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United States General Accounting Office

GAO

Report to the Chairman, Committee on Interior and Insular Affairs, House of Representatives

May 1988

LAND EXCHANGE

New Appraisals of Interior's Collier Proposal Would Not Resolve Issues

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GAO

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Washington, D.C. 20548

General Government Division

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May 11, 1988

The Honorable Morris K. Udall
Chairman, Committee on Interior
and Insular Affairs
House of Representatives

Dear Mr. Chairman:

In response to your request, we reviewed the Department of the Interior's real estate appraisals relating to the proposed exchange of the Phoenix Indian School land for land in southern Florida.

This report provides information and analysis to help the Committee determine whether Interior's appraisals are reasonable and reliable enough to provide a basis to proceed with the exchange or whether other appraisals would be advisable for each property.

We are sending copies of this report to the Secretary of the Interior, the Director of the Office of Management and Budget, and other interested parties.

Sincerely yours,

L. Nye Stevens

L. Nye Stevens
Associate Director

Executive Summary

Purpose

The Department of the Interior has proposed exchanging part of the land now used for the Phoenix Indian School, valued by Interior at about $85 million, for about 118,000 acres of privately owned land in four tracts near the Big Cypress National Preserve in Florida, valued by Interior at about $49 million, and a cash payment of about $35 million. The proposal is the largest interstate land exchange ever attempted by the Department, according to Interior officials.

The Chairman, House Committee on Interior and Insular Affairs, requested that GAO review Interior's real estate appraisals of the Phoenix Indian School and the Florida land and determine whether they are reasonable and reliable enough to provide a basis to proceed with the exchange or whether other appraisals would be advisable. (See pp. 8 to 11.)

Background

GAO retained the services of an expert consultant to assist in reviewing the already prepared appraisals of the land in Florida and Arizona to determine if they complied with professional standards, government guidelines, and other criteria that should be followed by appraisers and govern their judgment and opinions. Recognizing that the determination of real estate values is not an exact science, GAO used its consultant's analysis and other information to determine if the real estate worth of the properties as currently proposed for exchange was comparable. As the Chairman requested, GAO did not consider the environmental or other intangible benefits of the proposed exchange. (See pp. 11 to 12.)

Results in Brief

Interior's appraisals for three of the four Florida tracts generally met professional standards and government guidelines. The appraisal for the fourth tract, performed by a contractor for the State of Florida and accepted by Interior, did not comply with professional standards and could be overvalued by about $3 million to $4 million—which is less than 5 percent of the proposed transaction.

The appraised value of the Phoenix Indian School site, however, is speculative because it is based on a conjectural assumption as to the density of development the City of Phoenix would allow. Interior's proration of the appraised value to reflect changed plans for the property and failure to provide for possible future value increases are, in GAO's opinion, additional objections to the transaction.

Primarily because of the indeterminable value of the school property, GAO believes that Interior's value does not provide a basis to proceed with the exchange as it is currently proposed. Furthermore, without a decision by the city on future zoning of the site, additional appraisals would not resolve the matter.

Principal Findings

Florida Properties

Appraisals for three of the Florida tracts were made by Interior's own appraisers or contract appraisers for Interior. They generally met professional standards and complied with Interior's guidance on real estate appraisals. Although they did not fully explain some key calculations, they contained sufficient information for GAO to conclude that they had arrived at acceptable values. (See pp. 13 to 14.)

The appraisal for the fourth Florida tract, made by a contractor for the State of Florida, had significant shortcomings, such as not supporting its conclusions. GAO believes that Interior's appraised value for this tract could be overvalued by $3 million to $4 million. However, GAO believes that this is an amount that does not merit reappraisal due to the overall magnitude of this transaction. (See pp. 14 to 15.)

Phoenix Indian School

Interior's two appraisals for this property generally met professional standards, with the primary exception of conclusively estimating the density of development and thus the value of the property. The two Interior appraisals used widely divergent assumptions with respect to the amount of space that could be built on the site. The appraised values also differed greatly. GAO believes that no appraiser could definitively resolve these differences without a decision by the City of Phoenix on what it would allow to be built on the site. (See pp. 16 to 18.)

Primarily because of this, GAO concluded that the fair market values arrived at in the appraisals do not provide a basis to proceed with the exchange as it is proposed. (See p. 21.)

GAO also found that Interior's proration of the approved appraisal on an average value per acre basis to reflect a decision to sell 20 acres of the land to the city for a park and give 11.5 acres to an adjacent Veterans

Administration hospital for expansion is contrary to the basis on which appraisals are made.

Interior's tentative contract with the owners of the Florida properties allows them 3 years to accept the exchange after the contract is finalized, without providing for recognition of any escalation in value. GAO believes that an agreement that defers the possible exchange of land for several years should reflect that the future worth could be substantially more than the present worth of the property. (See pp. 18 to 21.)

Recommendations

GAO is making no recommendations on reappraising the school site because the fair market value of the school site cannot be resolved by the appraisal process until the density of development is determined. GAO's work did not consider whether or not the proposed exchange could be justified on other grounds, such as environmental benefits. (See p. 21.)

Agency Comments

GAO did not obtain official comments on this report from the Department of the Interior or other interested parties. However, GAO discussed the matters contained in this report with the Assistant Secretary for Fish and Wildlife and Parks who agreed with GAO's overall facts. He did not, however, agree with GAO's conclusions in two respects. First, he did not believe that Interior should insist on sharing the possible future escalation in value in the Phoenix Indian School property if the Florida property owners choose to defer completion of the contract. Second, he believed that in spite of the uncertainty of the allowable density in the Phoenix property, Interior's prorated value was reasonable and rational and did provide a basis to proceed with the exchange. GAO does not believe that either of these positions adequately recognizes the government's interests in the Phoenix property's value.

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Introduction

In early November 1987, followed by a letter dated December 21, 1987, (see appendix) the Chairman of the House Committee on Interior and Insular Affairs requested us to review the Department of the Interior's appraisals of the Phoenix Indian School property in Arizona and of four privately owned Florida properties that the Department proposed to exchange for the school property.

Although the Chairman acknowledged that the determination of real estate values is not an exact science, he specifically asked us to determine if the appraisals (1) comply with professional standards and Department guidelines; (2) contain procedural irregularities, problems, or errors; and (3) support their conclusions. The Committee sought our opinion on whether the values expressed in the appraisals are reliable enough to provide a basis to proceed with the exchange as it is currently proposed.

We briefed the Chairman, as well as the Arizona congressional delegation, on our work on February 23, 1988. This report covers not only the findings discussed in that briefing but also additional details and analysis on the matters we reviewed.

Exchange as Currently Proposed

The Department of the Interior has requested legislative authorization to exchange part of the land (about 73 acres) now used for the Bureau of Indian Affairs' Phoenix Indian School for about 118,000 acres of environmentally significant land in four tracts near the Florida Everglades and the Big Cypress National Preserve. According to Interior officials, this is the largest interstate and highest dollar value exchange of land the Department has ever attempted. The Florida properties are owned by entities controlled by the Collier family, and the exchange is thus commonly referred to as the Collier Exchange.

Interior has proposed to close the Phoenix School because of declining enrollments in recent years due to construction of new schools on reservations in Arizona and the availability of better maintained school facilities in California. The property is valuable as commercial real estate because land adjoining or near the school has been developed with high-density office buildings, hotels, retail businesses, and multifamily residences. Appraisers have said that the school property is potentially the most valuable parcel of urban development land left in Phoenix, the State of Arizona, and possibly the western half of the United States.

According to the Assistant Secretary of the Interior for Fish and Wildlife and Parks, the exchange allows the acquisition of two additions to the Big Cypress National Preserve and two proposed national wildlife refuges without incurring current budget expenditures or adding to the federal debt. Furthermore, the exchange would result in a cash payment of about $35 million by the Colliers, which the government intends to use for the benefit of the Indian tribes historically served by the school. Interior considers the Florida lands to be valuable as they provide protection of the endangered Florida panther, Florida manatee, and the American bald eagle and contribute to the preservation of the natural water flow of the Big Cypress watershed. Figure 1.1 shows the location of the four Florida tracts.

As currently proposed, the Colliers would receive 72.9 acres of the Indian School property, valued by Interior at about $85.3 million, for about 118,000 acres of their land which has been valued by Interior at about $49.4 million. The Colliers would also pay Interior $34.8 million in cash to roughly equalize the values. Table 1.1 shows the appraised values of the lands involved in the exchange, as well as the values for each parcel agreed upon in negotiations between the Collier family interests and Interior, as of March 24, 1988.

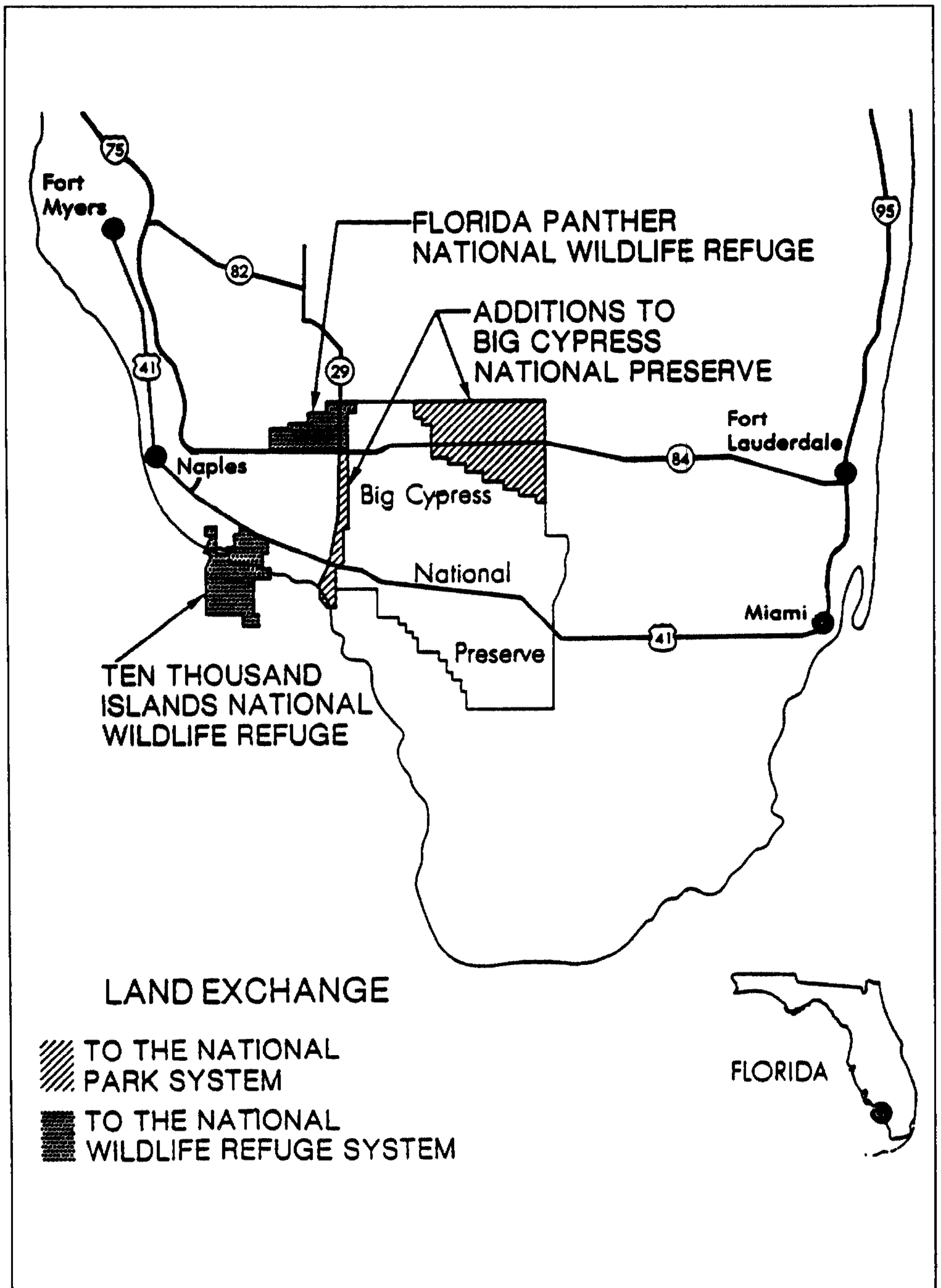
Table 1.1: Appraised and Negotiated Values for the Exchange as Currently Proposed

Dollars in millions

	Appraised		Negotiated	
	Acres	**Value**	**Acres**	**Value**
Phoenix Indian School Site	104	$122.2	72.9	$85.3
Florida Property				
Big Cypress Addition	70,010	27.9	70,010	26.6
Big Cypress Strip	13,059	8.1	13,059	10.6
Florida Panther	30,586	10.7	15,573	6.4
10,000 Islands	15,384	4.5	19,620	5.8
Subtotal			**118,262**	**49.4**
Plus Cash Payment				34.8
Total				**$84.2**

Source: Department of the Interior.

Figure 1.1: Location of Florida Tracts



Source: Department of the Interior.

Note: Not to scale.

The Phoenix Indian School comprises approximately 104.4 acres. When Interior appraised the property, it assumed that the full parcel would be exchanged. However, Interior now plans to sell 20 acres of the property to the City of Phoenix for a park and to give 11.5 acres to an adjacent Veterans Administration hospital for expansion purposes. To reflect this reduction in the amount of land to be exchanged, Interior has prorated the total appraised value of $122.2 million on an average value per acre, which is about $1.17 million per acre. This computes to $85.3 million for the remaining 72.9 acres.

In determining the value of the Florida land, Interior appraised three of the tracts using either Interior employees or contract appraisers. These were the Big Cypress Strip, the Florida Panther, and the 10,000 Islands tracts. Interior did not appraise the fourth and largest tract—the Big Cypress Addition. Instead, Interior relied on the appraisals performed for the State of Florida and the Federal Highway Administration in conjunction with determining taking value and severance damages (see "damage value" in glossary) resulting from the construction of Interstate Highway 75. The current State Road 84, which bisects this tract, is being upgraded to an Interstate highway.

Interior informed us that while the entire Florida Panther tract was appraised, they were already negotiating the purchase of about half of this tract from the Colliers and that only one half of the tract will be included in the exchange. To reflect the purchase of one half of the tract, Interior said that they used one half of the appraised value as the figure to negotiate from.

Objective, Scope, and Methodology

As confirmed in a January 7, 1988, letter to the Chairman, the objective of our review was to assist the Committee in determining whether the real estate market values expressed in Interior's appraisals are reasonable and reliable enough to provide a basis to proceed with the exchange as currently proposed, or whether other appraisals would be advisable for each property.

Our work mainly involved interviewing Interior employees and contractors, City of Phoenix officials, and others associated with the appraisals; reviewing Interior guidelines on obtaining real estate appraisals; reviewing Interior's files on the selection of the contract appraisers that were used; reviewing the tentative contract between Interior and the Colliers; and reviewing the appraisal reports. As requested by the Committee, we reviewed existing information and did not perform new appraisals, nor did we consider intangible benefits of the exchange, such as environmental values of the properties. We inspected the Florida tracts and major comparable Florida properties by helicopter and toured the Phoenix Indian School.

We retained the services of a consultant, Mr. John D. Dorchester, Jr., President of the Real Estate Research Corporation, to assist us in reviewing the appraisals. His firm was recommended by the General Services Administration and the American Institute of Real Estate Appraisers. Mr. Dorchester is a Member of the Appraisal Institute and a Counselor of Real Estate. He has over 30 years of real estate analysis experience for private, corporate, and government clients, and was the 1982 National President of the American Institute of Real Estate Appraisers.

Our consultant assisted and advised us in (1) evaluating the assumptions, approaches, and limiting conditions of each appraisal; (2) determining if each appraisal complied with generally recognized professional standards and the Uniform Appraisal Standards for Federal Land Acquisition published by the Interagency Land Acquisition Conference in 1973; (3) judging the soundness of the "highest and best use" and appraised value for each appraisal; (4) determining whether other appraisals would be advisable for each property; and (5) determining if the "comparables" — recent sales of property in the same vicinity—used in the Florida appraisals were in fact comparable in size, amount of area covered by water, and other relevant characteristics.

At the request of the Committee, we did not obtain official comments from the Department of the Interior or other interested parties. We did obtain informal comments on our facts and analysis from the Assistant Secretary of the Interior for Fish and Wildlife and Parks, however, and incorporated them in this report as appropriate.

We did our work from November 1987 to March 1988 in accordance with generally accepted government auditing standards.

Florida Properties

Interior's appraisals for three of the four Florida tracts generally met professional standards and complied with Departmental guidelines. However, the approved appraisal for the fourth tract, which was performed by a contract appraiser for the State of Florida, did not comply with professional standards. As a result, we believe that Interior's value for this tract could be overvalued by $3 million to $4 million—which is less than 5 percent of the proposed transaction.

Interior's Appraisals

Appraisals for three of the Florida tracts—the Big Cypress Strip, Florida Panther, and 10,000 Islands—were performed by Interior's own appraisers or contract appraisers for Interior. The National Park Service handled the appraisal of the Big Cypress Strip, whereas the Fish and Wildlife Service handled the appraisals of the other two tracts. The approved appraisals for these three tracts generally met professional standards and were obtained in compliance with Interior's guidance on real estate appraisals.

According to a Fish and Wildlife Service official in Atlanta we interviewed, it is difficult to determine the value of low-lying south Florida land because of a dearth of market information for this type of land. There is little market demand for it and large sales have been limited, for the most part, to government purchases. Nevertheless, we believe that Interior's appraisals had sufficient information to support their conclusions.

All three appraisals agreed that the "highest and best use" of the properties would be for recreational use and speculative holding. This is because the land is predominantly what a layman would call a "swamp" and has practical as well as regulatory restrictions on commercial or residential development.

One common weakness in these three appraisal reports is in their quantification of how the amount of wetlands (land containing much moisture) and uplands (land slightly elevated and containing less moisture than wetlands) on the properties affected their value. Our consultant performed a regression analysis (see glossary) on the comparable sales that were used in these appraisals and determined that there was a high correlation (almost 90 percent) between the wetlands/uplands ratio and their value. The three appraisals discussed the wetlands/uplands ratios on the properties and the related comparables, but did not quantify the analysis and disposition of these ratios, nor show how they were taken into account to determine value. Nevertheless, we do not believe that the failure to explain how this was done resulted in over or undervaluation of the properties. That is, even though the appraisal reports were deficient in explaining the disposition of relative amounts of wetlands/uplands, they contained sufficient information for us to conclude that they arrived at acceptable values.

State of Florida's Appraisal

The approved appraisal for the Big Cypress Addition, performed by a contractor for the State of Florida, had significant shortcomings. The state had three contract appraisals for this tract to determine the taking value and severance damages (see "damage value" in glossary) for the planned construction of Interstate 75 on this property. Interior planned to use the remainder value as the basis for negotiating with the Colliers for this tract.

The state approved the highest appraisal for this tract. Our consultant's review of this appraisal pointed out that it had several technical weaknesses and at least two major defects from a professional perspective. We believe the major defects were that the state-approved appraisal did not support its conclusions and its premise that there is a premium value to this tract because of highway frontage.

As shown in table 2.1, the major difference between the three appraisals was in the values determined for the "before" and "damage" (resulting from Interstate 75) values. The approved appraisal had significantly higher amounts for these values than the first two appraisals. However, the "remainder" values for all three appraisals were much closer than the before and damage values. The first two appraisals were completed in November 1986, whereas the third appraisal was completed in March 1987. The state asked the first two appraisers to update their appraisals after the third appraisal was received and consider additional comparable sales that were used by the third appraiser, which was done.

Table 2.1: Big Cypress Addition Appraisals

Dollars in millions

	First Appraisal[a]	Second Appraisal[a]	Third Appraisal[b]
Before Value	$32.0	$38.3	$56.5
Damage Value	9.4	14.4	28.8
Remainder Value	$22.6	$23.9	$27.7

[a]As updated.

[b]Appraisal approved by the State of Florida.

The remainder value is the figure relevant to valuing the proposed exchange, since the damage calculation is a separate transaction between the Colliers and the Federal Highway Administration and the State of Florida, not involving Interior. We believe that the third appraiser's remainder value could be overvalued by approximately $3 million to $4 million in view of the conclusions and values of the revised first two appraisals and Interior's appraisals of the other Florida tracts.

Mineral Interests and Verifying Acreage

When we briefed the Chairman, the Arizona congressional delegation, and the Assistant Secretary of the Interior for Fish and Wildlife and Parks on February 23, 1988, we reported that Interior had not fully resolved two issues relating to the four Florida tracts: (1) defining the effect on value and government use that the private exploration and development of mineral interests might have and (2) verifying the amount of acreage on the tracts. At that time, the tentative contract between the Colliers and Interior allowed the Colliers to retain the subsurface mineral interests in the Florida land, but did not specify the extent of testing and development that would be allowed, access to the property, and the type and amount of construction that would be allowed. Also, there was a dispute between Interior and the Colliers on the amount of acreage contained in the 10,000 Islands tract.

In discussing these matters with the Assistant Secretary for Fish and Wildlife and Parks on March 24, 1988, we were provided a copy of the revised tentative contract with the Colliers. Included in the contract are detailed stipulations on oil and gas exploration and development, which address our earlier concerns. The Assistant Secretary also informed us that the disputed acreage in the 10,000 Islands tract has been resolved by the Collier's agreement to provide a quitclaim deed[1] for the land that was submerged and in dispute. As a result of these actions, we feel these issues have been adequately resolved.

Conclusions

Although the State of Florida's appraisal of remainder value for the Big Cypress Addition appears to be somewhat overvalued, we believe there is relatively little potential benefit to the government from reappraising the Florida property. We note that the negotiated value of this parcel is $1.3 million less than the approved appraisal's valuation, and that the $3 million to $4 million possible discrepancy is less than 5 percent of the proposed transaction.

[1]A quitclaim deed is a legal instrument used to release one person's right, title, or interest to another.

Phoenix Indian School Property

The most significant problem with the Collier Exchange is the conjectural nature of a determination of the value of the Phoenix Indian School. The driving force behind the value of the school property is the density of development that the City of Phoenix will allow on the site. This is now an unknown that cannot be resolved by any appraiser. Further, Interior's proration of the value of the land on an average value per acre and the lack of a provision for a possible future increase in the property's value do not adequately recognize the government's interests in the Phoenix property's value. Primarily because of the unknown value of the school property, we believe Interior's appraised fair market values do not provide a basis to proceed with the exchange as it is currently proposed, nor do we believe that additional appraisals would resolve the matter until rezoning has taken place.

Two Interior Appraisals

Interior had two contractors, Nolan and Lee, appraise this property. The Albuquerque, New Mexico, office of the Fish and Wildlife Service handled the contracting for both appraisals. Officials in that office informed us that the initial oral directions from Interior officials in Washington were to get one appraisal, to allow 2 days to prepare a government estimate, and to allow the appraisers a few weeks rather than the normal time frame of several months. They said, however, that ultimately normal procedures were followed in obtaining the appraisals.

Although neither of the reports identified the rights being acquired by the purchaser, they met professional standards in all other respects. However, their conclusions on the amount of space that could be built on the site, and consequently the values they estimated, differed greatly.

The Nolan appraisal, completed in February 1987, concluded that the value of the school site was $160 million using the income approach (see glossary). The report also stated that the value would be $220 million using the comparative, or market, approach (see glossary). Nolan's report stated that the $220 million was then discounted to reflect the absorption rate (see glossary) he assumed, which equaled the $160 million value determined by the income approach. However, the Nolan report did not show the actual mathematical computations or explain the reconciliation of the two values. The Lee appraisal, which was based on the comparative approach, concluded that the value would be $122 million. The difference of opinion between the two appraisers using the one approach they have in common—the comparative approach—amounts to $98 million.

Interior approved the March 1987 Lee report as the appraisal value for the Phoenix Indian School property.

The two reports had widely divergent conclusions with respect to the floor-to-area ratios (see glossary), the amount of space that could be built on the site, the absorption period (see glossary), and the final appraised value, as shown in table 3.1.

Table 3.1: Contrast of Two Phoenix Indian School Site Appraisals

	Nolan Report	Lee Report
Open Space Portion	0.5	0.33
Floor-to-Area Ratio	2.55	1.15
Cost per Buildable Square Foot	$20.00	$22.84
Space to be Built (in square feet)	11.0 million	5.4 million
Absorption Period	8 years	15 years
Appraised Value	$160 million	$122 million

Both reports were inconclusive as to the amount of space that could be built on the site. This is the primary determinant of value of the Phoenix property. However, no appraiser could resolve this question. Fish and Wildlife Service officials in Albuquerque said that appraising the Indian School site was as difficult as determining the value of the Mall in Washington, D.C.

The planning director for the city and a representative of the Mayor told us that there are no specific criteria to determine allowable density for the site. They said that the City Council would have to approve a development plan of any purchaser of the property and decide on what type of development and the amount of density that would be allowed. According to the appraisers and City of Phoenix officials we interviewed, the process of obtaining city approval normally takes from 4 to 9 months. One anticipated complication they mentioned was that residents in the surrounding neighborhood, Encanto Village, would strongly oppose either a 5 million or 11 million square foot development at the site.

The consultant engaged to provide a legal and political opinion on rezoning the site for the Lee appraisal said that predicting the likely outcome of a political decision by the City of Phoenix was highly speculative to the point of being "purely artificial in nature." He concluded that extensive planning and unparalleled developer credibility could produce a plan with significantly greater density than the plan used in the Lee appraisal to estimate the value of the property. Until the city decides on the density of development it will allow on the site, we believe it is not realistic to estimate the value of this property and, hence, whether the exchange as proposed is economically advantageous to the government.

On February 23, 1988, when we briefed the Chairman and the Arizona congressional delegation on our work, the delegation decided it would ask the City of Phoenix to decide on the allowable density of the Indian School site and to have the land reappraised on the basis of the city's decision. In a February 29, 1988, letter, the Mayor of Phoenix advised the Chairman that it was not possible to provide the Arizona delegation a statement of the city's position on future zoning of the school property because the zoning changes must proceed according to locally established processes designed to ensure that community needs and private interests are balanced.

Proration of Approved Appraisal

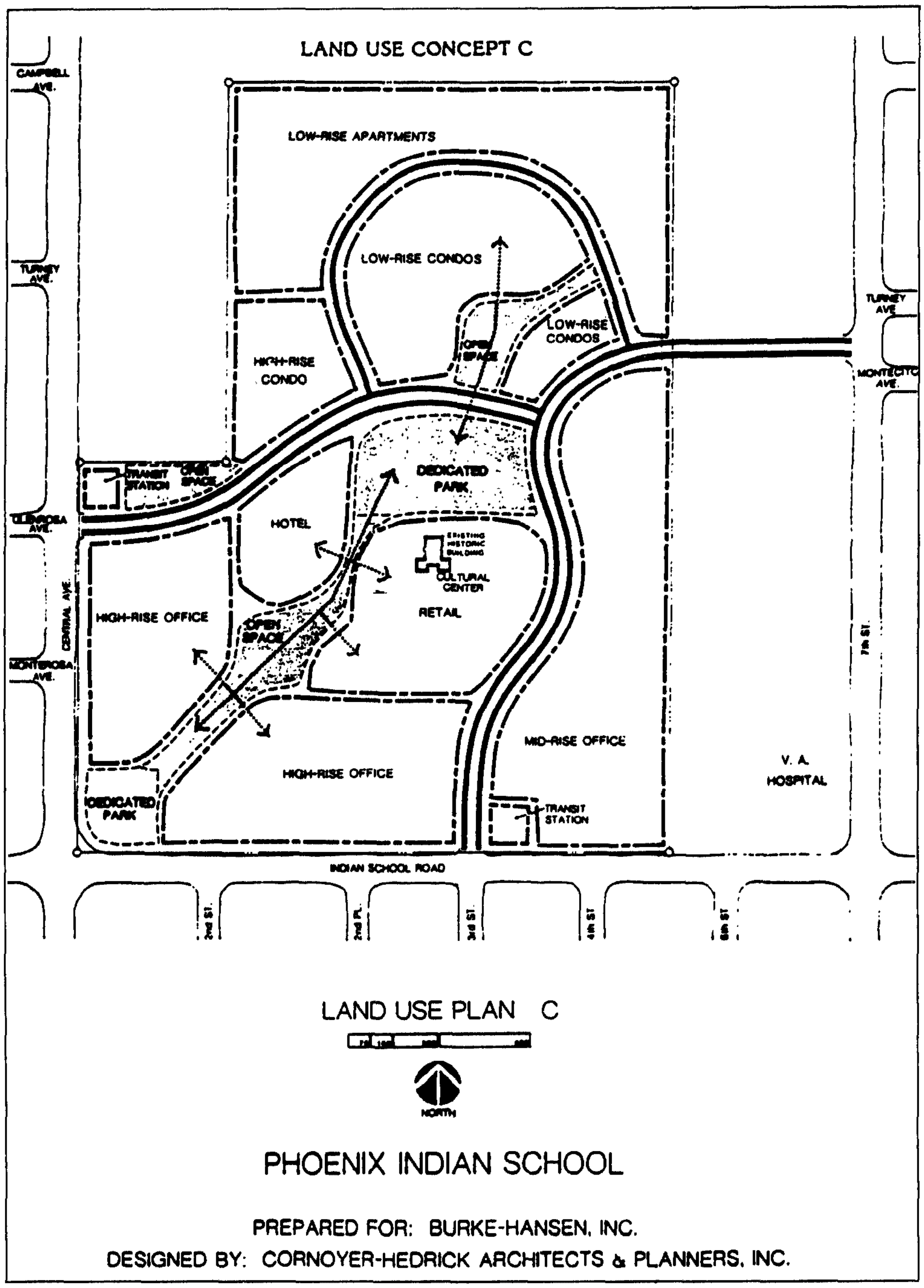
When the school site was appraised, Interior assumed that the full site, approximately 104 acres, would be exchanged for the Florida properties. Since then, Interior has revised its plans and now intends to sell 20 acres to the city for a park and give 11.5 acres to an adjacent Veterans Administration hospital for expansion. To reflect this change, Interior said that it prorated the approved $122 million value on an average value of about $1.17 million per acre.

The appraiser who performed this appraisal told us that he had assumed that about 8 acres, located in the more valuable portion of the land (see fig. 3.1 for his development plan), would have to be dedicated to the city for a park, and that whatever private sector entity acquired the property would have to negotiate with the Veterans Administration, which wants to acquire a portion of the site.

When we asked Lee if he agreed with Interior's proration, he informed us by letter that:

> "Essentially, the modification of these two major assumptions totally invalidates the appraisal report prepared under my signature and dated March 24, 1987. I can state unequivocally that any manipulation of or allocation of the value estimate contained in our original report on a price per square foot or, more ridiculously, on a price per acre basis would be ludicrous. You are violating the appraisal principle of contribution."

Figure 3.1: Lee's Development Plan for the Phoenix Indian School Site



Source: Lee's March 24, 1987, appraisal report of the Phoenix Indian School site.

In fact, he said that the net effect of reclaiming the 8 acres of land in the more valuable area of the tract could result in a significant increase in value of the remaining portion, rather than a presumed reduction in the value of the property. Our consultant agreed that proration is contrary to the basis on which appraisals are made and that Interior's action is an inappropriate use of the Lee appraisal.

City of Phoenix officials told us that they would expect a developer of such a large site to deed at least 20 acres to the city for a park at no cost as a form of concession to authorize development. Therefore, we question the reasoning of reducing the exchange value of the property by $1.17 million per acre for the 20 acres, since the government is relieving at least some of the obligation a developer would normally assume in Phoenix.

Possible Escalation in Value

The tentative contract between the Colliers and Interior allows the Colliers 3 years to accept the exchange after it is signed, without providing for any recognition of escalation in value. In the meantime, the government bears carrying costs of the land whereas the Colliers would be liable for property taxes if the transaction were concluded sooner. Interior's appraisal reports indicated that while the Florida properties have stabilized in value and have not significantly changed in price over the past 5 or more years, Phoenix land values have escalated rapidly in recent years, notably in the area of the Phoenix Indian School. The appraiser for the approved report on the Phoenix Indian School site told us that while land in Phoenix has not increased in the past year, he believed that the school land would appreciate about 12 percent annually over the next 3 years.

The Assistant Secretary, in commenting on our findings, told us that the tentative contract with the Colliers did not provide for increased value in the school property because: (1) the value of the school land is contingent on the Colliers' ability to rezone the land; (2) Interior believes that the land in Florida will also appreciate; (3) if the Colliers decide not to accept the exchange, Interior can buy the Florida land at the negotiated amounts; and (4) Interior has to accommodate the City's desire to allow the Colliers time to rezone the land.

A prominent commercial real estate attorney in Phoenix told us that he was not aware of any seller in Phoenix who would tie up property more than 12 months without some assurance of benefitting from an increase in its value. We believe that a prudent seller engaged in a transaction that defers the possible exchange of land for several years would require that the exchange agreement explicitly address the issue that the future worth could be substantially more than the present worth of the property.

Views of the Assistant Secretary for Fish and Wildlife and Parks

In commenting on our analysis of these matters, the Assistant Secretary for Fish and Wildlife and Parks told us on March 24, 1988, that while he agreed that the fair market value of the Phoenix Indian School site was unknown, he nevertheless felt that Interior's valuation was a reasonable one. He said that he agreed with our facts and conclusions as presented in the February 23, 1988, briefing with two exceptions. First, he did not believe that Interior should take into consideration possible escalation in value in the Phoenix Indian School property for the reasons discussed above. Second, he believed that in spite of the uncertainty of the allowable density in the Phoenix property, Interior's value for that property was reasonable and rational and did provide a basis to proceed with the exchange. We agreed that our analysis does not preclude the possibility that Interior's valuation of the school property could be accurate.

Conclusions

The fair market value of the Phoenix Indian School property is unknown and cannot be resolved by the appraisal process in the absence of a density decision by the city. Interior's proration of the appraised value is questionable because it is contrary to the basis on which appraisals are made and relieves at least some of the obligation a developer would normally assume in Phoenix. Further, we believe some consideration for the possible escalation of value should be included in the contract to exchange if its acceptance is to be deferred to a future date.

Primarily because of the unknown value of the school property, we believe that the Interior Department's real estate values do not provide a basis to proceed with the exchange as it is presently proposed. While appraisals are normally a useful tool in decisionmaking, we believe that they cannot provide a basis for deciding whether or not to approve the proposed Collier exchange. Since our review was limited to this question, we cannot determine whether other factors, such as the environmental benefits that the government would obtain, might provide an alternative basis for justifying the exchange.

Letter From the Chairman, Committee on Interior and Insular Affairs, U.S. House of Representatives

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

December 21, 1987

Honorable Charles A. Bowsher
Comptroller General
of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

As Chairman of the House Committee on Interior and Insular Affairs and on behalf of the Arizona Congressional Delegation, I am writing to outline our intentions and desires with respect to the examination currently under way by the General Accounting Office into the proposed Phoenix Indian School exchange land value appraisals.

Our request to the GAO is that your office review the appraisals that have been already conducted on the Phoenix Indian School property and the Florida properties proposed to be exchanged for it. The purpose of this review is to provide us with information sufficient for us to conclude whether the values expressed in these appraisals are reliable enough to provide a basis for us to proceed with the exchange as currently proposed.

In conducting this review, we expect GAO to examine whether the appraisals have been done to professional standards and in accordance with all usual departmental guidelines. We wish to know whether there have been any procedural irregularities or other substantive problems or errors associated with the appraisals. Should your examination uncover such difficulties we would like to be advised whether they are of sufficient weight that a prudent and objective person would be justified in a lack of confidence in the appraisals' conclusions.

We would like to make it clear what we are not asking GAO to do. We are not asking GAO to conduct any new appraisals of the properties in question. We understand that the determination of real estate values is not an exact science and wish only to have a basis for concluding whether the existing appraisals are reasonable and reliable. In addition, we are not asking GAO to conduct an investigation into the wisdom or appropriateness of other aspects of the proposed exchange.

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Our decision to seek this information from GAO is based on two factors. First, we believe that GAO, because it is responsible solely to the Congress, will provide us with an independent and objective analysis. And second, we have been assured that this work can be completed in a timely manner.

We understand, therefore, that GAO will be prepared to make an oral presentation of its findings to us no later than Monday, February 8 and provide a written report as soon thereafter as possible.

We greatly appreciate your attention to this very important matter.

Sincerely,

Mo Udall

MORRIS K. UDALL
Chairman

Glossary

Absorption Period	The time it would take the general market demand for space to absorb, or take up, the increased supply of space from new construction.
Before Value	The market value of an entire tract of property before a part of it is taken, or severed.
Comparables	Recent arm's length sales of property in the vicinity of the property being appraised.
Comparative Approach	A method to value property whereby recent sales of property in the vicinity are compared to the property being appraised on the basis of location, improvements, topography, transportation, utilities, and all matters which have an effect on market value pertaining to relative desirability. Also called market approach. Normally, this is the most direct and accurate method of estimating value.
Cost Approach	A method to value property whereby the fair market value of bare land is added to the depreciated reproduction or replacement cost of the improvements to arrive at an indication of the value of the property.
Damage Value	The amount of compensation an owner is entitled to for the loss in value to property when only a part of a tract is taken (taking value), which diminishes the value of the remainder of the property. Also called severance damage.
Fair Market Value	The amount in cash, or on terms reasonably equivalent to cash, for which in all probability property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desires but is not obligated to buy.
Floor-To-Area Ratio	The amount of buildable square footage in relation to the amount of land square footage on a property.
Highest and Best Use	The most profitable likely use to which a property can be put.

Income Approach	A method to value property whereby the expected net earnings, or net income, of an income-producing property are estimated over its useful life and capitalized by using a rate reflecting the ratio of net income to sales prices in similar transactions.
Regression Analysis	A statistical procedure used to relate how the changes in one variable affect one or more other variables.
Remainder Value	The market value of the remaining property after a portion of an entire tract is taken, or severed. Also called after value.

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