DATE:  February 20, 2018

TO:  Emily Ferguson, State and Local Assistance Program, NPS
     Roger Knowlton, Acting Chief, Recreation Grants, Midwest Region, NPS

FROM:  Timothy J. Hansen, RPRA, Chief Appraiser, OVS

SUBJECT:  Quality Assurance Inspection of:  Richard Pryor Place Conversion Parcel #18-09-109-030 and #18-09-110-027 Peoria Conversion, Peoria, IL

Background and Reasons for Inspection

The National Park Service (NPS) will conduct spot check inspections of appraisal and appraisal review reports as part of a state program review to assure compliance with the Land and Water Conservation Fund (LWCF) requirements and federal appraisal standards. The NPS may, and in this case has, requested a compliance review of the appraisal and appraisal review from the Department of the Interior’s Office of Valuation Service (OVS). At your request, I have completed a Quality Assurance Inspection (QAI) of the real estate appraisal and appraisal review reports for the Richard Pryor Place conversion parcel associated with the Peoria LWCF Conversion being completed between NPS and the State of Illinois.

The LWCF State Assistance Program Federal Financial Assistance Manual (the “Manual”) stipulates that the State has the responsibility for “ensuring appraisals are reviewed by state certified review appraisers pursuant to the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA), and for approving appraisals.” UASFLA is the appraisal standard used by state and local appraisers in the preparation of appraisals for federally LWCF assisted acquisitions and Section 6(f) conversions. The federal standards (UASFLA) are considered supplemental standards to the Uniform Standards of Professional Appraisal Practice (USPAP).

As the Departmental authority on valuation services, Departmental Manual 602 DM 1 and 112 DM 33 outline that OVS has responsibility for external quality assurance and compliance reviews of valuation services to the Department’s bureaus and offices to ensure that valuation products comply with statutory authority, applicable regulations, valuation standards, and the assignment specific statement of work. The OVS Chief Appraiser is tasked with this responsibility, as needed, to ensure real property valuation procedures and standards are being maintained. This inspection fulfills the requirement in accordance with the Departmental Manual.

1 LWCF State Assistance Program Federal Financial Assistance Manual, Chapter 4, Section 7(b), Page 4-18.
Methodology and Scope

The inspection was limited to an inspection of electronic copies of the appraisal report and appraisal review report of the Richard Pryor Place conversion parcel provided by NPS. After the initial inspection, additional maps were provided by NPS to help determine the property boundaries for the conversion and the ownership of the parcels affected by the conversion. The Peoria County Property Tax Information website was researched to understand property boundaries as well. No case files or review files were provided or inspected. No contact was made with either the appraiser or review appraiser at this stage of the assignment. Because the date of the appraisal report and appraisal review report were prior to the publication of the 6th Edition of UASFLA in December of 2016, all references in this document are to the 5th Edition of UASFLA published in 2000. Additionally, all references to USPAP refer to the 2012-2013 Edition of USPAP, which was in effect as of the date of the appraisal.

Findings – Appraisal Report

Appraisal Report Format – The appraisal report is submitted as a “summary report” which is not compliant with UASFLA reporting requirements.

Definition of Market Value and Exposure Time – The correct definition of market value is used in the appraisal report. However, no Jurisdictional Exception is cited for the prohibition in UASFLA of linking the value opinion to an exposure time. This is included in the UASFLA specific Appraiser Certification, which was not used in this appraisal report and required by Section D-1 of UASFLA. Exposure time is not discussed in the appraisal report at all.

Legal Description – The appraisal report states, “Although requested, the client has not provided the appraiser with an accurate legal description or survey for the subject property.” UASFLA places the burden on the appraiser for “obtaining an accurate legal description of the property to be appraised and the property remaining (or to be acquired) before endeavoring to conduct the appraisal.” In addition, the appraiser was not provided with a title commitment or title policy for the subject property. The appraisal report also states that the plat map included in the appraisal was the primary resource for identifying the subject property and estimating the size of the parcel appraised. The plat map included on Page 9 of the appraisal report depicts a parcel outlined in red that encompasses portions of Block 89, Block 80, and a portion of Goodwin Street. The appraisal report identifies the tax parcels involved in the conversion as 18-09-109-030 and 18-09-110-027. When compared to the map on the Peoria County GIS, the outlined parcel from the appraisal appears to cross three different tax parcels: 18-09-109-030, 18-09-110-028, and 18-09-110-029. These parcels are all owned by different entities that create larger parcel issues that were not addressed in the appraisal report. No larger parcel analysis or conclusion

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3 UASFLA Section D-5, pg. 82.
4 The Peoria County GIS and Assessor’s Office do not recognize 18-09-109-027 as a valid parcel ID number. This may have been the result of a boundary line adjustment or re-platting of the subdivision between the date of value for the appraisal and the date of this inspection.
was included in the appraisal report. This is a violation of UASFLA, which requires that “[T]he appraiser must make a larger parcel determination in every appraisal conducted under these Standards, even in the case of a minor partial acquisition where the client agency has determined a complete before and after appraisal is not necessary.”

**Property Rights** – The appraisal report states that the appraisal is of the “unencumbered Fee Simple interest” of the subject property in the transmittal letter, but identifies “ordinary utility easements” on the summary of the site analysis. Due to the lack of title information it is not possible to determine whether or not the interest being converted is the fee simple interest or not.

**Appraiser’s Certification** – The appraisal report does not use the required certification statement from UASFLA. This should include a statement that the appraiser conforms to Federal standards as well as a statement that the appraiser offered the property owner an opportunity to accompany them on the property inspection. There is a signed affidavit in the addenda to the appraisal report that states that the appraisal was completed in compliance with federal appraisal standards (UASFLA) and that the owner of the property did not accompany the appraiser during his inspection of the subject property. The statement regarding the owner being offered the opportunity to accompany the appraiser assures that the intent of the UASFLA requirement was met. More troubling is that the appraiser signed an affidavit attesting that his appraisal was completed in compliance with UASFLA.

**Assumptions and Limiting Conditions** – The “General Limiting Conditions and Underlying Assumptions” included in the addenda to the appraisal report contain a hypothetical condition creating a situation where the actual property interest being appraised may be different than the property interest that the property owner has to convey. This is related to the discussion above regarding encumbrances against the property. The appraisal includes the following statement: “The property is appraised as if unencumbered and as if free and clear of all encumbrances whether or not that is actually the case.”

“The adoption of an uninstructed assumption, or hypothetical condition, that results in a valuation of other than the “as-is” market value of the property appraised as of the effective date of the appraisal will, as a general rule, invalidate the appraisal for government acquisition purposes.”

The appraisal report includes one hypothetical condition, that the subject site contains no improvements, including buildings and site improvements as an assignment condition. The client directed the appraiser to include the hypothetical condition, but no written instructions, legal or otherwise, are included in the appraisal report. UASFLA requires that “[A]ny client agency or special legal instructions provided the appraiser shall be referenced and a copy of such instructions shall be included in the addenda of the appraisal report.”

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5 UASFLA Section A-14, pg. 17.
7 Ibid. Page 52.
8 UASFLA Section A-7, pg. 11.
9 Ibid.
The statement referenced above regarding encumbrances on Page 52 of the appraisal report is also problematic in that it contains another hypothetical condition which is not “clearly and conspicuously stated” and neither of the hypothetical conditions include the USPAP required statement that “their use might have affected the assignment results.”

**Description of the Subject Property** – The description of the subject property raises additional questions about the actual property interest that was appraised. As mentioned before, the appraisal report states that no legal description was provided to the appraiser. The map included on Page 9 of the appraisal report depicts the subject property as understood by the appraiser. The main problem with this parcel as described and appraised is that it crosses two or possibly three different ownerships. This was not addressed in a larger parcel discussion, which if done correctly, would have resulted in a separate appraisal for each ownership due to the lack of unity of ownership. Please refer to the next two sections of this report for more detailed discussion of the larger parcel as it relates to UASFLA appraisals.

**Highest and Best Use** – The highest and best use conclusion in the appraisal report is stated as “commercial use.” There is no analysis presented in the appraisal report that identifies what type of commercial highest and best use would be maximally productive, which is the final test for highest and best use. The report identifies several uses that might be feasible for the subject property, but does not conclude a final highest and best use determination. This is important because the comparable sales used in concluding the market value for the subject are required to have the same economic highest and best use as the subject property.

**Larger Parcel** – A larger parcel determination is required for every assignment conducted pursuant to UASFLA and is an integral part of the highest and best use analysis. No larger parcel analysis or conclusion was included in the appraisal report. This is an issue of non-compliance with UASFLA. For a UASFLA compliant appraisal, an analysis examining the three tests for determining larger parcel, unity of use, unity of title, and physical contiguity, must be included in the appraisal report with the conclusion of the larger parcel. For this assignment this omission creates a fatally flawed appraisal report. The three tests for determining larger parcel in UASFLA are unity of ownership, unity of highest and best use, and physical contiguity or proximity as it relates to highest and best use. Appraisals for NPS conversions are conducted differently than acquisition appraisals. The boundaries of the conversion parcel are established through agreement and the appraiser does not go outside those boundaries in determining the larger parcel. However, the appraiser is still required to conduct a larger parcel analysis within those boundaries, and in this case no unity of ownership is present. Two or three different ownerships are included in the conversion parcel depending on the source of ownership data. A correct UASFLA analysis and conclusion of the larger parcel would have resulted in separate appraisals for each ownership rather than a value of the entire conversion parcel.

**Sales Comparison Approach** – “In selecting the comparable sales to be used in valuing a given property, it is fundamental that all sales have the same economic highest and best use as the

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12 UASFLA Section A-17, Pg. 20.
property under appraisal and that the greatest weight be given to the properties most comparable to the property under appraisement.” Of the six primary sales and five supplemental sales included in the appraisal report, only one has the same zoning (CG-General Commercial) as the subject property. There is no discussion presented regarding the differences in allowable uses between properties zoned Industrial (Primary Sale 3 and Supplemental Sale 1) or those zoned Business (Primary Sales 5 and 6 and Supplemental Sales 4 and 5). The allowable uses and highest and best uses may be the same as the subject, but no information is provided in the report to inform the reader of the logic used when comparing the various zoning categories to the subject property.

Some qualitative comparisons were made in the head to head comparison of the subject property to the comparable sales. Ultimately, the appraisal report indicates that the entire group of primary sales analyzed was superior to the subject property and that the market value was better represented by the group of supplemental sales when concluding a price per square foot of $3.00 for the subject. The problem with the reliance on the supplemental sales is that four of the five sales were from the City of Peoria and the appraisal report does not include the required extraordinary verification of the sales when they involve a government entity. Section D-9 provides instruction to appraisers on the required steps to take when it is necessary to rely on sales involving a government entity. The appraisal report does not include a description of how these extraordinary verification requirements were met.

UASFLA requires that sales “shall be confirmed with a buyer, seller, broker, or other person having knowledge of the price, terms, and conditions of sale.” Neither public records nor multiple listing services meet this standard. None of the primary or supplemental sales indicate how or if they were verified with a party to the transaction. There is a general statement in the appraisal report that “Verification has been made through “green sheets”, deeds, tax assessor’s records, Peoria County GIS, and interviews with parties involved in the transactions.” It is unclear if all the sales were confirmed with all these different sources or if this statement means some were confirmed with some sources and others with different sources.

Findings – Appraisal Review Report

Overall Suitability – The appraisal review report states that the “appraisal reasonably conforms to USPAP and UASFLA…” There are numerous areas of non-compliance within the appraisal report, including the use of an incorrect certification by the appraiser and the omission of a larger parcel analysis, which is required in every assignment conducted under UASFLA standards. In addition, the use of a Summary Appraisal Report format is not appropriate for UASFLA compliant assignments. USPAP states in various locations that a Summary Appraisal Report must summarize various aspects of the appraisal. One example is that UASFLA requires that the

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13 Ibid.
14 The 6th Edition of UASFLA published in 2016, placed the necessary items for completing the extraordinary verification process into a checklist to assist appraisers with determining what verification needed to take place. This checklist contains 24 questions that need to be answered and evaluated to properly confirm a sale involving a government entity. If this was completed, it was not included in the appraisal report.
15 UASFLA Section A-17, Pg. 20.
zoning of the subject property must be reported in descriptive terms.\textsuperscript{17} A Summary Appraisal Report under USPAP only requires that this information be summarized. In general, a Summary Appraisal Report does not include sufficient information to meet the requirements of UASFLA.

**Scope of Work** – The copy of the appraisal review report submitted does not identify the client and intended users of the appraisal review report. This is a requirement of USPAP Standard Rule 3-2(a).

**Reviewer’s Analysis and Comments** – There is limited analysis included in the appraisal review report that would explain why the numerous areas of non-compliance with UASFLA in the appraisal report were acceptable. It is interesting to note that in at least one area, the appraiser’s certification, the review appraiser recognized areas of non-compliance, but chose not to seek corrections from the appraiser. It is not clear if this was within the scope of work for the assignment because the scope of work necessary to develop credible assignment results was not discussed in detail in the review report. However, even if it were outside the scope of the assignment, the review appraiser’s reasons for disregarding this area should have been discussed.

The appraisal review report does not comment on the lack of a larger parcel analysis in the appraisal report. This analysis is required in every appraisal conducted under UASFLA standards even when the transaction is voluntary and even in minor partial acquisition cases.\textsuperscript{18} In this case the failure to address the larger parcel is a fatal flaw in the appraisal due to the lack of unity of ownership present in the conversion parcel. The appraisal review report does not even mention this omission.

**Extraordinary Assumptions, Hypothetical Conditions, & Limiting Conditions** – The appraisal review report states that “[A]ssumptions and limiting conditions were detailed in the report.”\textsuperscript{19} It does not comment on the propriety of the hypothetical condition or the assumption that the property is appraised as a fee simple, unencumbered interest when there appear to be encumbrances present.

**Overall Presentation and Form** – Item Q indicates that the signed certification page is acceptable. The signed certification page does not include the certification from UASFLA, which is required for assignments conducted under those standards. The appraisal review report cites a non-conforming certification as an example of an area of non-compliance that can be ignored. However, UASFLA states that the appraisal shall include a certification that has certain items including “the opinion of the market value of the property appraised as of the effective date of the appraisal.”\textsuperscript{20} The appraisal review report does not comment on this omission from the appraiser’s certification or the use of a non-UASFLA certification. While these may be considered technical violations by the review appraiser, they are areas of non-conformance with the Standard.

\textsuperscript{17} UASFLA Section A-13h, Pg. 16.
\textsuperscript{18} UASFLA Section A-14. Pg. 17.
\textsuperscript{19} Appraisal Review Report of the Southtown @ Richard Pryor Place (Converted Property) completed by Pat Brannan dated 1/2/2013. Pg. 2, Item K.
\textsuperscript{20} UASFLA Section A-4. Pg. 10.
**Comparable Data** – The appraisal review report does not comment on the lack of sufficient sales verification for both the primary and supplemental groups of sales. UASFLA requires that sales “shall be confirmed with a buyer, seller, broker, or other person having knowledge of the price, terms, and conditions of sale.” 21 (UASFLA A-17) Neither public records nor multiple listing services meet this standard.

**Recommendations**

A legal description for the conversion parcel must be obtained prior to a new appraisal being conducted. Once a legal description is determined, a new appraisal report must be completed which includes a larger parcel analysis for the parcel identified by a legal description. If it is necessary to include hypothetical conditions or extraordinary assumptions, then the appraisal must include written instructions from the client documenting the reasons for reliance on these assignment conditions. If sales are used that involve a government entity, then they must report the extraordinary verification process required by UASFLA that led to the appraiser’s conclusion that they are representative of arm’s length, market value transactions. Once the new appraisal report has been completed to address the findings listed above, a new appraisal review report should also be completed to reflect the new appraisal report and to correct the deficiencies noted for the appraisal review report. As written, the appraisal report for the Richard Pryor Place conversion parcel is not in compliance with the UASFLA for the reasons outlined in the sections above.

21 Ibid. Section A-17. Pg. 20.