

<p>Placer Land Trust Appraisal Fact Sheet</p>
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The purpose of this fact sheet is to provide appraisal information to landowners interested in donating or selling land or conservation easements to Placer Land Trust. This fact sheet addresses the most common questions regarding appraisals; for all other questions, please contact Placer Land Trust.

What is the purpose of an appraisal?

In a land conservation transaction, an appraisal has several uses. The primary purpose of an appraisal is to establish the fair market value of a certain real property interest. If a landowner is donating land or a conservation easement to qualified nonprofit land trust like Placer Land Trust, the appraised value of the land or easement being donated is used to determine the amount of the possible tax deduction. This also applies in situations in which the landowner sells the land or easement to the land trust at below appraised value (a “bargain sale”). In either of the above cases, in order for the landowner to seek a federal tax deduction for a donation of more than \$5,000, the appraisal procedure and report must conform to specific IRS standards, as generally outlined in this fact sheet. See Treasury Regulations §1.170A-13(c) and §1.170A-14(h) for more detail. An appraisal may also be important for financial estate planning or in reviewing value for property tax purposes. A landowner may also need an appraisal to obtain mortgage subordination or to support a request for a property tax adjustment.

Is an appraisal required to complete a conservation transaction with Placer Land Trust?

Yes, in most situations an appraisal will be required.

Who is responsible for the appraisal?

If the landowner wishes to pursue tax benefits for a donation or bargain sale, then the landowner is responsible for obtaining the appraisal. Furthermore, the landowner – not the land trust – is responsible for the determination of the value of any donation for which a tax deduction will be claimed. However, if the landowner is seeking to sell his or her real property interest to Placer Land Trust, and the Trust is interested in purchasing it, then Placer Land Trust is responsible for obtaining the appraisal. Regardless of who is responsible for obtaining the appraisal, the parties may agree to share appraisal costs.

Who receives the appraisal report?

The party that ordered the appraisal report will receive it from the appraiser. If the landowner obtained the appraisal and wishes to proceed with a donation or bargain sale, then the landowner must provide a copy of the appraisal report to Placer Land Trust. Likewise, if Placer Land Trust obtained the appraisal and wishes to proceed with a fair market value purchase, then the Trust will provide a copy of the appraisal report to the landowner. Placer Land Trust may also share the appraisal report with potential funders and project partners who need to review the appraisal.

Who is a qualified appraiser?

The appraiser must be a qualified appraiser who follows Uniform Standards of Professional Appraisal Practice (USPAP). In selecting an appraiser, consider:

- The appraiser must be currently licensed by the State of California.
- In situations where Placer Land Trust is seeking State funding for the land or conservation easement purchase, the appraisal report must also be approved by the State of California’s Department of General Services (DGS).

Are all appraisers qualified to complete a conservation easement appraisal?

Conservation easements are voluntary perpetual legal agreements that confer certain property rights to a qualified nonprofit in order to permanently protect the property. There are no specific credentials required for appraising conservation easements other than the appraisal must conform to USPAP standards; however, not all appraisers are familiar with the unique nature of these easements or have experience appraising them. With its potential for complicated analysis, a conservation easement appraisal may require an appraiser licensed at the highest level. Knowledge and experience are essential. Reputable appraisers will disclose in advance any lack of experience with, or knowledge about, conservation easement appraisals.

In selecting an appraiser for a conservation easement, consider:

- Does the appraiser have experience with conservation easements?
- Has the appraiser taken classes specifically targeting conservation easement appraisals?
- Has the appraiser's past work been satisfactorily reviewed or received?

A relative of mine is an appraiser. Can that relative appraise my land or easement?

No. The purpose of an appraisal is to obtain an independent assessment of the value of the land or conservation easement. Therefore, an appraiser should not be related to the land, the landowner or the transaction in any way that would question the appraiser's neutrality. IRS regulations further specifically prohibit appraisals by immediate family members or their spouses.

What is the fair market value of a conservation easement?

The monetary value of a conservation easement is the fair market value of those property rights and restrictions conveyed by a landowner. A qualified appraisal estimates the fair market value of those rights by calculating the impact of the conservation easement on the value of the property.

Typically, an appraiser determines the fair market value of a conservation easement by comparing the value of the property without the conservation easement restrictions in place with the value of the property with the restrictions in place. The difference is the fair market value of the conservation easement itself.

As an example:	Value of the land before the conservation easement:	\$500,000
	<u>Value of the land after the conservation easement:</u>	<u>\$275,000</u>
	Difference = value of the conservation easement:	\$225,000

In this example, the proportionate value of the conservation easement was 45%. Generally, a less restrictive easement will result in a low proportionate easement value, and a more restrictive easement will result in a high proportionate easement value. However, each parcel of land and each set of conservation restrictions is unique. Therefore, no set or average percentage of value can be attributed to the rights relinquished in a conservation easement.

What does an appraiser look at to estimate fair market value?

An appraiser will look at a variety of factors concerning both the specific property and the surrounding area. Relevant factors will include the location and character of the property, existing zoning regulations, any development entitlements, any property encumbrances, and future land use trends. If the transaction is a conservation easement, the appraiser will need to understand the specific restrictions placed on the land and the rights reserved by the landowner in the conservation easement. The appraiser will also need to evaluate the potential of the conservation easement to enhance the value of any contiguous or other property owned by the landowner or the landowner's family.

What information will be in the appraisal report?

In brief, the following information must be included in the qualified appraisal:

- Description of the property.
- Physical condition of the property.
- Date or expected date of donation.
- Terms of any agreement or understanding which restricts the landowner's use or disposal of the property (such as a conservation easement).
- Name, address, and social security number of the appraiser.
- Statement of the qualifications of the appraiser.
- If applicable, statement that the appraisal was prepared in whole or in part for the landowner's income tax purposes.
- Date on which the property was valued.
- Appraised fair market value of the property on the date or expected date of donation.
- Method of valuation used to determine the fair market value.
- Specific basis for the valuation, such as comparable sales.
- Description of the fee arrangement between the appraiser and the client.
- Signature of the appraiser and date.

When should the appraisal be performed?

Appraisals should be completed close enough to the date of the transaction to accurately reflect market conditions. For charitable deduction purposes, the appraisal must be completed no earlier than 60 days before the date of the donation (the date on which the property or easement deed is signed, transferred, accepted, and recorded by Placer Land Trust) and no later than the date on which the tax return for that year is due. In many instances, an older appraisal can be updated.

Contact an appraiser early in the process as it may take 2 to 6 months to complete an appraisal.

How much do most appraisals cost?

Appraisal costs vary dramatically, depending upon the complexity of the transaction. Typically, appraisals of conservation easements cost more than appraisals of land. Generally, appraisals range from \$6,000 to \$11,000. The fee for the appraisal may be deductible if the appraisal is being used solely to value the land or easement for income tax purposes. NOTE: An appraiser should never set his or her fee as a percentage of the appraised value.

Why are the appraisals so expensive and why do they take so long?

Primarily, this is a result of "supply and demand". In our area, there are relatively few qualified appraisers in relation to the number of land and conservation easement transactions being contemplated. The time of year, accessibility of the property and the availability of the appraiser may also have an impact. Also, conservation easement appraisals are particularly complicated; they often require a high degree of analysis, extensive research, and a considerable investment of the appraiser's time to ensure the accuracy of the fair market value.

Why should I be concerned about the appraisal process?

The appraisal will establish the fair market value of your property (and in applicable cases, the conservation easement). The process is important, particularly if a tax deduction is sought. The IRS views this issue very seriously and may impose substantial penalties on both the landowner and the appraiser for donations that are overvalued for tax purposes. Landowners are well advised to choose an appraiser carefully and to work with the appraiser, a tax advisor, an attorney, and the land trust throughout the process of completing a conservation transaction.

Why is Placer Land Trust concerned about the appraisal process?

Placer Land Trust is committed to ensuring that its projects are legally and ethically sound, and can withstand public scrutiny and/or an IRS audit. Placer Land Trust will not knowingly participate in a project if it has significant concerns about the appraisal report or the planned tax deduction.

How do I claim a tax deduction?

Placer Land Trust cannot provide tax or legal advice. The landowner should always obtain independent financial/tax and legal advice from a qualified professional. Please see Placer Land Trust's "Tax Benefit Fact Sheet" for more information about this issue.

The appraisal process can affect tax benefits. If the land or conservation easement has been donated or sold at below appraised fair market value to a land trust, then landowner/donor may be eligible for tax benefits. If the landowner/donor intends to apply for tax benefits, he or she must complete an Appraisal Summary (IRS Form 8283). This form is available on the IRS website. The Form 8283 is filled out by the landowner/donor, then signed by the appraiser to attest to fair market value, and then signed by the land trust to confirm that the form is consistent with the appraisal. The landowner/donor then attaches the Form 8283 to the federal income tax return on which the deduction for the donation is first claimed. The landowner must maintain all written records regarding the appraisal and transaction.

Can Placer Land Trust recommend an appraiser to me?

Although Placer Land Trust does not recommend appraisers, the Trust does maintain a list of appraisers that it has worked with satisfactorily in the past. You may obtain a copy of this list upon request.

Where can I get more information?

For more information about appraisals for conservation transactions, contact the Land Trust Alliance (LTA), 1331 H Street NW, Suite 400, Washington, DC 20005, 202-638-4725, www.lta.org. LTA also has an excellent publication regarding conservation easement appraisals called *Appraising Easements*. You can also call Placer Land Trust for general questions.