

Overview and Preparation of Agricultural Conservation Easement Appraisals

Department of Conservation



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The Department offers this information as a resource for appraisers and grant applicants to use when developing appraisals that will accompany applications for grant funding related to easement acquisitions. The primary intent of this document is to encourage the preparation of agricultural conservation easement appraisals that are as complete and thorough as possible, thereby facilitating the review of such appraisals. Incomplete or inadequate appraisals can result in requests for supplemental information and analysis, the commissioning of entirely new appraisals, or outright rejection of grant applications.

All appraisals need to conform to the Department of General Services Appraisal Specifications, attached to this memo, which includes the requirement that the appraisal comply with the *Uniform Standards of Professional Appraisal Practices* (USPAP) of the Appraisal Foundation. Other publications, such as the Land Trust Alliance's *Appraising Conservation Easements*, provide information on specifics of how to appraise conservation easements.

Department's Role in the Use and Review of Appraisals

The Department can only fund grant applications that are accompanied by a qualified appraisal performed by an independent licensed appraiser. The Department recommends that the appraiser have specific training and experience in appraising conservation easements.

While the Department is not the direct client of the appraiser, the appraiser should understand that the appraisal submitted for the purpose of applying for Department funding will be reviewed by the Department and the Department of General Services Real Estate Division. In the appraisal, the appraiser should include both entities as intended users of the report.

Special Challenges of Agricultural Conservation Easement Appraisals

Agricultural conservation easement (easement) appraisals can be very challenging assignments. Each easement has elements that are specific to a given property's unique attributes, which also has implications for its valuation. Easement valuation is closely tied to the proximity and timing issues of a given property in relation to the path of urban and non-agricultural rural growth. Simply because one easement diminishes the estimated fair market value of a property by a certain percentage does not mean that the same conclusion can be immediately drawn for another property, even if it is in close proximity. In certain situations, an appraiser may have to depart from traditional methods of valuation to satisfactorily assess the market and other conditions that affect the valuation of easement-restricted properties. However, at all times, the valuation methodology and assumptions must be firmly tied to market-based factors.

The Department recognizes the special challenges associated with the development of many easement appraisal assignments. As a general suggestion, the Department recommends that the more complex or difficult an easement appraisal assignment, the greater the need for thorough narrative discussion and presentation of relevant data and information within the appraisal.

Suggestions for Grant Applicants when Commissioning Appraisal Assignments

Prospective applicants for grant funding should engage potential appraisers as early as possible in the application process. The scope of work and the specific requirements of the appraisal should be discussed with the appraiser, and the appraiser should be informed of the documents and information necessary to complete the appraisal assignment properly.

The grant applicant should assure that the appraiser has relevant information concerning the appraisal assignment as early as possible. Briefly, the key documents and other information that a grant applicant should ensure that the selected appraiser obtains include:

- The draft easement language (less preferable would be a summary, if that is all that is available).
[Note: at this point, it is appropriate to review and include essential language required by the Department and other potential funding sources, such as the federal Agricultural Conservation Easement Program, if funding is being sought from other sources as well. Consult grant funders for this information]
- The number of separate easements being contemplated to encumber the subject property. Detail any provisions that would allow for partitioning/subdivision of the easement-encumbered property in the future. If multiple easements, detail any provision that would allow the easements to be sold separately from one another
- Any areas of the property to be excluded from the easement and any areas of the property that are not being used for agricultural purposes (e.g., riparian setbacks, lands not suitable for farming, etc.)
- The number of any existing and/or proposed home sites and any building envelopes the landowner may seek to reserve within each easement. Include principal residence(s) as well as farm labor/support residence(s)
- Home size restrictions
- The subject property's legal description
- A copy of a preliminary title report for the subject property
- Details of any lease(s) affecting the subject property
The subject property's water rights, crop history, and current agriculture use
- The status of any Williamson Act or Farmland Security Zone contracts on the subject property
- Details of the property's mineral rights, including the degree to which any of these rights have been severed from the property, and the access rights for mineral extraction. The mineral rights evaluation should include both hydrocarbon and mineral aggregate rights.

In addition to the narrative section, maps and photographs of the property are essential for users of the appraisal to properly understand the property's setting and physical characteristics. These should be included as exhibits in the appraisal, including:

- Photographs of the subject property, including improvements, with delineated reference points on the property
- A general location map
- A topographic map (if there are significant variations in topography on the subject property)
- A FEMA flood zone map, if applicable
- Drainage maps and drainage direction, if applicable
- An assessor's parcel map
- A map detailing the soils comprising the subject property, including the soil mapping units and their USDA Land Capability Classifications
- Important Farmland maps capturing the subject property as well as surrounding lands

DEPARTMENT OF GENERAL SERVICES (DGS)
APPRAISAL SPECIFICATIONS
(Revised January 1, 2008)

All appraisals must be completed and signed by a State of California Certified Real Estate Appraiser who certifies that the appraisal is in compliance with the Uniform Standards of Professional Appraisal Practice as currently adopted by the Appraisal Standards Board of the Appraisal Foundation.

The principle appraiser who is responsible for developing the appraisal report must certify that they have inspected the subject property and comparable property data whenever physically possible. The following specifications are required when applicable to the assignment:

1. Title page with sufficient identification of appraisal project.
2. Letter of transmittal summarizing important assumptions and conclusions, value estimate, date of value, date of report, etc.
3. Table of contents.
4. Assumptions and Limiting Conditions.
5. Description of the scope of work, including the extent of data collection and limitations, if any, in obtaining and analyzing relevant data.
6. Definition of Fair Market Value, as defined by California Code of Civil Procedures, Section 1263.320.
7. Photographs of subject property and comparable data, including significant physical features and the interior of structural improvements if applicable.
8. Copies of Assessor's plat maps with the subject parcels marked and an assemblage of all contiguous Assessors' parcels that depicts the ownership.
9. A legal description of the subject property if available.
10. For large, remote, or inaccessible parcels, provide aerial photographs or topographical maps depicting the subject boundaries.
11. Three year subject property history, including sales, listings, leases, options, zoning, applications for permits, or other documents or facts that might indicate or affect use or value.
12. Discussion of any current Agreement of Sale, option, or listing of subject property. This issue requires increased diligence since state agencies often utilize non-profit organizations to quickly acquire sensitive-habitat parcels using Option Agreements. However, due to confidentiality clauses, the terms of the Option are often not disclosed to the state. If the appraiser discovers evidence of an Option, or the possible existence of an Option, and the terms cannot be disclosed due to a confidentiality clause, then the appraiser is to cease work and contact the client. Current DGS policy requires disclosure of any Option or Purchase Agreement. If the Agreement is not made available, DGS will not review the appraisal.

13. Regional, area, and neighborhood analyses.
14. Market conditions and trends including identification of the relevant market area, a discussion of supply and demand within the relevant market area (or other areas of competition), and a discussion of the relevant market factors impacting demand for site acquisition or leasing within the relevant market area.
15. Discussion of subject land/site characteristics (size, topography, current use, zoning and land use issues, development entitlements, General Plan designations, utilities, offsite improvements, access, easements and restrictions, flood and earthquake information, toxic hazards, taxes and assessments, etc.)
16. Description of subject improvements, including all structures, square footage, physical age, type of construction, quality of construction, condition, site improvements, etc.
17. Subject leasing and operating cost history.
18. Opinion of highest and best use for the subject property, based on an in depth analysis supporting the concluded use. Such support typically requires a discussion of the four criteria or tests utilized to determine the highest and best use of a property. If alternative feasible uses exist, explain and support market, development, cash flow, and risk factors leading to an ultimate highest and best use decision.
19. All approaches to market value applicable to the property type and in the subject market. Explain and support the exclusion of any usual approaches to value.
20. Map(s) showing all comparable properties in relation to subject property.
21. Photographs and plat maps of comparable properties.
22. In depth discussion of comparable properties, similarities and differences, and comparisons and adjustments to the comparable data, and discussion of the reliability and credibility of the data as it relates to the indicated subject property value.
23. Comparable data sheets: 1) For sales, include information on grantor/grantee, sale/recordation dates, listed or asking price as of date of sale, financing, conditions of sale, buyer motivation, sufficient location information (street address, post mile, and/or distance from local landmarks such as bridges, road intersections, structures, etc.), land/site characteristics, improvements, source of any allocation of sale price between land and improvement, and confirming source. 2). For listings, also include marketing time from list date to effective date of the appraisal, original list price, changes in list price, broker feedback, if available. 3). For leases, include significant information such as lessor/lessee, lease date and term, type of lease, rent and escalation, expenses, size of space leased, tenant improvement allowance, concessions, use restrictions, options, and confirming source.
24. Discussion of construction cost methodology, data source used, costs included and excluded, depreciation methodology, a discussion of accrued depreciation from all causes, and remaining economic life.
25. Copies of construction cost data including, section and pages of cost manual (date of estimate or date of publication of cost manual must be provided if not indicated on page), copies of cost estimate if provided from another source, and supporting calculations including worksheets or spreadsheets.
26. In part-take situations, a discussion of special benefit and severance damages.
27. Include a copy of a recent preliminary title report (within the past year) as an appraisal exhibit and discuss the effect of title exceptions on fair market value. If unavailable, the

appraisal should be made contingent upon review of the preliminary title report and the assumption that there is no affect on value.

28. Implied dedication statement.
29. Reconciliation and final value estimate. Explain and support conclusions reached.
30. Signed Certification consistent with language found in USPAP.
31. If applicable, in addition to the above, appraisals of telecommunication sites must also provide:
 - A discussion of market conditions and trends including identification of the relevant market, a discussion of supply and demand within the relevant market area and a discussion of the relevant market factors impacting demand for site acquisition and leasing within the relevant market area.
 - An analysis of other (ground and vault) leases comparable to subject property. Factors to be discussed in the analysis include the latitude, longitude, type of tower, tower height, number of rack spaces, number of racks occupied, placement of racks, power source and adequacy, back-up power, vault and site improvements description and location on site, other utilities; access, and road maintenance costs.
32. On occasions where properties involve personal property, business interests, water rights, minerals, or merchantable timber separate valuations may be necessary. If the Appraiser determines that there are such property interests or rights requiring a separate valuation, the appraiser shall notify his/her client. The client may choose to modify the appraisal request to include a separate valuation by an appropriate credentialed subject matter specialist. In such cases, the appraisal package submitted to DGS for review should include the real estate appraisal and a separate appraisal/valuation of the personal property, business interests, water rights, minerals, or merchantable timber by a credentialed subject matter specialist, together with a review of this separate appraisal/valuation by a second credentialed subject matter specialist.