

# Appraisals for Conservation Projects

They Shouldn't be a Black Box

**Saving Special Places 2017**

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**Duane Hyde**, Land Conservation Director  
Southeast Land Trust of New Hampshire



**George S. Lamprey**, NHCG #181  
Lamprey Appraisals



# Ordering an Appraisal – Appraiser and Client

- General Real Estate Appraisers most qualified
  - Conservation easement coursework
- Who is the Client and Who is Intended User?

# Accreditation Requirement – Who Commissions the Appraisal?

- Accreditation Manual Requirement 9J requires appraisal to be commissioned by
  - The organization
  - A public agency
  - Non-profit partner with similar mission
  - Jointly by organization and landowner
  - Landowner's appraisal with organization commissioned review appraisal
  - Landowner with organization as intended user

# What to Include in Request for Appraisal Services

- Purpose of Appraisal (IRS, acquisition, donation, etc.)
- Will a review appraiser review?
- USPAP or Yellow Book
- Other land owned by landowner nearby
- Details about the Property
  - Road frontage, river/lake frontage, forest/field %, condition, stocking, improvements. . .
- Type of Report – Appraisal Report or Restricted

# What to Include in Request for Appraisal Services

- Documents to provide or reference
  - Deed and boundary survey
  - CE or CE summary
  - Excluded Area – location and size
  - Maps – aerial & topo. Sometimes soils, wetlands, roads
- Maybe helpful
  - Title report
  - Timber cruise

# Conceptual Development Analysis?

- Conceptual development analysis
  - Helps define maximum productivity
  - Generally only use when HBU is subdivision and land features or development requirements are such that engineer/survey expertise needed
  - Ask appraisers to help decide if needed



# Reviewing an Appraisal – Starting Point

- Overall Questions
  - Is the appraisal accurate with respect to the Facts as you know them?
  - Did the appraiser sufficiently document their process and analysis so anyone reading the report can reasonably understand how they got to their conclusions?
  - Is the analysis and conclusion reasonable?
- Read the entire report!

# Reviewing an Appraisal – Areas to Pay Attention

- Extraordinary Assumptions and Hypothetical Conditions
- Assignment accurately described
- Description of Property and Property Analysis
  - Zoning and land regulations captured
  - Topography and land features accurate
- Methodology selected make sense?
  - Sales comparison almost always
  - Development analysis appropriate?



# Reviewing an Appraisal – Areas to Pay Attention

- Did they include the easement and accurately summarize it?
- Highest and Best Use Determination
  - Is it how you would approach the property as a buyer or a developer?
  - Informed by consultation with experts when necessary
  - Overly optimistic/pessimistic
  - Comply with zoning/land use regs

# Reviewing an Appraisal – Comparable Sales

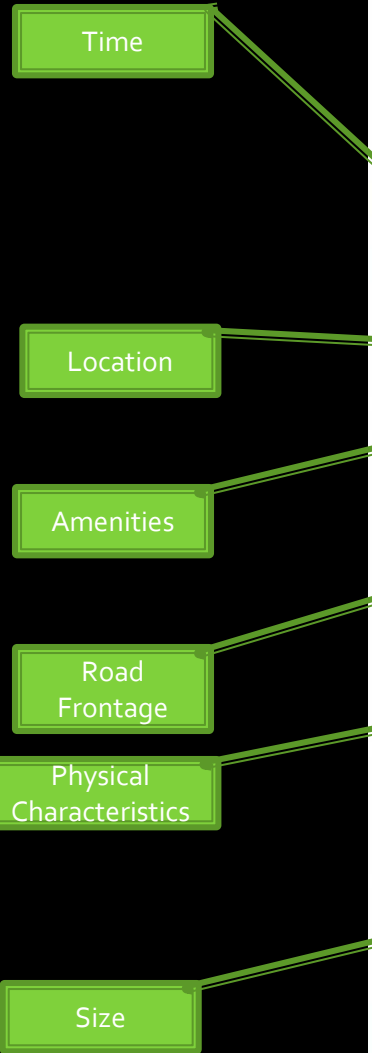
- Age of comps? Try to be within 1 year
- Do you know of better comps?
  - Other appraisals you have commissioned
  - Sales you know about
  - Sales of conserved land stewardship staff know
  - Contact partner organization if they have done work on similar property in area – may share comps

# Reviewing an Appraisal – Comparable Sales

- Read comp sheets, comparable, and description of adjustments
  - Explained sufficiently?
  - Anything amiss that question it as being a comp?

# Reviewing an Appraisal – Grid

- If adjustments are greater than 50%, may start to question whether it is a comp



Comparison	Subject	Land Sale #1	Land Sale #2	Land Sale #3	Land Sale #4	Land Sale #5
Location	Wednesday Hill Rd	Marshall Rd	Smoke St	Edgewood Ext	Bunker Hill Rd	Huckins Rd
Town	Durham	Kingston	Barrington	Durham	Auburn	Madbury
Sales Price		\$350,000	\$325,000	\$143,500	\$350,000	\$294,000
Sales Price / Acre		\$12,069	\$6,778	\$10,250	\$7,516	\$10,893
Date of Appraisal/Sale	5/11/2015	3/25/2014	2/25/2015	6/8/2012	3/27/2013	7/8/2014
Land (Acre)	43.40	29.00	47.95	14.00	46.57	26.99
<b>Factors Affecting Sale</b>						
Comparison	Subject	Land Sale #1	Land Sale #2	Land Sale #3	Land Sale #4	Land Sale #5
Property Rights Conveyed	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment		0%	0%	0%	0%	0%
Adjusted Price		\$12,069	\$6,778	\$10,250	\$7,516	\$10,893
Financing	Normal	Normal	Normal	Normal	Normal	Normal
Adjustment		0%	0%	0%	0%	0%
Adjusted Price		\$12,069	\$6,778	\$10,250	\$7,516	\$10,893
Conditions of Sale	Normal	Normal	Normal	Normal	Normal	Contingent Approvals
Adjustment		0%	0%	0%	0%	-5%
Adjusted Price		\$12,069	\$6,778	\$10,250	\$7,516	\$10,348
Assessment Status	In Current Use	In Current Use	In Current Use	Not in Current Use	In Current Use	In Current Use
Adjustment		0%	0%	-10%	0%	0%
Adjusted Price		\$12,069	\$6,778	\$9,225	\$7,516	\$10,348
<b>Time Analysis</b>						
Comparison	Subject	Land Sale #1	Land Sale #2	Land Sale #3	Land Sale #4	Land Sale #5
Date of Sale/Pending Date		3/25/2014	2/25/2015	6/8/2012	3/27/2013	7/8/2014
Date of Appraisal	5/11/2015	5/11/2015	5/11/2015	5/11/2015	5/11/2015	5/11/2015
Total Adjustment		10%	2%	17%	19%	8%
Adjusted Price/Acre		\$13,276	\$6,914	\$10,793	\$8,944	\$11,176
<b>Physical Adjustments</b>						
Comparison	Subject	Land Sale #1	Land Sale #2	Land Sale #3	Land Sale #4	Land Sale #5
Location	Wednesday Hill Rd Durham	Marshall Rd Kingston	Smoke St Barrington	Edgewood Ext. Durham	Bunker Hill Rd Auburn	Huckins Rd Madbury
Comparison to Subject		Inferior	Superior	Inferior	Similar	Similar
Adjustment Required		20%	40%	10%	0%	0%
Amenities	2,020' on Lemprey River	None	None	None	587' on Calef Pond	None
Comparison to Subject		Inferior	Inferior	Inferior	Similar	Inferior
Adjustment Required		15%	15%	15%	0%	15%
Total Adjustments		35%	55%	25%	0%	15%
Quantitative Adjusted Value Per Acre		\$17,923	\$10,717	\$13,491	\$8,944	\$12,852
<b>Qualitative Physical Adjustments</b>						
Road Frontage	1961	640	2,295	243	250	Class VI
Road Frontage/Acre	45.6	22.1	47.9	17.4	5.4	
Comparison to Subject		Slightly Inferior	Similar	Moderately Inferior	Moderately Inferior	Moderately Inferior
Adjustment Required		Slight Up	None	Moderate Up	Moderate Up	Moderate Up
Physical Characteristics	Irregular shape with a mostly level topography with limited sloping areas. Around 90% of site is well drained. Approx. 1/3 in Aquifer Protection District. Mostly wooded with some overgrown field area. Potential for 4-6	Irregular shape with rolling topography and some open sandy area. Reperedly around 6-7 acres, mostly to the rear, consists of wetlands. Encumbered with utility easement and ROW. Subsequent to sale approved for 45 over 55 condos.	Irregular shape with around 1/3 of site consisting of wetlands. The site has a rolling to sloping topography. Eventually supported subdivision into 11 road front lots. Requires a cistem.	Irregular shape with rolling topography. Moderately wooded with stony soils. Several wetland areas, particularly across middle of site. Potential for 3 house sites	Irregular shape with deep, narrow tract. Has a generally level to rolling topography incl some field land with majority wooded.	Irregular shape with rolling topography and it includes around 25% to 30% wetlands, most to the rear. Moderately wooded. Approvals for 7 lots at buyers expense.
Comparison to Subject		Significantly Superior	Similar	Moderately Superior	Slightly Inferior	Moderately Superior
Adjustment Required		Very Significant Down	None	Moderate Down	Slight Up	Moderate Down
Site Size (Acre)	43.40	29.00	47.95	14.00	46.57	26.99
Comparison to Subject		Similar	Similar	Smaller	Similar	Smaller
Adjustment Required		0%	None	Moderate Down	None	Slight Down
Adjusted Value/Ac - Quantitative Adjustments		\$17,923	\$10,717	\$13,491	\$8,944	\$12,852
Total Qualitative Adjustments		Significant Down	None	Moderate Down	Significant Up	Slight Down
Reconciled Value per Acre		\$11,000				

# Reviewing an Appraisal – Discounted Cash Flow/Development Method

## DISCOUNTED CASH FLOW ANALYSIS

Period	10/16-9/17	10/17-9/18	10/18-9/19
Lots Sold	3	8	6
Aggregate Lots Sold	3	11	17
Gross Lot Sales	\$545,000	\$1,245,000	\$ 930,000
Aggregate Gross Sales	\$545,000	\$1,790,000	\$2,720,000
<b>Sales &amp; Holding Costs</b>			
Commissions	\$ 28,000	\$ 62,000	\$ 47,000
Transfer Tax	\$ 4,000	\$ 9,000	\$ 7,000
Real Estate Taxes	\$ 10,000	\$ 46,000	\$ 15,000
LUCT	\$201,000		
Overhead	\$ 5,000	\$ 12,000	\$ 10,000
Total S & H Costs	\$248,000	\$ 129,000	\$ 79,000
Projected Sale Proceeds	\$297,000	\$1,116,000	\$ 851,000
<b>Development Costs</b>			
Approvals	\$102,000		
Roads & Utilities	\$605,000		
Fire Protection	\$ 80,000		
Entrepreneurial Profit	\$ 82,000	\$ 187,000	\$ 140,000
Total Development Costs	\$869,000	\$ 187,000	\$ 140,000
Projected Net Proceeds	(\$572,000)	\$ 929,000	\$ 711,000
NPV Factor (8% WACC)	.9615	.8903	.8244
Net Present Value	(\$549,978)	\$ 827,088	\$ 586,148
Aggregate NPV	\$863,258 (\$50,780/Potential Lot)		

Estimated Market Value via the Income Approach

\$865,000

## Discount Model Assumptions:

Discount Rate/Year:	8.50%	
Marketing & Brokers Expense	5.00%	
Developer's Profit	15.00%	
Engineering & Approvals/Lot	\$4,000	
Average Lot Value	\$140,000	
Average Current Use Penalty Rate	10%	
Inflation Rate/Year:	0.00%	
<b>Income</b>		
	Year 1	Year 2
Number of Lot Sales	3	3
Sale of Lots	\$420,000	\$420,000
<b>Total Income From Lot Sales</b>	<b>\$420,000</b>	<b>\$420,000</b>
<b>Expenses</b>		
Engineering & Approvals	\$24,000	\$0
Road Construction	\$0	\$0
Current Use Penalties	\$42,000	\$42,000
Taxes	\$94	\$6,037
Marketing Expenses	\$21,000	\$21,000
Legal & Closing Costs	\$6,150	\$6,150
<b>Total Expenses</b>	<b>\$93,244</b>	<b>\$75,187</b>
<b>Net Income Before Developer's Profit</b>	<b>\$326,756</b>	<b>\$344,813</b>
Less Developer's Profit	\$63,000	\$63,000
<b>Net Income</b>	<b>\$263,756</b>	<b>\$281,813</b>
Discount Factors	0.921659	0.849455
<b>Present Value Income</b>	<b>\$243,093</b>	<b>\$239,388</b>
<b>Indicated Value</b>	<b>\$482,481</b>	
Indicated Value per Lot	\$80,413	
Indicated Value per Acre	\$11,117	

- All costs? Reasonable schedule? Absorption Rate?

# Reviewing an Appraisal – IRS Appraisal

- See Land Trust Accreditation Manual Practice 10B
- Some additional things to watch for:
  - Effective Date: < than 60 days prior or date of
  - Statement that prepared for income tax purposes
  - Address enhancement if donor or family members own contiguous property
  - Part of syndication?
  - Reasonable?

# Questions?

Phew, that's a lot

