

Attachment 3
Relocation and Real Property Acquisition

GUIDELINES FOR HUD MONITORING REVIEW OF APPRAISALS

1. CONCEPT OF APPRAISAL REVIEWS.

- a. Basic Concept of Review. The art of appraising is not an exact science. An appraiser's opinion of fair market value is an informed estimate, and two or more reasonable persons appraising the same property can, within reasonable limits, disagree with respect to their opinions of value. Therefore, as a general rule, the HUD Reviewer should not "re-appraise" properties and determine his or her own estimate of value but rather should concentrate on the reasonableness or acceptability of the appraisal practices followed by the program participant in determining the fair market value of property to be acquired.
- b. Unacceptable Appraisal Practices. Paragraph 4 contains examples of unacceptable appraisal practices. Where unacceptable appraisal practices are found, they should be brought to the attention of the program participant. In those cases where the evidence indicates that the application of recognized appraisal standards and techniques would significantly change the determination of just compensation, the Field Office should require the program participant to obtain a satisfactory appraisal (or update an existing appraisal, if appropriate) and make a new determination of fair market value. If the new determination is higher than the amount offered to the property owner, the program participant should be required to offer the additional amount to the owner in writing.
- c. Inexperienced HUD Reviewer. The depth of a Reviewer's examination of appraisals will vary according to the Reviewer's background, experience and understanding of acceptable appraisal standards and techniques. If the HUD Reviewer does not have sufficient expertise to determine whether the program participant's appraisal practices are reasonable, he or she should review the appraisals in a manner consistent with his or her ability and make appropriate note of any practices which in his or her judgment raise a serious question as to their reasonableness. Such matters should then be brought to the attention of the program participant in an appropriate manner and/or referred for detailed review by a HUD Reviewer qualified to assess their acceptability.

2. SELECTION OF APPRAISALS TO BE REVIEWED. The acquisition cases selected for review should be representative of the acquisition workload (e.g., residential, commercial and industrial properties, as the case may be). A sampling of properties valued at \$10,000 or more should be reviewed. However, the Reviewer may take into account the following factors:

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- a. Condemnation. Property owners are entitled to have the question of the fair market value of their property adjudicated in court under applicable eminent domain laws. This is an important element in assuring the protection of property owners. In condemnation cases where the court has determined just compensation, the Reviewer need not review the reasonableness of the methodology used by the court in establishing the amount of just compensation.
- b. Well-Informed Owner. Whenever the (former) property owner appears to have been well-informed and capable of protecting his or her interest in the acquisition process, the Reviewer may choose not to review the appraisal(s), relying instead on the owner's capacity to negotiate and awareness of his or her right to obtain a judicial determination of just compensation if he/she found the program participant's highest offer to be unacceptable, whether or not he/she elected to use this remedy. (This principle may apply to a particularly complicated case, such as a special-purpose industrial plant, where the HUD Reviewer lacks the expertise to determine the reasonableness of the appraiser's estimate of the fair market value of the property and the program participant's conclusion as to just compensation).
- c. 180-Day Homeowner. The Reviewer may also wish to give a lower priority to the review of the purchase price paid to a 180-day homeowner who received a substantial price differential payment as part of his or her replacement housing payment (i.e., where an increase in the acquisition payment would bring a commensurate decrease in the replacement housing payment).

3. ACCEPTABLE APPRAISAL STANDARDS AND TECHNIQUES.

- a. Standards. An appraiser's opinion of the fair market value (or other equivalent term used in the State in which the property is located) should be prepared in accordance with the definition of "appraisal" at 49 CFR 24.2(a)(3) and according to the requirements of 49 CFR 24.103, which are intended to be consistent with the Uniform Standards of Professional Appraisal Practice . The program participant may have appraisal requirements that supplement these requirements, including, to the extent appropriate, the Uniform Appraisal Standards for Federal Land Acquisition. The program participant's appraisals should conform to the above appraisal standards to the extent that the principles stated in such standards are consistent with State law and result in the most accurate conclusions of value and other required findings.
- b. Appraisal Methods. The appraisal methods and the organization of appraisal reports are considered to be the prerogative of the appraiser, provided that such methods and appraisal reports:

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- (1) Furnish accurate, adequately supported valuations correctly derived in accordance with State or local eminent domain law;
- (2) Furnish such other findings as may be required to comply with the URA and State law requirements, including to the extent appropriate under the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA); and
- (3) Comply with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, at 49 CFR 24.103.

4. EXAMPLES OF UNACCEPTABLE APPRAISAL PRACTICES. The following is a nonexclusive list of unacceptable appraisal practices which the HUD Reviewer may encounter in his or her review of a program participant's appraisals and determinations of just compensation:

- a. Failure to provide an adequate description of the physical characteristics of the property being appraised (and, in the case of a partial acquisition, an adequate description of the remaining property), including items identified as personal property, a statement of the known and observed encumbrances, if any, title information, location, zoning, present use, an analysis of highest and best use, and at least a 5 year sales history of the property; (see 49 CFR Part 24, Appendix A, §24.103(a)(1).)
- b. Failure to properly delineate the property and identify conditions, restrictions, easements, servitude, and reservations affecting the value of the property.
- c. Failure to provide an appropriate property analysis of real property improvements when required.
- d. Use of inappropriate methodology to determine the highest and best use of the property. (If the highest and best use of the property is not self-evident, did the appraiser analyze and explain all relevant matters which bear on his or her conclusion as to the highest and best use of the property?)
- e. Failure to develop one or more relevant approaches to estimating fair market value. (There are three basic approaches to determining fair market value: the comparable sales approach, the cost approach, and the income approach. All approaches which would serve a meaningful purpose must be utilized.)
- f. Inadequate comparable sales. (They may be insufficient in number, or individual sales may not be reasonably comparable or based on arm's-length transactions.)

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- g. Failure to report or take into account at least a 5 year sales history of the property being appraised.
- h. Inadequate description of comparable sales including unrealistic adjustments in the sales prices of "comparables" used to value property machinery, or equipment.
- i. Use of an unrealistic capitalization rate in the appraiser's income approach to value.
- j. Undue reliance on the cost approach in a heavily depreciated building.
- k. Failure to disregard the influence of the project on the value of the property in accordance with 49 CFR 24.103(b).
- l. Failure to estimate the contributive value, or value for removal, of tenant-owned improvements.
- m. In the case of a mixed-use property, failure to make an apportionment of the value of the property that is attributable to a displacement dwelling in order to provide a basis for determining the replacement housing payment.
- n. Failure to furnish an appraisal estimate of the value of a potential uneconomic remnant on which the program participant would be required to make a purchase offer.
- o. Failure of the appraiser to invite the owner to accompany the appraiser on his or her inspection of the property.
- p. Basing the purchase price on appraisal estimates that are out of date at time of the acquisition.
- q. Failure to include the effective date of valuation, date of appraisal, signature, and certification of the appraiser.