

# Agency appraisal review

by David Cavanaugh

***Those "glory days" of full staffing by experienced appraisers with extensive training have long past. Agency reorganizations and reductions in staff have forced consolidation and absorption of appraisal functions into larger divisions. Today's review appraiser must become an active participant in improving and managing the appraisal process.***

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*The opinions and views expressed in this article are those of the author and do not necessarily represent the policy of the U.S. Department of the Interior or the Bureau of Land Management.*

## Introduction

The Government appraisal review process has been important in assuring sound application of professional standards. However, the role and stature of the review appraiser has gradually changed. This is a result of several factors: criticism that the review process is slow, antiquated, inhibits adoption of new improved appraisal methods, fails to improve the quality or reliability of the fair market value estimate, and needlessly imposes excessive standards. Other critics argue that many appraisals are biased, often do not make sense, and are little more than "file stuffers," routine forms prepared to satisfy procedural requirements. These criticisms reflects a

a reluctance to change, to increase efficiency and improve the quality of appraisal service in meeting user requirements. This article reinforces the importance of the government review appraiser, describes actions taken by agencies to improve procedures establishing fair market value, and suggests an initiative to improve government-wide appraisal standards.

## Background

Many of today's attitudes concerning the appraisal review process were developed during the 1960's and early 1970's when government programs were expanding. During this period, acquisition agencies were fully staffed and trained to handle large workloads. Formal training instilled standard, detailed report writing requirements designed to enhance professionalism. The review appraiser was responsible for upholding these standards. A major accomplishment of this period was implementation of ethical and documentation standards which improved the integrity of the agency's appraisal process.

Those "glory days" have long past. Agency reorganizations and reductions in staff have forced consolidation of various functions, and resulted in absorption of the appraisal function into larger divi-



sions. Accompanying this change has been the loss of experienced personnel, mostly through retirement. During this time few agencies have been able to fill vacancies, institute career training programs, or provide developmental assignments or formal training for those replacing more experienced appraisers.

Although the role of the review appraiser is important, agencies have made efforts to streamline the appraisal process to improve efficiency. Changes that land holding agencies have made include delegating greater approval authority to operational levels, filling vacancies at lower grade levels, increasing use of cost effective appraisal methods such as market surveys and short form appraisals, and using more private fee appraisers. Consequently, the review appraiser has a more difficult task, requiring them to be a more efficient manager of the appraisal review process.

## Role of the review appraiser

The review appraiser is primarily responsible for the quality of the agency's appraisals. The reviewer establishes acceptable appraisals consistent with professional and agency standards. Working with staff and private fee appraisers, the reviewer provides guidance and advice for preparing appraisal

reports, and if necessary, insists on compliance with those standards.

### Leadership in decision making

From procurement of the appraisal, to review and approval, the review appraiser participates in decisions involved with defining the appraisal assignment, scheduling, selecting the appraiser, and if applicable setting contractual provisions, all of which affect the quality of the appraisal report. When issues arise, the reviewer is then able to confidently explain potential problems, and provide reasonable options for solution. Under these circumstances, it is the role of the reviewer to assure that staff and private fee appraisers are not unduly influenced by management or program pressures.

To assure a prominent role in agency decision making, the government review appraiser actively participates as a team member. Along with providing advice and guidance on a wide range of real estate issues, the reviewer examines the appraisal report and recommends to the designated authorized official an amount which represents the agency's determination of fair market value. The reviewer's written analysis considers the validity of various assumptions relied upon by the appraiser, the applicability of appraisal techniques used, and the reliability of the appraisal report in estimating fair market value. This written analysis provides essential information to managers, staff members, and private individuals affected by the agency's decisions.

Many agency senior reviewers have a demonstrated record of professional achievement including appraisal designations and attendance at recognized appraisal seminars and courses. At many agencies senior reviewers have successfully completed a minimum of two appraisal training courses sponsored by a nationally recognized professional organization, and have a minimum of 5 years of varied appraisal experience. Involvement in professional organizations allow reviewers and appraisers to continually reshape what is "generally acceptable," and influence decisions concerning a wide range of contemporary issues including professional ethics, certification, licensing, and cash equivalency.

### Multilevel reviews

To speed appraisal review many agencies have discarded, or modified the multilevel review process. Although some agencies still retain levels of review authority based on dollar limits, several have delegated greater authority to lower levels which has improved lower level review, and reduced delay.

The Bureau of Land Management (BLM) has delegated full responsibility to the field offices for preparation, review and approval of appraisals. Since 1983, separate, concurring reviews of high value appraisals are no longer necessary. This reflects the Agency's complete dependence on the capability and integrity of the State BLM Chief Appraisers.

Although there was considerable disagreement as to the wisdom of this change, the transition has been generally smooth. Elimination of higher level reviews has improved appraisal service, reduced cost, eliminated "second guessing," and placed responsibility at the operations level. Higher level review is

extremely limited to avoid undermining the responsibility of the State Chief Review Appraiser. To evaluate compliance with government-wide standards, periodic reviews are conducted of state office procedures establishing fair market value.

### Appraisers as negotiators

Agencies may increase their private property. Recently published uniform regulations applicable to most Federal agencies and agencies receiving Federal assistance allow appraisers to negotiate approved appraisals up to \$2500. This change was made to assist small agencies unable to maintain separate appraisal and negotiation staffs. The final rule states:

No appraiser shall act as a negotiator for real property which that person has appraised, except that the Agency may permit the same person to both appraise and negotiate an acquisition where the value of the acquisition is \$2500, or less. Uniform Relocation Assistance and Real Prop-

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erty Acquisition; Final Rule Federal Register, February 27, 1986, [Section 103(f)].

This change in procedure will decrease costs associated with the appraisal and acquisition of low value tracts. Previous federal practices discouraged appraisers from being involved in negotiations. However, a few agencies have used appraisers, and with proper procedures experienced no significant problems. These procedures should require an independent review of the appraisal by a qualified reviewer in order to ensure the integrity of the appraisal process. Limited use of appraisers to negotiate settlement will:

- (a) Reduce agency staffing requirements and thereby reduce costs.
- (b) Eliminate a separate contact by a negotiator with the property owner.
- (c) Improve utilization of appraisal staff.

Many agencies will be reluctant to implement this change immediately. However, as agencies develop greater confidence and institute new procedures, limited use of staff appraisers to negotiate low value acquisitions may meet with greater acceptance.

### **Appraisal review analysis**

Agencies are placing greater emphasis on the review appraiser's ability to effectively communicate analysis of the appraisal report. The analysis is not only important in assuring compliance with basic standards, but also serves as a means of advising management, staff members and private persons of the reviewer's assessment of the appraisal report for purposes of formulating agency decisions.

The Uniform Appraisal Standards for Federal Land Acquisitions references longstanding government procedures that appraisal reports be reviewed by a qualified review appraiser. The standards place responsibility on the review appraiser to "...determine whether the appraisal is adequately supported; whether it complies with recognized appraisal practices; and whether it conforms to governing legal premises..." The reviewer is to attach to the report reviewed a memorandum indicating the scope of the review and supporting actions recommended. No guidance was

provided detailing information to be included in the reviewer's analysis.

Recent guidelines established by the American Institute of Real Estate Appraisers emphasizes the important role played by private and government reviewers in deciding market value. The guidelines were published in the Institute's Standards of Professional Practice, effective May 3, 1985. Appraisal reviews which do not follow the specific guidelines are considered to have been developed in an improper manner "unless the review appraiser has carefully considered a departure from the guidelines and has determined that the departure is appropriate and that the resulting appraisal analysis, opinion, or conclusion will not tend to mislead or confuse the client, the users of the appraisal report, or the public."

The guidelines require the review appraiser to:

- (a) identify the report being reviewed, the real estate being appraised, the real property interest being appraised, the effective date of the opinion in the original report, the date of the original report and the date of the review;
- (b) identify the scope of the review process to be conducted, including a determination of whether or not it is appropriate or essential to inspect the appraised property and the data presented;
- (c) form an opinion as to the adequacy and relevance of the data used and the propriety of any adjustments made;
- (d) form an opinion as to whether or not the appraisal methods and techniques used were appropriate and, if not, the reasons for the reviewer's disagreement with the original appraiser; and
- (e) form an opinion as to whether or not the analyses, opinions, or conclusions in the report being reviewed are correct or appropriate and, if not, state his or her analyses, opinions, or conclusions and his or her reasons for disagreement with the original appraiser.

This is a significant departure from previous generally accepted attitudes that the review process was solely to administratively approve an estimate of the

market value of the property. Under these circumstances the reviewer's discretion was limited to signing a statement accepting or rejecting the appraisal. Often approval was unfairly withheld until the appraiser complied with detailed agency documentation standards. This practice placed undue pressure on the appraiser and generated criticism that reviewers were inexperienced, uncooperative, arrogant, and had a predetermined notion of the value they wanted the appraisal to support (Frequent criticism of mortgage loan officers today are reminiscent of former attitudes.)

### **Eminent domain appraisals**

Agencies have also increased awareness of the important role reviewer's perform in assuring compliance with Title III, Uniform Relocation and Real Property Acquisition Policies Act, 1970. This Act requires Federal and local agencies receiving Federal assistance to:

- (a) offer an amount it believes to be just compensation which cannot be less than the agency's approved appraisal of fair market value.
- (b) disregard any decrease or increase in value of the real property caused by the project prior to the date of valuation, due to physical deterioration not within the reasonable control of the owner.
- (c) offer to acquire any uneconomical remnant. This provision requires the reviewer to include the value of any uneconomical remnant in the agency's approved estimate of value.
- (d) separately acquire buildings, structures, or improvements located on the property to be acquired, or adversely affected by the use to which the property will be put. Fair market value is the amount the improvements contribute to the fair market value of the whole property or its salvage value.

Sole responsibility for estimating fair market value and determining the adequacy of an appraisal report rests with the reviewing appraiser. When fair market value fails to adequately compensate the property owner, just compensation is arrived at through the agency's nego-

tiations process, or ultimately by the courts. Differences between the approved appraised value and just compensation offered by the agency should be reasonably supported and justified. Disagreement by program managers concerning the approved fair market value should be discussed directly with the reviewing appraiser. No effort should be made by others to affect the reviewer's integrity, or professional judgment.

### Proposal for action

On February 27, 1985 a Presidential Memorandum was signed establishing a lead agency concept for improving the administration and implementation of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970. The Memorandum designated the Department of Transportation (DOT) as the lead agency responsible for coordinating and monitoring implementation of the Act. It also directed DOT, in joint cooperation with the Department of Housing and Urban Development, to interact with other executive agencies in developing Administration policies. This action recognized the potential savings resulting from adoption of uniform cost effective policies and procedures governing implementation of the Act.

The Administration's initiative to develop a lead agency concept should be expanded to include Government-wide appraisal practices and procedures. Properly organized and funded, such an effort would consolidate agency development of appraisal policies, improve consistency, enhance inter-agency cooperation, and promote public confidence in agency appraisal and review procedures. It would also benefit smaller agencies which lack the staff necessary to conduct appraisal training or prepare and maintain appraisal handbooks. Without an organized effort by various executive agencies, efficient implementation of government-wide standards will become increasingly difficult.

To improve agency management of the appraisal function, consideration should be given to various ideas which improve preparation and review of appraisals. These ideas include:

- (b) Expanding use of shared service agreements to facilitate use of other agency appraisers. Proper use would reduce costs, provide staff appraisers greater experience, and facilitate timely completion of the appraisal.
- (c) Prepare a government-wide handbook which replaces the Uniform Appraisal Standards for Federal Land Acquisitions. The handbook should establish cost effective documentation standards for less complex and more complicated appraisals, and establish guidelines for mass appraisal techniques. Standards should also be developed for preparation of appraisal reviews, and compliance with applicable laws and Federal court decisions.
- (d) Seek cooperation of professional appraisal organizations in preparing guidelines and training courses designed for eminent domain appraisers.

### Conclusion

There has been an important transition in the role of the government review appraiser. No longer can the reviewer rely on traditional attitudes concerning the importance of the appraisal function. The reviewer should become an active participant in improving management of the appraisal process. This includes regaining the confidence of agency managers by demonstrating the importance of the review function, and how it can facilitate accomplishment of agency goals.

Agency decisions concerning fair market value are often subject to public scrutiny. Consequently, agencies need to continue to ensure that appraisals are independently reviewed by qualified individuals, comply with applicable laws and agency requirements, and reasonably reflect market behavior. Improved training and compliance with government training and appraisal documentation standards will improve public confidence and reduce waste, fraud, and abuse. (IRWA)

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