RIGHT OF WAY

APPRAISAL GUIDELINES

KENTUCKY
TRANSPORTATION CABINET
Department of Highways

APPRAISAL GUIDELINES
(CONTENTS)

INSTRUCTIONAL GUIDELINES
FOR
THE COMPARABLE SALES REPORT

GENERAL REMARKS

The purpose of the Comparable Sales Report is to provide the data, analysis, studies and narrative explanations necessary to support the appraiser's reasoning and conclusions reached in each of the appraisals. The importance of the Comparable Sales Report cannot be overemphasized since it is a critical part of each appraisal. It is the foundation of any appraisal assignment, and the stability of the value conclusions built upon it depends on the care and thoroughness of the appraiser assembling it.

To assist the appraiser in preparing this report, Forms TC 62-20B, C, and D are furnished for compiling the data concerning each comparable sale used. All items appearing on the forms applicable to that particular sale will be completed in the space provided or upon supplemental sheets. The sales data form the nucleus of the sales report. Analysis and interpretation of this data serves as the basis for making comparison and adjustments for differences between the sales and subject parcels being appraised.

The appraiser may develop analyses in the form of paired sales, studies, graphs, charts or tables, etc. This should explain the reasoning regarding various factors of differences such as time increase, location, topography, size, contributing value, depreciation, etc. By including sufficient analysis and explanation in the Comparable Sales Report, the appraiser can eliminate repetitious explanations within each appraisal by simply referring to the Comparable Sales Report and the page number on which his documentation appears.

The initial effort in preparation of a Comparable Sales Report should consist of a detailed review of plans and cross sections, and a field inspection of the individual parcels affected. Particular attention should be given to the characteristics of the neighborhood; the type, age, trends, uses, etc., of the properties within the defined area of both project and neighborhood. At this point, the appraiser should be fully aware of the general demands of the project relative to the scope of data required and any unusual circumstances or anticipated problems. These should then be discussed with the review appraiser.

An outline of items that should be included in the Comparable Sales Report is shown on the following pages.

Market Data Assemblage: The appraiser begins this phase of the appraisal process by assembling all relevant data available, including sales of properties comparable to those affected by the project, current rental information, current building and site improvement costs and all other data which may influence the values of properties to be appraised.

Comparable Sales Report: The market data assembled is then compiled and submitted as a separate report, and incorporated by reference into each appraisal. This report shall be submitted in a protective side binder with project identification, the name of the appraiser and the date of compilation visible on the exterior of the report.

Supplemental Reports: In some instances, the appraiser may elect to submit a supplemental report to a comparable sales report previously prepared for another project or section in the area. This may be an option when the previous analyses remain applicable. The use of a supplemental report must have prior approval of the review appraiser.

In situations where a proposed project involves few parcels, the review appraiser may accept the sales data attached to the individual appraisal reports. The attachment must include sufficient information to provide the reader an adequate description of the area, neighborhood and project. The supplemental data must include sales map, noting project and sales location, and the appraiser's certification of comparable sales data.

1. **Letter of Transmittal** - This letter addressed to the Director of the Division of Right of Way should include the date of submission, project identification, number of appraisals in the assignment to be based on the comparable sales report, breadth of analysis, the approximate number of sales inspected and/or considered for use, and the actual number of verified comparable sales included in the report. It should also state the type of appraisal reports being submitted, i.e., self-contained, summary, or restricted.

2. **Table of Contents** - This item is self-explanatory and should include the page numbers on which various items in the sales report appear.

3. **Appraiser Certificate** - Sign and date Form RW 22.

4. **USPAP Certification** - Although the Cabinet believes that its' certifications are sufficient, in order to ensure all USPAP requirements are met, it is strongly suggested that the certification used in Standards Rule 2-3 be included as a part of the sales report.

5. **Limiting Conditions** - This shall include contingencies and limiting conditions that would apply to all sales and analysis included in the report and to all appraisals within the project. Special conditions that apply to individual parcels should be included in the appraisal of the particular parcel.

6. **Summary of Comparable Sales** - Some type of exhibit is required which summarizes the details of all comparable sales. This can be most beneficial to the appraiser in the analysis of the sales and selection of sales used in the appraisals. Items which should be included, but not limited to, are as follows: Sale number, grantor, grantee, location, sale

date, sale price, size or area, overall unit price, unit price for buildings, land and site improvements.

7. **Project Analysis** - Under this heading, the appraiser has the opportunity to describe the type of highway, access restrictions and how it will affect the properties both generally and specifically. The appraiser should describe the point of beginning, how the project traverses the neighborhood(s) and the end of the project. Station numbers may be used to pinpoint special problems. The appraiser may discuss problems that may be encountered regarding access, entrances, proximity or other items considered pertinent to the assignment.

8. **Area and Neighborhood(s) Analysis** - Under this heading, the appraiser should discuss those economic factors applicable to the project and appraisal assignment. These may be population changes or shifts, employment, agricultural production, water supplies, utilities, sanitation and waste disposal, police and fire protection, etc. It is suggested that the appraiser be concerned only with pertinent information that will add support to the opinion of value and compensation developed.

   The appraiser should discuss in sufficient detail the neighborhood(s) traversed by the project, so as to provide the reader with an understanding of the type of neighborhood as the appraiser sees it and its economic relationship to the area or county.

   The appraiser should also discuss the type of zoning in the project area and the degree of enforcement. If the zoning may have an effect on the value of parcels on the project, either before or after the acquisition, the appraiser should summarize those applicable classifications as to minimum and maximum requirements for area, setback and sideline clearances and probability of obtaining variances.

   Although a variety of published materials may be considered, it is suggested that the appraiser be concerned primarily with pertinent information that will add support to the opinions of value developed.

   In making his analysis, the appraiser must take into consideration the Uniform Relocation Assistance and Land Acquisition Policies Act of 1970, Title III, Section 301, paragraph 3, which states in part:

   > "Any decrease or increase in the fair market value of real property prior to the date of valuation caused by the public improvement for which such property is acquired or by the likelihood that the property would be acquired for such improvement, other than that due to physical deterioration within the reasonable control of the owner, will be disregarded in determining the compensation for the property."

9. **Appraisal Documentation** - In all appraisal assignments, the appraiser must support opinions and/or reasons for various adjustments made between the comparable sales used and the subject properties being appraised. The source(s) of costs upon which opinions will be based must be shown.

Occasionally, it may be necessary to support certain reasoning with adjustments peculiar to a specific parcel being appraised. Adjustments for such items as market conditions (time), location, size, and improvements and damages may be common to several appraisals. The appraiser can save time and avoid repetition by including the basis for these recurring adjustments in the narrative portion of the Comparable Sales Report. The following are items considered necessary in most appraisals.

A. **Time Adjustment (or lack of)** - Any change in economic conditions between the date of sales and the date of appraisal must be accounted for by the appraiser. A time increase factor may be developed by one or more of the following methods.

1. Back-to-Back Sales: Refer to a comparable sale(s) that has sold two or more times in the last few years and show the average increase in value on an annual/monthly basis. The appraiser must be careful to exclude from the difference any improvements made to the sale(s) between the sale(s) dates. Also, the appraiser should consider the effect any motivation of the buyers or sellers may have had upon the transactions. Further, the appraiser must be certain that a transition to a higher and better use was not the cause of increase.

   The analysis should consider the rate of increase on vacant vs. improved properties and also the relative price range of the sale(s) in its relationship to the percentages.

2. Paired Sales Analysis: Where resales of the same property are few, the appraiser may list two or more sales that are similar in characteristics, location and highest and best use at the time of sale, each selling at a different date. After adjusting for differences between the sales, a trend of increase would be indicated. The appraiser should also consider motivation and the possibility of transition for these sales, the same as set out in Item 1 above.

3. Other Data Sources: Published indices may be used to support rates of appreciation or depreciation in real estate values. Lacking any of the objective sources for change in market conditions, the appraiser may quote professionals knowledgeable in the market area (real estate agents, developers, lenders, etc.). Since personal perception is inherent in the marketplace, these subjective sources should only be used to support other documentation, or for application of nominal changes. The more sources quoted, the stronger the support.

A variety of methods can be used to document a time increase, or the lack of one. Through analysis and correlation of data, the appraiser may find that market prices for different types of properties change at different rates. If this is the case, the appraiser should use factors that are appropriate for each specific property type. If the appraiser determines that market conditions are static and no adjustment is warranted, an explanation must be provided.

Comparable sales data over five years old is generally unacceptable. A thorough explanation must accompany the application of any older data to justify its use. It may be necessary to use older data in the appraisal of unique and special use properties when more current data is not available.

B. **Financing** - If atypical or creative financing is reflected in the sales price, the appraiser may find it necessary to develop procedures for adjusting some of the data. Terms of sale may indicate a cash equivalency adjustment is warranted if significant advantage accrues to one of the parties.

C. **Location** - In most market areas, some locations are more desirable than others, and generally, the sales occurring in each of these locations will reflect this difference if properly analyzed. Location adjustments may be supported by an analysis of land values in the various areas of the project based on bare land sales or on properly allocated land values. The sales used should be adjusted for time and other factors so that only location is considered in the net difference. Also, the appraiser should discuss highest and best use in the context of developing trends within the various sectors of the project. The appraiser may then show the reasoning for a range of adjustments for location in those areas of the project related to the comparable sales.

A chart or graph may be useful to the appraiser in analyzing this data. With a range of adjustment established, the appraiser may then refer to this analysis in the appraisal.

D. **Land Adjustment** - Since no two properties are alike, some adjustment for differences in land characteristics may be necessary. Usually, the appraiser can provide a reasonable analysis for adjusting the differences on residential lots, and commercial and industrial land. In view of this, some sort of analysis should be made by the appraiser to explain the reasoning and procedures to be used in the appraisal report.

The greatest problem concerns agricultural land because the ratio of land classes and the proportion each class has to the total area must be considered in the adjustments. In eminent domain appraisal reports, adjustment for this difference is considered a topographical adjustment. To assist the appraiser in making these adjustments, an example of a land class rating system developed for use on agricultural land is shown at the end of this Section.

E. **Improvement Adjustments** - As with land, very few properties have buildings and special land improvements alike, and adjustments need to be made for factors of difference such as area, quantity, quality, age, condition, etc.

The cost source used to classify the improvements should be discussed as to its validity in the project area and its relationship to allocation, depreciation and contributing values which will serve as a basis for adjustments in the market approach and possibly the depreciation used in the cost approaches.

Under this heading, the appraiser should discuss the method used to allocate the contributing value of buildings and special land improvements on the sales and how adjustments for differences will be made between the sales and subject properties.

E. **Curable Functional Obsolescence** - When a property suffers a functional deficiency caused by the acquisition, and that deficiency can be cured, a corresponding adjustment should be reflected in the after value. If the adjustment is cost-based, the appraiser must show the source(s) from which the costs were obtained and unit prices for each item considered in the adjustment. Generally, these are obtained from local businesses or contractors.

A compilation of these costs may be presented in the Comparable Sales Report and applied in the appraisal report as needed.

AFTER VALUE DOCUMENTATION:

It is not the intent of these guidelines to dictate methods to be used to document the appraiser's opinion. The following discussion regarding factors to be considered in the after value is given to assist the appraiser in determining the type and extent of documentation to be included in the Comparable Sales Report.

In essence, after values must be supported in the same manner as before values. The same criteria for data selection and inclusion apply equally to both situations. For instance, if the Sales Comparison Approach is applicable, then market data of similar types of properties located in similar neighborhoods with similar characteristics and property line setbacks should be secured and analyzed the same as the data used in the before value. If the income producing characteristics of a subject property change, it is necessary to include rental data in the Comparable Sales Report which reflects the changed characteristics.

Cost data will usually not change dramatically from the before value to after value. However, vacant land sales of different sizes or shapes may be needed for comparisons to subjects with reduced size, altered shapes, etc.

If it appears that some subject properties may be damaged by the acquisitions due to cuts, fills, landlocking, proximity, etc., the adjustment for these deficiencies may be supported by paired sales analysis or indications derived from analysis of damaged sales. (SEE ALSO – DAMAGE ANALYSIS)

USE OF COMPARABLE SALES FORMS TC 20B, C AND D

As previously stated, the comparable sales and the analyses are a critical part of each appraisal assignment and the appraiser must be thorough in securing and presenting factual data concerning each sale included in the report.

Three forms have been designed to assist the appraiser in assembling the factual data. TC 62-20B is for residential, commercial and industrial properties. TC 62-20C is for rural tracts and TC 62-20D is common to both the residential and rural forms.

Each form should have all lines and spaces filled in**.** Those items missing from a sale are to be marked "none" and those not applicable as "NA." Be sure to give as many pertinent details as possible on each item. Careful, descriptive words save space.

The forms are basically self-explanatory; however, the appraiser should include all details pertinent to the appraisal reports, thereby providing support for all conclusions.

When the report is opened at a comparable sale, Form TC 62-20D should be on the left side and TC 62-20B or C on the right side. This allows the reader to refer quickly between pages.

Sales Form TC 62-20D

Sketches - The instructions given on Form TC 62-20D regarding sketches are self-explanatory.

Sketches of primary buildings must be made showing all measurements used to calculate the square foot area of the principal building.

Photographs - The purpose for including photographs is to identify the sale property by depicting the general characteristics, i.e., terrain, buildings and site improvements. Take as many photos as needed to adequately depict the property. Identification of photographs is the same as for subject properties (See also: The Appraisal Form – TC 62-20)

Sales Analysis - The sale should be identified as either typical or not typical for the neighborhood. If a transition of use is occurring, i.e., transition from SFR to business, the trend should be noted as gradual, rapid, etc.

Neighborhood price range should reflect the value of properties within the same class as the sale property, i.e., residential, commercial or industrial. "Varies" means little to anyone reading the report.

Conforming or nonconforming use, as of the date of sale, should be noted and, in nonconforming situations, indicate the type of transition. Present use is self-explanatory. If vacant, say so.

Approximate distance to public facilities should be stated, i.e., shopping, schools, city limits, CBD, community or a particular point the appraiser may consider important.

Particular attention should be given to proximity and grade as these two factors are often elements of damage addressed in the appraisal report.

<u>Building Components</u> - Each component must be identified and assigned an applicable rating as observed at time of inspection. Class of the structure must be stated as well as cost source, story height, actual and effective age and room count. Disparity between actual and effective ages may be explained under "remarks" or any blank space available on the form. Components must be adequately described to convey a precise description. Basement area must be defined as to finished and unfinished, and not included in the basic living area of the residence. The built-in garage description, if applicable, should reflect measurements and utility, i.e., one car and storage, workshop, etc. The kitchen description should reflect built-in appliances and cabinet type. Electrical description must define the number of amps, 60-100-150-200, etc. An adequacy rating, abbreviated, is preferred. Attic areas may be described as storage area or unusable. Floors may be described as carpet, carpet/tile, etc. Interior finish should reflect the type of finish, i.e., paneled, wall board/painted or papered, etc. The HVAC system should be reflected in the component description. Auxiliary or supplemental heating systems should be noted under remarks or other blank space. Bathroom description may include the number of fixtures and wainscot finish. Fireplace description should define the number and story height, i.e., single/2 story, etc. Storm windows/doors should be defined as aluminum, thermopane, etc.

<u>Sales Form TC 62-20B and C</u>

On Form TC 62-20B and TC 62-20C, careful attention should be given to providing a specific description of location, i.e., east side of U.S. 10, 2 miles south of KY 1625.

All essential data entered upon the Comparable Sales forms must be verified to the appraiser by a reliable source. A person with firsthand knowledge should be considered the most reliable. The accuracy of the entire analysis is dependent upon the sales price and the considerations and conditions included therein.

The sales price should be confirmed by the buyer, seller, or agent participating in the transaction. These are persons with firsthand knowledge, who can tell the appraiser whether the sales price included any personalty, labor equity, or trade of property. These are also the people who can relate the terms of financing. If the buyer, seller, or agent was not contacted, an explanation must be given stating reasons why these parties were unavailable.

Deeds, neighbors, relatives, friends, MLS data and PVA's are secondary or follow-up confirmation and should be relied upon only when the primary sources are unavailable.

It is essential that financing and conditions be fully described. Mortgage amount and interest rate must be stated along with discount points paid, if applicable. Any form of creative financing should be explained in detail. (See narrative: RE **Financing**).

Highest and best use should reflect the likely and most probable use of the property on the date of sale. Zoning, present and/or pending or contingent, must be defined.

The name of the tenant, if applicable, must be listed. Terms must include time period and rental rate.

Improvement since sale date should reflect any repairs, additions, etc., beyond normal maintenance. These must not be considered when making adjustments in the Sales Comparison Approach because they are not indicative of the property on the date of sale.

General Data - Physical characteristics should be described in detail, i.e., 15 ft. blacktop street or road, 6 in. concrete curb, 3 ft. concrete walk, etc. Storm sewer may be noted by *yes* or *none*. Water supply should be defined as public, well, cistern, etc. Gas service should be acknowledged as public, propane, etc., and on-site, available or unavailable. Electrical service may be described as typical residential, commercial, three phase, etc. Sewage disposal should be specifically explained, i.e., public system, septic, etc. Drainage may be described as adequate, unrestricted, etc.

Economic Data must reflect the annual contract rent, less estimated expenses. Annual Net Income divided by sales price equals Overall Cap. Rate. Indicated Interest Rate is derived by the computation and subtraction of the recapture rate. The Gross Rent Multiplier or Gross Income Multiplier is derived by dividing the sales price by the Annual Contract Rent. Allocation of land and building rent should be supported by reasons and conclusions as interpreted from market actions. Remaining economic life, in this particular situation, should reflect the term the sale property is anticipated to sustain the current rental rate as perceived by the investor.

Other features: Special concessions, equipment and/or services influencing the transaction should be acknowledged here.

Allocation and Contributing Values: Classification of rural acreage may be derived from an aerial photograph, computations from an on-site inspection or from an agency of the Federal Land Management Offices. Erosion potential and productivity of the soil should guide the appraiser in land assigning classes. A Land Class Rating system may be employed which should, for consistency purposes, reflect the U.S. Soil Conservation Service classifications and percentages of contribution of each classification. A detailed land class rating system is presented on the following pages. Classification of excess residential-commercial-industrial property may be described by its use, i.e., support area for a homesite, buffer area, etc. Allocated values should reflect an analysis of the market as defined from studies of sales dominated by a particular classification. (See also: Soil Rating Technique)

Contribution of Site Improvements - Typically, these items are within one of two categories; essential and complimentary. The essential items, i.e., septic system, water supply, etc., may be measured in contribution relative to the cost of installation less applicable depreciation. It is an acceptable premise that site improvement depreciation is relative to the age/condition of the primary structure being served. Complimentary site improvements such as trees, shrubs, flower

gardens, etc., should be allocated in relation to their contribution in the market.
On the following pages are examples of a rural tract and a residential tract. Note that each Form TC 62-20D includes sketches prepared in accordance with the instructions shown above the block. The rural tract shows the various land classes, however, the appraiser may prefer to show the different areas on a topographical map included in the addenda and refer to them at this point.

The sketch on the residential tract shows street entrances and building arrangement. This type of detail provides essential information that the reader can easily interpret.

ADDENDA

Some appraisers consider the addenda section as a catchall and include material, or information, that has no real bearing upon the appraisal assignment. Actually, the addenda is an important part of any appraisal assignment. It is where information such as topographical sales data map(s) showing the location of every comparable sale in his report along with a delineation of the project area and its boundaries should be included.

When a project involves both rural and urban areas, the appraiser should furnish a city map showing the project area and boundaries as well as location of the comparable sales within the urban area.

A county map should be used identify areas covered by the topographical map showing its relationship to the county, neighborhood and project.

When locating sales of five acres or more on the topographical map, the appraiser should show the property line boundary of each sale. On agricultural tracts, the property can be identified more accurately thus providing a more realistic basis for topography adjustments.

A portion of a topo map is included on the following page. Note that this type of exhibit shows the road frontage of the tract, the various land classes and their relationship to the various improvements. By using the date that the topo map was prepared, the appraiser should be able to determine the buildings on the property as of that date, and upon inspecting the property, can identify those buildings constructed since then. This should help the appraiser assign depreciation and allocate contributing values even though these items are generally based on the estimated effective age of the improvements.

Background data pertinent to the appraisal assignment can also be included in the addenda. This may consist of articles relating to economic changes in the area, studies of various factors prepared by local Chambers of Commerce, university research centers or national studies involving the particular region where the project is located.

The appraiser may choose to present professional qualifications as well as charts, graphs and other descriptive data in the addenda. When an appraisal assignment is so large or complex that it may last for an extended period, new data becoming available during the course of the assignment may be presented in addendum form.

The addenda are important tools in the appraisal assignment, and exhibits should be prepared in a careful and professional manner.

SUMMARY

The Comparable Sales Report is a part of each appraisal. If a deficiency exists in the documentation provided in the report, the appraisals will not be adequately supported.

It is very important to develop the sales report and analysis thoroughly to provide adequate support for each appraisal. It should include sufficiently detailed explanations to convince the reader that the conclusions reached by the appraiser are both reasonable and credible.

Data derived from the area and neighborhood analyses should guide the appraiser to an understanding of the market trends from which conclusions may be reached relative to the stability and durability of current market conditions. Interpretations of data relative to time, depreciation, location and variations of damages must be based on logic and reasoning as the appraiser is always attempting to measure current value based upon historical data. Thus, definition and interpretation of market trends is one of the most important factors in the attempt to estimate fair market value.

LAND ANALYSIS

SOIL RATING TECHNIQUE:

Due to diversity of types of terrain in relatively short distances and due to the development of individual land tracts on a metes and bounds basis as opposed to grid pattern, considerable complexity can arise in making necessary adjustments for land size, shape, condition, fertility and topography, when adjustments are being made on a dollar per acre unit contribution basis. In making these adjustments, the appraiser must develop a systematic and accurate approach by which to measure and analyze these differences.

A soil rating technique has been developed based on similar classification system as devised by the Soil Conservation Service. The various land conditions have been broken down into seven classes, with Classes I through IV applying to land suitable for cultivation, and Classes VI through VIII applying to land not suitable for cultivation. (Class V soil is not found in Kentucky.) The following discussion gives a brief description of each class and the percent (%) rating assigned to each class.

Class I — Rating 100% — Slope 0-2% — Color Code **Green**

Very little risk of damage or limitation in respect to use. Capable of row crops every year. Generally well drained, deep fertile soil.

Class II — Rating 85% — Slope 2-6% — Color Code **Yellow**

Moderate risk of damage or limitation in use. Capable of row crops on alternate years with a close growing crop such as lespedeza in rotation. These soils require some soil management including conservation practices.

Class III — Rating 70% — Slope 6-12% — Color Code **Red**

Severe risk of damage or limitation in use. A row crop once in 3 or 4 years with at least 1 year of sod in a 3 year rotation. Such a rotation would be corn-grain meadow

Class IV — Rating 55% — Slope 12-20% — Color Code **Blue**

Very severe risk of damage or limitation in use. A row crop no more than once in 5 years with at least 3 years of meadow or pasture.

Class V — This type of soil is not found in Kentucky.

Class VI — Rating 35% — Slope 20% — Color Code **Orange**

Severe risk of damage. Limited to pasture and meadow crops. Tillage limited to pasture or meadow establishment and renovation.

Class VII	Rating 20%	Slope over 30%	Color Code **Brown**

Extreme risk of damage. Limited to forest use. Can produce pasture, using species with very vigorous growth habits, but usually not profitable owing to difficulty of management and maintenance.

Class VIII	Rating 0%	Severe Slope (bluff or cliff)	Color Code **Purple**

This class consists of cliff or rock ledges. Impossible to maintain, generally considered as wastelands.

To apply and utilize the soil rating technique, each comparable sale and each subject property is assigned a soil rating factor in the following manner.

Woodlands are found primarily on the steeper terrains but could occur in any type of terrain. When woodland is encountered, a class adjustment is affected to recognize the cost of clearing.

HYPOTHETICAL SALE OR SUBJECT PROPERTY

AREA	LAND TYPE	LAND CLASS	% RATING	RATING ACCUMULATED
40.0	Tillable	II	85%	34.00
25.0	Pasture	IV	55%	13.75
15.0	Woodland	VII	15%	2.25
2.0	Wasteland	VIII	0%	-0-
82.0				50.00

Accumulated Rating

Area = Soil Rating

$\frac{50}{82}$ = .61 Soil rating for hypothetical example

In order to arrive at a % adjustment between a comparable sale and a subject property, the following example is given assuming a subject property with a soil rating of 0.65 and a comparable sale with a soil rating of 0.61. In this example, subject property is superior to comparable sale by 6.5%, (65/61 indicating 6.5%) for those conditions considered under the soil rating technique. This percentage is used to determine a dollar amount per acre for necessary unit adjustment.

In reverse ratings, sale being 65%/subject 61%, then the adjustment is a minus 6.15%, being the reciprocal.

Percentage land class ratings may also be developed for the specific project from sales being used on the project. The following is one suggested method for determining a factor for each land class. Each sale would first be adjusted for time to a common date and a unit value for each class of land allocated.

Example

SALE NO.	AREA	I	II	III	IV	V	I	VII	VII
1	180	$ 600	$ 400	$ 250	$ 200	$ 120	$ 90	$ 60	$ 5
2	165	280	325	190	175	-0-	75	40	-0-
3	200	725	550	340	270	-0-	100	70	-0-
4	225	500	400	-0-	250	150	-0-	50	-0-
5	140	700	600	425	300	-0-	125	-0	-0-
6	135	550	375	300	225	-0-	-0-	60	5
Totals	1045	$3555	$2650	$1505	$1420	$ 270	$390	$280	$10
Averages	174	$ 593	$ 442	$ 301	$ 237	$ 135	$ 98	$ 56	$ 5

The following method is used to compute the ratio of the contributing value for each land class, based on the average unit value.

Procedure				Rating Factor
Class I is 100% land use =				1.00
Class II or $442/ac / Class I or $593/ac	=	.75	use	.75
Class III or $301/ac / Class I or $593/ac	=	.50	use	.50
Class IV or $237/ac / Class I or $593/ac	=	.40	use	.40

Each of the other classes would be divided by the Class I average per acre unit value to derive the rating factors. These factors would then be used on each sale and each subject to derive the composite factor which would be shown on line (12), Sheet 8/14 of Appraisal Form TC 62-20 as revised 1/99.

ADJUSTMENTS: DERIVATION AND APPLICATION

This section is not intended to dictate to the appraiser how to derive or apply adjustments. It is intended to clarify and explain adjustments, which are often derived and applied in confusing and inconsistent manners. This section deals primarily with the Sales Comparison Approach, however, it may also be pertinent to parts of the Cost (depreciation adjustments) and Income (economic rent adjustments) Approaches.

The Division **prefers** that, whenever possible, adjustments be made in dollar amounts, either lump sum or unit values. There are, of course, situations when this is not practical and percentage adjustments are necessary. All adjustments should be made in the following sequence:

1.	**Financing:**	This adjustment is made for atypical financing and often involves a cash equivalency.
2.	**Time/Mkt. Conditions:**	Adjustment for inflationary or deflationary pressures occurring between the sale and appraisal date.
3.	**Location:**	Adjustment for differences between the location of sale and subject.
4.	**Physical Characteristics:**	Adjustment for physical differences between the sale and subject. A. Land B. Improvements or Buildings C. Site Improvements

Some of the headings and subheadings above may have several component adjustments. For instance "**Land"** may include adjustments for topography, accessibility, soil type, size, etc. Each of these component adjustments should be made and explained in the space under the market grid and then the total adjustment for that heading entered as a dollar amount in the grid.

<u>DERIVATION:</u>

Percentage adjustments may be derived by one of two methods depending upon their intended application.

Assume:

Sale A: $36,000 (excellent condition)
Sale B: $28,500 (poor condition)

METHOD I: A divided by B - 1 = % (The difference between A and B as a percentage of B. Derived to adjust inferior sale to superior subject.)

$36,000 divided by $28,500 - 1 = 26.3%

APPLICATION:

Assume:

Sale C: $27,750 (poor condition)
Subject: ? (excellent condition)
.263 + 1 x $27,750 - $27,750 = + $7,298 adjustment

METHOD II: A - B divided by A = % (The percentage by which A is greater than B. Derived to adjust a superior sale to inferior subject.)

$36,000 - $28,500 divided by $36,000 = 20.8%

APPLICATION:

Assume:

Sale D: $35,500 (excellent condition)
Subject: ? (poor condition)
.208 x $35,500 = - $7,384 adjustment

Adjustments must be applied in the same manner in which they were derived. For instance, it is in error to assume in Method II above that 20.8% could be used to adjust a sale in poor condition to a subject in excellent condition. As: Sale $27,750 x 1.208 - $27,750 = + $5,772. The application is not consistent with its derivation.

When percentage adjustments are not derived but are applied based upon the appraiser's best judgment, it is important to establish the relationship between the sale and subject as it relates to the known value...the sale. A sale will be either superior or inferior to a subject in certain aspects. The percentage adjustment will not be a directly corresponding percentage to the value of superiority or inferiority.

For instance, assume Sale 1 is said to be 10% superior to subject and sold for $40,000.

The minus adjustment applied to the sale is 9.1%. As: $40,000 x .091 = - $3,640. The adjustment ***is not*** - $4,000.

Now assume that Sale 1 is said to be 10% inferior to subject and sold for $40,000. The plus adjustment applied to the sale is 11.11%. As $40,000 x .1111 = + $4,444. The adjustment **<u>is not</u>** + $4,000.

Adjustments Tables I and II are on pages that follow. The purpose of these tables is to furnish a quick reference to the correct percentage adjustment to be made after the relationship between a comparable sale and a subject property has been established.

The purpose of these tables is to furnish a ready reference to the correct percentage adjustment to be made after the relationship between a comparable sale and a subject property has been established.

Table I may be used when the sale is superior to the subject in a given respect.

An example:

> Documentation indicates that Elm Street is a 100 percent location, and Spruce Street is an 80 percent location. Sale is on Elm Street - subject on Spruce Street. Sale is 25 percent superior to subject.
>
> Sales was at $900 per front foot.
>
> The correct adjustment would be minus 20 percent of $900, or $180, indicating $720 per front foot for subject.

Table II may be used when sale is inferior to subject.

An example:

> Sale is on Spruce Street - subject on Elm Street. Sale is 20 percent inferior.
>
> Sale was at $720 per front foot.
>
> The correct adjustment would be plus 25 percent of $720, or $180, indicating $900 per front foot for subject.

Superiority of Sale over Subject	Minus Adjustment Applied to Sale
1. %	.99%
2. %	l.96%
3. %	2.91%
4. %	3.85%
5. %	4.76%
6. %	5.66%
7. %	6.54%
8. %	7.41%
9. %	8.26%
10. %	9.10%
11. %	9.91%
12. %	10.71%
13. %	11.50%
14. %	12.28%
15. %	13.04%
16. %	13.79%
17. %	14.53%
18. %	15.25%
19. %	15.97%
20. %	16.67%
21. %	17.36%
22. %	18.03%
23. %	18.70%
24. %	19.35%
25. %	20.00%
26. %	20.63%
27. %	21.26%
28. %	21.87%
29. %	22.48%
30. %	23.08%
31. %	23.66%
32. %	24.24%
33. %	24.81%
34. %	25.37%
35. %	25.91%
36. %	26.47%
37. %	27.01%
38. %	27.54%
39. %	28.06%
40. %	28.57%

TABLE I

Superiority of Sale over Subject	Minus Adjustment Applied to Sale
41. %	29.08%
42. %	29.58%
43. %	30.07%
44. %	30.56%
45. %	31.04%
46. %	31.51%
47. %	31.97%
48. %	32.43%
49. %	32.89%
50. %	33.33%

TABLE I

Inferiority of Sale to Subject	Plus Adjustment Applied to Sale
1. %	1.01%
2. %	2.04%
3. %	3.09%
4. %	4.17%
5. %	5.26%
6. %	6.38%
7. %	7.53%
8. %	8.70%
9. %	9.89%
10. %	11.11%
11. %	12.36%
12. %	13.64%
13. %	14.94%
14. %	16.28%
15. %	17.65%
16. %	19.05%
17. %	20.48%
18. %	21.95%
19. %	23.46%
20. %	25.00%
21. %	26.58%
22. %	28.20%
23. %	29.87%
24. %	31.58%
25. %	33.33%
26. %	35.14%
27. %	36.99%
28. %	38.89%
29. %	40.85%
30. %	42.86%
31. %	44.93%
32. %	47.06%
33. %	49.25%
34. %	51.52%
35. %	53.85%
36. %	56.25%
37. %	58.73%
38. %	61.29%
39. %	63.93%
40. %	66.67%

TABLE II

Inferiority of Sale to Subject	Plus Adjustment Applied to Sale
41. %	69.49%
42. %	72.41%
43. %	75.44%
44. %	78.57%
45. %	81.82%
46. %	85.19%
47. %	88.68%
48. %	92.31%
49. %	96.08%
50. %	100.00%

TABLE II

THE APPRAISAL FORM – TC 62-20

The purpose of Appraisal Form TC 62-20 is to provide a format containing those elements consistent with good appraisal practices. This is considered necessary to document the files for the expenditure of public funds and to enable the Department of Highways' review staff to process a large volume of appraisals within a project's programmed time limit.

Appraisals are to be completed using the RWU system. This system employs a database program through which information is input via an internet connection onto an appraisal form that resides on the KYTC server. All appraisals for right of way acquisition must be completed using the RWU system. Minimum system hardware and software requirements are specified by KYTC.

This form is designed to allow the appraiser to reflect a true picture of any appraisal problem. It is important to remember that others who review or refer to the appraisal report may not be as familiar with the appraisal problem as the appraiser. Therefore, each step should be explained sufficiently so that a clear and concise picture of the problem is presented and all conclusions properly supported. This will expedite the entire process and leave no doubts in the minds of persons who may not have viewed the property that there is justification for the expenditure of tax dollars based on the appraisal. Others often use the appraisal report as a source of information in making decisions. The appraiser should keep in mind that the appraisal report has a purpose and usefulness beyond simply estimating compensation.

This form consists of sixteen (16) sheets, which are as follows:

Sheet 1	Purpose of appraisal, parcel identification, summary of facts and conclusions, contingent and limiting conditions and certificate of appraiser.
Sheet 2	General data and property description.
Sheet 3	Photographs and property sketch.
Sheet 4	Sketch of buildings.
Sheet 5 or 11	Cost approach - market value of land, site improvements and summary of depreciated cost of buildings (before or after).
Sheet 6 or 12	Description and cost of buildings (before or after).
Sheet 7 or 13	Income approach (before or after).
Sheet 8 or 14	Sales comparison approach (before or after).
Sheet 9 or 15	Correlation and allocation (before and after).
Sheet 10	After value data - narrative form.
Sheet 16	Appraisal recapitulation.

The TC 62-20 is a versatile tool that is expandable. This flexibility should allow its application to a wide range of appraisal problems from the most complex to the very simple with the appraiser selecting those sheets necessary to explain and support all conclusions. It should be noted, however, that any significant deviation from the format required in the Project Report RW 75 must receive prior approval from the review appraiser. Staff appraisers should consult the assigned review appraiser for guidance and prior approval.

The appraisal may be expanded as needed to adequately address the appraisal problem. For instance, a subject property may consist of a small commercial establishment with a residence on the adjacent lot, each capable of existing and functioning independent of the other. This situation may require separate market and/or cost analyses for each unit. In this case, two principal buildings may exist, thus two principal building descriptions are needed. Furthermore, separate analyses in the after value could be necessary.

INSTRUCTIONS FOR COMPLETING FORM TC 62-20

Appraisal reports are currently being written in the RWU database program. If the appraiser is completing reports in this system, reference should be made to the *RWU Manual – Appraiser's Guide.*

Sheet 1

Space is provided in the upper right-hand corner for the date the report is submitted to the District Right of Way office or consultant. This space should not be used by the appraiser, but rather by the Right of Way Supervisor to whom the report is delivered.

The appraiser must first select the type of acquisition before continuing with the appraisal.

Item 1 - The "Purpose of Appraisal" is self-explanatory.

Item 2 - The road name, project number, county and SYP numbers are self-explanatory and are filled in from the approved plans and acquisition order.

Obtain the correct name(s) of the property owner(s) and check for the correct spelling of all names, **no matter how simple or familiar they appear to be.**. If subject property is owned by a corporation, institution or by a governmental agency, the names of the principal officers should be furnished.

List the correct mailing address, telephone number and zip code of each owner. Complete this to include rural route number and box number, if possible. Verify it with the property owner for accuracy.

Show correct postal address of the subject property and include the zip code.

Show occupant's name, persons contacted and date of contact.

Item 3 - "Value Conclusions" are automatically entered from applicable sections of the report. The appraiser must enter areas acquired and select the appropriate unit(s) of measurement.

Item4 - Any contingent and limiting conditions should be stated by the appraiser. If they are contained in the Comparable Sales Report, reference should be made here. Some limiting conditions of a general nature are included in the "Appraiser's Certification of Comparable Sales Data, Analysis, Conclusions and Opinions" on Form RW 22 which will be included as part of the "Comparable Sales Report." However, any contingent or limiting conditions that may be applicable to an individual parcel should be stated here.

Item 5 - All blanks related to the "Certificate of Appraiser" must be filled in. The most recent date of inspection of subject property should be used as the date of appraisal. This date cannot be later than the most recent date of inspection. The period from the date of valuation to the date the appraisal is signed shall not exceed two weeks. The appraisal must be submitted within two weeks of the date signed.

<u>Sheet 2</u> **General Data and Property Description -** The parcel number and SYP number are displayed in the top, right hand corner.

Item 1 - A five-year sales record is required for the transfers of subject property during the last five-year period. Show grantor, grantee, date, deed book page number and verification. Do this on each transaction during the five-year period beginning with the last transfer.

If such a property has remained in the present ownership for a period greater than five years, show all of the above details of the latest transfer. If it is not possible to obtain the last source of title, explain why. Lack of title reports is not adequate explanation.

Show the current assessed value of the subject property for the county and city as applicable.

Show specific type of zoning such as B1-B2, C1-C2, R1-R5, M1-M2, etc. General classification such as "Residential," "SFR," "MFR," "Industrial," etc., are insufficient here. A copy of the zoning ordinances or a narrative explanation of the various restrictions imposed by the type of zoning generally affecting the parcels in the appraisal assignment should be included in the "Comparable Sales Report."

Show present use of the property. A statement that the present use is commercial is not sufficient. The word "commercial" should be supplemented by the type of commercial such as "hardware store," "drug store," "barber shop," etc. The same applies to residential use. The word "residential" should be supplemented by "single-family," "duplex:, "four-plex," "multi-family," etc. Institutional use or industrial use should be treated in the same manner.

State your estimate of "Highest and Best Use." Once again, be specific and list the reasons for your conclusion.

If subject property is rented or leased, show lessee's name and address. Attach a copy of the lease if possible or show terms of the lease including: (1) date of lease; (2) lease terms; (3) amount of rental, percentage clause, if any, graduation if any, and how paid; (4) responsibility for taxes, insurance, maintenance, utilities and other covenants; (5) option to renew, date of notice, term in years, rent, etc; (6) lessee improvements, whether these may be removed at the expiration of the lease or whose property such improvements become; and (7) condemnation, the respective rights of the lessor and the lessee.

Item 2 - **Location and Neighborhood** - A brief description of the general location of the parcel involved such as "five miles east of Frankfort on the north side of U.S. 60," or "the north side of East Main Street near the east city limits of Frankfort." Regarding the neighborhood, only those items pertinent to the subject parcel not included in the neighborhood analysis of the comparable sales report need to be included under this item. Pay particular attention to factors that may affect the value or use of the subject property.

Item 3 - **Land and Site Improvements** - Under this item, the appraiser is provided space within which to describe the land and site improvements of the subject property whether it is a small lot or a large rural tract. The various letters in parenthesis showing the topography and quality are self-explanatory.

On farms, the various classes of land may be shown as "level tillable," "rolling tillable," "rolling pasture," "wood pasture," "woodland," etc., depending upon the areas of the various classes.

The rating factor and composite columns are provided to allow the appraiser to develop a land class rating factor for the subject property. This is explained in more detail under **Section I** of this instructional guide entitled "Comparable Sales Report."

All site improvements must be listed and itemized in sufficient detail to allow an accurate accounting of the various components. This is of particular importance in deriving adjustments, computation of depreciated costs and partial acquisitions. For instance, "Paved Parking/Good/5,000 sf" is too general if there is 1,000 sf of concrete in fair condition and 4,000 sf of asphalt in good condition.

Item 4 - **Physical Characteristics** - This item is self-explanatory and those items applicable to the subject property should be listed by type and those items not present marked with the word "none." Use additional spaces as needed.

Item 5 - **Buildings** - Under this item, the appraiser will be able to furnish a word description of the various components of the principal buildings and their respective conditions. The first column deals with the building class, the cost source from which it is determined and the general characteristics such as number of stories, estimated age, effective age, room count, etc. The second and third columns concern the components of the principal buildings and space is provided to show the type of components. An example would be: "foundation - poured concrete - (G)," or "attic - stairway to 1,500 square feet of storage - (F)," or "fireplace - wood burning - wood mantel - (E)," etc.

Describe any unusual features or clarification of items mentioned above under "Remarks" and rate accordingly.

List other outbuildings and describe under the heading as shown.

It should be noted that Items 3, 4 and 5 encompass the basic elements of comparison listed on Comparable Sales Form TC 62-20 B, C, and D. By providing this degree of similarity it should be easier for the appraiser to select those sales most comparable to subject property for the market approach.

NOTE: It is very important to develop the descriptions on this sheet properly to give the reader a complete understanding of the subject property. Further, and perhaps most importantly, the basis for adjustments in the "Sales Comparison Approach" and depreciation in the "Cost Approach" is established at this point in the appraisal. **(continued)**

(NOTE, continued): Federal Law states in 49CFR, Part 24.103, that appraisal requirements include "an adequate description of the physical characteristics of the property being appraised …. INCLUDING ITEMS IDENTIFIED AS PERSONAL PROPERTY." This may be accomplished by identifying in detail all items considered real estate and/or fixtures, and are therefore included in the appraised value. By exclusion, then, all other items would be considered personal property, and a statement to that effect should be included in the appraisal report.

PHOTOGRAPHS AND PROPERTY SKETCHES

Sheet 3

Item 1 - Photographs - The appraiser should follow the instructions shown on Sheet 2. Photographs are required of all buildings and should be taken close enough to show the type and condition of each. Include photographs of each class of land considered in the appraisal.

The appraiser is encouraged to take an ample number of photographs. Interior photographs are often helpful. Photograph all significant property features and potentially controversial items. Clearly number photos on the front side so that their position and direction can be indicated on the property sketch. Label the reverse side of the photo indicating the person who took it, date taken, and what it depicts. Digital images may be printed on supplemental sheets with the required identification caption adjacent to each image. Do not use clipboards and other devices that show on the face of photographs for photo identification. The appraiser should keep in mind that photographs become one of the most useful tools in the right of way acquisition process once the inspection is completed. All negatives or image files should be retained and stored so reprints can be made for condemnation trials or other purposes. An extra set of photos of all improvements acquired must be submitted to the District Right of Way Supervisor.

Item 2 - Property Sketch - The instructions for the property sketch on Sheet 3 are self-explanatory, however, compliance with the instructions is emphasized. The sketch should be made in sufficient detail to provide the reader a meaningful visual picture of the appraisal problem. Inclusion of frontage dimensions, proposed location(s) of items associated with cost-based functional curable obsolescence, numbered photo direction indicators, and north arrow are mandatory. The entire property boundary should be delineated. Buildings and/or other significant property features should be shown. Ground lease lines are to be delineated. Photocopies of highway plan sheets cannot be substituted for property sketches.

At the bottom of Sheet 3, space is provided for the appraiser to show the total area of the tracts, area acquired and area of the severances left and/or right. The appraiser may also show the area in easements by filling in the type being acquired.

Space is also provided for the appraiser to show the proximity of the right of way and travel way to the principal building(s) both before and after the acquisition, as well as the grade along the frontage both before and after. Note that the format for this information is duplicated as it appears on Comparable Sales Form TC 62-20D. This should allow the appraiser to make direct comparison of sales having similar characteristics of the subject property regarding proximity and grade.

Sheet 4

Sketches of Buildings - The instructions at the top of Sheet 4 are self-explanatory. Additional sheets (4) may be used as needed and numbered Sheet 4 continued.

Compliance with these instructions is emphasized. Portions of buildings that differ in construction class or design should be delineated. Significant floor plan features such as finished office area in a warehouse, should be shown with dimensions included. Describe leased areas in multi-tenant buildings whenever they are pertinent to the appraisal problem. The list of lessees and the area leased by each is to be shown under "Remarks."

COST APPROACH

Sheet 5 or **(Before Value)**
<u>Sheet 11</u> **(After Value)**

Parcel and SYP numbers are displayed at the top of Sheets 5 and 11.

Item 1 - **Land Value Justification -** This is a grid for developing the market value of the land in the cost approach. Vacant land sales should be used.

Items (1) and (2) are self-explanatory and are to be filled in on the subject property as well as on all sales. Items (3) and (4) are self-explanatory. Item (5), which is the time factor, must be documented by explanation in the Comparable Sales Report. It should be noted that this is a time factor and not a percentage, therefore, if no time increase is present, the factor will be 1.00. The factor for a ten percent time increase would be 1.10, etc. Item (6) is self-explanatory and is obtained by multiplying the sales price times the time factor. Item (7) is the unit of comparison. This may be on a per acre, front foot or square foot basis as applicable. Item (8) is the factor(s) requiring adjustment. All adjustments are to be made plus or minus in dollar amounts for the unit of comparison being used. Regardless of the unit of comparison, the contributing value of site improvements, if any, is not to be included in the unit value of the sale. Adjustments made on each sale must be explained in the space below the grid. If adjustments are based on percentages, they must be converted to dollar amounts before being entered into the adjustment grid.

Items (9) and (10) are self-explanatory, however, a correlation of the values indicated by the various sales is required with the reasons given for the unit value selected as a result of the comparisons.

Item 2 **Site Improvements -** This grid is for listing all special land improvements, quantity or area, unit cost, replacement cost new, depreciation, if any, and their contributing value to the property as a whole.

> **Site Improvement: An improvement on the site (land) which adds value (in theory) and helps the site achieve its intended use. Site improvements include fences, walls, septic systems, wells, landscaping, etc.**

When the appraiser considers it necessary to include trees and ornamental shrubbery which have achieved maximum or near maximum growth, it is obviously difficult to use the grid as set up. In these cases, the types and numbers of trees or shrubs should be shown on Lines A, B, C, etc., with an estimated contributing value shown in the last column. The appraiser should show his reasoning or source of value for these under "Remarks."

Item 3 - **Total Site Improvements** - This item is self-explanatory and is the total contributing value of all site improvements. The space below Item 3 is for explanation of depreciation or any other remarks deemed necessary to explain the contributing values.

Item 4 - **Total Land and Site Improvements -** This item is self-explanatory and is the combined totals of land and site improvements.

Item 5 - **Depreciated Cost of Buildings -** This item is the total depreciated replacement cost of all buildings as shown on Sheet 6, Item 14.

Item 6 - **Indicated Value by Cost Approach Before the Acquisition -** This is the total of Items 4 and 5 and is self-explanatory.

Sheet 6 or Sheet 12

(Before Value)
(After Value) - Description and Cost of Buildings - A detailed cost analysis is required for all improvements when the cost approach is applicable. Parcel and SYP numbers are shown at the top of the page. The source of cost data must be identified along with the page number from which the base unit cost is derived and the date of issue.

Item 1 - The name of the principal building under consideration and the class number and/or letter applicable as shown in the source of cost data used. Each principal building requires a separate cost analysis.

Item 2 - Story height should be listed as 1, 1-1/2, 2, SL (split level) or SF (split foyer) etc. If a portion of the house is one-story and part two-story, indicate by using numbers "1" and "2." The portions and designations of each must be shown on the building sketch on Sheet 4. Show the number of rooms on each floor and total square footage.

Item 3 - Since it is sometimes difficult to determine the actual age of improvements, the estimated age may be used. If actual age is known, it should be shown *(a'la Johnnie Cochran).* The effective age is based entirely on the appraiser's judgment. An explanation is required under remarks at the bottom of the page if there is a difference between the estimated age and effective age. The observed condition should be indicated as "poor," "fair," "good," or "excellent." The opinion expressed here must be consistent with the estimated effective age, and must also agree with the cost source. Next is the type of construction, such as brick veneer, frame, solid masonry, stucco, etc. If portions of the building carry different base unit costs, show each base unit cost and carry them forward to Item 4.

Item 4 - The Base Cost is obtained by multiplying the total square footage applicable by the base unit cost per square foot. The base unit cost per square foot is derived from the cost source and page number shown. If portions of the building carry different base unit costs, show each base unit cost and carry forward. If the building is so arranged so that a different base unit cost would be applicable to certain portions, then the total square footage of each portion should be multiplied times the applicable base unit cost, and the combined total indicated.

Item 5 - **Variations from base cost** - Most all sources of cost data have certain basic components of a building included in their base unit price. Any differences in the components of the subject property and the class shown in the source of cost used must be adjusted by adding to or subtracting from the base cost. These should be shown at this point and the net variation determined. Items not included in the base cost and not shown in the source of cost data format may be determined on the local level and either added or subtracted at this point as applicable.

Item 6 - **Net variations (plus or minus)** - This is the difference between the total plus variations and total minus variations, i.e., if you had plus variations totaling $4,000 and minus variations totaling $3,000, your net variations would be plus $1,000 and vice versa.

Item 7 - **Cost of Principal Building -** This is the base cost plus or minus the net variations.

Item 8 - **Applicable Multipliers** - Most cost sources have certain multipliers relating to story height, area and space or perimeter, number of rooms, area, local, etc. Those applicable should be shown at this point and a composite multiplier developed. The page number and date of issue for these multipliers should be indicated.

Item 9 - **Cost New** - This item is self-explanatory and is obtained by using the composite multiplier times the cost as shown in Item 7.

Item 10 - **Depreciation** - List the percentage the building has depreciated, physically, functionally or externally and convert the total percentage into a direct unit by multiplying the cost new by the total percentage of depreciation. The depreciation assigned should be consistent with the difference between the estimated age and effective age and the condition and description of the building shown on Sheet 2, Item 5. Show the explanation of your reasoning at the bottom of the page under "Remarks."

Item 11 - **Depreciated Cost of Principal Building** - This item is self-explanatory and is obtained by subtracting Item 10 from Item 9.

Item 12 - **Accessory Buildings** - This is a grid to show all accessory buildings and the headings are self-explanatory. All columns are to be filled in correctly and the depreciated costs are to be determined. Here, as with the principal building, the depreciation should be explained under "Remarks" and must be consistent with the descriptions shown on Sheet 2, Item 5.

The building number in the first column of the grid would be the number that is assigned the building on your property and building sketch sheets.

Item 13 - **Depreciated Cost of Buildings from Other Sheets (6)** - This item is self-explanatory and is the total of all other sheets (6). If no other sheets (6) are used, insert the word "none" at this point. ***(**<u>Note</u>**:** This item does not apply when using the RWU system)*

Item 14 - **Depreciated Cost of all Buildings** - This item is self-explanatory and is the sum total of Items 11, 12 and 13.

The space provided at the bottom of this page entitled "Remarks" is for explaining depreciation, differences between estimated age and effective age, and other remarks deemed necessary to explain the depreciated cost.

Explain each type of accrued depreciation shown. When the total depreciation can be supported by the market, a lump sum adjustment is acceptable, provided each type of depreciation is discussed. In the case of special purpose properties when market data is not available and the cost approach is used to support the value estimate, each type of depreciation is to be shown and explained sufficiently to indicate the appraiser's reasoning.

The items to be discussed under "Remarks" are too frequently overlooked. Appraisal reports that are substantially deficient in this respect will be considered unacceptable by the review appraiser and returned to the appraiser for additional explanation.

It is important that the appraiser's conclusions regarding effective age and depreciation are supported by the condition ratings on Sheet (2). It is imperative that these factors are consistently applied in the other approaches to value and throughout the appraisal report.

Sheet 7 or
Sheet 13

(Before Value)
(After Value) - Income Approach – The Income Approach must be used on all income producing properties when it is possible for the appraiser to secure sufficient income and operating expense data to develop economic rent and typical operating expense for the subject property. The appraiser's inability to obtain such data must be fully explained.

The income approach in appraising property can produce great error unless the appraiser has full knowledge of the problem and of the principles of the income approach. This approach is to be based on a typical operation and not necessarily the existing one. This eliminates the measurement of either exceptional or bad management and assumes a typical, knowledgeable management.

Many things can influence this approach to such a degree that the final conclusion will be completely wrong. The two main influencing factors in which there is likely to be error are the estimating of economic rent and the capitalization rate. The economic rent (gross annual income) can best be estimated by using comparable leased properties and the capitalization rate can best be estimated by the current demands in the market.

The ready acceptance of the income and expense data for the subject property as typical for the market is discouraged. Such information obtained from interested parties must be carefully analyzed. Any direct use of actual income or expense data for the subject property requires a thorough explanation and justification.

Interest rates and capitalization rates may be developed by any method which is consistent with procedures; however, all data used to develop such rates must be derived from the market.

Item 1 - **Rent Comparisons** - It is mandatory that comparable leases or rentals be shown to justify the economic rent used in the appraisal of income properties. This grid is self-explanatory and allows the appraiser to show his opinion of comparison and the indicated rental for the subject property.

Item 2 - This space is provided to correlate the rental comparisons into an indicated economic rent for the subject property and for discussion of the operating statement developed under Item 3. It should be noted that comparable sales Form TC 62-20B is designed to include applicable economic data of comparable sales such as contract rent, estimated expenses, net before recapture, overall capitalization rate, indicated interest rate and remaining economic life.

Item 3 - **Operating Statement** - The first item is the gross annual income applicable to the subject property which is the gross annual **economic** rent. Next item shows the vacancy and collection losses, which must always be considered and the appraiser should check carefully to determine the extent they are present in the market.

The effective gross income is derived by subtracting the vacancy and collection losses from the gross annual income.

The operating expenses of the property consist of three parts: fixed expenses, operating expenses and reserves for replacement. While many businesses have operating statements that can be analyzed and used; the appraiser may have to prepare one independently based on facts secured as part of market data research, including copies of leases. The appraiser should explain the source of this operating statement under Item 2.

The total expenses are self-explanatory and the appraiser should show their relationship as a percentage of effective gross income in addition to the dollar amount.

The net operating income is self-explanatory and is derived by subtracting the total expenses from the effective gross income.

Item 4 - **Valuation** - In capitalizing the net income, several different techniques may be used such as building residual, land residual, and property residual techniques, discounted cash flow or mortgage/equity analyses. These and/or other techniques may require supplemental sheets for adequate presentation. Note that while no specific method is requested, instructions provided on Sheet 7 under Item 4 require an appropriate capitalization method be used based on the appraiser's analysis of market data related to the particular type of property being appraised. Further note the instructions state that an explanation of the reasoning and all pertinent calculations are to be provided. In developing the Income Approach, adherence to standards of professional practice commonly accepted in the appraisal industry is required.

Regardless of which method or technique is used, the appraiser should use extreme care in developing the appropriate capitalization rate as a variation of one-half to one percent can make a significant difference if the net income is substantial.

Copies of the leases on subject property, when available, must be attached. If none can be secured, then the terms and conditions of the leases must be stated.

Sheet 8 or **(Before Value)**
Sheet 14 **(After Value) - Sales Comparison Approach -** The top half of this sheet is in grid form to allow the appraiser to show a breakdown of comparable sales used and the factors of adjustment applied. The bottom half is for the explanation of factors adjusted on **each** sale, and the justification or correlation of the values indicated by the sales into an indicated value by the sales comparison approach.

At the top of the grid is a space to show reference numbers for of sales being used as they appear in the comparable sales report.

Item 1 - The highest and best use of subject and each sale must be shown such as residential, farm, rural residential, commercial, industrial, etc., and this must agree with the data included with that sale in the comparable sales report.

Item 2 - The lot size must be shown here.

Item 3 - This is the total area of the principal building on the subject and comparable properties. For the subject, this must conform to the information on Sheet 2. For the comparables, it must agree with the information on the comparable sale forms.

Item 4 - Always show the exact date the property was sold

Item 5 - This is the total sale price including land, site improvements and buildings.

Item 6 - This is the factor that is to be multiplied against the sale price to account for any change in values arising from general economic conditions from the date of the sale to the date of the appraisal. It is the percentage converted into a factor and not a percentage per se. For instance, if no time increase is present, the factor will be 1.00. If a 10% increase is due, the factor will be 1.10, etc.

Item 7 - This item is self-explanatory and is the result of the sale price multiplied by the time factor.

Item 8 - This item is self-explanatory and includes the appraiser's opinion of the contributing value of all buildings. The value shown here should be consistent with the allocated value shown in the comparable sales report multiplied by the time factor indicated under Item 6 above.

Item 9 - This item is self-explanatory and is the total of the sales' site improvements as allocated on the sales form TC 62-20B or 20C multiplied by the time factor under Item 6.

Item 10 - The land contribution is obtained by subtracting the building and site improvements contribution from the adjusted sale price. This value should also be consistent with the total land value shown on the comparable sale in the sales report times the time factor shown in Item 6. Note that this is the land contribution after adjustment for time.

Item 11 - **Adjustment Base -**The adjustment base is the unit of comparison to be used for adjusting factors of dissimilarity between the sale and the subject. Normally, this will be the adjusted sales price as shown in Item 7.

In some instances in transitional areas, the improvements contribute very little, if any, value or possibly the property may sell for the same price for alternate uses. In these instances, it may be appropriate to use the adjusted sales price converted to dollar per square foot of land as the unit value that would include land and building. This could be set out in parenthesis immediately after the adjustment base as *"$PSF"* .

Also, it may be applicable to consider a unit of comparison based upon the total building area which would include a certain ratio of land for that particular use. In these instances, the unit of comparison would be a dollar per square foot of total building area and the adjustment base may be expressed as "*$PSF - Item 7 / Item 3*."

This format will allow the appraiser flexibility in developing the sales comparison approach.

Item 12 - This item is for the land class rating factor applicable for farm land. The method used to obtain this factor must be thoroughly explained in the comparable sales report and must be consistent in application to both the comparable sales and the subject parcel.

The appraiser should carefully determine the various classes of land on the comparable sales as well as subject parcel since the factor developed will usually account for topographical and quality differences with no further adjustments needed. (Please refer to example given under "Preparation of Comparable Sales Report" in Section I of these instructional guidelines.)

Item 13 - **Adjustment Factors -** The appraiser is to show the factors of dissimilarity between the sale and the subject property at this point under the sub-headings "a," "b," "c," "d". . . .

The adjustments will be plus or minus in dollar amounts consistent with the adjustment base determined by the appraiser under Item 12.

All adjustments must be explained under Item 16. The best means of supporting an explanation is by comparative analysis of sales with various differences accounted for in order to indicate a specific adjustment for such factors as location, size, shape, topography, etc. This may be accomplished by chart, graph, table, or in narrative form so long as the amount of the adjustment is reasonably explained. With the exception of very small assignments, this should be done in the comparable sales report and simply referred to at this point. This will reduce repetition and the amount of time that the appraiser has to spend on the appraisal report itself.

Where the dissimilarity between the sale and the subject is not substantial, a lump sum adjustment is acceptable provided it is accompanied by the appraiser's reasoning of the significant factors that make up the lump adjustment.

If there is a substantial dissimilarity, a detailed explanation of each factor and its contributing value should be made.

These explanations should be included under Item 16.

Item 14 - **Net Adjustment** - This item is self-explanatory and is the net difference plus or minus of the individual adjustment factors.

Item 15 - **Total Indicated Value -** This item is self-explanatory and is derived by adding or subtracting the net adjustments from Item 11 as applicable.

Item 16 - **Explanation of Adjustments** - This item is self-explanatory and was discussed under Item 13.

Each appraisal should be independent of others in terms of explanation of adjustments. Although reference to general analysis in the comparable sales report is encouraged, reference to analysis in other appraisals in lieu of explanation in the subject appraisal report is an unacceptable practice.

Item 17 - **Explanation of Value Used -** This item is for the correlation of the total indicated values derived from the three comparables in the above grid. The appraiser should furnish sufficient explanation to show his reasoning for arriving at a particular value conclusion. At his point, the appraiser shall analyze any current agreement of sale, option to purchase, or listing of the property, if such information is available to the appraiser in the normal course of business.

Item 18 - **Indicated Value by the Sales Comparison Approach -** This is the value conclusion the appraiser has reached under Item 17.

<u>Sheet 9</u>

(Before Value) – Correlation and Allocation - This sheet is for summarizing the approaches to value used, final correlation and breakdown of the estimated market value of the entire property.

Item 1 - **Final Correlation –** The appraiser shall make a final correlation of the approaches used to support the value conclusion and state reasons for any approaches not used. If the departure provision from USPAP is invoked in the appraisal, a statement should be made here relative to that fact, along with reasons for the departure.

Obviously, if the subject property is bare land without significant site improvements, the sales comparison approach is generally the only approach used.

However, if the subject property is an improved income producing property, the cost, income and sales comparison approaches are, in all probability, applicable.

There may be occasions where certain factors such as age of buildings or lack of market data could preclude the use of one of the approaches. In these instances, the appraiser should furnish a reasonable explanation of the situation.

If certain market data is not available in the area where the appraisals are being made, the appraiser may use available data from any area similar to the subject. If the necessary data is not available in another area, the appraiser should indicate the extent of his investigation in a brief statement.

Item 2 - **Reasonable Allocation -** At this point, the appraiser must allocate the estimate of total market value that has already been found and is shown in Item 1. Land classifications and areas; site improvements and quantities; buildings, building numbers, types, and classes are to be entered here. Land classes, site improvements, and buildings must be listed in the same manner as they appear on Sheet 2. The appraisal must also show the values allocated for each item. Individual allocations for land components, site improvements, and buildings are then added to get the total for each group. The allocation of contributing values will, of course, be similar to sale component values as adjusted in the sales comparison grids.

Occasionally, appraisals have significant differences between total land value as allocated under this heading and the total land value as established in the cost approach. A substantial difference between land value in the cost approach and land value in the allocation of the fair market value may indicate a failure on the part of the appraiser to properly correlate the unit values of bare land sales which have been used in the cost approach, or possibly, there may be inconsistent analysis and allocation of land values on the comparable sales. If a wide variance is apparent, steps should be taken to correct the inconsistency, or to furnish a reasonable explanation for the variance.

The total value of the entire property is indicated by adding the totals of the land and special land improvements and the buildings. This amount must equal the amount shown under Item 1(e).

Sheet 10

After Value Data - This sheet is to be used by the appraiser to describe the acquisition and the remainder(s). In effect, this sheet will become the analysis of the effect the acquisition will have on the remaining property.

The instructions shown after Items 1, 2 and 3 must be followed carefully to furnish the reader a clear picture of the conditions that exist as a result of the acquisition. The appraiser should discuss all factors that will result in any loss in value or enhancement to the subject property.

Particular attention must be given to utility items such as water lines, gas lines, power lines and sanitation facilities.

Item 1 - **Narrative Description of the Taking -** The narrative furnished here should show clearly how the acquisition is affecting the entire property. Describe where the acquisition begins and its course through the property; the type, class and area of land being acquired, cuts and fills at different points on the property, any fencing being acquired, improvements and site improvements acquired, proximity of right of way to buildings, and the acquisition of any utility items such as water lines, gas lines, sanitation facilities, etc.

Item 2 - **Narrative Description of Remainder(s) -** Each remainder must be described separately. The classes or types of land remaining and the area of each must be shown. The neighborhood analysis at this point should show the economic position of the remainder as it relates to highway, street frontage or other roads adjoining it, the distance to shopping and related areas, cross-roads, schools, churches, public transportation, etc. (as applicable). Furnish an explanation of highest and best use consistent with the narrative provided. The narrative should indicate whether, or not, the property should be considered one economic unit whenever two or more remainders are left.

The remainder(s) must be appraised using all applicable approaches to value. Appraisal of a remainder documented by a comparison of the remainder to comparable sales used in the Before Value with the statement: "The only difference between the before value and after value is the contributing value of the taking," will not be acceptable.

The appraiser should approach the description of the remainder from the perspective that it is a "new" or "different" property than existed prior to the acquisition. Reference to the subject property in terms of its description before the acquisition is wrong. Terse statements such as "The subject is unchanged from the before value except that 100 sf has been taken" are considered inadequate. References to the before situation should be confined to Item 1, Narrative Description of Acquisition.
Kentucky law, paraphrased, states that just compensation is the difference between the fair market value of the property immediately before the acquisition and the fair market value of the property immediately after the acquisition considering the road or other public facility complete.

From the above, it is evident that the appraiser, in establishing the after value, is to consider the property as it will exist on the new facility. It is no longer a part of the original property. It is a completely different property with different characteristics than it had prior to the acquisition.

In fact, the appraiser should look at the after value appraisal as a new before value for after value purposes. A new sketch showing the remainder as it exists after the acquisition might be helpful. The sketch could be prepared on a supplemental sheet showing all pertinent details about the remaining property.

Item 3 - Narrative Discussion of Anticipated Damage and/or Special Benefits - This item is for additional discussion of factors referred to under Item 1 and Item 2 which in the appraiser's opinion, will result in a loss of value to the remainder(s) such as reduction in economic size, over-improvement, etc., and why. If special benefits are present, state how and why.

The appraiser must remember to discuss non-compensable items of damage at this point, but **they are not** to be included in the after value by adjustments in any of the approaches used. For items of non-compensability, the appraiser may refer to the legal questions and answers in these instructional guidelines or consult the review appraiser.

This sheet may also be used to discuss the appraisal problem existing by reason of the acquisition and the method, procedure and valuation approaches to be used by the appraiser to solve the problem in the after value.

The appraiser should define the problem. Some points to consider are:

1. What is the property's highest and best use?
2. What approaches to value are applicable?
3. What comparable data is needed to develop applicable approaches?
4. Does any functional obsolescence exist?
5. Does any economic obsolescence exist?

Much more may be said about after value appraisals regarding documentation, but it is sufficient to say there is no real difference from the procedures used in the before value. The same basic appraisal fundamentals apply. The same degree of analysis must be present regarding the functional utility of the remainder and the comparisons made to it.

The appraiser must take into consideration **all** factors relating to the utility of the remainder so as to properly determine if the highest and best use has changed to a higher use, a lower use, or possibility will remain the same provided that certain components are re-established.

Special emphasis is placed on the information provided on Sheet 10. Many of the most frequent and severe deficiencies found in appraisals occur in these areas. The issues to be resolved in these analyses are among the most critical and often challenged in the acquisition process. Precise description, thorough analysis, and logical presentation are extremely important in creating a useful appraisal product.

Sheet 15

(After Value) – Correlation and Allocation - This sheet is for summarizing the approaches to value used, final correlation and breakdown of the estimated market value of the entire property.

Item 1 - Final Correlation – The appraiser shall make a final correlation of the approaches used to support the value conclusion and state reasons for any approaches not used. If the departure provision from USPAP is invoked in the appraisal, a statement should be made here relative to that fact, along with reasons for the departure.

Obviously, if the subject property is bare land without significant site improvements, the sales comparison approach is generally the only approach used.

However, if the subject property is an improved income producing property, the cost, income and sales comparison approaches are, in all probability, applicable.

There may be occasions where certain factors such as age of buildings or lack of market data could preclude the use of one of the approaches. In these instances, the appraiser should furnish a reasonable explanation of the situation.

If certain market data is not available in the area where the appraisals are being made, the appraiser may use available data from any area similar to the subject. If the necessary data is not available in another area, the appraiser should indicate the extent of his investigation in a brief statement.

Item 2 - Reasonable Allocation - At this point, the appraiser must allocate the estimate of total market value that has already been found and is shown in Item 1. Land classifications and areas; site improvements and quantities; buildings, building numbers, types, and classes are to be shown here. The appraisal must also show the values allocated for each item. Individual allocations for land components, site improvements, and buildings are then added to get the total for each group. The allocation of contributing values will, of course, be similar to sale component values as adjusted in the sales comparison grids.

Occasionally, appraisals have significant differences between total land value as allocated under this heading and the total land value as established in the cost approach. A substantial difference between land value in the cost approach and land value in the allocation of the fair market value may indicate a failure on the part of the appraiser to properly correlate the unit values of bare land sales which have been used in the cost approach, or possibly, there may be inconsistent analysis and allocation of land values on the comparable sales. If a wide variance is apparent, steps should be taken to correct the inconsistency, or to furnish a reasonable explanation for the variance.

The total value of the entire property is indicated by adding the totals of the land and special land improvements and the buildings. This amount must equal the amount shown under Item 1(e).

<u>Sheet 16</u>

Appraisal Recapitulation – The purpose of this sheet is to summarize value conclusions previously found in the appraisal report.

Item 1 - The before value of the entire property appearing on Sheet 9, Item 1(e) is be shown here.

Item 2 - The after value of the remaining property as shown on Sheet 15, Item 1(e) must be shown here. This must not reflect any loss in value due to non-compensable items.

Item 3 - This is simply the mathematical function that finds the difference between the before and after values (Item 1 minus Item 2). At this point the valuation process is complete with the exception of temporary easements.

Acquisition Summary – The Acquisition Summary is an accounting process for administrative purposes. As stated, the valuation process has been completed. Allocations are included here to assist other administrative functions.

Item 4 - This is the appraiser's opinion of the contributing value of land acquired as a part of the whole property before the acquisition as shown on Sheet 9 under Item 2. The headings are self-explanatory and each column must be filled in as applicable.

Item 5 - This is the same as for Item 4 except for site improvements acquired.

Item 6 - This is the same as for Item 5 except for buildings acquired.

Item 7 - This is the estimated contributing value of the acquisition or the total of Item 4 plus Item 5 plus Item 6.

Item 8 - This item identifies the amount of damage caused by the acquisition and is Item 3 minus Item 7. If Item 7 is greater than Item 3, enhancement is present and the instructions under Item 11 must be followed.

Item 9 - This is for ascertaining the rental value of temporary easement(s). The rental value is derived by multiplying the area of the temporary easement times the land unit value, as found in the after value appraisal, times the current percentage of return for land rentals. If the length of time exceeds one year, the percentage would be increased to allow for the time, i.e., the overall return is determined to be 8 percent and the temporary easement will run for two years then 8 percent times 2 years equals 16 percent and this percentage would be used.

The appraiser may place separate values on temporary easements in accordance with their intended uses and duration.

The appraiser should briefly describe the method used to value any easements shown.

Item 10 - This is the estimated just compensation due the property owner for the acquisition (item 3 plus Item 9).

APPRAISAL FORMAT REQUIREMENTS

The following are the recommended sheets of Form TC 62-20 under different appraisal scenarios. The formats listed to the left correspond to the "Complexity Rating" column on the Project Report (Form RW 75).

Format	Sheets
MINOR	1, 2, 3, 5(or 8), 9, 10, 11(or 14), 15, 16
BV	1, 2, 3, (4 as applicable), 5, (6, 7, 8 as applicable), 9, 10, 15, 16
BAV	1, 2, 3 (4 as applicable), 5, (6, 7, 8 as applicable), 9, 10, (11, 12, 13, 14 as applicable), 15, 16

Appraisers should give consideration to all three approaches in the BAV and BV formats. In a MINOR format when working with more than one land class, more than one set of sales may be needed.

As noted under each format, sheet numbers outside of parenthesis are required. Use of sheet numbers noted "as applicable" is expected unless a valid reason exists not to. (See also: Appraisal Form TC 62-20 and Preparation of Project Reports)

INSTRUCTIONS AND GUIDELINES
APPRAISAL REVIEW

GENERAL REMARKS

This information is assembled to aid and direct the review appraiser. Adherence to these instructions will help insure a proper and adequate review insofar as the appraisal reports are concerned.

Both appraisers and review appraisers must have open minds and flexibility of thought, and refrain from becoming advocates. Their minds should be clear of all biased or unsupported opinions of value. Impersonal analyses of all available data and information are essential to the reviewer's function.

Ethical conduct is just as important to the reviewer as to the appraiser. Standards governing the actions of professional appraisers should be followed by the review appraiser.

The reviewer determines the acceptability of appraisal reports on the following basis.

1. Form
2. Adequacy of data
3. Quality of data
4. Accuracy of data
5. Choice of approaches
6. Properly developed techniques
7. Adequacy of Analysis
8. Correlation of information
9. Reconciliation of conflicting or contradictory information.

The reviewer should be satisfied that the report constitutes an accurate portrayal of the property appraised and that all major value factors have been considered.

A primary responsibility of the reviewer is the final estimate of compensation. In the event he disagrees with the appraiser's values, he must provide support for his opinion. Unsupported and undocumented opinion should never replace one which is documented.

The mechanics of the review should follow a logical and orderly sequence of actions to produce the desired results. A portion of these actions must be performed in the field as well as the office. Sufficient time should be allowed for each phase to bring the review to a satisfactory conclusion.

The reviewer should use all available tools and information throughout the review process. The following is a partial list of the accessory information which can be utilized:

1. Title facts
2. Official plans (property maps, plan and profile, typical sections, cross-sections, etc.)
3. Aerial photographs
4. Project report
5. Leases
6. U.S.G.S. Maps
7. A.S.C.S. Maps

Review procedures set out on the following pages are applicable to the majority of properties regardless of use.

REVIEW PROCEDURE NO. 1

COMPARABLE SALES REPORT
(Office Review)

The review appraiser must comply with the following:

1. Check contents to determine that all data is included to meet the current requirements.

2. Check all mathematical computations.

3. Determine the significance of any errors. If the errors will have a significant effect on values in the appraisal reports, the appraiser should be notified so that appropriate corrections can be made to both the sales report and the appraisal reports where the sale was used.

4. Study the narrative portions in order to understand the basis of adjustments.

REVIEW PROCEDURE NO. 2

COMPARABLE SALES REPORT
(Record Check)

The review appraiser should follow the points listed below:

1. Confirm factual data which can be found in the public records. (Sales date, deed book, page number, grantor, grantee, location, size, etc.)

2. Check comparable leases and rentals if recorded.

3. Be satisfied that the recorded data contained within the sales book is reasonably accurate.

REVIEW PROCEDURE NO. 3

COMPARABLE SALES REPORT
(Field Inspection)

The review appraiser must comply with the following:

1. Make a visual inspection of all sales except those which are remote or impractical to visit. There are situations where sales not used may be better comparables than those

selected by the appraiser.

2. Confirm with a knowledgeable person the sales date, sales price, grantor, grantee and conditions relative to the most frequently used sales. (Were items of personal property and/or fixtures included in the sales price? Did the price include more than one tract? Was excessive motivation present in the transaction, etc.?). The scope of these confirmations should be to the extent the review appraiser is comfortable with.

3. Check the breakdown of the component parts of the sale as analyzed by the appraiser (improvements, land classification and allocation, special land improvements). Any reasonable doubt concerning the adequacy and/or accuracy of the information at hand should be resolved to the reviewer's satisfaction.

4. Determine which sales are keyed to important value factors (time, location, topography, size, etc.). These sales must be confirmed and inspected to the reviewer's satisfaction. Special effort should be made to determine whether the appraiser's analyses are logical and reasonable.

5. Check the consistency of the appraiser's analyses. If reasons for any major deviations are not apparent, additional information may be required from the appraiser.

6. Always remember that appraisal reports are a direct reflection of the data contained within the comparable sales. If the sales data is erroneous, inaccurate or distorted, the appraisal reports will suffer accordingly.

REVIEW PROCEDURE NO. 4

INITIAL SUBMISSION
(Contract Compliance and General Acceptability)

Review appraisers are responsible for determining whether or not a contract appraiser is eligible to receive incremental payments; therefore, they must:

1. Determine that the parcels received coincide with those on the invoice.

2. Check the number of appraisal reports for contract compliance.

3. Check type of report received against type specified in the contract.

4. Check for extra photographs for improvement records.

5. Check mathematical computations on invoice.

6. Inform the Right of Way Supervisor or Project Manager of his determination.

7. Approve the invoice and submit for payment.

<u>REVIEW PROCEDURE NO. 5</u>

CHART PREPARATION

NOTE: This procedure may not be applicable to all projects. After consideration of the number of sales, the number of parcels and the types of properties involved, the reviewer's judgment should determine the type and number of charts which will fit his particular need or the needs of the project involved.

1. Where applicable, charts of the comparables should be prepared by the reviewer for quick reference throughout the review process.

2. A chart of the number of times each sale is used should be prepared. This will determine the depth of inspection needed for each comparable. Sales used many times warrant a more careful inspection than those used only a few times.

3. Charts of subject parcels made in a fashion similar to those prepared on the comparables can help determine consistency within appraisals.

<u>REVIEW PROCEDURE NO. 6</u>

APPRAISAL REPORTS
(Initial Office Review)

The review appraiser **must** comply with the following:

1. Check mathematical computations or delegate a competent and knowledgeable person to do so. (Professional judgment should determine whether errors are significant to justify return to the appraiser for correction.)

2. Check parcel numbers, project numbers, owners, areas and item numbers shown in reports against the same information on the official plans. Differences should be explained in the report or by the reviewer**.** Areas and acquisitions must correspond with summary sheet of the plans furnished the appraiser.

3. Check valuation dates, dates of inspection and appraiser's signature for compliance with current appraisal instructions.

4. Determine that the descriptive narratives are adequate.

5. Determine compliance with standards and requirements of the Federal Highway Administration. The reports must comply with *Appraisal Guidelines* compiled by the Division of Right of Way and Utilities.

6. Read enough of the report to determine one's ability to follow the appraiser's reasoning. This is important where it pertains to the adjustments used in the Cost and Sales Comparison Approaches. Particular attention should be given to the descriptions and estimates of damage to the remainders.

7. At this point, it is appropriate to approve the 30% invoice for payment if the reports are in acceptable form.

REVIEW PROCEDURE NO. 7

APPRAISAL REPORTS
(Field Inspection)

Review appraisers must perform the following:

1. Contact owner and/or occupant prior to inspection of subject when possible or practical.

2. Make a visual inspection of the proposed acquisition. Site improvements within the taking should be observed and considered regardless of whether these items appear on the plans.

3. Make an exterior and interior inspection of any major improvements which are taken or damaged.

4. Determine that the information concerning buildings taken or damaged is reasonably accurate. Area, quality, type of construction, depreciation, etc., become more important when the cost approach is the only one used and/or relied upon.

5. At the time of field inspection, evaluate present use and highest and best use. Any anticipated change of highest and best use should be studied and analyzed in the field at this time.

6. Spend adequate time on each parcel to eliminate the need for subsequent inspections. Properly prepared field notes on each parcel provide a valuable source of information for the final desk review.

The review appraiser should observe the following:

1. Sketches and photos to assure they are reasonable representations of the property.

2. Physical attributes affecting value such as access, drainage, railroads, sidings, terrain, easements, natural barriers, etc.

3. Utilize information contained in the property map, plan and profile sheets and cross-sections.

REVIEW PROCEDURE NO. 8

APPRAISAL REPORTS
(Final Office Review)

The review appraiser is required to do the following:

1. Reconcile any discrepancies between the results of the onsite inspection and the contents of appraisal reports.

2. Systematically check the documentation of the Cost Approach. This includes the cost source, base unit values, applicable modifiers, variations from base cost and depreciation applied to the improvements. This check should also include documentation and adjustments to the land value plus the cost source and contributing value of the site improvements.

3. Analyze the documentation of the Income Approach which includes the capitalization technique, economic rent, expenses, economic life of the buildings and capitalization rates. Any difference in economic rent and contract rent must be addressed.

4. Check sales information contained in the appraisal report against the corresponding data contained in the sales/data book or sales report. Adjustments applied in the Sales Comparison Approach should be checked for documentation and/or justification contained in the sales report. All adjustments should be supported in compliance with the *Appraisal Guidelines*.

5. Review for final value estimate the "Justification of Value Used" and "Correlation of Approaches."

6. Check allocation of values. All allocations should approximate or support the indicated values in the approach which is relied upon.

7. Determine that the narrative descriptions of the taking and remainder(s) are adequate and reasonable.

8. Analyze the explanations justifying items of damages and/or enhancements. The reviewer should understand fully the method employed by the appraiser to determine the monetary consideration for damages and/or enhancements. The documentation and/or justification for this monetary consideration should satisfy current requirements.

9. Give proper attention to the "after value" documentation since it is as important as the "before value" documentation.

10. Assume responsibility for recommending an estimate of just compensation for approval.
11. Contact the District Property Management Agent for a determination of the salvage value of real property within the area of the acquisition.

The review appraiser should take the following action:

1. If, in the reviewer's professional opinion, errors/omissions will have significant effect on the value estimate, the appraiser should be required to make appropriate corrections. Minor errors and omissions may simply be noted in the review document as having no effect on final value conclusions.

2. Appraisal reports containing improperly developed approaches and techniques must be returned to the appraiser to be properly prepared for resubmission. Any estimate of value outside the range of indications is not acceptable. Further, an appraisal may be rejected in its entirety if the report conflicts with the facts to the point of incredibility.

3. Always review the total report before returning it to the appraiser. Additional information and/or documentation may be requested from the appraiser without returning the complete report.

4. The reviewer should not spend an excessive amount of time trying to make the report acceptable. If changes to the estimate of compensation are made because of differences of opinion, these must be supported.

5. If an appraisal is returned to the appraiser, the major reasons for the return must be specified and the proper information requested. Minor errors and/or deficiencies may be noted for information purposes with no specific action requested.

6. The reviewer should request second or third appraisals through the Central Office when it becomes obvious such is needed to reach a fair and equitable value conclusion.

7. The final invoice of 20% can be approved at this point if the reports meet the requirements of the Transportation Cabinet.

REVIEW PROCEDURE NO. 9

APPRAISAL REPORTS
(Two or More for Same Property)

The review appraiser must comply with the following procedures:

Dual Appraisals Required - When two appraisals have been made on one parcel or a property owner has submitted a report for review, the Review Appraiser must determine the acceptability of each as to procedure, standards and methods outlined in instructions provided to the appraisers.
If one appraisal is unacceptable, it must be returned for correction before final review of that parcel. If both appraisals are acceptable, the Reviewer must determine which appraisal presents the best documentation and most reasonably reflects compensation to be paid.

In the review of dual appraisal reports, the Review Appraiser will review each one individually and complete a review for each. One of the reports must be selected as the basis for compensation. There will not be a reconciliation of the two reports into a third value estimate based on parts taken from the two reports.

The review of the recommended report will note that it has been selected as most representative of fair market value and the amount of compensation will be stated at the bottom of the review sheet. No mention of the other report shall be made. The Review Appraiser's recap sheet will accompany only this review.

The review of the report that was not recommended will discuss the reasons why it is not recommended and make note of the superiority of the other report. The review sheet on this report will not carry a recap sheet and will not have a recommended value.

The summary sheet covering the two reports will carry only the recommended value.

REVIEW PROCEDURE NO. 10

APPRAISER PERFORMANCE ANALYSIS

Upon completion of each appraisal review, the Level I Reviewer must rate the overall quality of the appraisal. The electronic version of the review sheet (TC 62-87) contains a field with drop-down box providing choices from which the appraisal rating is to be selected. The rating should be based on the quality of the individual appraisal, and is not a rating of the appraiser's overall performance on the project.

Additionally, the Finance Cabinet has initiated an annual contractor evaluation for every individual or business who has had a contract with the Commonwealth during the previous year. This evaluation is designed as a specific reference for other agencies that might be considering using a particular vendor, and is completed in the Seagate program.

The rating of each individual work product combined with an annual overall review of the contractor's performance gives a reliable indicator of expected performance in the future.

GENERAL PROCEDURES

FEE APPRAISER MEETINGS PRIOR TO BEGINNING ASSIGNMENT:

The letter requesting proposals from fee appraisers states, in part, "The review appraiser who will be assigned to review this project will contact you soon after receipt of this letter to arrange a pre-assignment meeting." This meeting is to discuss such things as the project itself, type of reports to be submitted, special problems that may be encountered, types of data and analysis required and forms to be used. This meeting should be conducted by the review appraiser who will review the reports and, ideally, by the review appraiser who prepared the project report. This meeting lets the fee appraiser know what is expected from him and what he can expect from us so that fees can be set accordingly.

The letter requesting proposals from fee appraisers also states, in part, "At two different times during the course of the project, the review appraiser will contact you to arrange a meeting to discuss the progress of the assignment and problems that you may have encountered. These meetings will typically be just before the scheduled submission of the data book(s) and just before the scheduled submission of the first appraisal reports. These meetings are required as a part of this assignment." The letter shall also advise the appraiser that copies of the appraisal report(s) on this assignment may be released to the property owner and/or the owner's designated representative.

Subsequent meetings may be required to discuss problems that can arise, methodology being employed and general progress toward the completion date. The major reason for problems with reports in review is a lack of communication between the appraiser and review appraiser before the reports were submitted. The primary reason for having the data books submitted early is so the review appraiser can identify, early on, any areas that might present a problem in the later stages of review. It is important to maintain a good, open line of communication with the fee appraiser from the outset of the assignment. This helps to alleviate differences of opinion and identify problem areas before the actual review of reports begins.

DUAL REPORTS:

There are no dollar threshold amounts which automatically trigger dual reports on a parcel. At times, dual reports tend to confuse and cloud appraisal issues. There are instances when the acquisition is classed as "minor", yet high unit values could push the compensation over a predetermined thresholds for which two reports are required. The review appraiser always has the prerogative of requesting dual reports on any parcel based solely upon the complexity of the appraisal problem.

RETURN OF UNACCEPTABLE REPORTS:

If it become necessary to return appraisals to the appraiser for correction or additional data (see Review Procedure 8) the steps below will be followed:

1. All appraisals returned for correction must be accompanied by a transmittal letter (See Exhibits) pointing out the items in question.

2. Make a copy of the complete appraisal before returning it to the appraiser. Mark this copy "Returned for Correction" followed by the date it was returned.
3. Return the original and all copies that were submitted by the appraiser.

4. Send a copy of the transmittal letter to the Right of way Supervisor or project manager, and the second level review appraiser.

5. Place the copy of the original submission, and the corrected appraisal, when it is received, in the District parcel file to be retained as a permanent record copy of the appraisal.

The letter accompanying the reports to the appraiser should state the reasons for the return and what is needed to make them acceptable. It must also contain a date when the reports are to be resubmitted. No extensions beyond this date can be granted except on the authority of the Right of Way Supervisor.

It is strongly suggested that, before returning reports for correction, the review appraiser meet with the appraiser to discuss the deficiencies and the reasons for returning the reports. This personal contact should help to maintain a good working relationship with the appraiser.

UPDATING REPORTS IN REVIEW:

State law requires that a property owner be paid "Just Compensation" for his property when it is acquired for public use. Since just compensation is based on fair market value, it is essential that the review appraiser's determination of value reflect the current market value as of the date of review. To further assist the reviewer, all appraisals made by staff, or fee, must bear a valuation date of not more than 15 days prior to the date of submission.

To insure that current market value is used in all negotiations, the following procedure will be used by review appraisers:

Upon notification by the relocation agent that housing is available, the review appraiser will complete his review of that parcel, <u>including any necessary updating.</u>

1. Appraisals previously reviewed but on which the fair market value offer has not been made within a 180 day period will be re-reviewed to determine if there is a need for updating.

2. An appraisal update may be made by a review appraiser when there has been no substantial change in the physical characteristics of the parcel since the date of the appraisal, or the date of the last review.

3. The following method will be used for updating:

    (a). The reviewer must inspect, or re-inspect, the property to determine that there has been no substantial change in the property.

(b). The reviewer must support his time adjustments by reference to current time studies submitted on other projects, or must prepare his own time study for documentation.

(c). The reviewer must attach a new review sheet (Form TC 62-87) to the appraisal, setting forth his reasons and procedure for updating.

(d). The reviewer must attach a new Sheet 16 (Form TC 62-20) showing the revised allocation resulting from the update.

4. Appraisals that have become outdated due to a substantial change in physical characteristics, or changes that involve valuation factors requiring the appraiser's judgment, will be returned to the appraiser for revision and updating.

SALVAGE VALUES:

It is the responsibility of the review appraiser to see that salvage values for improvements acquired are contained in the report or the review. Salvage values are generally obtained from the District's Property Management Section.

Salvage values do not necessarily apply only to buildings and/or building equipment which is considered real estate. Site improvements may also have some value as salvageable items. Examples might be chain link fences, light standards, underground storage tanks, gates and ornamental fencing. In determining the salvage value of signs, the necessary information should already be contained in the sign valuation estimate. For signs of any type, the salvage value is always the estimated value in place less the cost of relocation including the new base and wiring. If the relocation cost exceeds the value in place, the salvage value is zero. The appraiser or sign value estimator is required to provide this information.

IDENTIFICATION OF REMAINDER AS BUILDABLE LOT:

In situations when principal improvements have been acquired, relocation procedures may require a declaration as to whether the remainder is a buildable lot. A brief statement to this effect should be made in the reviewer's remarks.

AIRSPACE LEASE REVIEW:

Airspace agreements (ground leases) are initiated by the Division of Traffic. Typically, an airspace agreement involves a lease between a property owner (lessee) and the Commonwealth of Kentucky (lessor). The review follows the same procedures as outlined previously with particular attention paid to analysis of economic rentals and rates of return. As always, the review appraiser must be satisfied that the report accurately portrays the property and that all major value factors have been considered. The recommended value will, in most cases, be a rental return on the property which is the subject of the airspace agreement.

These reports are reviewed at two levels. Summaries (original) submitted with these reports should carry (**AIRSPACE AGREEMENT)** in parenthesis after the identifier or parcel number. Copies of the report and summary are retained in the Division of Right of Way and Utilities Central Office files. (See also: AIRSPACE AGREEMENTS)

ACCESS POINT APPRAISAL REVIEW:

Appraisals to estimate the difference in value caused by granting access on a controlled or partially controlled access highway are initiated in Division of Traffic. The review of these reports follows the procedures previously outlined, keeping in mind the nature and purpose of the report and the value being found. Basically, these will be before value (as the property presently exists) and after value (as the property exists with access granted) appraisals. The difference in value, if any, will be the change brought about by the granting of the access point.

These reports are reviewed at two levels. Summaries (original) submitted with these reports should carry (**ACCESS POINT**) in parenthesis after the parcel number. Copies of the report and summary are retained in Division of Right of Way and Utilities Central Office files.

SURPLUS/EXCESS PROPERTY REVIEW:

These reports are reviewed at two levels. Summaries (original) submitted with these reports should carry (**SURPLUS**) or (**EXCESS**) in parenthesis after the parcel number. Copies of the report and summary are retained in Division of Right of Way and Utilities Central Office files.

Review of these appraisals should follow the same procedures as outlined for acquisition appraisals keeping in mind the nature and purpose of these reports. For instance, if an adjoining property owner has made application to purchase a parcel of surplus property, the report should contain two values; a separate entity value and a contributing value of the surplus to the adjoining property. The recommended value will be the higher of the two. The review appraiser should contact the Division of Right of Way and Utilities to ascertain the adequacy of types of value in the report.

One important aspect of these reports is that the date of valuation may be a date prior to the date of inspection. The reason for this is that the applicant may have obtained a prior permit to do work (filling, leveling, etc.) on the parcel and may have already completed the work. In most of these cases, the date of valuation will be before that work was completed. The review appraiser must assure, especially if any work has been completed on the parcel, that the effective date of appraisal is correct.

SUMMARY PREPARATION AND SUBMISSION:

Summaries are filed separately from the appraisal reports in Central Office and provide a quick reference of which reports have been approved and at what dollar amounts. They also serve as final approval from the Division Director or his designated representative for the compensation recommended. Every group of appraisals submitted to Central Office must be covered by an original summary itemizing each report in that submission.

The following list shows the number of copies of appraisal reports required on the various types of projects:

Report Type	Required from Appraiser	Submit to Central Office
Right of Way Acquisition	Original	Original
Transportation Enhancement	Original and Three	All
Excess & Surplus	Original and Four	All
Airspace Agreements	Original and Three	All
Access Points	Original and Three	All
Court Testimony	Original and One	All

Summaries take one of two forms:

1. **Three Signature Summary:** This summary is signed by the Right of Way Supervisor, or project manager, review appraiser and Appraisal Manager. It does not require the signature of a second level review appraiser, even though second level review appraisers periodically spot check reports submitted under these summaries and may, at their discretion, request all appraisals be submitted to them for review, including those that are submitted under this summary format. This summary authorizes the opening of negotiations upon approval by the Appraisal Manager and does not require recommendation by a second level review appraiser. Submissions under this summary are limited to the following amounts of compensation:

   A. Total acquisitions on which compensation does not exceed $50,000.

   B. Partial acquisitions on which compensation does not exceed $25,000.

2. **Four Signature Summary:** All appraisals exceeding those limitations noted above are submitted under a four signature summary which requires a second level review and recommendation prior to the Appraisal Manager's final approval.

Parcel allocation on individual summaries should be limited as follows:

1. No more than five (5) parcels carried on one summary regardless of dollar amounts of compensation.
2. A separate summary is prepared for each parcel on which two appraisals have been made regardless of dollar amounts of compensation.
3. Appraisals requiring two reviews are not to be submitted on the same summary with appraisals requiring only one review.

VERBAL APPROVALS, PHOTOCOPIES AND FAXED SUMMARIES:

Authority to buy parcels is not officially granted until the summary is signed by the Appraisal Manager. Verbal approvals are not to be given by second level review appraisers. Summaries are not acceptable without original signatures. No action will be taken on photocopies, faxed, or pre-dated summaries.

REVISED REVIEWS AND SUMMARIES:

At times, it may become necessary to revise a review of an appraisal report which often may alter compensation. A revised review should be titled <u>REVISED REVIEW</u> in capital letters and underlined just below the review checklist on the Appraisal Review Sheet (TC 62-87). The total compensation (revised amount) should be shown as the recommended amount. In every instance, the original and all subsequent reviews must be preserved in hard copy and electronic form as a record of prior review actions / approvals.

On the summaries accompanying revisions, the word (REVISED) in capitals and in parenthesis should follow the parcel number of the report which has been revised. Near the center of the summary sheet, immediately beneath that parcel, note should be made to the effect that this revision increases (or decreases) compensation by net plus (or minus) $ (dollars). The total revised amount is then entered under the AMOUNT column and the amount of increase (+) or decrease (-) for each parcel is displayed in the **"NET CHANGE"** column. Revised parcels and original submissions may be combined on the same summary.

With summaries containing revised parcels, the "Total This Summary" line should equal the net increase or decrease for those revised parcels plus the amount(s) approved for any additional parcels included on that summary.
At times, a revision will result in no change in compensation even though something has changed in the property, the plans or the report. In those instances, it is still necessary to submit a revised review showing the same amount previously approved. This maintains the integrity of the appraisal since no one can then question that it was an appraisal oversight. Revisions which do not alter compensation do not require a summary.

Revisions that fall under the $25,000 limit for partial acquisitions, or $50,000 limit for total acquisitions, and which were caused by minor plan revisions, and which do not change the complexity of the appraisal problem, are not reviewed at the second level. Also, minor first level revisions in review caused by small area changes, etc., do not require a second level review.

SUMMARIES SUBMITTED WITH SUPPLEMENTAL ACQUISITIONS:

At times, it will be necessary to re-appraise a property from which additional right of way is needed after one acquisition has already taken place. In these cases, the report and review are submitted as though it were a new acquisition. On the summary, the letter **(F)** for "follow-up" in capitals and in parenthesis should follow the parcel number of the report which is being submitted. This is, in effect, compensation for a new parcel and not revised compensation for a parcel which has not been acquired. Likewise, it should be entered in the project totals at the bottom of the summary as if it were a new parcel.

REVIEWS AND SUMMARIES FOR UNECONOMIC REMNANTS:

When the remainder of a parcel is determined to be an uneconomic remnant, it is essential that fact be passed on to the buyer and others who read the report. In the review, the review appraiser should note that the parcel has a remainder which is an uneconomic remnant and set out (in the review) the total amount of compensation should the remnant be purchased along with the acquisition. Caution should be exercised here if the remnant has easements on it that would be eliminated by the acquisition of additional land areas.

On the summary, near the center of the sheet, immediately beneath that parcel, note is made to the effect that the parcel contains an uneconomic remnant that, if purchased, would increase total compensation to $ (dollars). The recommended amount of compensation (<u>not including the remnant's value</u>) is entered under the AMOUNT column. Project totals reflect only the amount of recommended compensation, not including the uneconomic remnant's value.

APPRAISAL OF ACCESS POINTS

This category of appraisals must meet all Appraisal Requirements for Commonwealth of Kentucky, as detailed in Section IV – Page 1 of the *Appraisal Guidelines.*

Actually, these appraisals are made to estimate the effect on value in a disposal of access control rights. They are usually initiated by a request from Division of Traffic with the appraisal being completed by an appraiser from the Division of Right of Way and Utilities, although at times, fee appraisers are employed to prepare the reports.

Access control is a property right considered to be part of the highway right of way (FHWA Memorandum; 3-4-82). When these rights are relinquished – *i.e.*, conveyed - to a private party or a public agency for nonpublic use, the Cabinet is due reimbursement for any change in value caused by the granting of access.

Typically, in these situations, an adjoining owner will make application to acquire access rights on a controlled or partially controlled highway. The appraisal problem essentially becomes the reverse of acquiring rights of access. This automatically brings into play the before and after value premise. The property is first appraised in its current situation without the access which is to be granted. Next, the property is appraised as though access rights have been granted. The difference between these two figures, if any, is the amount due the Cabinet for transferring its access control property right.

The owner of the tract to which access is being granted must bear the cost of constructing the actual entrance. Only the right of access will be granted; not physical access itself. This could become important when using market sales that had, at the time of sale, fully developed entrances.

The appraiser should submit an original and three copies of these reports to be reviewed at two levels.

APPRAISALS FOR OTHER AGENCIES

This category of appraisals must meet all Appraisal Requirements for Commonwealth of Kentucky, as detailed in Section IV – Page 1 of the *Appraisal Guidelines.*

The Division of Right of Way and Utilities is frequently requested to appraise or review appraisals made for purposes other than for right of way acquisitions. These may involve the acquisition and/or disposal of various properties for which State or Federal funds have been, or will be, expended.

The appraisals should be prepared in narrative form using 8½ x 11 inch paper, and should be bound by a soft binder. An original and three copies should be submitted. The appraiser should keep a separate record copy.

The initial review is to be made by the assigned review appraiser. The original and three copies of the appraisal is to be submitted to the Central Office for review. The written review should be in memo form with the appropriate identifying information in the heading. An appraisal summary with signature lines for the second level review appraiser and Appraisal Manager should also be submitted.

All narrative appraisal reports must comply with the following requirements:

APPRAISAL REQUIREMENTS
FOR
COMMONWEALTH OF KENTUCKY

APPRAISALS - The Commonwealth should secure at least one appraisal made by a qualified appraiser for each parcel acquired. The appraisal should be an analytical narrative report following current professional appraisal practices involving the application of standard techniques; such as, the Sales Comparison, Cost and/or Income Approaches to value. Other portions of the report, such as introductory and supporting data, limiting conditions and certifications should also meet these standards. The formality of documentation should be governed by the type of acquisition and the complexity involved. The Commonwealth does not wish to impose unduly stringent requirements but does require adequate and complete documentation. All appraisals must be independently prepared by qualified appraisers, either staff or fee.

The report on any individual property may vary depending upon the type of property being appraised. Extensive data may be required in the case of highly specialized or complex properties. A lesser amount of data may be required when the complexity is considered minor. Generally, all items must be considered by the appraiser and included in the report. If any item is omitted, the reason should be adequately explained.

The Appraisal Report Should Cover:

1. **Qualifications.** Statement of qualifications of all appraisers and/or technicians contributing to the report.

2. **Statements of Special and Limiting Conditions.** The appraiser should list those limiting conditions and assumptions directly or indirectly influencing his final value conclusion. Some of these would be; that the title is assumed to be good and marketable, that the legal description furnished the appraiser is assumed to be correct, that the information supplied by others is, to the best of the appraiser's knowledge and belief, considered to be in conformity with the true facts, that no one, other than the appraiser signing the report, prepared the analysis, conclusions and opinions concerning real estate that are set forth herein, etc.

3. **Purpose of the Appraisal.** Under this heading, the appraiser should show the type of value to be determined and the definition thereof.

4. **Identification of Property.** Under this heading, the appraiser should identify the property that is being appraised. He should state the location of the property and furnish the legal description. A copy of the legal description may be included in the addenda of the report and referred to at this point. If a legal description has not been furnished the appraiser, or is not otherwise available, this fact should be noted in the appraiser’s comments.

5. **City, Area, and Neighborhood Data.** Under this heading, the appraiser shall discuss those factors that may influence the value conclusions reached for the subject property. The social and economic factors of the community should be discussed only to the extent that they would affect the property being appraised. The discussion should include the residential, commercial, industrial and/or other expansion of the community, as applicable to the property being appraised. The various data should be analyzed to determine the stability of the area and neighborhood, and to estimate the future economic trends that may affect the final value conclusions.

6. **Property Data.**

   a. **Site.** Under this heading, the appraiser should indicate the size, dimensions and/or area of the subject site. A description of the type of soil, its topography, mineral deposits, easements, etc., should be given. If there is an indication that mineral deposits have more than a nominal commercial value, this fact shall be clearly stated. Possible stands of merchantable timber should be treated in the same manner.

      Further, the type of access(es) to the property should be clearly described and any detrimental or hazardous factors inherent in the location of the property should also be discussed under this heading. Some of these factors could be: contamination, land fills, noxious odors, erosion, flood plain, etc.

   b. **Improvements.** Under this heading, the appraiser shall describe all improvements. This may be by narrative or a schedule form attached, and shall include all dimensions and square foot areas. In the case of rental properties where the Income Approach is to be used, a statement should be included as to the method used in determining leaseable areas such as: gross, net, full floor, etc. Further, the condition of the improvements should be described in sufficient detail to allow the reader to understand the depreciation that may be assigned in the Cost Approach and/or any discount in rental value that may have been included by the appraiser.

   c. **Equipment.** This item shall be described by narrative or schedule form attached including all items of equipment with their type and purpose.

   d. **Condition.** The current physical condition and relative use and obsolescence shall be stated for each item or group appraised and, whenever applicable, the repair or replacement required to bring the equipment to usable condition.

   e. **Assessed Value and Annual Tax Load.** The appraiser shall include the current assessment, the tax rate and the dollar amount of real estate taxes for the property being appraised.

f. **<u>Zoning.</u>** The appraiser shall describe the zoning for the subject property and all comparable properties included in his report. The appraiser shall list the uses permitted under the zoning classifications, or he may include a copy of the zoning regulations in the addenda of the report and make reference to them at this point. If rezoning is eminent, he shall discuss this under Item (7). If there is no zoning in effect, he should clearly explain this fact.

7. **<u>Analysis of Highest and Best Use.</u>** The appraiser should define the term highest and best use, and furnish a sufficient analysis to indicate the highest and best use that can be made of the subject property. The valuation should be based on this use.

8. **<u>Land Value.</u>** The appraiser's opinion of the contributing value of the land shall be based upon its highest and best use regardless of any existing structures, and shall be supported by confirmed current factual data (sales and offerings) of comparable, or nearly comparable, land parcels having like optimum uses. An analysis of the comparable market data shall be made to indicate the relationship to the subject property. All differences shall be discussed and adjustments - either plus or minus - made where applicable. Adjustments may be expressed in terms of dollars or a percentages, but the appraiser should clearly show why any adjustments made are reasonable.

9. **<u>Value Estimate by Cost Approach.</u>** This section shall be in the form of computative data, arranged in sequence, beginning with reproduction or replacement cost, and shall state the source (book and page, if a national service) of all figures used. The dollar amounts of physical deterioration and functional and external obsolescence, or the omission of the same, shall be explained in narrative form. This procedure may be omitted on improvements, both real and personal, for which only a salvage or scrap value is estimated, <u>if it can be clearly supported through narrative explanation that they contribute no other value.</u>

10. **<u>Value Estimate by Income Approach.</u>** In using this Approach, the appraiser shall furnish sufficient market rental information to support the estimated economic rent for the subject property. Each market rental furnished shall be discussed to show how it relates to the economic rent. The appraiser shall prepare an operating statement showing the estimated gross annual rent, allowances for vacancy and credit loss, and an itemized estimate of all expenses including reserves for replacement. An explanation should be furnished showing the source of each expense item.

    Capitalization of net income shall be at the rate prevailing for this type of property and location. The capitalization technique, method and rate used shall be explained in narrative form supported by a statement of sources of rates and factors.

11. **<u>Value Estimate by Sales Comparison Approach.</u>** All comparable sales used shall be confirmed by the buyer, seller, broker, or other person having knowledge of the price, terms and conditions of sale. Each comparable shall be weighed and explained in relation to the subject property to indicate the reasoning behind the appraiser's final value estimate from this approach, and a dollar or percentage adjustment for each factor of difference shall be shown.

All adjustments made by the Appraiser shall be supported by some comparative analysis between sales. This type of analysis may be illustrated by graphs or supported through narrative explanation. Each comparable used should be described in detail as provided under Item 15-c.

12. **Interpretation and Correlation of Estimates.** The appraiser shall interpret the foregoing estimates and shall state the reasons why one or more of the conclusions reached in Items (9), (10), and (11) are indicative of the market value. If only one approach to value is used, the appraiser should clearly explain why he did not use the other approaches.

13. **Tabulation of History of Conveyance.** Under this heading, the appraiser should state briefly the purpose for which the improvements, if any, were designed, approximate date of original construction and any major renovation and/or additions. A 5 year record of all conveyances of subject property must be provided. Also, any recent leases that may have expired or offers to buy or sell, if possible. If no sale has occurred in the past 5 years, the appraiser should include the last source of title.

14. **Certification of Appraiser, to wit:**

   a. He has personally inspected the property.

   b. He has afforded the property owner or his designated representative the opportunity to accompany him at the time of inspection.

   c. He has no present or contemplated interest in the property.

   d. That any fee received for this appraisal is in no way contingent upon the value reported herein.

   e. That in his opinion, the market value of the taking as of:

   ____________________ is $____.
   (Valuation date)

   ____
   (Signature) (Date report submitted)

15. **Exhibits and Addenda.**

a. Location Map. (Within the city or area).

b. Comparative Map Data. (Show geographic location of the appraised property and the comparative parcels analyzed).

c. Detail of the Comparative Data. All comparative market data included in the report shall be described in sufficient detail to allow the reader to understand its comparability to the subject property. Land sales shall be described showing dimensions and/or areas, frontages on streets or roads, access, topography, zoning at time of sale, present use, highest and best use and any improvements since the date of sale. The same applies to other land data such as ground leases, listings, etc.

Improved comparables shall be described in the same detail showing dimensions, square foot areas (1st and 2nd floors), number of rooms, baths, estimated age, effective age, general appearance and condition, and other factors that may be compared to the subject property such as, heating, air conditioning, special land improvements, etc.

d. Plot Plan. Show shape, boundary dimensions, adjoining streets or roadways, natural barriers such as, creeks, steep topography, etc.

e. Building Sketch. (Show all dimensions).

f. Floor Plans. (When needed to explain the value estimate).

g. Photographs. Pictures shall show the front and rear elevation of the major improvements, plus any unusual features. A front view of all comparables shall be included. Except for the overall view, photographs may be bound as pages facing the associated discussions and/or descriptions. All graphic material shall include captions.

h. Other Pertinent Exhibits. (As applicable).

All maps and plans may be bound as facing pages opposite the description, tabulation, or discussions they concern. Exhibits a. and b. may be combined where a single map will show sufficient details of the subject and comparable sales.

APPRAISAL OF BILLBOARD SIGNS

In Kentucky, billboard signs are considered to be personal property affixed to the real property. For right of way acquisition purposes, they are considered to be those signs which advertise products or business activities foreign to the subject property. These structures are typically owned by individuals or businesses who lease the sign site from the fee landowner. Because they are treated as personal property, billboards are normally handled as relocation items and need not be included in appraisals. In rare instances where it is necessary to appraise a billboard, guidance will be provided by the Central Office staff.

SITE VALUATION: Sign sites are typically leased by the sign owner from the fee owner of the land. Ownership of both the sign and site is rare. Sign site leases seldom delineate a specific area, but usually describe a general location for the sign and state the sign owner's rights with respect to access, maintenance, renewal of the lease, etc. The appraiser should obtain a copy of the lease, if possible. Failing that, reporting of the terms of the lease will be accepted if verifiable.

If the sign is to be removed and cannot be relocated on the subject property, the compensation for the lost income stream must be estimated if the lease is determined to add value to the land. The appraiser should be aware that under Kentucky law, only "routine maintenance" on billboards is allowed, i.e., the structure may not be improved in a manner that significantly extends its physical life. This means that they have limited physical and economic lives just as buildings do. When billboards cannot be replaced on the subject property, the sign site must not be valued based on an income projection period which exceeds the sign's estimated economic life. In situations where the sign can be legally reconstructed or relocated with no negative effect on the income stream, a valuation of the sign site is not required.

VALUATION OF LEASEHOLD: Any leasehold interest the sign owner may have in the sign site must be valued. This is necessary in order to make an offer to the sign owner to extinguish the leasehold interest. (See also: LEASEHOLDS)

COMMUNICATIONS TOWERS

Communication and cellular antenna towers are not taxed as real estate in Kentucky and are therefore considered to be personal property affixed to the real property. These structures are typically owned and operated by companies to support cellular telecommunications or personal communications services. Because they are not classified as real property, they need not be included in appraisals.

SITE VALUATION: The sites for these structures are typically leased by their owner(s) from the fee owner of the land. The appraiser should therefore obtain a copy of the lease agreement whenever possible. Otherwise, reporting the lease terms will be acceptable if they can be verified. The appraiser must estimate the present worth of the income stream to the land in all instances where the lease is determined to add value to the real estate.

VALUATION OF THE LEASEHOLD: All leasehold interest(s) in the land must be valued to permit an offer to be made to extinguish the leasehold. (See also: LEASEHOLDS)

AIRSPACE AGREEMENTS

Section 156 of the "Surface Transportation and Uniform Relocation Assistance Act of 1987" states, in part, that "States shall charge, as a minimum, fair market value……. for the sale, use, lease, or lease renewals.……of right of way airspace acquired as a result of a project funded in whole or in part with Federal assistance made available from the Highway Trust Fund." It is required that fair market value be established whenever the airspace of a highway is to be utilized for other than highway use. Since leases for surface parking appear to be the most prevalent use of highway airspace, the following comments are geared toward those situations.

These are essentially ground leases and their rental value should be based upon their contributing value to the property with which they will be used (*i.e.*, the dominant tract). The first consideration in the use of a proposed airspace should be of its highest and best use (HBU). This should be identified on all new proposals as well as on those existing leases that come due for renewal. Once HBU is identified, some alternatives are presented depending upon the available market data.

1. **Rental Analysis:** When establishing the fair market rent, a complete appraisal may not always be necessary. A comparative rental analysis may be all that is required. This process is similar to the one used in the sales comparison approach to value. Rent comparables are researched, analyzed and compared to the subject using appropriate adjustments for differences between the properties. The result of this process is a reconciliation of the various indications of rental value into a final estimate of a fair rental value for the subject property.

2. **Property Appraisal:** In the absence of market rental data, a complete appraisal of the property is required. Following this course, a conventional appraisal of the property is made, and then a rate of return projected based on the appraised value of the property and a fair return on equity investment. This rate of return is applied by the Permits Branch of the Division of Traffic, and results in the fair market rental for the airspace lease.

   In either case above, the format will probably be narrative since a rental value is being sought and not the value of a proposed acquisition. Basically, the appraisal process will still be employed covering such points as title, rights appraised, certification, property description, photos, sketches, comparable data, etc. The only significant difference will be in the valuation process and the final value conclusion.

SURPLUS AND EXCESS PROPERTIES

The Transportation Cabinet's Division of Right of Way and Utilities implements and coordinates the disposal of excess and surplus properties. There is a distinction between the two.

Excess Property: This is property that was acquired in excess of the Cabinet's needs. It was never used as a part of the project and is typically a small, low value remainder acquired in conjunction with the right of way actually needed.

Surplus Property: This is property which was actually needed for the project but has since (and after various approvals) been declared surplus to the needs of the Commonwealth and can be disposed of.

Either of these types of property may be sold to an individual or corporate entity (usually an adjoining owner) who has made application to buy them, or, may be offered at public auction and sold to the highest bidder. In either case, the property cannot be transferred for a price lower than the appraised amount or an amount that, when combined with other factors, is in the best interest of the Commonwealth to accept.

Appraisals of these types of properties may take one of two formats:

> For a property that is being offered at public sale, only one value needs be found. This is referred to as entity value, or the value of the property as it stands alone. Proper appraisal procedure and the appraisal process should be followed in preparing the report with particular attention given to collection of truly comparable data and the analysis of that data. The appraisal may be completed in narrative form or on TC 62-20 depending upon which one best fits the appraisal problem.
>
> Two values are needed for a property that is being sold to an adjoining owner who has made application to buy it. The first of these is the entity or stand alone value described in the preceding paragraph. The second value, to be found in a totally separate valuation process, reflects the surplus property's contributing value representing the contribution of the surplus in combination with the adjacent tract.

In theory, the contributing value estimate requires a procedure similar to a Before and After Value appraisal for acquisition - only in reverse.

1. First, the value of the adjacent property is appraised <u>with</u> the surplus right of way considered to be assembled with it.
2. Second, the value of the adjacent property is appraised without the surplus right of way.
3. The difference between these two values is considered the contributing value.

The appraisal methodology used to estimate contributing value may vary with the type of complexity of adjacent property involved. For this reason, a full description of the surplus tract is needed, and a complete description of the adjacent property, its highest and best use, the reason the surplus tract is needed and the effect that the assemblage will have on the total property. If these narrative descriptions can establish that no increase in value can be supported beyond the adjacent property's land unit value, then only an appraisal of the property owner's land value will be needed to support the unit value for the subject surplus right of way.

If these descriptions and data appear to support an increase in utility of the total property, over and above the adjacent land’s unit value, an appraisal of the adjacent property with and without the surplus right of way will be required to estimate the contributing value.

For example, 1,000 sf of surplus might normally have a land unit value of $2.00 per sf based on the adjacent owner's land value. However, when added to the owner's tract, the surplus might provide critically needed parking areas resulting in an increase of net operating income of say $600 per year. The value then, could be closer to $6,000 than $2,000 indicated by unit value alone. This example reflects the inverse of severance damage.

In some cases, the date of valuation for surplus or excess property may be prior to the date of inspection, and the property may have been physically altered. This frequently occurs when an adjoining owner has obtained a permit to do grading, leveling or filling on the surplus in conjunction with site work on the adjoining tract. In some of these cases, the date of valuation will be a date before the site work was done. The appraiser should always obtain the effective date of appraisal from the Division of Right of Way and Utilities. If the property has been physically altered, it will probably be necessary to use project cross sections, original appraisal photographs, etc., to determine the physical features of the surplus before the site work was done.

Should the surplus property being appraised contain an encroachment from the adjacent property, the encroachment should be considered as it affects the contributing value of the surplus to the adjacent property.

As noted earlier, proper appraisal procedure and the appraisal process should be followed in the preparation of these reports. This category of appraisals must meet all Appraisal Requirements for Commonwealth of Kentucky, as detailed in Section IV – Page 1 of the *Appraisal Guidelines.* However, on small tracts where enough research has been completed to indicate that, obviously, the value will not exceed $1,500, the valuation may be completed in memorandum form. The amount of detail in the memorandum will vary, but should contain, as a minimum, a brief description of the property, its location, neighborhood, highest and best use, the method of valuation, reference to sales used and the steps leading to the final value conclusion.

Appraisals of excess and surplus properties may be made by Division of Right of Way and Utilities staff or fee appraisers. They are submitted to the Division of Right of Way and Utilities for review, and receive both first and second level reviews (see Review Procedures). The appraiser should submit an original and four copies for review.

VALUATION OF LEASEHOLD INTERESTS

Leasehold Interests: Defined as the lessee's right to use and occupy the real estate during the term of the lease and restricted only by the contractual agreement.

It is policy that negotiations be conducted with only the fee owner of the property, although the leasehold interest, if requested, is to be derived and stated separately within the appraisal report. The owner, or lessor, may be advised during negotiations of the leasehold interest valuation for the purpose of aiding an agreement with the lessee.

The appraiser must document the measure of current market rent applicable to the subject in the same manner that comparable sales are used to establish current fair market value. The rental data must be analyzed to the same extent as sales data in order to arrive at fair rate that is reasonable in terms of quality and durability.

After current fair market rent has been established, the appraiser proceeds to compare the market data to the terms of the subject lease. If it is determined the lessee enjoys an advantage in contract rent, then the leasehold interest is computed by discounting the margin of the advantage over the term of the remaining contract much like an annuity would be discounted to present worth.

The appraiser is cautioned to be extremely careful in his interpretation of the lease data as to special provisions, concessions and revisions that may be stipulated within the contract agreement.

As pertains to all tenant interests, a release and transfer agreement must be obtained from the lessee if negotiations are successful. In the event of condemnation, the lessee becomes a party to litigation.

TENANT-OWNED REALTY

Part 24 of 49 CFR of the Code of Federal Regulations states:

> "When acquiring any interest in real property, the Agency shall offer to acquire at least an equal interest in all buildings, structures, or other improvements located upon the real property to be acquired, which it requires to be removed or which it determines will be adversely affected by the use to which such real property will be put. This shall include any improvement of a tenant-owner who has the right or obligation to remove the improvement at the expiration of the lease term."

Simply put, this means that if a tenant has added improvements (either structures or site improvements) to a property, and both lessor and tenant agree the improvement(s) belong to the tenant, a separate offer must be made to the tenant to acquire those improvements. The value of the tenant-owned realty must be included in the overall compensation since this is the total amount of compensation to acquire the real estate on a particular parcel. However, somewhere in the review (and in the report), the value of the tenant's improvements must be separated from those of the owner so that individual offers can be made.

Sheet 10 should be used to itemize appurtenances belonging to the tenant. Before receiving any direct payment for improvements or fixtures, the tenant owner must assign, transfer and release to the state, all rights, title and interest in such improvements and fixtures. The appraiser must exercise caution to prevent any duplication of compensation when separate valuations are made.

MANUFACTURED STRUCTURES

The term “manufactured structure” refers to a structure that is cut, packaged, or assembled in one location to be shipped to another location for use as a residence, office, etc.. Some common types are:

1. Kits or packages containing "pre-cut" components for construction on a site. This kit normally includes instructional information for the purchaser/assembler or assembly by a franchise agent of the seller of the kit.

2. "Panelized" or "sectional" units are assembled in a jig or form on an assembly line. These units or sections offer standardized construction with rapid "on site" assembly.

3. Modular structures, are buildings assembled in modules - complete sections - for transport to a site for "set up." Modular structures are differentiated from the "mobile home" concept by the type of frame or framework on which the unit is transported. Most modular structures are transported on a framework that is removed once the unit is placed on a permanent foundation. Some manufacturers provide steel rails or frame as an integral part of the structure. running gear, wheels, axles, and springs along with the hitches are removed once the unit is placed on a permanent foundation.

4. Mobile homes, complete structures assembled on steel frame rails with running gear for transport from a manufacturing plant to the users site.

Typical construction of types, 1, 2 and 3 above, requires a permanent foundation for support. In all but exceptional cases, these completed structures are considered real property. Mobile homes may be handled in one of two ways:

1. If the land owner and mobile home owner are the same, the mobile home should be considered a fixture (real property).

2. If the land owner and the mobile home owner are different, the mobile home should be considered personalty.

In the second instance, items normally considered real property (room additions, porches, decks, septic systems) that belong to the tenant should be included as tenant-owned realty. (See *Tenant-Owned Realty*)

In some instances, a mobile home being acquired and falling into the second category above may be in such poor condition it cannot be moved without destroying it. In these unusual circumstances, the mobile home may be considered tenant-owned realty and included in the compensation.

Since this appraisal methodology is heavily dependent upon who owns what, it is incumbent upon the appraiser to verify the ownership of any mobile home being acquired. This means obtaining a copy of the title if at all possible, but at minimum, a personal visual verification of the of the Certificate of Title is necessary. The owner’s name should be noted on Sheet 2 (of form TC 62-20) in the Five Year Sales Record/Last Source of Title.

Following is some general information on mobile homes:

Manufacturer identification labels are affixed to many structures in the form of a "data plate or sticker." One example is a residence by Gunnerson Homes, built in the 1950's, with a metal plate by the back door. Information on this plate includes the manufacturer's name, model number, and date of completion.

Mobile homes built after 1976 are required to meet the Federal Mobile Home Construction and Safety Standards, as defined in Title VI, Housing and Community Development Act of 1974. A HUD seal certifying compliance is to be displayed. This certification is found on a metal plate fastened to the left rear corner of most homes, and also on the manufacturer's label in homes built after 1980. Other information on the manufacturer's label on a mobile home is the manufacturer's address and plant number; date of manufacture; serial number; model identification; listing of factory installed equipment and specific design information about the roof, heat, and wind resistance.

Zoning ordinances, subdivision restrictions and other local regulations may restrict some methods of construction, or the placement of some modular or mobile units in certain locations.

Title ownership of many manufactured structures is transferred by deed as a part of the site owner's interest if the site and structure are commonly owned. Mobile homes are conveyed by title, similar to auto titles, through the County Court Clerk's office. Appraisers should obtain any serial number or label information to document that the correct structure is the subject of their report. In the absence of any other source of Serial Number information for a Mobile home, the number is usually embossed in the metal of the frame on the left side of the hitch just below the front wall of the home.

Construction quality of manufactured units can be as varied as any other type of construction. Structures can be found that are a “shell” for purchaser completion to some that are highly finished. Mobile homes range from the minimum required to comply with the HUD seal to some having a very high quality finish.

Quality indicators in a mobile home can be illusive. The industry is adept at presenting a "show quality" home that is appealing but of marginal construction quality. A careful look at the weave (loop count) of the carpet, inside of closets to see if both sides of the closet walls have been finished, kitchen cabinets to see if the base cabinets have a flooring panel, and if so, that it is better than masonite or 1/4 inch hardboard, or that the quality of the plumbing fixtures is adequate to offer a reasonable life expectancy. Quality adjustments may be necessary.

Comparison properties should be comparable. Tract-built houses may compare with some modular homes and some double-wide mobile homes on a permanent foundation, but one could not reliably compare a 14' x 70' mobile home with a standard construction home.

Cost data is available from several recognized national publications. Two of these publications, Marshall and Swift (Residential Cost Handbook) and the N.A.D.A. Mobile Home Manufactured Housing Appraisal Guide suggest that there are several quality levels. Familiarity with the quality descriptions of the publication used, and a thorough inspection of the subject of the appraisal is needed to produce a complete cost approach to value.

Income valuation is possible by use of rental comparisons found in most market areas. Direct comparison or side by side comparisons will yield sufficient comparisons to suggest an indication of value in most markets.

Salvage Values: Salvage values should be obtained from the district property management agent by the review appraiser, and included in the appraisal review.

APPRAISALS FOR COURT TESTIMONY

Assignments for appraisals in preparation for court testimony are made through Central Office. These may be new assignments or an assignment to update a previous report to the date of taking.

Appraisal reports received for purposes of court testimony must meet the appraisal requirements of the Commonwealth of Kentucky. (See *Appraisals for Other Agencies: Appraisal Requirements for Commonwealth of Kentucky* - Section IV, Page 2)

When the decision is made to obtain appraisal reports in preparation for trial, the trial attorney will solicit fee proposals from fee appraisers and forward them the witness coordinator in the Division of Right of Way and Utilities' Central Office. Appraisal fees are then negotiated by the Division's central office appraisal staff, and assignments made by them. Typically, appraisal assignments are made on the basis of 90-day submission schedules.

Appraisal reports and invoices are submitted directly to the witness coordinator. Appraisals submitted without the corresponding invoices will be returned immediately without review.

Invoices for the appraisal reports are approved in the Division of Right of Way and Utilities for the agreed fee – no day/date notations are necessary. Invoices for meetings, pre-trials, court appearances, etc., must contain calendar dates worked at the per diem rate and must be approved by the trial attorney. When an invoice is approved for payment, a copy of that invoice and a note of approval will be sent to the appraiser advising him that a check will be sent in about 10 days.

If an appraisal does not meet Cabinet requirements, the report and a reviewer's checklist will be returned to the appraiser along with the invoice.

If the appraisal meets the Cabinet's technical requirements but is not recommended for court testimony, the invoice will be paid and a copy of the review sent to the attorney and the appraiser.

If the appraisal meets the Cabinet's technical requirements and is recommended for court testimony, the invoice will be paid, a copy of the review sent to the appraiser, and a copy of the review and approved report sent to the trial attorney.

The original and two copies of these reports are submitted to the witness coordinator in the Division's Central Office. These reports must be submitted by the date specified in the appraisal assignment letter..

When the appraiser who originally appraised the property for acquisition has been notified he will be a witness in the case, it is necessary that he prepare an updated appraisal report (or update the original) reflecting the new effective date (date of taking). These updates should be submitted as noted above.

Review of Appraisals for Court Testimony:

Only one review is made of a court testimony appraisal. The second level review appraiser reviews it in the same manner as other reports submitted for review. After the review is completed, it is signed by the review appraiser and Appraisal Manager, approving or disapproving its use as a basis for court testimony, and then forwarded to the trial attorney.

Appraisal reports for court testimony that do not exceed the original approved compensation by a certain (percentage) amount will not be reviewed by second level review appraisers. Reports in which compensation falls within the following percentages of the originally approved compensation will not be reviewed. This, of course, assumes no changes affecting the property have taken place between the times the two reports were completed.

Compensation up to $10,000:	within 25%
Compensation between $10,000 and $50,000:	within 20%
Compensation between $50,000 and $100,000	within 15%
Compensation $100,000 and above	all reports reviewed

An appraisal report for court testimony will be submitted in every case and placed in the files irrespective of whether it is one that will be reviewed.

ON-PREMISE AND ID SIGNS

Valuation of business signs, both free-standing and those attached to buildings, are calculated on a depreciated cost basis. Estimates of the cost new (replacement cost), the amount of accrued depreciation and relocation cost should be obtained from a knowledgeable sign company. One written estimate will suffice where it is obvious the sign structure will not exceed a $25,000.00 value; two written estimates are required for structures exceeding this value limitation. The removal of sign structures should never be considered a cost-to-cure item. In some instances, it may be necessary to temporarily relocate a sign when it is acquired by a temporary easement. The estimate obtained must reflect the cost of the temporary move and permanent placement after the easement is relinquished.

The sign should always be purchased as a part of the acquisition. A salvage value is computed by subtracting the relocation cost from the depreciated replacement cost. This salvage value will be deducted from the total compensation should the owner retain the structure and be responsible for moving it.

The depreciated replacement cost should include separate values for the base and wiring that cannot be removed, the sign standard and sign face(s).

All tenant owned structures must be identified separately in the appraisal. Like fixtures, a tenant-owned sign requires a release and transfer of all rights, title and interests in it. (See *Tenant-Owned Realty*)

Occasionally, the cost to relocate an aging sign structure, particularly when involving a temporary, then permanent setting, will exceed the depreciated value of the sign. If the sign is part of an on-going business, and the value of the entire enterprise would be damaged by its permanent loss, then compensation for moving the existing sign may exceed its depreciated value but still remain the basis for compensation.

TEMPORARY EASEMENTS

Temporary easements may be acquired for any one of several reasons (building removal, construction, storage or materials, etc.). Usually, compensation for temporary easements is based on a land rental. In those cases a rate of return is applied to the product of the remaining land's unit value having been multiplied by the area being acquired in the easement. (See appraisal form TC 62-20, Sheet 16, Item 9).

In some situations, a temporary easement acquisition can cause temporary damage to the remaining property. In the opinion rendered in *Commonwealth vs. F. W. Ray, et al*, the Kentucky Supreme Court stated in part:

> "it appears necessary to consider the damaging effect of the temporary occupancy of the land upon the adjacent remainder of the landowner's property……a proper standard is the diminution in the fair rental value of the landowner's adjacent property by reason of the occupancy by the Commonwealth. If the part occupied has some material relevancy to the use of the overall premises, its temporary loss may cause a substantial depreciation in rental value."

The most common temporary loss in value is parking loss during the construction period. This can cause lost income to business properties through reduction in rental rates or increased vacancies. Construction of detours may cause the loss of use of portions of a property, or possibly proximity damage until the detour is removed and the property restored to its original state.

In yet other instances, temporary easements may cause permanent damage to remainders when structures are placed on them. Typically, these are fills or cuts, ditches or other drainage structures. Often, they change the physical characteristics of the land and the highest and best use of the affected areas. In these cases, a permanent damage may be applicable, and would be reflected in the after value.

Some temporary easements are acquired for purposes which only benefit the property. An example would be easements to allow construction for tying in entrances. In some cases involving very high value land, such an easement may be large enough (e.g., those on shopping centers or large commercial tracts) that the land rental becomes very expensive. In these situations where rental compensation appears unconscionably high, the review appraiser has the authority to arbitrarily lower compensation for the easement to what seems like a more reasonable figure.

PERMANENT EASEMENTS

Permanent easements are acquired for any one of a variety of reasons (drainage, drainage structures, retaining wall systems, utilities, etc.). In all instances, portions of the owner's rights in the fee estate are being acquired. Since very seldom are all rights to the land being acquired, it is uncommon for the compensation to approximate the land's fee value. Likewise, if only minor or rarely used rights are being acquired, compensation may reflect an only nominal effect.

Compensation for these acquisitions is usually expressed as a reasonably explained percentage of the fee value which reflects the portions of the owner's rights being acquired.

UNECONOMIC REMNANTS

If the acquisition of only a portion of a property would leave the owner with an uneconomic remnant, the Department is obligated to offer to acquire the uneconomic remnant along with the portion of the property needed for the project. An uneconomic remnant is defined as:

> "a remaining part of the property in which the owner is left with an interest that the Transportation Cabinet determines has little or no utility or value **to the owner**."

Comments clarifying this definition were offered by FHWA prior to its inclusion in the Federal Register. Those comments, in part, are "...the intention here is that the Agency (State), rather than the property owner, have the responsibility to make the final decision on whether a particular remainder is or is not an uneconomic remnant. Since the appraisal process is an Agency (State) Activity, an Agency (State) may handle the matter in its appraisals if it prefers..." and "...the Department (Federal DOT) has a greater concern for those owners who must sell an uneconomic remnant to a third party in order to break even, or who must undertake a totally new business in order to take advantage of a changed highest and best use. Both situations described present a significant financial risk to the owner. The Department (Federal DOT) intends that the Agency (State) offer to assume that risk through an offer to purchase the remainder as an uneconomic remnant..."

Uneconomic remnants are most often created where extensive damages are incurred by the remainder or where there is a change in highest and best use. They are not, however, limited to these two situations.

The appraiser should provide adequate discussion and analysis regarding the utility and, subsequently, the value of any remainder. The review appraiser must have enough information to be able to determine whether or not a remainder is an uneconomic remnant. In situations where uneconomic remnants are believed to exist, based upon the definition above, the appraiser may so state in the discussion of the after value.

The actual determination of whether or not a remainder is an uneconomic remnant is made by the review appraiser. When a parcel has an uneconomic remnant, Item 16 on the Review Sheet (Form TC 62- 87) must be checked and explained under remarks.

In preparing a summary sheet for a parcel with an uneconomic remnant, two values will be supplied:

1. The value found by the review appraiser which is just compensation for the acquisition.
2. The combined value of #1 above and the after value of the uneconomic remnant.

(See also: Reviews and Summaries for Uneconomic Remnants)

EXCESS PURCHASED

Appraisers will occasionally find notations such as **“Excess Purchased”** on plan sheets. The Right of Way Supervisor should be notified immediately that these plans are incorrect. Property cannot be considered “excess purchased” until after it has been bought.

Notwithstanding the perception of a total acquisition, it is not to be considered such from an appraisal standpoint. The reason being that if the owner refuses to sell the excess, it – the excess - cannot be condemned. Therefore, it is actually a remainder. Likewise, FHWA does not participate in funding of excess purchases, so the remainder's value is needed to exclude that amount (i.e., the value of the excess) from their participation in the project.

For this reason, in appraising "excess purchased" properties, the remainder's value must also be a part of the valuation process, as with any other before and after value appraisal report.

Most design engineers and design consultants doing work for the Cabinet have been advised that the notation "**Excess Purchased**" should no longer be used. In essence, there is no such thing. From a final valuation standpoint, most of these remainders will become uneconomic remnants.

PREPARATION AND INTERPRETATION OF PROJECT REPORT FORM TC 62-75

The importance of proper and thorough completion of this form cannot be overemphasized since it helps to form the basis for the contract appraiser's fee proposal. At the same time it influences, to a great extent, what type of appraisal report the Department will receive. In effect, the review appraiser who prepares the project report is advising the appraiser of how complex the appraisal problem might be and recommending the format by which it should be appraised. Any changes in that format due to unforeseen circumstances will be made later on an individual parcel basis. Since these project reports are used by contract appraisers in preparing their fee proposals, it is not necessary to prepare a project report for assignments to be completed by staff appraisers. One copy of the project report should be sent to the Appraisal Manager, and on projects designated for a right of way consultant, one copy to the Acquisitions Branch Manager.

The "Remarks" column in the main body of the project report should contain sufficient information to give a thorough understanding of the appraisal problem. Abbreviations may be used to save time and space, but even they should be readily recognizable and not a vague composite of letters. In this column, a brief description of the property should be included containing number and type of improvements, present use of the property, current zoning, improvements acquired, physical changes such as grade, access, right of way proximity, physical effects of easements, SI affected, etc. In some cases, commercial and industrial in particular, occupancy of the improvements is extremely helpful. For example, "1-S-masonry business" is not nearly as descriptive as "1-S-masonry business occupied as McDonald's Restaurant." In this column also, the possibility of damage should not be stated as fact such as "proximity damage to residence" or "severance damage exists." That precise determination ultimately is to be made by the appraiser in the field. Only the possibility should be noted such as "new right of way acquires 40% of front yard," "right of way severs cropland into three tracts," or "very small, irregular shaped severance right." Statements such as these latter ones do not predetermine damage but still advise the appraiser of the perceived, severe impact of the acquisition. In the "Remarks" column, the review appraiser should remember that these are capsule descriptions of the acquisition's effect on each property. While they should not be lengthy narratives, neither should they be too brief.

The next column is "Complexity Rating." There are only three options:

<u>BV:</u> (Before Value only). This rating is used when only a before value need be found - when there is no after value, as with a total acquisition. (See also: Appraisal Format Requirements; Section II)

<u>BAV:</u> (Complete Before Value and Complete After Value). This rating is used on partial acquisitions which present a complex appraisal problem. Under this rating, the appraiser would be expected to complete a fully supported before value using all approaches to value that are applicable. Then, complete a fully supported after value using all approaches to value that are applicable. (See also: Appraisal Format Requirements; Section II)

MINOR: (Minor acquisitions only). This rating may be used for either partial or total acquisitions as the situation dictates.

In partial acquisitions, a minor complexity rating is a simple strip acquisition, an acquisition of inexpensive sheds or outbuildings, an acquisition that is not complex, or a combination of any of these. Also, temporary easements (rental value only) when there is no change in physical characteristics of the property that would affect its after value (rental value only), or a permanent easement that does not reduce the value of the remainder more than the fee value of the area acquired in permanent easement. If improvements are **obviously** not affected by the minor acquisition and their value can be estimated, the appraiser should be advised of that under the remarks column. There should be some logical basis for these estimated values, such as assessed value, insured value, abbreviated cost analysis, to name a few.

In total acquisitions, a minor complexity rating is a total acquisition of a vacant tract or a single family residence where market (sales) data is sufficient enough to establish its value. Note that in these cases the rating could be "BV-Minor."

In a MINOR acquisition, the TC 62-20 is generally modified to include only one (Sales Comparison) approach to value. (See also: *Appraisal Format Requirements*; Section II)

Under the column “Recommended Format” the following are the only three options:

TC 62-20: This format provides for all three approaches to value, as applicable, in both the before value and the after value.

NARRATIVE: This format will be used rather infrequently and only in unusual circumstances where the TC 62-20 is not well adapted to the appraisal problem. One example might be a complete before and after value appraisal of a property combined with a feasibility analysis or pro forma for projected improvements and income data which would not adapt itself well to a form appraisal.

MINOR ACQUISITION REVIEW (MAR): These are used for minor acquisitions and are not prepared by appraisers, but by other - usually acquisition – agents. Although not appraisals, they should be noted by the review appraiser preparing the project report to maintain the total parcel count. These acquisitions are limited to $10,000.

The two columns "Complexity Rating" and "Recommended Format" are separate and distinct. Any one format is not automatically associated with a particular rating. First, the rating should be ascertained keeping in mind what approaches to value should be applicable and how best to address the appraisal problem. Then, the format should be recommended that allows the appraiser to approach the problem and complete the report in that manner. Never assume that an appraiser reading a project report will see the problem in exactly the same way as the person writing the report.

There are two categories of acquisitions; major and minor. The complexity rating "Minor" is one of the options. Major acquisitions fall into one of the two other ratings (BV or BAV). Situations embracing minor acquisitions are described under the MINOR heading above. Every acquisition that is not minor is considered major….. DUHHH !!!

It is not essential to note "Major" complexity in that column for each parcel. The rating of BV or BAV does that automatically. The division of parcels into Major and Minor complexity on the project report’s front sheet is done for assistance in assessing the overall complexity of the project

Item 7 on the cover sheet of the project report should be used fully utilized. Under this heading, the review appraiser should give the appraiser an overview of what the assignment might be like, what general problems may be encountered and how the review appraiser expects the appraiser to address those problems. Likewise, unusual circumstances for individual parcels can be described in more detail in this section.

All parcels on the project should be included in the project report. If some parcels will be appraised by staff, only the parcel number need be noted along with the word “STAFF” beside it. This advises Central Office and the fee appraiser that these parcels will not be a part of the contract assignment. Likewise, these staff parcels should be deleted from the totals on the project report cover sheet.

Since no two properties or appraisal problems will ever be exactly alike, this narrative does not cover all the different situations which will arise. The appraiser preparing the individual appraisal report must be the final judge as to what is pertinent to the report and what is not.

RIGHT OF WAY COST ESTIMATES

Cost estimates are used to arrive at administrative decisions and as the basis for establishing funding for a project. An estimate, by definition, is "to produce a statement of the approximate cost of" and, therefore, does not entail the detailed data collection and analysis involved in an appraisal. However, since many facets of a project are based on estimates, a concerted effort must be made to make them as accurate as possible.

Right of way cost estimates fall into one of five classes. The class should be noted on the estimate. They are submitted on a form (Estimated Relocation and Right of Way Costs).

Class A: Parcel by parcel estimate of right of way and relocation costs, plus administrative and court costs, based on complete right of way plans for programming purposes.

Class B: Parcel by parcel estimate of right of way and relocation costs, plus administrative and court costs, based on joint inspection plans.

Class C: Right of way acreage costs and damages, plus improvements, relocation assistance, court and administrative costs, with approximate number of parcels, based on plans available for preliminary line and grade inspection.

Class D: Right of way acreage costs and damages, plus improvements, relocation assistance, court and administrative costs, with approximate number of parcels, based on limited studies of quad sheets, aerial photos, etc.

Class E: Based on Pre-study estimate.

In Class A and B estimates, the parcel by parcel requirement refers to the method of estimating by the appraiser and does not need to be included in the submitted estimate. However, the appraiser should maintain field notes which show the parcel by parcel dollar estimate in the event it is requested.

All estimates are prepared on the Right of Way Cost Estimate Form. However, many estimates now being prepared are Class D and E and will not provide all the information (other than by guess) required. Contingent and limiting conditions in the estimate should be noted on the estimate and/or kept in the field notes. For alternate line or scoping estimates, it is not necessary that a fully qualified appraiser be used to prepare the estimate.

Estimated relocation costs, environmental cleanup costs and administrative/court costs will be provided to fee appraisers by the district offices.

SPECIAL ESTIMATES

Many appraisals involve problems which require the replacement, restoration, relocation, or modification of improvements or site improvements. Among the most common items are paving, fencing, septic systems, water and gas lines, signs and fixtures. When these situations are of a complexity beyond the expertise or experience of the appraiser, it is prudent to seek the assistance of individuals or businesses with a working knowledge in the area of specific concern. The appraiser is reminded that the damage to the property must equal or exceed the amount of curable obsolescence, otherwise compensation must be based on the contributing value of the item.

The appraiser may compile the data and personally make the estimate of cost if the cost or value is less than $1,000. The appraiser may elect to enlist the services of an expert even below this limit. Property owners are often skeptical of estimates derived from cost manuals and frequently are more receptive to written estimates when they can be assured that a local contractor will actually perform the work for the specified amount. In addition, experts are more likely to recognize significant factors or problems of which the appraiser is unaware. The use of specialists or contractors is encouraged where practical.

When the cost or value estimated exceeds $25,000, two written estimates by experts other than the appraiser are required. These estimates must be attached to each copy of the appraisal submitted. Although no standard format is required, written estimates should be detailed enough for the reviewer to ascertain the basic components of cost or value. Estimates should also specify the salvage value, if applicable.

Experts or contractors providing estimates should be paid for their services. Although they often offer to make minor estimates or valuations for free, they are less likely to feel obligated to perform in a timely or diligent manner if not paid. Fee appraisers are expected to anticipate the need for such services and to prepare contract proposals accordingly. Unless prior arrangements are made, the Department will not bear the cost of hiring other experts.

The fees for services procured by staff personnel may be paid from the District Office Imprest Cash Fund if the expense is less than $50. Bills of greater than $50 should be submitted to the Billing Section in the Central Office. Direct payment to the provider will be made by check. If the provider has previously been assigned a vendor number, the number should be supplied along with the bill. All bills and estimates should be signed and dated. If the cost of the estimate exceeds $250, prior approval of the second level review appraiser or Appraisal Manager is required. See also: On Premise and ID Signs)

ASBESTOS, HAZARDOUS MATERIALS AND UST'S

Since the appraiser is the first Department representative to fully inspect the property, the presence of these substances will become known to him first. If the appraiser suspects the presence of asbestos or other hazardous material in a property, he should notify the District Right of Way Supervisor at once. In addition, note should be made prominently in the appraisal report (or a separate attachment) of the suspected presence of the material, type, location and how it will be affected by the project. At this point, the presence of asbestos or other hazardous substance is often only suspected and, therefore, should not be reflected in the valuation process.

During the owner interview, a question of the owner may reveal substances not readily apparent during a thorough inspection (underground fuel tanks) while some (asbestos siding) will be fairly obvious. Possible generators may be: dry cleaners, beauty salons, creosote operations, metal plating operations, service stations with buried fuel tanks and film processing establishments.

This is in no way intended to increase the appraiser's liability in identifying asbestos or hazardous waste but simply to aid the Department in allowing more "lead time" to properly handle these situations. It is Division policy at this time to appraise all properties as "clean" assuming no hazardous materials or contamination present. The economic effect of the presence of hazmats or contamination is dealt with administratively at a later stage in the acquisition process.

Land uses typically associated with hazardous materials are listed on the following page.

Land uses that involve any of the following operations, processes or activities are likely to generate hazardous wastes and to have chemical or fuel storage facilities on-site.

1. Repair and maintenance of motor vehicles (automobiles, aircraft, trucks, construction equipment, RVs).
2. Electroplating and other metal manufacturing and fabricating operations.
3. Metal finishing, refinishing and etching (auto body, printed circuit board manufacturing, jewelry fabrication).
4. Operation or repair of printing and reproduction equipment.
5. Dry cleaning and laundry services.
6. Photographic processing and printing.
7. Analytical laboratory operations.
8. Provision of home, industrial or commercial pest control.
9. Chemical manufacture, formulation or processing.
10. Warehouse operations.
11. Manufacture, formulation or processing of pesticides or agricultural products or chemicals.
12. Home, garden, pool or agricultural supply manufacturing.
13. Textile manufacturing (including fabric dyeing and finishing).
14. Manufacture, refinishing or stripping of furniture or wood products.
15. Cosmetic manufacturing or processing.
16. Chemical treatment of lawns, gardens, yards or provision of other landscape and tree services.
17. Pressure treating or preserving wood products.
18. Building and repair of boats.
19. Production and repair of shoes.
20. Paint formulation and mixing.
21. Metal galvanizing.
22. Drum, barrel and tank reconditioning
23. Battery manufacturing, rebuilding or recycling.
24. Solvent recycling.
25. Scrap metal and junk yard operations.
26. Chemical and petroleum product storage facilities (both above and underground tanks and flammable storage rooms).
27. Landfills.
28. Receive bulk deliveries of raw or processed materials.
29. Lessor or renter of vehicles, maintain fleet operations, rent equipment.
30. Product distribution, consolidation and shipping operations.
31. Waste or spent product incineration.
32. Nursery and greenhouse operations.
33. Schools, auditoriums and other facilities with large heating requirements.
34. Recycling facilities.

PLAN REVISIONS

Frequently, an appraiser encounters situations where a revision of the right of way plans is required or where a plan revision appears to be in the best interest of the KYTC. The most common situation involves a "sell-off" of a portion of the subject property or an assemblage of other property which has occurred since the plans were approved. New construction or removal of improvements which are not indicated by the available plans may also have occurred. It is also possible that an error in spotting improvements on the plans will be found.

Upon determining that a plan change may be needed, the appraiser should immediately notify, in writing, the Right of Way Supervisor or project manager for the project. The notification should include an explanation of the situation and the recommended solution. This procedure will expedite a resolution of the problem and document any delay in completing the appraisal. When a decision is made, the appraiser should be advised of the proper course of action. A change in the appraisal assignment or re-negotiation of appraisal fees may be necessary.

When plan changes are made subsequent to submission of the appraisal, the assigned review appraiser may make the necessary revisions in the appraisal review. Such revisions should include a revised sketch and a clear analysis and discussion of the effects of the change. Substantial changes in the appraisal problem may require a completely new appraisal. In this case, the review appraiser should obtain approval from the second level review appraiser or Appraisal Manager.

When the appraiser observes a situation where a reasonably feasible plan revision will significantly reduce damage to the property and expenditure of funds by the Department, notifying the assigned review appraiser or Right of Way Supervisor for the project is encouraged. This could involve relocation of entrances, movement of right of way lines, reduction of easements, etc. Such action is sometimes taken during negotiations; however, the appraiser is usually aware of these situations and has the earliest opportunity to propose solutions. Although the final decision in these engineering problems does not rest with the appraiser, valuable assistance can be offered in this area.

PERSONAL SERVICE CONTRACTS

Appraisal work assignments to fee appraisers are made to prequalified appraisers under a project contract or a Statewide Master Agreement. Typically, assignments are made after an appraiser has been selected by the Appraiser Evaluation Committee and has submitted an acceptable fee proposal. The Appraiser Evaluation Committee consists of the Division's Appraisal Manager, a member of the Central Office appraisal staff, and the District Right of Way Supervisor or his/her designated representative.

1. **Prime Contractor Status:** The Transportation Cabinet's personal service contracts typically call for the personal services of the individual contractor. Further, the contract states that the contractor shall have no authority to transfer, assign or delegate any of the obligations assumed in the contract. The selection of appraisers for assignment is based upon the experience, training, judgment, ability and competency of the contractor. Obviously, if appraisals are received based on the analysis of supporting data made by someone other than the contractor, the Transportation Cabinet is not receiving the personal service it contracted for. This does not preclude an associate or employee from gathering raw field data and information. However, the analysis of market data, value conclusions and contacts with property owners are expected to be the work of the individual under contract. Prime contractor status also requires the appraiser to inspect each subject property and comparable sale, and to contact each property owner on the project, as the appraiser certifies in the appraisal report.

2. **Change in Scope of Work:** After beginning work on an appraisal assignment, should the appraiser find a situation that has changed in any of the properties and that would change the scope of work, appraisal format and/or fee, approval for the change must be obtained, in writing, from Central Office. Typically, this takes the form of the appraiser writing the Appraisal Manager, identifying the reason for the change and possibly requesting an adjustment in the fee. A response is made in writing either approving or disapproving the change or suggesting an alternative. Payment for changes cannot be made unless prior approval has been granted by Central Office.

3. **Appraisal Submissions:** Submission of data books and appraisal reports should be made to the District Office as stipulated in the assignment.

4. **Invoices:** Invoices may be submitted to the District Office any time after the work is completed as set out in the contract. Submission of invoices are to be made with fees set out for individual parcels and the percentage being invoiced.

PROPERTY OWNER INTERVIEW AND INFORMATIONAL BOOKLET

The initial contact with a subject property owner is a significant part of the right of way acquisition process. Quite often, appraisers constitute the first encounter a property owner has with an official representative of the Department. Usually, they are the first to have specific knowledge and information about the proposed project's effect on the subject property. The appraiser's sincerity and thoroughness frequently influence the property owner's attitude toward the remainder of the acquisition process and promotes confidence that his interests will be properly served.

PROPERTY OWNER INTERVIEW (Form TC 62-19): The Property Owner Interview is a valuable aid in addressing the property owner's concerns, as well as their assessment of the appraisal phase of the right of way process. Appraisers, both staff and fee, are expected to explain the acquisition in detail and until the owner is satisfied with the explanation and has no further questions.

Appraisers should complete the heading information at the top, and fill in the two blanks in the acknowledgment near the bottom of the page. The form and a return envelope should be given to the owner or their representative at the time of inspection. The forms are stocked by central office. The envelopes are the same ones used for the Property Owner Surveys.

All property owners or a designated representative must be contacted by the contract appraiser or staff appraiser assigned the subject parcel. Every reasonable effort must be made to do this. Even if the owner does not occupy the property, the appraiser must make personal contact if the owner resides in the general area. Absentee owners who reside out of state or long distances from the project area may be contacted by registered mail. A return, postage-paid envelope should be provided for response.

INFORMATIONAL BOOKLET: The appraiser is required to provide each subject property owner the informational booklet, *Answers to Questions About Right of Way Acquisition*. Prior to contacting property owners, the appraiser should obtain a sufficient number of booklets to cover the assignment from the Right of Way Supervisor responsible for the project. The Property Owner Interview contains an evidential statement that the appraiser has furnished the property owner a copy of this booklet.

DAMAGE ANALYSIS

Direct sales comparison is the preferred method for damage analysis, however, the appraiser will often be faced with a lack of data in sufficient quantity or variety to confidently predict the amount of damage to affected properties. Damage studies can be very helpful when there is inadequate market data available to make direct sales comparisons in estimating after values. A carefully developed and properly applied study can be employed in estimating damages to several parcels which are affected to varying degrees. This will provide a consistent and systematic method of estimating after values on any project.

FORMAT: No specific format is required. This allows the appraiser latitude in creating a damage study. Since the comparable sales report is a part of each appraisal, the analysis, conclusions, methods, procedure, and supporting data must be included as a separate section in the comparable sales report. The appraisal report need only include explanation of the specific effects on the subject remainder, how this relates to the findings of the study, and the resulting conclusion or estimate of damage.

CONDITIONS OF USE: The damage study and its conclusions must be approved by the first level review appraiser and second level review appraiser prior to submission of appraisals in which it is applied. Analyses which are based on undamaged after value estimates taken from previously submitted appraisals are unacceptable. No limitation is placed upon the "age" of comparable sales used, however, economic conditions and the expectations of market participants for the study period and the current date of appraisal must be highly similar. Back-to-back sales of the same property or comparable sales used in paired sales analysis must have occurred within a 5-year span. Studies which have been developed by others and previously found acceptable may be used, however, the appraiser must provide analysis which demonstrates that the study or sales used are appropriate and the conclusions valid for the current project. Failure to relate the study to the current project will result in rejection of appraisals in which it is used.

DEVELOPMENT AND APPLICATION: The purpose of any damage study is to measure the permanent loss in value to a remainder beyond the simple loss of the portion of the property acquired. There are numerous circumstances which may, individually or in combination, cause permanent damage. Among the most common are proximity of improvements to the proposed right of way, changes in grade, triangulation, overimprovement, landlocking, physical alterations in easements, and encumbrances by permanent easements. Typically, proximity, cuts, fills, and landlocking are those which necessitate large scale studies.

The appraiser is required to measure the value of the subject property immediately before the acquisition and immediately after the acquisition considering the road complete. Therefore, any damage study necessarily involves comparing situations which are similar to subject's before the road is built with those which are similar to subject's after the road is built.

The most common method used is research of areas surrounding completed highway projects. It is not imperative, however, that the loss in value attributable to the effect being measured be caused by a previous highway project. For instance, paired sales analysis of comparable properties within any neighborhood where varying house setbacks are found should indicate the extent of market reaction to proximity of a house to the right of way.

The purest and most reliable comparative situation is the back-to-back sale of a property where one sale occurred prior to an acquisition and resale occurred soon after the acquisition. In such a case, the appraiser must report and adjust for any factors other than the effect being measured which would affect the property's value. This may include remodeling, construction of a garage or room addition, severe physical deterioration, market conditions, etc.

Paired sale analysis is another useful method. Lacking back-to-back sales, or in supplement to them, highly similar properties may be compared to isolate the loss in value attributable to the effect being measured. Obviously, the more similar the paired sales are, the less potential for error exists. This method requires very careful analysis and adjusting. Furthermore, it allows cross-comparison of a variety of sales, which may expand the number of comparative situations available for study.

The sales data collected and used in damage studies is subject to the same requirements as comparable sales used in appraisals. The appraiser must compile, verify, analyze, and present the information to the same degree and detail as normally required. Again, the sale dates of back-to-back and paired sales must be no greater than five years apart. Any general increase or decrease in property values over the period between sales must be documented.

Appraisers should develop their own studies whenever possible. It is extremely important that the property types and economic influences in the study area and current project area are very similar. Care must be taken to ensure that changes in value are not caused by transition to other uses or general changes in the character of the neighborhood.

Although no specific analytical process or format is required, the data, narrative explanations, and conclusions should be presented in a clear and straightforward manner. The use of visual aids such as graphs and charts are very helpful and their use is encouraged. Computers and advanced calculators make possible complex statistical analysis, but do not relieve the appraiser of the responsibility of fully explaining the methods used. If computer software is used, the name and version should be stated. The appraiser is obligated to demonstrate the application of any software programs or formulas used upon request by the assigned review appraiser.

PERSONAL PROPERTY AND FIXTURES

PERSONAL PROPERTY: Under state law and policy, a condemning authority does not compensate an owner for personal property being acquired. However, the Department of Highways is required to pay for relocation of an owner's or tenant's personal property that must be moved due to acquisition or damage of the improvement in which it is located. In many cases - residences for instance - personal property is easily identified. In other cases, property considered to be personal must be identified in detail so that the Department's relocation section will know what they are required to relocate and what has been considered real estate or fixtures and is paid for in the appraisal as part of the acquisition. This is especially true in properties such as restaurants, "C" stores, service stations and other commercials. No value should be placed on the personal property; just identified as being separate from the real estate and fixtures.

Federal Law states in 49CFR, Part 24.103, that appraisal requirements include "an adequate description of the physical characteristics of the property being appraised …. INCLUDING ITEMS IDENTIFIED AS PERSONAL PROPERTY." This may be accomplished by identifying in detail all items considered real estate and/or fixtures, and are therefore to be included in the appraised value. By exclusion, then, all other items would be considered personal property, and a statement to that effect should be included in the appraisal report.

FIXTURES: The generally accepted definition of a fixture is "an item that was once personal property but has become so affixed to the real estate that the law would now consider it to be real estate." For such an item to be considered a fixture, and therefore real estate, the following tests are usually applied:

(a) Manner of annexation to the real estate

(b) Adaptability to the improvement's use

(c) Intention of the parties involved

(d) Existence of a contractual agreement

If the item is attached to the improvement in a manner that its removal would damage the improvement or the item; if it is adapted to the improvement's use; if the intention of the parties was for the item to remain, or, if there is an agreement between the parties stipulating the item is a fixture, then it is probably a fixture.

Appraisers are often called upon to make a decision whether or not an item is personalty or real estate. The foregoing is offered as a guide. When unusual circumstance arise, call the second level review appraiser assigned to the project.

SATELLITE DISHES AND ABOVE GROUND POOLS: By an administrative decision, satellite TV dishes and above ground pools (owned by the property owner) are considered to be fixtures and should be included in the appraisal report. Although open to argument, it is the opinion of central office that the satellite dish extends to the electronic hardware which carries the signal into the set.

Whenever satellite dishes or above ground pools belong to the owner of the land, they will be included in the appraisal and purchased. In cases where the landowner and the owner of a satellite dish or above ground pool are not the same, they shall be considered personal property, omitted from the appraisal and handled through the Relocation Assistance Program.

(See also: *Tenant Owned Realty*)

GUIDELINES FOR COMPENSATION ON OIL AND GAS WELLS

There are times when a new right of way acquires a gas or oil well. In these instances, the Department no longer purchases the underground reserves, but only the well bore, casing and well head equipment. Compensation may also include damage to the reserves.

The appraiser should provide a salvage value analysis of the well and equipment including the cost to close or plug the well. It is noted again that compensation is for the value of the well and plugging only, and not for the value of any interests in reserves or production.

ANSWERS TO
QUESTIONS ON CONDEMNATION LAW
FROM DIVISION OF RIGHT OF WAY AND UTILITIES
BY
OFFICE OF GENERAL COUNSEL

1. WHY ARE THERE NON-COMPENSABLE ITEMS WHEN A DAMAGE ACTUALLY EXISTS?

   This question is best answered in Helmer v. Colorado Southern, N. O. & P. Ry. Co., 47 SO. 443, 444, 122 La. 141:

   "Mere consequential injuries to an owner of property claimed to have been damaged by a public improvement, arising from discomfort, disturbance, injury to the business, and the like, remain, as before, "damna absque injuria" – particular sacrifices which society has the right to inflict for the public good."

   Also, J. A. & C. E. Bennett v. Winston-Salem Southbound Ry. Co., 87 S. E. 133, 170 N. C. 389.

2. WHAT ARE THE VARIOUS ITEMS THAT ARE CONSIDERED NON-COMPENSABLE?

   a) NOISE - Com., Dept. of Highways v. Cleveland, Ky., 407 SW 2d 471 (1966) held that noise is not compensable since it does not result from the condemnation.

   b) CIRCUITY OF TRAVEL – Com., Dept. of Highways v. Rosenblatt, Ky., 416 SW 2d 754 (1967) held that mere subjection to circuity of travel is non-compensable. Also, Com., Dept. of Highways v. Gardner, Ky., 413 SW 2d 80 (1967).

   c) DIVERSION OF TRAFFIC – Com., Dept. of Highways v. Hopson, Ky., 396 SW 2d 805 (1965) held that relocation of a highway is a non-compensable factor.

   d) BUSINESS LOSSES – Com., Dept. of Highways v. Sherrod, Ky., 367 SW 2d 844 (1963) held that loss of business is non-compensable. Also, Com., Dept. of Highways v. Rogers, Ky., 399 SW 2d 706 (1965).

   e) LOSS OF ACCESS – Com., Dept. of Highways v. Carlisle, Ky., 363 SW 2d 104, 107:

      "…only access right the landowner has is a right of reasonable access to the highway system."

   f) INTERRUPTION OF BUSINESS – Com., Dept. of Highways v. Sherrod, Ky., 367 SW 2d 844. This is non-compensable because, when it occurs because of a temporary closing of the highway, it is a loss suffered by the public generally.

   g) INCONVENIENCE – Com., Dept. of Highways v. Cammack, Ky., 40 SW 2d 615 (1966) held, ordinarily, inconvenience is not compensable in eminent domain cases.

h) INCONVENIENCE (FARMING) – Com., Dept. of Highways v. Roberts, Ky., 390 SW 2d 155 (1965) held this is not a compensable item as such.

i) LOSS OF PARKING – Com., Dept. of Highways v. Smith, KY., 413 SW 2d 72, 74 (1967):

> "The law is clear that the loss of parking spaces on the right of way…so long as there remains reasonable access to the property, may not be considered in determining values."

j) LOSS OF INGRESS AND EGRESS – Com., Dept. of Highways v. Smith, Ky., 413 SW 2d 72, 74 (1967):

> "…loss of unrestricted ingress and egress where there remained reasonable access to the property could not be considered in determining before and after values."

k) NON-WILLINGNESS TO SELL – Com., Dept. of Highways v. Woolum, Ky., 415 SW 2d 83 (1967) held, statements which evince condemnee's unwillingness to sell are improper in determining residual value.

l) GOOD WILL – This is defined as a "fleeting, intangible something, and is not corporeal property, but is that asset, intangible in form, which is an element responsible for profits in a business." O'Hara v. Lance, Arizona, 267 P. 2d 725, 727 (1960). It is not compensated because it is too speculative.

3. WHAT IS CIRCUITY OF TRAVEL?

This is answered in Com., Dept. of Highways v. Burns, Ky., 394 SW 2d 923, 925 (1965):

> "…the kind of circuity of travel that is a non-compensable factor is travel from the landowner's property to other places on the highway system."

Support for this is found in Com., Dept. of Highways v. Rosenblatt, Ky., 416 SW 2d 754 (1967).

4. SPECIFICALLY, WHEN AND IS CIRCUITY OF TRAVEL EVER COMPENSABLE?

In Com., Dept. of Highways v. Dennis, Ky., 409 SW 2d 292 (1966) it is stated that circuity of travel is compensable, if ever, as an element of damage in computing residual value, when the travel involved is from one part of the owner's property to another. Also Com., Dept. of Highways v. Burns, Ky., 394 SW 2d 923 (1965).

5. WHAT IS REASONABLE ACCESS?

Com., Dept. of Highways v. Sherrod, Ky., 367 SW 2d 844, 858, 859 (1963):

> "(reasonable access) has to mean that (the property owner) has only the right of access to such highways, and of such surfaces, as the state chooses to provide in the reasonable administration of its highway system."

Also, Com., Dept. of Highways v. Proctor, Ky., 412 SW 2d 252 (1967).

6. WHAT IS UNREASONABLE ACCESS?

Com., Dept. of Highways v. Adkins, Ky., 396 SW 2d 768, 770 (1965):

> "The landowner cannot be deprived of reasonable access without just compensation. The question whether or not the remaining access is reasonable is resolved by the court as a matter of law."

For reiteration, Com., Dept. of Highways v. Dotson, Ky., 405 SW 2d 30 (1966).

7. IS INTERRUPTION OF BUSINESS EVER COMPENSABLE?

No, except where there has been some element of an unnecessary closing or interference. Com., Dept. of Highways v. Sherrod, Ky., 367 SW 2d 844 (1963) and Wine v. Commonwealth, 301 Mass. 451, 120 A. L. R. 889, 890.

8. IS LOSS OF BUSINESS EVER COMPENSABLE?

Not per se – Com., Dept. of Highways v. Sherrod, Ky., 367 SW 2d 844 (1963). However, courts do compensate when the land cannot be utilized for its highest and best use. which seems to be basically the same thing. This is usually applied when a farm is cut in two and cannot be used as profitably thereafter for agriculture. Com. Dept. of Highways v. Teater, Ky., 397 SW 2d 137 (1965); Com., Dept. of Highways v. Dennis, Ky., 408 SW 2d 444 (1966); Com., Dept. of Highways v. Sea, Ky., 402 SW 2d 842 (1966). The courts say that, while this item is not itself compensable, it is relevant to the land's residual value. In Com., Dept. of Highways v. Smith, Ky., 390 SW 2d 194 (1965), the court allowed the jury to include the finding that a restaurant could not be operated profitably after the taking in computing the residual value of the land.

9. IS DIVERSION OF TRAFFIC EVER COMPENSABLE?

Yes, in some instances. Com., Dept. of Highways v. Hopson, Ky., 396 SW 2d 805 (1965) says loss due to relocation of a highway is a non-compensable factor per se, but in Com., Dept. of Highways v. Brown, Ky., 392 SW 2d 50 (1965), a highway was diverted through defendant's land, and the court allowed this to be included as an element of damages in computing the residual value of the land. Com., Dept. of Highways v. Johns, Ky., 421 SW 2d 845, 846 (1967):

> …the fact that there has been a disjunction of the land (due to the taking) is a proper consideration insofar as it affects the market value of the remaining tracts.

The same point is made in Com., Dept. of Highways v. Burns, Ky., 394 SW 2d 923 (1965).

10. IS DAMAGE OR LOSS OF VALUE DUE TO EXERCISING POLICE POWER EVER COMPENSABLE?

No. Where the power is exercised for the benefit and protection of the public, no compensation is allowed. Sturgill v. Com., Dept. of Highways, Ky., 384 SW 2d 89 (1964). Proctor v. Com., Dept. of Highways, Ky., 412 SW 2d 252, 253 (1967):

The citizens' rights are subject to a reasonable exercise of police power by the Commonwealth.

11. WHAT ARE CONSIDERED TRADE FIXTURES?

This is defined in Bank of Shelbyville v. Hartford, Ky., 104 SW 2d 217, 218, 219 (1937):

The question then arises, what is a trade fixture? We find that it has been defined as follows: "Trade fixtures" is a term usually employed to describe property which a tenant has placed on rented real estate to advance the business for which it is leased and which may, as against the lessor, be removed at the end of the tenant's term. Winnike v. Heyman, 185 Iowa, 114, 169 N. W. 631, 632. Articles attached by the tenant to the demised premises for trade purposes are "trade fixtures."

Northwestern Lumber & Wrecking Co. v. Parker, 125 Minn., 107, 145, N.W. 964, 965. To constitute any chattel that has been attached to the freehold a "trade fixture," it is only necessary that it be devoted to what is known in the law of fixtures as a trade purpose, and the form or size of the annexed chattel is immaterial. Waverly Park Amusement Co., 197 Mich. 92, 163 N.W. 917, 918. A trade fixture, within the rule that a lessee, as between himself and the lessor may remove a trade fixture, is an article annexed by the lessee to the real estate to aid him in carrying on his trade or business on the premises. Ray v. Young, 160 Iowa, 613, 142 N. W. 393, 396, 46 L. R. A. (N. S.) 947, Ann. Cas. 1915 D, 258. Words and Phrases, Third Series, vol. 7, p. 550.

Also, American Roller Mills v. Com., Dept. of Highways, Ky., 137 SW 2d 725.

12. CAN TRADE FIXTURES BE PAID FOR IN A TAKING?

Chain Belt Co. v. Com., Dept. of Highways, Ky., 391 SW 2d 357, 359 (1965):

It has been held in the majority of states that the owner is not entitled to recover the cost of removing personal property or damages for injury to such property resulting from its removal, since such loss is not a taking of property.

Also, Com., Dept. of Highways v. Shepherd, Ky., 892 SW 2d 58 for the same point.

13. WHEN IS THE DATE OF TAKING?

Com., Dept. of Highways v. Tharp, Ky., 389 SW 2d 453, 456 (1965): The court said that setting the taking date as the date of entering the interlocutory judgment for condemnation against landowners for an urban renewal agency was the proper "taking date" for fixing a value.

Also, cite Urban Renewal and Community Development Agency of Louisville v. Fledderman, Ky., 419 SW 2d 741 (1967) and Com., Dept. of Highways v. Claypool, Ky., 405 SW 2d 674 for the same point.

14. CAN SALES MADE AFTER THE DATE OF THE TAKING BE USED TO INDICATE MARKET VALUE AS OF THE DATE OF THE TAKING?

Yes. Com., Dept. of Highways v. Goehring, Ky., 408 SW 2d 636 (1966) holds that there is no hard and fast rule precluding this method. The only requirement is true and valid comparability. Com., Dept. of Highways v. Maxwell, Ky., 404 SW 2d 9 reiterates, as does Com., Dept. of Highways v. Parker, Ky., 388 SW 2d 366 (1965).

15. WHAT IS THE DIFFERENCE BETWEEN SPECIAL AND GENERAL BENEFITS?

"General Benefits to land resulting from taking a portion thereof by eminent domain are those which adjoining landowners share with the general public." City of Albuquerque v. Chapman, 413 P. 2d 204, 210, 76 N. M. 162 (1967). Phoenix Title and Trust Company v. State ex rel. Herman, 425 P. 2d 434, 5 Ariz. App. 246.

"Special Benefits are those arising from the peculiar relation of the land in question to the public improvement." Kirkman v. State Highway Commission, 126 S. E. 2d 107, 112, 257 N. C. 428 (1967). Enterprise Co. v. Sanitary District No. 1 of Lancaster County, 125 N. w. 2d 712, 176 Neb. 271 (1967).

16. WHAT IS THE INTERPRETATION OF STATE LAW REGARDING BENEFITS?

In cases where part of a tract of land is taken by condemnation, the only fact for the appraiser to determine (as concerns damages) is the difference in market value of the tract before and after the taking. In Com., Dept. of Highways v. Sherrod, Ky., 367 SW 2d 844, the Court said:

> …The jury should be instructed that in determining the value after the taking, it should take into consideration any enhancement in value growing out of the improvement that is attributable to the advantageous relation of the property to the improvement, as distinguished from general enhancement of values in the community generally to property not even abutting on the improvement…