CELEBRATING 55 YEARS nerej

Explain this to your client! Supplemental standards

May 07, 2008 - Appraisal & Consulting

The challenge many appraisers face is explaining to a client why the appraised value of a property can change depending on the use and users of the appraisal. How can this be? The simple answer is supplemental standards. This situation was fully explored during a newly developed course entitled Valuation of Conservation Easements jointly developed by the Appraisal Institute (AI), the American Society of Appraisers (ASA) and the American Society of Farm Managers and Rural Appraisers (ASFMRA).

The course compared the differing standards involved in appraising a property based solely on the Uniform Standards of Professional Appraisal Practice (USPAP) versus one based on the additional standards required when appraising for Federal land acquisition versus one based on IRS standards for a tax deduction for a non-cash charitable contribution. I will provide an example of each in hopes of clarifying the situation.

Let us consider a farmer who owns a 20 acre agricultural field that he wants to preserve as agricultural land in perpetuity so that the land never becomes developed as a residential subdivision. To achieve his goal of preservation, he decides to encumber the property with a conservation easement that he will donate to the XYZ land trust. The land trust needs an appraisal of the conservation easement and hires an appraiser to appraise the conservation easement. In this case, the appraiser values the property to its highest and best use and values the property again assuming it is encumbered with the conservation easement such that its only permitted use is agricultural. The difference between the two values is the value of the conservation easement. This appraisal assignment involves a relatively simple before and after appraisal methodology.

Now let us consider that the farmer wants to be compensated by the land trust for the conservation easement and the land trust is going to use Federal funds from the US Department of Agriculture to purchase the conservation easement. Under this scenario, the Uniform Appraisal Standards for Federal Land Acquisition (UASFLA) must be employed. UASFLA is affectionately referred to as the Yellow Book because the cover of the 129 page book detailing these standards has a yellow cover.

According to Yellow Book standards, the property to be appraised is not just the 20 acre agricultural field, but must include any other property that is under similar ownership and highest and best use.

Therefore, if the farmer also owns an abutting 80 acre field or even an 80 acre field across the street that is part of his farm operation, that additional field must be valued within the appraisal. This appraisal assignment involves a more complicated process in that before, the property consists of a 100 acre property valued to its highest and best use and after the property consists of an 80 acre property valued to its highest and best use and 20 acre valued as agricultural land. But we are not done yet. If the farmer or any family member owns property nearby that benefits from the conservation easement placed on the 20 acre, that enhancement must be taken into consideration.

Under these circumstances, the value of the conservation easement could be different and most likely lower. Due to the added regulations and report requirements, a Yellow Book appraisal is more time consuming because of an expanded scope of work and therefore more expensive than the USPAP or conventional appraisal.

Now let us consider that the farmer decides to sell the conservation easement to the land trust at a bargain price and take a tax deduction for his non-cash charitable contribution to the land trust. This scenario involves an entirely different set of standards determined by the IRS. According to IRS regulations, the appraiser must value all contiguous family-owned property or C-FOP for short as well as consider enhancement. Therefore, if the farmer's parents own a house on the lot abutting the 20 acre to be encumbered with the conservation easement, then this property must also be valued in the appraisal. In addition, the appraiser must determine the bulk sale value of all the C-FOP. Again, under these circumstances, the value of the conservation easement could be different and most likely lower still. Due to the added regulations, report requirements and significantly expanded scope of work, an appraisal for a tax deduction can be more time consuming and therefore more expensive than the USPAP or Yellow Book appraisal.

Any appraiser who values property for Federal acquisition or for a tax deduction for non-cash charitable contribution must be aware of the nuances involved in the specific appraisal assignment. The Appraisal Institute offers a number of courses including one specific to the Yellow Book in addition to the course on the Valuation of Conservations Easements. To find out more information about these courses, visit the AI Website at www.appraisalinstitute.org.

Patricia Amidon, MAI, is principal at Amidon Appraisal Co., Porland, Me.