

REQUIREMENTS FOR WRITING APPRAISAL REPORTS

I: GENERAL DATA

A. Cover Page

Photo of Property, Name of Record Owner, Control Section, Job Number, Parcel Number, Street Address or Location of Subject Property. Appraiser's Name and Address. Indicate interest appraised: Fee Simple Estate, Lessee's Interest, Life Estate, etc. and date of valuation and date of report.

B. Table of Contents. (follow the order of this Form 0633).

C. Summary of Salient Facts

Before: Brief description of type of property, total area, land and improvements, highest and best use, value indicated via cost approach, income approach, and sales comparison approach; correlated conclusion of before value.

Take: Brief description of land characteristics, area, and improvements within the take.

After: Brief description of type of property remaining, area of property remaining, improvements, highest and best use, value indicated via cost approach, income approach, sales comparison approach and correlated conclusion of after value.

D. Legal Description of Ownership

Use description for entire property as furnished by the MDOT (Michigan Department of Transportation), or as you ascertain it from field review. If you find a serious discrepancy, please advise the MDOT Real Estate Appraisal Project Manager for the parcel.

E. Assessed Valuation and Taxes

Show assessed value of property together with taxes for current year, tax history and discuss any expected future changes. (Comment on stability of assessment or tax rate at this point, especially on income properties; it will serve as your support for taxes in estimating expenses in your income approach.)

F. Zoning

State existing zoning and/or land use restrictions and uses permitted under same. Verify with the property owner and/or municipal offices if there have been any recent zoning changes and/or special use permit applications.

G. Sales History of Property

It is required that all sales of the subject property in the past 5 years be reported showing the parties to the transaction, date of purchase, and wherever possible to obtain: the verified sales price, recording data, liber, page, and any transaction influences (liquidation, adjacent owner, premium) etc. If you find the property has sold, but cannot verify the sales price, explain what efforts you made to obtain this information.

If there have been no sales of subject property within 5 years immediately preceding your appraisal, simple state: "NONE IN PAST 5 YEARS" under this heading.

H. Ownership, Occupancy, and Contact with the Owner

As required in Federal Highway Administration Regulations, the property owner or a designated representative must be contacted by the appraiser and offered the opportunity to accompany the appraiser during the inspection of the property. A statement must be included that "I offered the owner or the designated representative an opportunity to accompany me during the inspection of the property, and they accepted or declined". State the date of inspection and name of person who accepted or declined the offer. Documentation of the appraiser's contact with the owner must be included in the appraisal (letter and/or phone log). If the appraiser is not able to contact the owner, state what effort was made, setting forth dates of attempted personal interview and copies of correspondence.

If the property under appraisal is occupied by someone other than the record owner, confirm the name of the occupant(s), and what entitles them to possession. All copies of available leases and/or land contracts must be included in the addendum.

If the occupant is a contract purchaser, you should state where the owner of record can be contacted during negotiations.

If the contract purchase or lease does not include the whole property under appraisal, bring such facts to the attention of the MDOT.

I. Interest Appraised

Indicate all interests that are included in your before and after valuation of the property, such as fee simple estate, fee interest, lessee's interest, lessor's interest, contract purchaser's interest, & etc. Also confirm and clarify with the MDOT representative any personal property items to be excluded from the real estate appraisal.

J. Scope of Work

Clearly set forth the purpose for which the appraisal is being prepared. All appraisals prepared for the Michigan Department of Transportation are obtained with the objective of reflecting an estimate of market value. The following definition of market value has been accepted by the Courts in the State of Michigan, and each appraisal must clearly set forth this definition of market value and its source (USPAP requirement) in the appraisal so there will be no confusion as to the appraiser's interpretation of market value:

"The market value of land or real estate is the highest price estimated in terms of money that the property will bring if exposed for sale in the open market with a reasonable time allowed to find a purchaser buying with knowledge of all the uses and purposes to which it is adapted and for which it is capable of being used; the amount which property would bring if it were offered for sale by one who desired, but was not obligated, to sell, and was bought by one who was willing, but not obligated to buy; what the property would bring in the hands of a prudent seller, at liberty to fix the time and conditions of sale; what the property will sell for on negotiations resulting in sale between an owner willing but not obliged to sell and a willing buyer not obliged to buy; what the property would be reasonably worth on the market for a cash price, allowing a reasonable time within which to effect a sale."

The definition of market value is provided by MDOT, which needs to be stated in the appraisal report. In estimating just compensation for the acquisition of real property, the appraiser shall, to the greatest extent practicable under State law, disregard any decrease or increase in the fair market value of the 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.

State the identity of the client and intended users. State the intended use of the appraisal. Summarize information sufficient to identify the real estate involved in the appraisal.

Summarize the information analyzed, the appraisal methods and techniques employed; exclusion of the sales comparison approach, cost approach, or income approach must be explained.

State the research resources, collection and confirmation process relied upon for the market data considered.

State all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results.

The appraiser will discuss any peculiarities of the property that would tend to affect the complexity of the appraisal analysis in either the before or after situation.

K. Fixtures

If the property contains specialized fixtures, i.e. industrial machinery, production equipment, that is not usually bought and sold with the real estate, these items may be evaluated by a specialist in the field of industrial valuation. When this situation arises, you will be furnished with a copy of the fixture coverage. You are to review this list of fixtures and determine that you have not duplicated the fixture valuation coverage. The following statement of fixture evaluation, when applicable, shall be set forth in this section of your report:

"I have reviewed the fixture coverage list on this parcel and the fixtures are commensurate with the highest and best use of the real estate. To the best of my knowledge I have not duplicated in my approaches to value the valuation covered by the fixture appraisal."

L. Non-compensable Items

The appraiser to the best of his/her ability shall exclude any non-compensable items as outlined in MDOT Form 0633A. MDOT can also provide assistance with questions and/or conclusions regarding non-compensability, when necessary.

M. Hazardous Waste or Property Contamination

Fully describe any physical details of the land and improvements which are unusual and indicate possible presence of hazardous wastes or contamination, i.e. unvegetated or stain areas, underground tanks, foam insulation, asbestos, transformers and electrical equipment containing PCB's and product and processing materials. Detail your inquiries to, and responses of, property owners and/or their representatives. Include their knowledge of past uses of subject property and adjoining properties. Promptly report suspected hazardous waste or contamination problems to the MDOT. If, in your observation, you find no evidence of hazardous waste or contamination, that statement should be made in this section. State if there is knowledge of a Phase I or Phase II report has been completed and if it is part of the valuation conclusions.

The following statement must be included in your appraisal report: "For purposes of this appraisal assignment the appraiser has been informed by the Michigan Department of Transportation that the subject property should be valued under the assumption that the property is free of any and all contaminants. The Department further advises that it intends to reserve its rights to bring federal and/or state cost recovery actions against the present owner of the property arising out of a release of hazardous substances at the property. No evidence of hazardous or toxic waste was observed by the appraiser; however, this appraiser is not versed in nor qualified to detect contaminated conditions. Expert testing should be done, if so desired."

II: VALUATION OF PROPERTY BEFORE TAKING (ENTIRE PROPERTY):**A. Description of Property**

Describe in detail the physical features of the subject property, i.e. land area, road frontage, topography, type of utility services, timber or wood lot, and soil type and condition (when applicable). Include pertinent detail regarding hazardous waste or contamination. Detail the physical description and condition of all buildings and land improvements. All buildings shall be numerically designated, i.e. Building #1, Building #2, etc. A floor plan of the primary buildings showing room sizes is required and shall be included in the Addendum Section VII, Paragraph A. When a building or structure is very large or very complex in design a more generalized drawing is acceptable unless specifically required in the appraisal request.

B. Present Use of Property

State and describe the existing use of the property. If the present use is different than that permitted by existing zoning, state the conditions by which it is permitted.

C. Highest and Best Use of Property

Make a comprehensive statement setting forth your opinion of the use that would result in the greatest net return on the property. If more than one use is indicated, describe in detail, stating why you believe the different uses are appropriate. If the highest and best use as considered by the appraiser is in conflict with existing zoning, a detailed explanation as to the reasonable probability of effecting a change must be provided setting forth all interviews with public zoning officials and all other governing authorities.

Evaluate the legal possible uses, physical possible uses, financially feasible use and maximally productive use. Develop an opinion of the "as vacant" highest and best use and the "as improved" highest and best use.

D. Estimated Value via Cost Approach

If the property is improved, this approach may be applicable and should be given consideration. If the property is improved and this approach is not utilized, the appraiser must state why it is not reliable.

When this approach is used, the following analysis must be detailed:

1. An explanation of the cost estimate, stating source of cost data together with the appraiser's analysis of the cost data.
2. Consideration of all types of accrued depreciation (physical, functional, and economic) with an explanation and justification of applicable depreciation.
3. The estimate of the land value as if vacant. The appraiser shall document and justify the estimate of land value by the analysis of comparable sales. As a last resort a land residual income approach of sales of properly improved comparable land can be utilized. If this method is used, a complete explanation must be given as to why no comparable sales were available.
4. Provide a comparison grid with a properly developed, explained, and presented quantitative valuation analysis. Alternatively, properly developed and presented qualitative valuation analysis is also acceptable.

E. Estimated Value via Income Approach

This approach should always be used in cases where the market value is influenced by the income derived from the property.

In all cases where this approach is used, it is necessary to fully explain and support the economic rent used by citation of specific rentals of similar properties, showing relation to subject property. The estimate of vacancy and credit losses and the operating expenses must be explained. The capitalization and discount rates as estimated from current interest return on similar investments in real property and recapture requirements of the subject improvements must be adequately explained.

If this approach is not used, you must state your reasons why it is not reliable.

If the comparable rentals include fixtures as well as real estate, it is important that the appraiser's analysis reflect the contributing value of the fixtures in this approach to value and that they not be duplicated under Section I, Paragraph "K".

F. Estimated Value via Sales Comparison Approach

It is required that this approach to value be utilized in all appraisals. If, in the appraiser's opinion it is not reliable or applicable, he/she is required to set forth in detail justification for its omission.

In the application of the sales comparison approach, the appraiser is required to make a thorough investigation of the market activity of similar properties. The appraiser shall relate the degree of comparability to at least three comparable sales by direct comparison with the subject property. (If there is inadequate market data available to utilize three comparable sales, the appraiser shall fully discuss his/her research in an attempt to locate market data transactions.) Quantitative or qualitative adjustments for differences between the subject and comparable properties shall be fully explained as to the appraiser's reasoning.

A detailed explanation is required for all items of dissimilarity between each comparable sale and the subject, when that dissimilarity entered into the subject's value estimate conclusion. The detailed explanation must contain the appraiser's reasoning for the various elements of adjustment in sufficient detail to allow a review appraiser to make a sound judgment as to the validity and acceptability of the appraiser's adjustments. A comparison grid showing quantitative adjustments expressed in dollars or percent or qualitative adjustments with full explanation is required.

Lump sum adjustments are not acceptable. Each item of dissimilarity must be discussed and applied as an individual adjustment.

Provide a comparison grid with a properly developed, explained, and presented quantitative or qualitative valuation analysis. Alternatively, properly developed and presented qualitative valuation analysis is also acceptable.

It is required that all comparable properties used by the appraiser for comparison with the subject property be reported in complete detail in the Addendum. See additional requirements for comparable report in Section VII, Paragraph C of these guidelines.

If the subject property being appraised contains fixtures which are also included in the comparable transactions utilized in support of this approach, it is imperative that the contribution of fixture value be reflected in this approach to value, and not duplicated by separate fixture appraisals under Section I, Paragraph "K".

G. Correlation and Conclusion of Value (Before Taking)

List your estimates of value as indicated by your applicable approaches to value. Reconcile the degree of reliability of these approaches, and which approach is most reliable in the mind of a prudent purchaser of this property type.

Make a final conclusion of value.

Make a statement that having applied the applicable approaches to value, giving due consideration of all factors of value, that the ESTIMATED MARKET VALUE BEFORE TAKING is: _____

III: DESCRIPTION OF TAKING:

- A. Interest to be acquired: Fee simple, temporary or permanent easement, consent to grade, etc.
- B. Fully describe land and land improvements within the taking and reference building improvements within the taking by their numerical designation (same designation used in Section II-A), if applicable.
- C. Fully describe the effect of the taking to the remainder property, including any physical changes and consequences to the land and structures brought about by the proposed public improvement, i.e. changes in grade, access, exposure, proximity, etc. keeping in mind non-compensable items. Careful consideration must be given to the effect of the taking on any physical business operation relative to the real estate, whether owner or tenant operated, in the After situation.

IV: VALUATION OF PROPERTY AFTER TAKING:**A. Description of (Remaining) Property**

In viewing the remainder property, the appraiser should analyze it as a new parcel with considerations given to the effect of the taking.

Fully describe the remaining lands, buildings, areas, shape, access, and whether the remainder is contiguous or divided into two or more parcels. A detailed description of each parcel is required referencing those items in II A.

B. Highest and Best Use of Property

If there has been any change in the highest and best use, fully explain why the change has come about, i.e. from full time farm to rural residential, from farm to commercial, nonconforming, etc. Make a comprehensive statement setting forth your opinion of the use that would result in the greatest net return to the remainder property. If more than one use is indicated, describe in detail, stating why you believe the different uses are appropriate. If the highest and best use is in conflict with existing zoning, a detailed explanation as to the reasonable probability of effecting a zoning change must be provided setting forth all interviews with public zoning officials and other governing authorities together with their past actions on similar cases.

C. Estimated Value via Cost Approach

If you use the cost approach in the before value, it may well be reliable in the after value assuming that all or a portion of the improvements are on the remainder.

Your cost new on the remaining improvements would likely remain constant and it would only be necessary to reconsider the accrued depreciation for any functional or economic obsolescence as a result of the right of way taking, plus adjustments for changes in land value.

D. Estimated Value via Income Approach

If the income approach was used in the before value, in many cases it can be used in the after value by setting up a new income approach which would then require a new estimate of economic rent, expenses, and capitalization rates. Justification for the data used to support this approach will be required in the same manner as in the income approach utilized in the before value.

E. Estimated Value via Sales Comparison Approach

Only in very limited and unusual circumstances should occasions arise when the appraiser does not have market data that can be used to support an after value by the sales comparison method. In situations where the taking has very little effect upon the remainder, the same sales that were used in the before situation can be utilized in support of the after value.

If there are major changes in the remaining property as a result of the taking, the appraiser should make every effort to locate and use similar comparable properties in size and condition in the immediate vicinity. It is recognized that the taking often leaves the remainder property in a unique situation where open market transactions reflecting value for the remainder condition are at times not readily available.

If the appraiser is unable to find any sales to support the after value by a search of the market, a review of the remainder sales on file with the MDOT may be helpful. Matched pairs may also be available to illustrate and support any change in the subject property resulting from the acquisition.

In complex or unusual appraisal problems, the appraiser may feel it necessary to contact the MDOT for their help in the location of specific sales information that may prove helpful in the solution of the appraisal problem.

F. Cost-To-Cure

All costs-to-cures must be tested for feasibility.

There are two tests that apply to cost-to-cure damages. The first test mandates that cost-to-cure cannot exceed the reduction in value of the remainder parcel. The second test mandates that the total of the value of the remainder (uncured), the value of part acquired and the cost to cure damages may not exceed the value of the entire property before MDOT's acquisition. You must apply both of these tests to any cost-to-cure damages.

G. Correlation and Conclusion of Value (After Taking)

List the estimate of value as indicated by the applicable approaches to the after value. Reconcile their degree of reliability and the approach you feel a prudent purchaser would give the most credence. If you have instances wherein you cannot find sufficient data in the market place to support any approach to the value of the remainder, you will be explicit in your discussion of what caused you to assign the remainder values. In other words, document your line of reasoning and your exercise of experience and judgment.

Make a statement that having applied all the applicable approaches to value and/or having exercised your experience and Judgment, the ESTIMATED MARKET VALUE AFTER TAKING is _____

NOTE: Wherever the remainder is divided into two or more parcels the appraiser is required to divide the after value, in the summary, to show the contribution of each remainder to the total after value. This must be done in so the Michigan Department of Transportation can acquire isolated tracts that are a portion of the remainder.

H. Recapitulation of Before and After Values:

Estimated Market Value Before: _____
 Estimated Market Value After: _____
 Difference: _____

I. For accounting purposes on partial takings, the above compensation may be distributed as follows:

Real Property: _____
 Damages: _____
 Total: _____
 Less Benefits: _____
 Difference: _____

V: VALUE OF THE PART TAKEN APPRAISAL REPORTS:

(Follow Section I and II format except property description I to include the Parent Parcel and the Part Taken.)

- A. At the Department's option, this type of report may be used when the taking results in no damage to the remainder, or when relatively minor damage can be negated by a cost-to-cure which would be less than the resulting damage.
- B. The appraiser is to estimate the value of the taking as it relates to the whole. This means the take area is not to be considered as a separate entity. The appraiser will need to address the land value of the entire parcel, in order to reflect the contribution of the part taken, as it relates to the whole. For example: If the entire parcel was ten acres and the taking was one acre, the appraiser must obtain comparable properties of ten-acre parcels and estimate the per acre unit value of a ten acre parcel. This unit value would reflect the estimated value of the one acre taking, as it relates to the whole. This is assuming the taking results in no damage to the remainder, other than the value of the land taken.
- C. The appraiser must consider possible damages to the remainder; and if damages appear evident, determine if there is a cure, and the cost of that cure. Any cost-to-cure should be limited to improvements located within the acquired area. These improvements should be limited to non-structure items, such as: fencing, landscaping items, septic systems, water wells,

small sheds, & etc. They should not include modifications to, or relocation of, substantial structures, or parking reconfigurations to meet setback and/or zoning requirements. It is not the intent to attempt to cure damages to the remainder, but rather to replace items within the acquired area. If damages cannot be cured, he/she should contact the MDOT immediately.

- D. If damages do not exist, you must state in your appraisal that you have considered damages, and that in your opinion, they do not exist.
- E. In this type of appraisal report the appraiser is estimating the value of the part taken and would not be estimating the before and after values of the subject property. All other requirements of writing appraisal reports would apply. The appraiser is to utilize a table of contents that indicates a value of the part taken report, in lieu of the standard table of contents utilized for a Before and After report. The Certification page should also indicate Value of the Part Taken.

VI: CERTIFICATION:

Use Form 0633K, provided by the Michigan Department of Transportation. (Note: Appraisal report shall be submitted to the Department no later than 10 days subsequent to date of valuation.)

A Divider Page with index tab is required to be inserted between Section VI (Certification) and Section VII (Addendum).

VII: ADDENDUM:

A. Sketch

A sketch is required indicating the following information:

1. Control section, job number, parcel number, & owner's name
2. Total land area (indicate all easements, including existing ROW easement)
3. Boundary dimensions, location and dimensions of buildings numerically designated (large parcels show building site and improvements by insert), distance to abutting streets or highways, plus other significant features of the property. The appraiser shall use areas and dimensions appearing on Right-of-Way prints unless these are found to be in error. Any discrepancy between the appraiser's data and that presented by Right-of-Way prints shall be resolved by the Region Appraiser or Project Supervisor
4. In the case of partial takings, also show land area taken, buildings and improvements within the taking, distance from the taking line to remaining improvements, and similar land dimensions, areas and improvement data for remainder(s). The sketch(s) must clearly identify the property's improvements, dimensions, and setbacks in both the Before and After situation
5. Show well and septic system locations (if applicable) on all sketches, regardless of type of taking.
6. Sketches need to show north arrow and be to scale and/or show appropriate measurements

B. Photographs

Include a sufficient number of photos from multiple directions, properly identified as to location, date, photographer, with all other pertinent information, to show significant features of the property. Appraisal reports shall include color photographs of all above-ground improvements or unusual features affecting the value of the property.

C. Comparable Properties: Use MDOT Form 0612G as a guideline

A complete description and location map of all comparable data specifically utilized in the analysis of the appraisal report is to be included in the addendum. This map should identify comparable locations, as they relate to the subject property. Identified original color photographs are required of all comparable sales. The appraiser must complete MDOT Form A612G (Comparable Information) or a reasonable duplication of, for each comparable utilized in the report. If the appraiser deems any box on this form to be non-applicable, he/she should indicate it as such. The minimum description and/or required data for the comparable write-up must include the following if applicable:

- * Photograph of property and features also include a GIS aerial of property if available.
- * Address of property
- * Location and directions to property
- * Date of sale
- * Name of parties to the sale

- * Date of inspection
- * Name, phone number, and date of verification for each party (buyer, seller, and/or broker) with whom sale was verified
- * Consideration paid
- * Financing Terms
- * Unit Price Paid (Price per square foot, acre, front foot, etc.)
- * Detailed physical description of land, including land area and any existing easements
- * Conditions of sale (motivation)
- * Was this an arm's length transaction
- * Exposure time on market if applicable to value definition used and the assignment
- * Whether it was purchased for assemblage
- * Any special considerations in sales price. For example: Fixtures, inventory, goodwill, demo costs, utility site work, buyer's closing costs, etc.
- * Highest and Best Use at time of sale (and current, if different)
- * Buyer's intended use if known
- * Was comparable sales price influenced by the subject property's pending project
- * Specific current zoning and permitted uses
- * Any zoning changes applied for in the last five years or most recent
- * Any special use permits applied for in the last five years if relevant to value
- * Does the buyer and/or seller have any proposed site plans for the subject property
- * Road and/or street type
- * Utilities available at site
- * If public sewer is not available at site, what is the nearest location and probability of hookup
- * If public water is not available at site, what is the nearest location and probability of hookup
- * How does this property compare with typical properties in the neighborhood
- * Shape and Topography
- * Soil types
- * Environmental Items: (On-site tanks, contaminates, or hazardous material)
- * Required copy of respective document attached: i.e. deed, land contract, lease, etc.
- * Property I.D. #
- * Legal Description
- * Detailed physical description of improvements, including square footage of primary buildings
- * Appraiser's remarks, if any, about comparable property

Verification must be made with buyer, seller, or broker; if these sources are not available, the appraiser shall discuss the validity of the source of verification.

D. General Area, City and Neighborhood Information

Describe area geographically, economy-wise, trends up or down, proximity to shopping, churches, schools, & etc. Accessibility via major streets or highways and work areas.

E. Statement of Limiting Conditions

Where necessary, set forth any limiting conditions or assumptions that apply to values estimated.

F. Appraiser's Qualifications.

GENERAL NOTE

The respective requirements will need to be included in all appraisal reports prepared for the Michigan Department of Transportation. Reports not meeting these criteria will be subject to return for correction. In addition to MDOT's requirements, the appraiser will be expected to prepare the report in accordance with USPAP rules, criteria, and guidelines that are current as of the date of the report.

Submit an **unsigned** electronic document to MDOT for review. Insert "draft" watermark on the report. The final and signed appraisal will be requested after completion of the review. The entire report, including addendum, must be page numbered.