

# What Were You Thinking?

What Reviewers Expect in an Appraisal

Think of an appraisal as telling the story of the subject property to the users of the report.

Remember that the reviewer and the users of the report may not be familiar with the property so provide adequate detail of the physical and economic characteristics .

## Determine an appropriate scope of work

### Scope of Work Acceptability

The scope of work must include the research and analysis that are necessary to develop credible assignment results.

Comment: The scope of work is acceptable when it meets or exceeds:

- The expectations of parties who are regularly intended users for similar assignments; and
- What an appraiser's peers' actions would be in performing the same or a similar assignment.

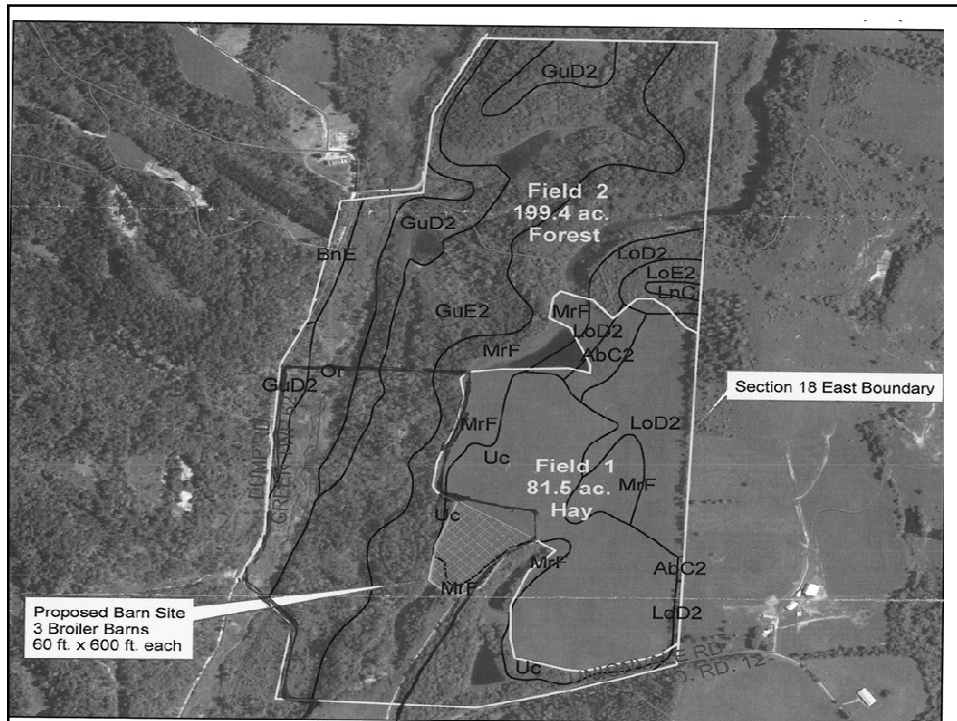
## Standards Rule 2-2 (a) (iii)

Summarize information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment.

## Physical Characteristics

- Physical location
- Access – legal and physical access
- Topography
- If multiple tracts in subject - are they contiguous
- Drainage
- Physical barriers such as creeks, ditches or structures (towers, pipelines, etc.)
- Structural improvements – description of improvements including size, type, age, condition and utility.
- Permanent plantings- If property is currently planted to crops such a grape vines, orchard, etc. it needs to be addressed in the report. Chances are they either contribute value or are a detriment with a cost to remove.

Location:	The subject property is located on Unionvale Road in a rural area of Harrison County, Ohio. The site is situated in an area of scattered residential dwellings and agricultural properties approximately 18 miles northwest of Wheeling, Ohio.
Current Use of the Property:	Vacant Land
Site Size:	Total: 99.900 acres; 4,351,644 square feet  Usable: 99.900 acres; 4,351,644 square feet The entire site appears to be usable.
Shape:	The site is roughly rectangular.
Frontage/Access:	The subject property has good access with frontage as follows: <ul style="list-style-type: none"> <li>• Unionvale Road</li> </ul>
Visibility:	Average
Topography:	The subject has level topography at grade and no areas of wetlands.
Soil Conditions:	The soil conditions observed at the subject appear to be typical of the region and adequate to support development.



## Economic Characteristics

### Purchase contract

SR 1-5 (a) Analyze all agreements of sale, options and listings of the subject property current as of the effective date of the appraisal

SR 2-2 (viii) Comment: When reporting an opinion of market value, a summary of the results of analyzing the subject sales, options and listings in accordance with SR 1-5 is required. If such information is unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

Is this an arms length transaction or are the favorable terms or is it a bargain sale such as a family transfer.

Are there any unusual terms or restrictive clauses in the contract that may have influenced the sale price.

### Operating contracts

If you are appraising a specialized livestock facility that is going to be contracted with an integrator you should attempt to obtain a copy of the contract and discuss the terms of the contract.

Analyze the subject contract in relation to typical contracts for that type of facility in the industry even if an income approach is not going to be processed.

Don't just ignore the contract because you aren't planning on processing an income approach.

### Easements

Describe any easements of record and discuss how they might effect the property.

If structures have been built or construction is proposed in an area encumbered by an easement don't just ignore it.

MEMORANDUM OF OPTION-LEASE AGREEMENT

THIS MEMORANDUM OF OPTION-LEASE AGREEMENT - SURFACE AND DEEP MINING made this 12 day of April, 2002, by and between DEAN SCHARVER, unmarried, hereinafter referred to as Lessor, and BUCKEYE INDUSTRIAL MINING CO., AN OHIO CORPORATION hereinafter referred to as Lessee, WITNESSETH:

That Lessor grants unto said Lessee, its successors and assigns, the exclusive right and privilege to deep mine and surface mine all profitable coal, as owned by Lessor in, on and under the following described real estate as described in "Schedule No. One" as attached hereto, of which Lessor is the owner of all surface and deep mine rights, and mineral rights thereto.

The Lessor consents to coal mining operations being conducted within 300 feet, but not closer than        feet, of Lessor's dwelling. This consent shall be valid until all reclamation is completed and the permit bond is released.

TO HAVE AND TO HOLD the same to be used for the purposes and upon the payments and other terms, covenants, conditions and agreements as are more particularly set forth in that certain unrecorded Option-Lease Agreement entered into as of the 12 day of April, 2002, by and between Lessor and Lessee and for a period of ten (10) years, commencing on the 1st day of September, 2002, from and after the date of the Option-Lease Agreement, or until all of the deep mine coal under these leased premises and surface coal has been mined and removed; or until these leased premises are no longer required by Lessee in connection with the mining and removing of surface and deep mine coal from other premises within the general mining area of these leased premises which at any time while this Lease Agreement is in effect, may be owned, leased or controlled by Lessee, and for whichever term may be the longest.

IN WITNESS WHEREOF, the said Parties have hereunto set their hands this 12 day of April, 2002.

Lease/Rental Agreements

Discuss any lease/rental agreements such as cell towers, oil/gas, CRP and wind agreements.

What are the terms and length of the contract? What type of renewal clause do they have?

What happens with structures if the lease is terminated? Who is responsible for removal of any structures/environmental clean-up?

Who gets the payments? Who pays if contract terms are violated?

#### Zoning/Land Use Plans

Discuss how the property is currently zoned.

Is there a Land Use Plan for the area.

Are there any significant highway or utility projects proposed in the area?

#### Provide Support For Your Analysis, Opinions And Conclusions

SR 2-2 (b)(viii) Summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained

Comment: The appraiser must provide sufficient information to enable the client and intended users to understand the rationale for the opinions and conclusions, including reconciliation of the data and approaches, in accordance with SR 1-6.

### Highest and Best Use Analysis

SR 1-3 (b) Comment: An appraiser must analyze the relevant legal, physical and economic factors to the extent necessary to support the appraiser's highest and best use conclusion.

Are you stating the conclusion or are you providing discussion of the analyses used to develop the Highest and Best Use conclusion?

### Cost Approach

Is the underlying land value supported with comparable vacant land sales?

Are adjustments to land sales supported?

What is your source for improvement cost to construct? Are these costs in line with local market or typical cost in the industry for similar structures?

Are depreciation rates supported? If 0% depreciation reported is this conclusion supported?



## Poultry

### *Broiler Meat Production Up 2.5 Percent in August*

Broiler meat production in August was 3.3 billion pounds, up 2.5 percent from the previous year. The production increase was primarily due to higher live weights as the number of birds slaughtered, at 757 million, was down 1.5 percent from August 2010 despite 1 additional slaughter day in August 2011. The average liveweight at slaughter rose to 5.77 pounds, up 3.6 percent, which pushed total liveweight at slaughter to 4.4 million pounds, 2 percent higher than a year earlier. Total broiler meat production was boosted by the heavier average carcass weights, which caused the average amount of meat produced per bird to expand by 4.1 percent compared with a year earlier.

Broiler meat production in July and August was slightly higher than expected, mostly due to higher bird weights. The production estimate for third-quarter 2011 was increased by 50 million pounds to 9.45 billion pounds, still down slightly from third-quarter 2010.

With the number of chicks being placed weekly for growout falling sharply compared with the previous year, the broiler meat production estimate for fourth-quarter 2011 was lowered to 9.1 billion pounds, 4 percent lower than in fourth-quarter 2010. Average live weights at slaughter in fourth-quarter 2011 are expected to continue to be higher than a year earlier, but fewer birds are expected to be slaughtered.

Broiler meat production for 2012 is expected to total 37 billion pounds, down 475 million pounds from earlier estimates and just under 1 percent less than the revised 2011 forecast. The reduction is the result of expected relatively high feed grain prices in 2012 and a sluggish U.S. economy, which will pressure demand. The higher feed prices are expected to lead integrators to scale back production plans. While broiler integrators are expected to lower production in 2012, the magnitude of the decline will depend on a number of factors. Any improvements in overall economic conditions and consumer confidence will help moderate downward pressure on production from the higher grain prices.

## Income Approach

Have you attempted to obtain income and expense data for subject?

What are your sources for market income and expenses? How does the subject compare to market?

Is capitalization rate supported by market data?

## Sales Comparison Approach

Are comparable sales comparable?

Have you provided adequate detail about comparable sales?

Have you verified information on sales utilized?

Have you supported adjustments?

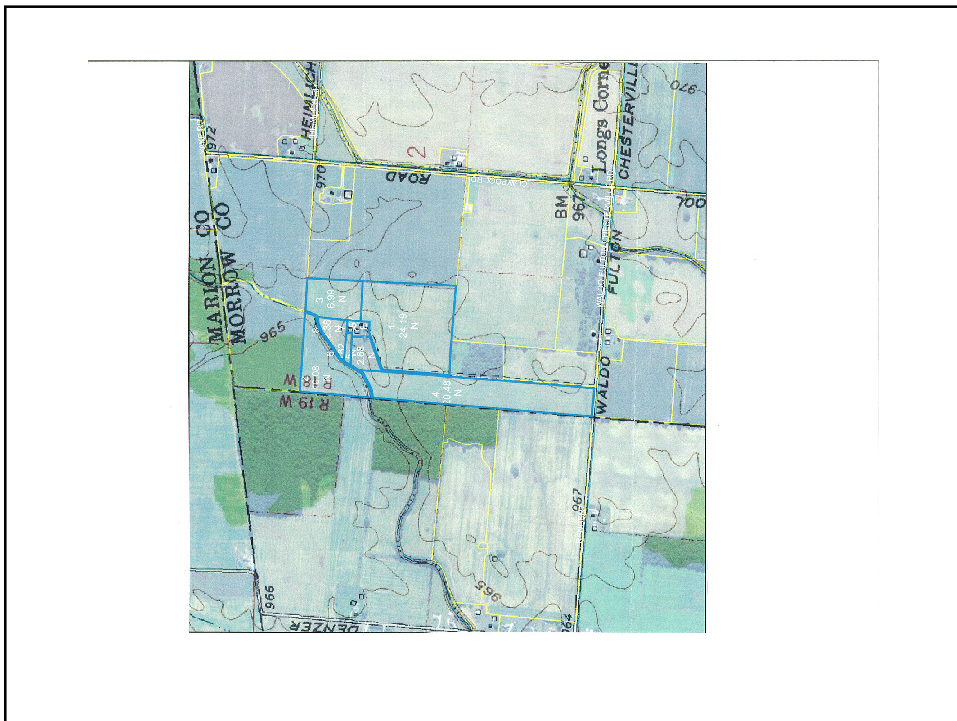
Other Pitfalls to Avoid



## Parts is Parts

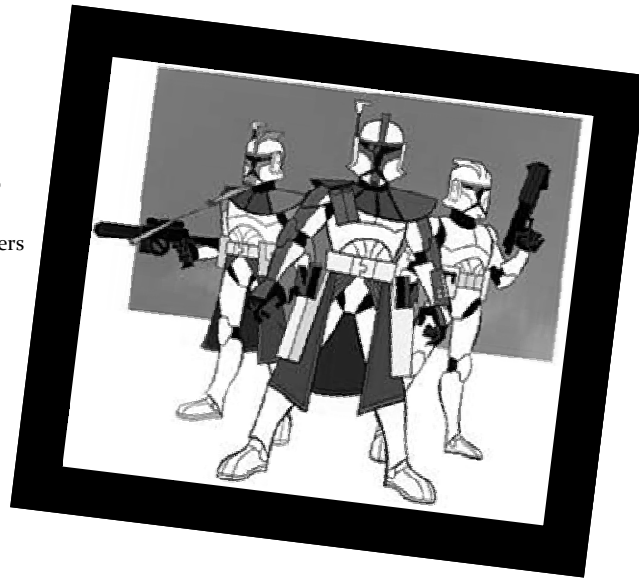
SR1-4 (e) When analyzing the assemblage of the various estates or component parts of a property, an appraiser must analyze the effect on value, if any, of the assemblage. An appraiser must refrain from valuing the whole solely by adding together the individual values of the various estates or component parts.





## Cloning

Beware of the dangers  
in cloning!



## Be careful to make all edits to cloned reports.

- Edit property information
- Clear out cells for mathematical calculations
- Address the report to the proper client

SR 1-1 (c) In developing a real property appraisal, an appraiser must not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affects the credibility of those results.

Eliminate the unnecessary boilerplate from reports.

Avoid the use of dated sales from the file if more recent sales are available.

Beware of what your signature is being attached to – In this profession it is your certification (financial livelihood) and your reputation that are being represented by the signature.

As a supervisory appraiser you are ultimately the one that is held responsible for reports that your signature has been affixed to.

From the reviewers perspective – don't make me guess what you were thinking.

Provide support and adequate discussion so the reviewer and users of the report know what you were thinking in deriving your conclusions!

## Environmental Concerns

Many of you are completing environmental forms for the lender. You need to be sure to do your “due diligence” when completing the environmental review.

The main purpose of this form is to prevent taking a mortgage on a property that may have a large clean up cost for the mortgage holder if the farm is repossessed

- Farm Service Agency has Highly Erodible Land and Wetland provisions in order to make a loan

- The AD-1026 is referred to NRCS if wetland or HEL determinations are needed

- You should note any wetland or HEL land determined for a property

- Any known wetland violations or extreme erosion should be noted in your appraisal report

**FSA- 851 Environmental Risk Survey Form:**

Buildings: Used for chemical storage?, Lead based paint?, asbestos?

Are there any contamination concerns? Used chemical containers, stained soil?

Underground storage tanks? Make note of any UST's, size, location  
Are they registered?

Are there any abandoned machinery, batteries , tires etc?  
Any trash dumps on property?

**FSA- 851 Environmental Risk Survey Form :**

List any ponds or lagoons and condition

List any wells and describe location, condition.  
What is source of drinking water?

Septic system, location , type, condition, distance from well

Make sure to discuss anything that seems unusual or out of place.