that were sold with apparent non-market financing to

determine whether an adjustment to reflect typical market terms is warranted; and

- All of the following conditions of sale:
  - Compare the buyer’s and seller’s motivation and knowledge of market conditions.
  - How long was it on the market before sale?
  - Was a commission involved?
  - Did the commission affect the price?
  - Was it a bona fide arm’s-length transaction?
  - How did the availability of competing properties compare to typical market purchases?

#### **4.14. Project and Market Data Book**

The Project and Market Data Book (also referred to as “the Book”) consolidates general data for larger projects such as comparable data, area and neighborhood descriptions, general exhibits, trend studies, etc. The intent of the Book is to promote project consistency and avoid unnecessary duplication. The Book is limited to factual data and excludes analysis. Include the Book in each appraisal report by reference.

##### **4.14.1. Procedures**

Data collection (Sec. 4.13) continues through submission of the last appraisal on the project. The Book should contain the following:

- transmittal letter;
- Table of Contents;
- description of project, maps, aerial photos, etc.;
- [Summary of Acquisition Form 25A-R440](#);
- area and neighborhood analysis, including:
  - definition of the market area;
  - analysis of the current supply and demand of equivalent properties;
  - patterns of land use and trends, in the area first and the neighborhood second (new construction planned or under way, vacant sites as potential competition for the subject, adequacy of utilities, access, impaired sites nearby, etc.);

- current economic factors affecting the area and neighborhood (population, employment, income characteristics, interest rates, zoning and other regulations, rents, etc.);
- anticipated changes in the inventory of real property affected by the project; and
- brief evaluation of any published economic, damage, cost, or other general studies used in any of the appraisals;
- assumptions and limiting conditions (if project-related);
- market data; and
- general exhibits.

Briefly describe the project. Include area maps and vicinity maps showing the location of the project, parcels, and comparable sales contained in the Book. Present a narrative discussion and analysis as follows:

- define and delineate the market area;
- identify and analyze the current supply and demand conditions that make up the specific real estate market;
- describe the existing supply of property for the specific uses within the defined market area affected by the project;
- discuss current patterns of land use and trends, first in the area then in the neighborhood (new construction planned or underway; vacant sites as potential competition for the subject, adequacy of utilities, access, impaired sites nearby, etc.);
- discuss current economic factors affecting the area and neighborhood (population, employment, income characteristics, interest rates, zoning and other regulations, rents, etc.);
- forecast how anticipated changes in the inventory of real property affected by the project will affect the subject neighborhood; and
- attach a brief evaluation of any published economic, damage, cost, or other general studies used in any of the appraisals.

If the data, market, trends, or references change during the valuation project, make appropriate

additions to and modifications of the completed Project and Market Data Report. (Example: Pg. 21 - Revised October 21, 2001.)

#### **4.15. Types of Appraisal Reports Acceptable to DOT&PF**

There are three appraisal report formats acceptable on DOT&PF projects (waiver valuations are not appraisals). These are:

- Fannie Mae (FNMA) Uniform Residential Appraisal Report (URAR), condominium, or multi-family (1-4) units forms;
- Restricted Appraisal Report; and
- Appraisal Report.

##### **4.15.1. FNMA Reports and Forms**

Although its use is not required by DOT&PF, whole acquisitions of residentially-improved properties may be reported on the FNMA URAR form, condominium, or multi-family (1-4 units) forms or their equivalent. However, the form should not dictate the scope of the analysis and may require supplemental data and attachments to comply with USPAP. For example, if the highest and best use is no longer the existing use, an addendum with a discussion of the highest and best use must be attached. The following should also be included:

- Certificate of Appraiser (Sec. 4.15.3);
- comparable land sales grid with brief explanation of direct sales comparison and adjustment support;
- photos and sketch;
- identification of fixtures and personal property included or excluded in the estimate of value (severable appurtenances);
- property owner contact letter;
- vacant land and improved comparables data sheets; and
- items not covered by an existing Project and Market Data Book (i.e. definition of market value, qualifications of the Appraiser, etc.).

##### **4.15.2. Restricted Appraisal Report**

This format may be used when the client – DOT&PF or the Department of Law – are the only intended

users of the report. The Adjustment to an Approved Appraisal for Minor Change or Addition (see Sec. 4.5.7) is a Restricted Appraisal Report.

### 4.15.3. Appraisal Reports

For acquisitions that exceed the limits where waiver valuations are permitted or where value estimates are not uncomplicated (see Sec. 4.7) prepare an Appraisal Report (49 CFR 24.103-49 CFR 24.104). Appraisal Reports are also known as Narrative Appraisal Reports, Before-and-After Appraisals, or Detailed Appraisals (USPAP).

A comparison of a total comparable property to total subject property is acceptable for total acquisitions. For partial acquisitions, a breakout of land value supported by appropriate market data is required.

Personally inspect the property, including the interior and exterior of all improvements to be acquired or affected by the acquisition. The Appraiser must offer the owner or designated representative the opportunity to be present during the appraisal inspection [49 CFR 24.102(c)].

In general, the Appraiser should include the following items in the Appraisal Report:

- General Information and Appraisal Summary;
- Letter or Memorandum of Transmittal;
- Table of Contents; and
- Narrative Appraisal Report Summary.

Complete the following required items on the [Appraisal Report](#):

- project name;
- State and Federal project numbers;
- parcel number as shown on current ROW plans;
- DOT&PF ROW map sheet date;
- name, address, and telephone number of each owner of the parcel being appraised;
- property location by street address, or by reference to milepost, distance to cross-streets, roads, highways or landmarks;
- legal description: if the description is too lengthy, the Appraiser may cross reference the

description (i.e.; “see attached title report, dated...”);

- zoning codes in force as of the date of valuation. Permissible uses restate the zoning (or restrictions) in words. If not zoned, state “none”;
- property rights being appraised;
- current use of property;
- date of inspection;
- highest and best use of the property (Sec. 4.10);
- effective date of the appraisal (date of value);
- parcel description: enter the area:
  - o of the entire property being appraised;
  - o to be acquired;
  - o remaining after acquisition;
  - o subject to Public Land Order (PLO), Section-Line Easements, etc.;
  - o to be encumbered by easement; and
  - o to be placed under permit;
- market value of the larger parcel before acquisition:
  - o land value; and
  - o improvements: value improvements as they contribute to the overall property value. Depreciated replacement cost may be acceptable if a demonstration is included showing that the market responds in this manner. *Simply totaling the independent money values of a property’s separate parts is unacceptable* (if there are no improvements, enter a zero);
- acquisition value (as part of the whole): value of the portion of land and improvements to be acquired as they contribute to the larger parcel;
- remainder value: value of the remaining property as a part of the whole;
- remainder value after acquisition: market value of the remaining property after acquisition (as a separate stand-alone parcel as if cost-to-cure items have been completed);

- damages: remainder value (as part of the whole) minus remainder value after acquisition;
- special benefits: remainder value after acquisition, minus remainder value as part of the whole. Under Alaska law, special benefits may only offset damages;
- net damages: determine by deducting special benefits from damages;
- cost-to-cure amount (if no cost-to-cure amount, enter zero);
- new permits: value of permits acquired (if no permits acquired, enter zero);
- new easements: value of easements acquired (if no easements acquired, enter zero);
- value of all existing easements converted to fee acquisitions (if no Public Land Order (PLO), section-line easement, or other easement acquired, enter zero);
- other: value of any other interests acquired (if no other interests acquired, enter zero); and
- market value of the acquisition.

### Certificate of Appraiser

DOT&PF's [Certificate of Appraiser Form 25A-R450](#) serves specific Federal and State requirements. Inclusion of its content in the Certificate is mandatory. Be fully aware of its language and intent and complete a certificate for each parcel.

The date of appraisal should be the date of the last inspection unless the report is retrospective.

The market value conclusion must be current (not subject to a time adjustment between the date of appraisal and the date of signature).

The date of appraisal and the date of signature should be reasonably close unless in condemnation proceedings. Furnish an explanation if the date of signature and date of appraisal are not reasonably close.

A new Certificate of Appraiser is required if a revision is necessary for a completed report or a change is made to an approved appraisal. Show each change on the [Adjustment to an Approved Appraisal](#)

[for Minor Change or Addition Form 25A-R415](#) (Sec. 4.5.7).

If membership in a professional organization requires additional coverage, attach a supplement.

### Assumptions and Limiting Conditions

Assuming that the project will be constructed in accordance with the present design plan, state any assumptions applicable to valuing the parcel. Accurately disclose all extraordinary assumptions, hypothetical conditions and limiting conditions used in the appraisal. Include any special instructions or directions furnished by DOT&PF or the Department of Law.

### General Information

**Purpose and Function of the Appraisal.** Include the following wording in each appraisal:

1. The purpose of the appraisal is to estimate the market value of the property owner's rights acquired as defined by the Alaska Supreme Court, as follows: "the price in (terms of) money that the property could be sold for on the open market under fair conditions between an owner willing to sell and a purchaser willing to buy, with a reasonable time allowed to find a purchaser." State v. 7.026 Acres, Sup. Ct. Op. No. 601, 466 P.2d 364, 365 (1970). The opinion further reads, in part: "The highest and most profitable use for which the property is adaptable is to be considered, to the extent that the prospect of demand for such use affects the market value while the property is privately held." Fair market value is normally based on a parcel's fee simple value.
2. The function of the report is to provide a market value estimate for compensating the property owner for the acquisition of property rights acquired according to the Alaska Constitution, Art. I, Sec. 18, Eminent Domain, reads, in part: "Private property shall not be taken or damaged for public use without just compensation."

**Sales Data Collection:** State the extent of the process of collecting, confirming, and reporting data.

**Area and Neighborhood Analysis:** Briefly describe the subject's neighborhood and geographic area, as follows:

1. Define and delineate the market area under analysis (Sec. 4.14).

2. Identify and analyze the current supply and demand conditions that describe the specific real estate market.
3. Identify any anticipated development or changes in the neighborhood that might affect supply or demand.
4. Describe any historical uses or significance of the site.

### **Parcel Identification**

Describe the larger parcel's physical features, including any specific elements that might have a significant effect on marketability. Discuss physical features, including:

1. Land area and shape: state the total area in English. Describe the larger parcel's general shape and dimensions.
2. Accessibility and road frontage: describe existing roads, streets, and trails serving the property; existing approaches, driveways, access limitations (water, trail or air), grade, property frontages, etc.
3. Topography, soils conditions, and utilities: generally describe the "lay of the land," including elevations, and describe obvious drainage patterns. Describe the soil types and conditions encountered on the property, such as muskeg, sandy loam, rock, etc. List public and/or private utilities (sewer, water, gas, electric power, etc.) available to the larger parcel, their locations, qualities, availability, or limitations.

For the description of the acquisition and remainder property, describe the area to be acquired, including any unusual features noted during the inspection. Describe how the acquisition will affect the property as a whole. If the property is improved and a land only appraisal is required, include a statement limiting the scope. Note, however, whether or not there may be significant value estimated in sand, gravel, minerals, timber, or other such resources or property that should be considered in the appraisal and possibly delineated in the appraisal scope.

State specifically, in an itemized listing, what is to be acquired (property interest and size), including items identified as personal property, landscaping, and all improvements listed separately for property management purposes, and the purpose of the

acquisition (for example: "contain a fill slope," "build and maintain a bike path," etc.);

Explain the principal problems presented by the acquisition, and explain (in general terms) the principal differences in character and amenity between the parcel before acquisition and the portion remaining after acquisition. If more than one value premise is necessary, give an explanation of each premise;

Discuss any special, nonstandard situations that became apparent during the appraisal assignment;

Consider the effect of any known encumbrances (including existing easements), restrictions, exceptions, conditions, or limitations on the existing title that would affect the marketability or market value of the property.

### **Easements**

Describe easements affecting the larger parcel.

### **Present Use**

State all uses the larger parcel is presently supporting.

### **Present Zoning and Restrictions**

Since the zoning is included on the summary form, and a copy of the ordinance is included in the addenda, include this section only if the larger parcel meets one or more of the following criteria:

- does not comply with zoning;
- has grandfather rights (also known as a legal nonconforming use of record); or
- is affected by some other factor causing the larger parcel to be worth more or less because of zoning.

In any of these cases, include a discussion of these conditions and factors in this section.

### **Environmental Issues**

Reference any environmental studies performed on the property. Discuss any known hazardous materials on the larger parcel or adjoining properties, recent cleanup on the larger parcel or adjoining properties, or major cleanup in the neighborhood. Include information on pending actions that may affect the environmental standing of the larger parcel. (See also Sec. 7.22 dealing with moving of hazardous materials.)

### **Flood and Earthquake Activity**

Indicate whether the property is located within a flood plain or seismically active (earthquake) area.

### **Description of Improvements**

Identify each improvement on the parcel plat, including general interior and exterior dimensions. Include a narrative description of each improvement, including age, type and quality of construction, general condition, present use, etc., and note whether the Americans with Disabilities Act (ADA) applies. All the major fixtures and appliances which are classified as ‘Realty’, and are intended to be acquired should be listed. All items that may be fixtures or equipment in the property need to be identified in the appraisal report regardless of whether it affects value.

### **Specialty Items, Fixtures, and Tenant-owned Improvements**

All machinery, equipment and fixtures that are treated as specialty items, should be listed; attach the approved Specialty Report (Sec. 4.17).

If in doubt as to whether an item constitutes a fixture or is personal property (Sec. 4.20), seek advice from the Department of Law through the Regional ROW Chief.

Do *not* arbitrarily add the value of specialty items to the value of the real property. Consider specialty items in terms of how, if at all, they contribute to the market value of the larger parcel. List and describe any tenant-owned improvements to be acquired (Sec. 4.21).

### **Assessed Value, Real Estate Taxes, Special Assessments, Trends**

Show the dollar amount of any special assessments against the property, current and delinquent real estate taxes, and the assessed value. Include a brief history of trends, if appropriate.

### **Parcel Plat**

A parcel plat (plot plan) of the property is required unless the detail on the ROW plan furnishes the same information. The plat need not be elaborate if it clearly depicts the parcel (Sec. 3.5) and the scope of the valuation problem. For a partial acquisition, show the limits of the proposed ROW.

At a minimum, show the following in the parcel plat:

- entire larger parcel, including perimeter dimensions, property lines, existing ROW lines (labeled), existing easements of record, ownership, and parcel area;
- street frontages;
- pertinent improvements and other significant features of the property, with approximate locations and approximate distances from the centerline; include alleys, driveways, and existing easements; notify DOT&PF if improvements within 100 feet from the proposed ROW line (including encroachments) are inaccurately shown or omitted from the plans;
- north arrow; and
- access control or other restrictions.

### **Photographs**

Each appraisal report must include good quality color photographs, properly identified and taken at various angles, to show all significant features of the property and of the interior and exterior of all improvements to be acquired, or improvements that may be affected by the acquisition. Submit photographs using a [Photographic Sheet Form 25A-R430](#) or an equivalent document.

### **Five-year Sales History**

Discuss the sales history of the subject property within the previous 5 years as required by [49 CFR 24.103\(a\)\(2\)](#), using the [Five-Year Sales History Form 25A-R455](#) or equivalent within the report. If such sales have occurred, include comparable sales data in the market data section of the report as a comparable sale.

### **Highest and Best Use**

See Sec. 4.10.

### **Property Valuation**

#### **Larger Parcel Value**

Include the following information when arriving at the property valuation:

#### **Land Valuation:**

- consider all available data, and support larger parcel choice by reference to available market supply and demand (Sec. 4.8);

- use comparables (including recent subject sales) that are sufficiently similar to the subject property to be considered by a typical purchaser as a reasonable substitute or most equivalent area for the subject property;
- introduce a hypothetical or proposed subdivision, if appropriate, to support the market data and illustrate the amount a prudent purchaser would likely pay for raw subdivision land. However, due to the many variables and speculative elements, never base the estimate of the subject's market value solely upon such a hypothesis; and
- for values based on anticipated rezoning:
  - o to determine the highest and best use of a parcel, consider only those uses permitted by existing zoning, unless there is a clear and reasonable probability that rezoning will take place. Attach copies of dated zoning change applications, maps, minutes of the zoning commission or board, etc., that demonstrate approval is reasonably probable;
  - o probability of rezoning must not be remote or speculative;
  - o DO NOT consider rezoning that may occur in anticipation of the proposed project in arriving at the before value of the property. If the property has already been rezoned to a higher use in anticipation of the proposed project, DO NOT consider that rezoning in arriving at the before value (however, do consider any rezoning that has occurred or may likely occur in anticipation of the impending project to determine the after value);
  - o analyze similar or related properties that have sold, where the price reflects the probability of similar rezoning. Present a factual analysis of what actual changes are occurring in the neighborhood and how these changes are progressing toward the subject property;
  - o if appropriate, value the property as if the rezoning has already occurred by applying a discount to that future value. Consider the probability of rezoning and the cost, potential for delays, political realities, and

time involved in obtaining a rezoning, as well as allowance for the market's perception of similar properties; and

- o analysis must be based upon factual data.

**Sales Comparison Approach:** The direct sales comparison, comparative, or market data approach is the most easily understood method for presentation to owners, courts, and juries; consequently, place greater reliance on this approach than all others. This is the only approach required for most parcels. It is of the utmost importance that the Appraiser analyzes a sufficient amount of highly comparable data (including recent subject sales) to provide a sound basis for the conclusion from this approach (Sec. 4.13).

Show and explain all calculations and processes. If using a financial or programmable calculator or computer program, show the keystrokes or the program in the addenda. The reader must be able to duplicate calculations and processes. A comparative analysis in chart form (grid) is required. A conclusion must identify which comparable sale most closely approximates the value of the subject, and why the remaining evidence supports that conclusion. Broad, general statements without supporting analysis are unacceptable as a basis for value.

**Income Approach** (if applicable): An example of when the income approach might be used would be for an income property with limited comparables.

Analyze the current income stream. Using an appropriate market-derived capitalization rate, convert the property's anticipated Net Operating Income into a value. If appropriate, perform a yield analysis on the property's anticipated income, resale value, and reversion, converting each element into present value.

Present sufficient data to provide a sound basis for the conclusion. This is imperative. Support economic rent and expenses by market evidence. Show typical interest and capitalization rates available from comparable investments. Failure to support any one of these items renders the entire Income Approach questionable.

**Cost Approach** (if applicable): An example of when the cost approach might be used would be for a uniquely-developed property with limited comparables.



At a minimum apply the following steps in the cost approach:

- estimate the replacement cost of the improvements as of the date of appraisal;
- estimate the amounts of physical, functional, and economic (external) depreciation present in the improvements;
- deduct total depreciation from the estimated replacement cost to arrive at an indication of value; and
- add the value of the land to the indicated improvement value to arrive at the depreciated value by the cost approach.

Acceptable methods of estimating replacement costs:

- quantity survey method;
- unit-in-place (segregated cost) method;
- market (comparative-unit cost) method; and
- cost service method.

The methods of estimating replacement costs are listed in what DOT&PF considers their order of accuracy, the most accurate being the quantity survey method and the least reliable the cost service method. Do not use cost service estimates as a basis for value unless the lack of other sources can be demonstrated. Cost service manuals may serve to support an Appraiser's estimate of costs, but the most valid evidence comes from the market. In the report, show known costs of construction of like or competing improvements in the subject property's area to support and document estimates if possible.

Apply any method of estimating accrued depreciation generally accepted by the appraisal industry. Support estimates of accrued depreciation based on various age-life methods and income capitalization techniques with market data. Show all calculations and processes used in the cost approach. Include all references (copies of Marshall-Swift Valuation Service pages, computer input or work-up sheets, etc.) and supporting market data leading to the market value conclusions.

**Correlation and Conclusion** (if applicable): Include this only if more than one approach to value has been used. Explain the reliability and relative

merits of each approach to market value; explain any limitations or notable variations between the approaches, and why and how each approach supports the final estimate of value.

**Allocation** (if applicable): Include this only for partial takes. Show the final estimate of value separated into land value and improvement value.

### **Acquisition Value**

**Value of the Acquisition as a Part of the Larger Parcel:** Describe what was acquired (property interests and size). Show the fee values of the land and improvements to be acquired as they contribute to the value of the larger parcel. If valuing easements, permits, or underlying fee interests, show the interests to be acquired (impact of the surface, subsurface or aerial easement on the remaining ownership, extinguishment of underlying fee, duration and extent of the permit, etc.). Base value on the extent of the rights acquired and the uses remaining after project completion. Show the total value (fee, easement, permit, etc.) of the acquisition as part of the whole.

### **Remainder Value After Acquisition**

**Description of Remainder:** Describe how the acquisition affected the remainder and how the remainder will appear when the project is completed, including cost-to-cure items if applicable (Sec. 4.18.2).

**Highest and Best Use After Acquisition:** If the remainder's highest and best use changes, furnish a full narrative discussion.

**Value of the Remainder as a Part of the Whole:** State the value of land and improvements that remain after deducting the fee value of the part taken from the value of the whole. Consider easement or leasehold interest rights that have been acquired, and the value of remaining rights.

**Value of the Remainder (as cured, if applicable) as an Independent Parcel:** Show the market value of land and improvements that remain after project completion. If the market data used in the valuation of the larger parcel are still comparable to the valuation of the remainder, they may be used. Identify the sale that is most comparable to the subject, and lead the reader to a logical and supportable conclusion of value. Show the final estimate of land value and improvement value.

If remainder retains the same value it had before the acquisition (is not damaged), skip the next section (“damages and/or special benefits”) and go to the “market value of the acquisition” section. Provide a statement telling why it was not damaged.

Otherwise, if the remainder has a lesser unit value than in the before situation, continue.

### **Damages and/or Special Benefits**

**Analysis of Damages:** Damages, as such, are not appraised (Sec. 4.18). Analyze the difference between the value of the remainder property after the acquisition (as cured), and the value of the remainder as it was as a part of the larger parcel to determine damages and benefits. If eliminating comparable land sales or adding new ones along with new adjustments, submit a full narrative, including all approaches to value and correlation as applicable. Fully document and support damage estimates and adequately explain mitigations (costs to cure).

**Analysis of Special Benefits:** If a special benefit, like a highest and best use change or better access, occurs as a result of the project, briefly describe how the change benefits the property. State why and how the remainder enjoys special benefits (Sec. 4.19). Use special benefits *only* to offset damages.

**Net Damages:** Determine net damages by subtracting special benefits from the damages (assuming that the project is completed on schedule as shown on the project plans).

**Cost-to-cure analysis:** Support the necessity for costs to cure with estimates and justification for the expenditure. Cost to cure must only offset damage *unless otherwise required by ordinance or statute* (Sec. 4.18.2). Document cost-to-cure estimates over \$10,000 in writing.

### **Market Value of the Acquisition**

State the estimate of value, allocated as follows:

- land acquired (fee interests), plus
- improvements acquired (owner and tenant), if any, plus
- damages, if any, minus special benefits (if any) equals:
- net damages, if any, plus

- cost to cure, if any, plus
- permits acquired, if any, plus
- easements acquired, if any, plus
- fees underlying PLO or section-line easements acquired, if any, plus
- any other interests acquired, if any, equals
- total market value of acquisition.

### **Market Data**

See Sec. 4.13.

### **Addenda**

Attach any documentation or supporting data that may be pertinent to the report, including:

- Report of Contact with Owner;
- title report;
- specialty report;
- Special Instructions received from DOT&PF;
- legal opinions or references;
- cost-to-cure estimates; and
- copies of:
  - o zoning ordinances or restrictions;
  - o subdivision covenants, conditions, and restrictions;
  - o environmental or regulatory restrictions;
  - o leases;
  - o economic studies;
  - o maps: subdivision, planning and zoning, floodplain, wetlands, etc.; and
  - o exhibits: Design Study Report (Reference Project Description, and Environmental Analysis.

## **4.16. Temporary Permit and Easement Appraisals**

### **4.16.1. Temporary Permits**

If a temporary permit is obtained to construct an improvement for a landowner resulting in betterment to the property (such as a driveway, stairway, or sidewalk), DOT&PF will not pay the owner. No

appraisal is required, but an explanation of the betterment and its effect on the property should be noted in the permit. All other temporary permits require an appraisal or waiver valuation.

#### **4.16.2. Temporary Easements**

Prepare a waiver valuation or an appraisal, depending on the complexity of the valuation problem.

#### **4.16.3. Procedures**

Fully explain the term and purpose of the easement or permit, and describe the area involved before its imposition. Describe improvements within the permit or easement area, such as fences, landscaping, native or domestic shrubs, etc. DOT&PF will acquire improvements that are affected or relocate them if feasible. Support this decision by a cost-to-cure analysis (Sec. 4.18.2.), or as they contribute to the value of the whole property (Sec. 4.13.1.).

Discuss the specific rights that must be acquired for the project (the right to clear and keep clear vegetation, structural improvements, trees over 25 feet tall, etc.). Discuss what rights the owner will retain after imposition of the easement (parking, fencing, lawn and garden, erecting moveable sheds, etc.). Discuss the uses and marketability of the remaining property. If sales of easements are available, include these in the analysis.

Easement values are normally based on market rental rates for comparable properties, plus the value of any improvements acquired or relocated.

Discuss the value of the property before the easement or permit, as compared to its value after the acquisition, leading the reader to a logical conclusion.

### **4.17. Specialty Reports**

Unless otherwise specified, all instructions in this section refer to the specialty Appraiser (specialist).

A specialty report values items that require specialized experience or training to evaluate, such as an engineer's or architect's reconstruction cost estimates, valuation of specialty fixtures, unique equipment or machinery meeting the tests of a fixture, etc. Specialty reports need to identify items of real and personal property. Normally, simple cost-to-cure estimates or bids (well or septic replacement, fencing, sign moving, etc.) are not considered

specialty appraisals. Follow accepted industry methods for grading and valuing the property, consider all appropriate forms of depreciation, and analyze the appropriate market for the items valued. Complete a [Certificate of Specialist Form 25A-R460](#) as described in Sec. 4.17.1.

#### **4.17.1. Procedures**

Complete the report as follows:

1. [Certificate of Specialist Form 25A-R460](#): The certificate serves specific requirements. The specialist must follow the language of this certificate. The date of valuation is the most recent date of property inspection by the specialist.
2. Assumptions, Contingent and Limiting Conditions, and any special instructions received.
3. Description of the property, its operation, ownership, and location: a complete listing of all items, each described to the extent that it is affected. Identify items of real and personal property.
4. Statement of the purpose of the report and definition of value(s) or cost(s) reported (replacement or reproduction cost new, less depreciation, salvage value, cost to cure, etc.).
5. Statement of the problem to be solved by the specialist.
6. Photo pages.
7. Descriptive material (maps, charts, price lists, catalog pages, etc.).
8. Floor plan.
9. A narrative analysis and evaluation, showing the methods used to grade and value the property.
10. The data and analysis to substantiate and document the estimate of value(s) or cost(s).
11. The estimate of value(s) or cost(s) and the date of valuation.
12. Breakdown of the total estimate, showing individual amounts for each item, such as material, labor, profit, and sales tax.

Submit specialty reports to the Appraisal Review Section for approval. The Review Appraiser then

sends the reports to the Regional ROW Chief. The Review Appraiser also provides specialty reports to the appropriate Appraiser(s) for inclusion in the appraisal report(s) as provided in this chapter.

## **4.18. Damages**

### **4.18.1. General**

Damages are a loss in value to the remaining property after a partial acquisition. They are measured by the mathematical difference between the value of the remainder after the acquisition, and the value of the remainder as a part of the whole before the acquisition. These damages may be mitigated by a cost to cure. The Appraiser must fully explain the physical facts that cause the remainder to suffer damages and the market facts that justify the conclusion. As far as practicable, the Appraiser must estimate compensation for each source of damages ([AS 09.55.310](#)).

### **4.18.2. Mitigation of Damages (Costs-to-Cure)**

If the Appraiser's analysis indicates that damages may be mitigated in whole or in part by a cost to cure, the Appraiser must demonstrate that the cost to cure is economically justified. The cost to cure must be less than the identified damages. An improvement lying partially within the ROW to be acquired is considered acquired in total unless the Appraiser can show that the improvement may be economically rehabilitated and its utility preserved. An acceptable method is a two-premise appraisal report assuming (1) no rehabilitation, and (2) rehabilitation (cost to cure) has been accomplished.

The Appraiser must:

- show that the cost to cure is monetarily less than the damages that would accrue without it, or that it is required by local ordinance, State law, Federal law (such as the Americans with Disabilities Act), etc.;
- adequately document any such requirements in the body of the report; and
- obtain accurate, usable cost to cure estimates, their analysis, and how they are to be used.

DOT&PF requires written estimates to document cost to cure estimates over \$10,000. For estimates below \$10,000, the Appraiser may reference a verbal quote that specifies the vendor or estimator and the

telephone number and address. When the Appraiser can show a savings to the State, DOT&PF may negotiate for the purchase of property outside the ROW to be used in exchange for the required ROW to mitigate damages. The Appraiser determines the amount of savings, supported by confirmed factual cost data. Certain types of mitigations may not be allowed in legal actions. The Regional ROW Chief must consult with the Appraisal Review Section and the Department of Law on cost to cure questions involving legal matters.

### **4.18.3. Mitigation of Damages (Design Changes)**

Construction items or alterations, modifications, or additions to design plans may provide a viable option to paying damages. An Appraiser (or property owner through the Appraiser) who identifies a possible design mitigation measure should make a written recommendation to the Regional ROW Chief, with value evidence or sound economic reasoning supporting the recommended changes.

### **4.18.4. Noncompensable Damages**

Appraisal reports approved by DOT&PF must exclude compensation for damage items not compensable under Alaska Statutes or case law, and are therefore ineligible for Federal reimbursement as prescribed by [23 CFR 710.203\(b\)\(1\)](#), such as:

- annoyance and inconvenience suffered by the public in common;
- injury to business: loss of profits due to the necessity of moving the business and loss of profits due to interruption of business by reason of and during construction of the public improvement (if the type of business is an integral part of, and closely related to, the land itself, the nature and amount of business and the income from the business may be admissible, if the owner or Appraiser can show it has a direct bearing on the value of the land);
- expenses for moving private and business personal property; or damages arising from the owner's inability to locate an acceptable substitute location;
- while an abutting owner has a right to ingress and egress, the loss of which will be compensated where there is either a physical injury to the property or impairment of access,

the owner will *not* be compensated when DOT&PF, by proper exercise of the State's police power, installs traffic control devices and there results;

- rerouting or diversion of traffic;
- decrease in the amount of traffic on the highway;
- circuitry or impairment of travel caused by a divided highway;
- temporary impairment of access;
- loss of view;
- payment for illegal usage of the property, such as encroachments;
- generally, future plans for development; and
- in general, disregard damages that can be considered potential, speculative, remote, uncertain, and difficult to ascertain ([AS 09.55.310](#)).

The facts of a particular case, when viewed in the light of current laws, may result in some items stated above being treated as compensable under State law.

Questions regarding noncompensable items should be directed to the Department of Law.

#### 4.19. Benefits

Value may be created or increased by a public improvement as follows:

- **Project Enhancement:** Appraisers must disregard any increase in real estate values in advance of ROW acquisition created by knowledge of a pending public improvement;
- **Special Benefits:** a project-related value increase that is special to a specific property, and not enjoyed by the general public along the project; and
- **General Benefits:** consider as general benefits any benefits that are not special.

**Alaska rule:** The Appraiser may use special benefits to the remainder only to offset damages to the remainder. If special benefits exceed damages, the landowner is still entitled to receive the full market value of the portion actually acquired (see notes [AS 09.55.310](#)).

#### 4.20. Fixtures and Equipment

Identify and list in the appraisal report any fixtures and equipment to be acquired as real property (items intended to remain with the structure, built-in appliances, etc.). Base the value of fixtures and equipment on their contribution to the overall value of the property. The Relocation and Property Management Units handle personal property. For complex or specialized items beyond the Appraiser's training or experience, DOT&PF may contract with a recognized expert to produce a specialty report that is made available to all Appraisers assigned to the parcel. The Appraiser may secure a separate specialty report. The Appraiser submits specialty reports to the Appraisal Review Section for approval. Include an analysis of the specialist's report within the text of the appraisal report. Do not arbitrarily adopt items or amounts shown by the specialist, but consider them for their effect on the property's value. Include the specialty report in the appraisal report regardless of the extent to which the report or its conclusions are used.

#### 4.21. Tenant-owned Improvements and Leaseholds

If a legal tenancy is involved, appraise the leasehold interest. If the lease has a condemnation clause, submit the lease to the Department of Law for a legal review of the compensability of the tenant's real property interests. Appraise improvements under the following two premises, disregarding any right or duty to remove them by the tenant. Consider the market value contribution to the whole property *based on the higher of the two premises*:

- market value of each item that contributes to the market value of the whole property. Depreciated replacement cost may be acceptable, if it can be demonstrated that the market responds in that manner. It is the market value of the *entire* property that is the standard of valuation (simply totaling the independent money values of its separate parts is an unacceptable technique); or
- market value of each item for removal or salvage (orderly liquidation value).

#### 4.22. Uneconomic Remnants

An uneconomic remnant is a portion of a property that the Review Appraiser determines has little or no utility *or* value to the owner (Sec. 5.3.9.). DOT&PF must offer to acquire a remnant that a Review

Appraiser judges to be uneconomic, based on concern for owners left in a reduced economic position due to a DOT&PF project. The owner's comments, if any, concerning the usefulness (utility) of the remainder, and the Appraiser's analysis of the value of the remainder, are included in the addenda to the appraisal narrative.

Best practice is for the Review Appraiser to coordinate with the Relocation Agent assigned the parcel to be sure that the itemization clearly delineates the realty and the personality.

#### **4.23. Real Property/Personal Property**

Identifying an item as real or personal property requires determining whether it constitutes a "fixture." The term "fixture" generally denotes an item of personal property that has become so annexed to land or buildings that it has become a part of the realty.

Identify the items considered to be real property as well as those major items identified as personal property in the appraisal report [49 CFR 24.103(a)(2)(i)].

For the purpose of this provision, items of no importance to the value still must be addressed by the relocation program, and the appraisal is the source document for identifying whether an item was purchased as part of the real estate or was excluded from the fair market value set by the State.

The determination of whether personal property has become a fixture can be made by the combined application of the following tests:

1. Has there been a real or constructive annexation of the item to the realty?
2. Has the item been fitted or adapted to the uses or purposes of the realty to which it is connected?
3. Did the party making the annexation intend the item to become permanent part of the realty?

Pay particular attention to the second test since the purpose or use for which the item was annexed to the realty must be considered.

When questionable items such as machinery, equipment, appliances, etc. are involved, determine whether they are real or personal property. Document this in the report.

When the report is submitted to DOT&PF for review, the Review Appraiser should identify which questionable items have been properly determined to be realty items.