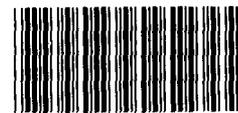


GAO

Testimony



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Conflicting Values for Land Near the
Columbia Hospital for Women

Statement of
L. Nye Stevens, Director
Government Business Operations Issues
General Government Division

Before the
Subcommittee on Government Activities
and Transportation
Committee on Government Operations
House of Representatives



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CONFLICTING VALUES FOR LAND NEAR
THE COLUMBIA HOSPITAL FOR WOMEN

SUMMARY STATEMENT OF
L. NYE STEVENS
DIRECTOR, GOVERNMENT BUSINESS
OPERATIONS ISSUES

The House Subcommittee on Government Activities and Transportation is considering legislation that would sell government-owned land located at 2400 M Street in the District of Columbia to the Columbia Hospital for Women. In deciding the merits of this sale, the Subcommittee is considering two appraisals that were made of this land. GAO had one appraisal prepared at the request of the Chairman of the House Committee on the District of Columbia. Subsequently, the Columbia Hospital for Women also obtained an appraisal of this property. The two appraisals varied in their approach and the fair market values estimated by these appraisals differed significantly.

The principal difference in these appraisals is that the one prepared for GAO followed federal appraisal standards, while the other did not. Consistent with federal policy, GAO's appraisal determined the fair market value based on the highest and best use standard. This appraisal estimated the property's fair market value at \$20 million on October 31, 1988. The appraisal done for Columbia Hospital did not follow federal standards and determined market value based on the property's proposed use at that time--a women's health resource center. This appraisal estimated the property's market value at \$9 million as of February 22, 1989--less than half of GAO's appraisal estimate.

GAO concluded that its appraisal, which was prepared in accordance with federal standards, accurately estimated the fair market value of the property. If the government decides to sell this property, the sale price should reflect a fair market value that was determined using federal standards.

Madam Chairwoman and Members of the Subcommittee:

We welcome the opportunity to appear before you today to assist the Subcommittee in its consideration of H.R. 2031. This bill would authorize the sale of government-owned land located at 2400 M Street NW in the District of Columbia to the Columbia Hospital for Women. In deciding the merits of this sale, the Subcommittee is considering two appraisals that were made of the land. Specifically, I will discuss our work on the differences between the two appraisals.

We had one appraisal prepared at the request of the Chairman of the House Committee on the District of Columbia, and that appraisal was presented in our March 1989 report to him.¹ This appraisal estimated the fair market value at \$20 million on October 31, 1988. Subsequently, the Columbia Hospital for Women also obtained an appraisal that estimated the market value at \$9 million as of February 22, 1989--less than half of the estimate made in our appraisal.

As discussed in our December 1989 report to you, the principal difference between the two appraisals is that our appraisal followed federal appraisal standards and Columbia Hospital's did

¹Federal Real Property: Appraisal of Land to Be Sold to Columbia Hospital for Women, (GAO/GGD-89-46, Mar. 10, 1989.)

not.² Consistent with federal policy, our appraisal based the fair market value on the highest and best use of the land. Columbia Hospital's appraisal based the property's market value on the development proposed at that time--a national women's health resource center.

To determine fair market value under existing federal policy, appraisal reports are to state the highest and best use that can be made of the property and then value the property on the basis of that use. Our appraisal report provides a detailed analysis of several factors considered in determining the property's highest and best use. These factors included zoning restrictions, the physical possibility for development (construction moratorium, necessary utilities, etc.), financial feasibility, and market conditions. Based on these factors, our appraiser concluded that the highest and best use of the property is for office, hotel, or mixed commercial and residential development. Columbia Hospital's appraisal report, on the other hand, does not mention the property's highest and best use. Instead, it refers to the special use proposed by Columbia Hospital which was not the highest and best use.

Federal policy also requires that the appraiser's opinion be supported by confirmed sales of comparable or nearly comparable

²Federal Real Property: Conflicting Appraisals of Land Near Columbia Hospital for Women, (GAO/GGD-90-15, Dec. 11, 1989.)

lands having similar optimum or highest and best uses. Any differences among the comparable lands or between them and the subject property should be weighed and explained to show how they indicate the value of the land being appraised. To support the appraiser's opinion of the property's fair market value, our appraisal report provides a detailed analysis of five comparable sales that took place between December 1986 and October 1988.

In Columbia Hospital's appraisal report, the appraiser's opinion of the property value is not supported by an analysis of comparable sales. Instead, their appraiser indicates that his opinion is based on "discussions with developers and investors in the West End, as well as (his) research of recent sales...." He does not provide factual data or research that might support his opinion.

Federal policy also provides that the appraisal should not diminish or downgrade the property's value based on the purpose for which the land is to be acquired. That is, the fact that the purchaser does not presently plan to develop the property to its highest and best use has no effect on the value of property. Our appraisal report complied with this policy. The other appraisal report did not because it was commissioned to base the value of the property on the use proposed by the Columbia Hospital for Women, which is, in fact, less than the highest and best use.

In sum, the two appraisals varied in their approach and differed in the application of the highest and best use standard. We believe that our appraisal accurately estimated the fair market value of the property in question. If the government decides to sell this property, the sale price should reflect a fair market value that was determined using federal standards.

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This concludes my prepared statement and I would be pleased to respond to any questions.