SUPPLEMENTAL APPRAISAL STANDARDS FOR "LESS THAN FEE" ACQUISITIONS

It is the policy of the District in the acquisitions of Less-Than-Fee Agreements that the public trust of the citizens of Florida be upheld and protected. Since public funds are involved, it is incumbent upon all who are employed to represent the public interest and the citizens generally. In so doing, care must be taken that the market value estimate is fair, not only to the individual property owner, but to the public which is to pay for the purchase of the Less-Than-Fee Agreement. The appraisal must consider the effect of both existing residential structures and future residential entitlements, but not assign a separate value to them.

These standards are intended to encourage uniform approaches to appraisal problems and to prescribe requirements for adequate supporting data and other factual information used to develop market value estimates. They are in no way intended to limit the scope of appraisal investigations nor to bias the independent judgment or value estimates of appraisers employed by the District.

A. APPRAISAL STANDARDS

All appraisals shall be prepared in conformance with the most recent edition of the Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by the Appraisal Foundation.

In addition, for internal consistency with other state agencies, appraisals shall be prepared and reviewed according to the most recent version of Uniform Appraisal Standards for Board of Trustees Land Acquisitions promulgated by the Bureau of Appraisal, Division of State Lands, Department of Natural Resources, State of Florida.

B. APPRAISAL REPORT PREPARATION

The purpose of the appraisal is to estimate the market value of the fee simple interest in the property, and the market value of the rights to be acquired under the District's Less-Than-Fee Agreement.

Because of the complex nature of analyzing and communicating the valuation of a "less than fee" "bundle of rights", and the ultimate use of the appraisal as a decision making tool by state agencies as well as the property owner, appraisals shall be Complete, Self-Contained Reports as defined by USPAP Standard Rule 2-2(a).

Limited Appraisals and Summary Reports are unacceptable, as they are implicitly less reliable and contain insufficient information for adequate third party review and oversight.

C. SUPPLEMENTAL STANDARDS

The value of the property subject to the Less-Than-Fee Agreement must be estimated using valuation methods and techniques in the same manner as required in estimating the value of the fee simple.

In addition to complying with the appraisal standards referenced in Section A above, the following elements and new sections must be included in the "less than fee" appraisal report:

1. **DEVELOPMENT TRENDS** [new report section]

   Because the crux of the valuation problem is the value of development rights, the purpose of this section is to specifically address development potential.

This section shall include direct market evidence supporting:

! Development trends (direction and magnitude)

! Supply/Demand factors affecting development potential, including but not limited to:

- population trends at the census tract level (historical and projected)

- proximity of recent subdivision development activity, including residential building permit activity

- time distance to shopping and non-farm employment centers

! Predominant land uses (historical and prospective)

! Availability of infrastructure for development (paved roads, utilities, recent new schools and fire stations, etc.)

2. **ANALYSIS OF EASEMENT RIGHTS** [new report section]

Identify and list specific elements of "bundle of rights" enjoyed by property, and discuss each element's relative importance to economic utility (hence affecting prices paid for land) both:

a) Before (as is), and

b) After the Less-Than-Fee Agreement is imposed

3. **HIGHEST AND BEST USE AS IF ENCUMBERED BY LESS-THAN-FEE AGREEMENT**

(new report section) (This is in addition to highest and best use "as is".)

Based on information presented in the "DEVELOPMENT TRENDS" and "ANALYSIS OF EASEMENT RIGHTS" sections above, what uses are available to the subject property subject to the provisions of the Less-Than-Fee Agreement?

A chart comparing the practical uses before and after is recommended.

Great care should be taken by the appraiser in estimating the highest and best use of the property in the "After" situation. The Less-Than-Fee Agreement prohibits any future development, other than for "best management" agricultural activities, related agricultural structures, and a negotiated number of residences. This restriction, in most cases, will have an effect on the highest and best use of the subject property. This implies that the highest and best use of the subject property, subject to the Less-Than-Fee Agreement, would be for agriculture purposes.

There are significant differences in values of agricultural land, depending on the type of agricultural use for which the property is capable and likely of being used. The appraiser*s analysis of the highest and best use should include the agricultural uses for which the property is capable and likely of being used.

4. **VALUATION METHODOLOGIES**

USPAP Standard Rule 1-1(a) says:

"In developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal."

Recognized methodologies for conservation easement/development right valuations include (but are not limited to):

(1) Before and After (with the value of the conservation easement reflected by the difference):

The "Before" value is the "as is" market value, consistent with the "as is" highest and best use conclusion.

The "After" value may be supported by:

(a) Direct Comparison with other properties sold subject to similar easements, and/or

(b) Direct Comparison with sales of properties with similar practical uses as discussed in the "HIGHEST AND BEST USE AS IF ENCUMBERED BY THE LESS-THAN-FEE AGREEMENT" section.

(2) Direct Comparison with other conservation easements or development rights purchased.

Both methodologies shall be utilized. Additional methodologies (such as an Income Approach) may be included as long as the appraiser adequately explains the methodology's underlying rationale, supporting data and analyses.

Note: The appraiser is encouraged not to use prior purchases by a water management district, or other state or governmental agencies, as comparable sales. Preferably, only sales from the private sector will be used in direct comparison to the subject property. **Because of the motivations involved, properties purchased by a district, or other state agencies should be used with extreme caution, and only after a diligent search of the private sector has been conducted and no sales are found.** If these sales are used, it is necessary that they be analyzed separately from the private sector sales. Then the effect of governmental motivations on price, if any, can be extracted.

Note: For (1b), if the "HIGHEST AND BEST USE AS IF ENCUMBERED BY THE LESS-THAN-FEE AGREEMENT" conclusion is for agricultural use, the appraiser may use comparable sales of land that are confined to agricultural use because of legal restrictions, locational attributes and/or physical impairments which make the land valuable only

for agricultural use. Data may also be gathered from remote real estate markets where farms have no apparent development potential reflected in their value.

Note: In both (1a) and (2), it is critically important to identify and list specific elements of "bundle of rights" involved in the easement/protection agreement encumbering each sale property, and discuss each element's relative importance to economic utility of the underlying land (hence affecting the price paid for easement rights) versus rights, practical uses and value remaining with underlying land.

Comparisons between easements without this analysis is unacceptable.

Note: When comparing similarly restrictive easements, the appraiser is cautioned that "before vs. after" percentage relationships can be misleading without also an examination of the dollar price per acre of the underlying land. **Because the magnitude of importance of each "right" varies with a property's development potential, "before vs. after" percentage relationships are "portable" to a second property only when both properties' "before" underlying land value and development potential are the same.**

5. **RECONCILIATION**

To satisfy USPAP Standard Rule 1-4(e) which states:

consider and analyze the effect on value, if any, of the assemblage of various estates...and refrain from estimating the value of the whole solely by adding together the individual values of the various estates...

[Comments]... A similar procedure must be followed when the value of the whole has been established and the appraiser seeks to estimate the value of a part. The value of any such part must be tested by reference to appropriate market data and supported by an appropriate analysis of such data.

Reconcile the value conclusion for conservation easement/development rights to be acquired from the value indications in the "VALUATION METHODOLOGIES" section by using a "test of reasonableness" for the remaining land value as if encumbered by the Less-Than-Fee Agreement. In other words, is the price per acre for the remainder reasonable in light of the remainder's practical use potential?

D. NEEDED INFORMATION

In order to promote timely and accurate appraisals, the following information is to be supplied to the engaged appraiser regarding the subject property:

- legal description of portion of property to be encumbered by the Less-Than-Fee Agreement

- sketch and/or survey of property (if available)

- title information, especially easements of record and reserved oil, gas, and mineral rights
- copy of completed Less-Than-Fee Agreement specific to subject property (especially any addenda specifying number of buildable units and existing "grandfathered in" uses)
- jurisdictional wetland delineation
- property contact, mailing address and telephone number

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