

***Appraisal  
Standards  
Board***

USPAP

*Uniform Standards  
of Professional  
Appraisal Practice  
and Advisory Opinions*

***2005 Edition***

*Effective January 1, 2005*



**THE APPRAISAL FOUNDATION**

*Authorized by Congress as the Source of Appraisal  
Standards and Appraiser Qualifications*

# UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE and ADVISORY OPINIONS 2005 EDITION

APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal  
Standards and Appraiser Qualifications*

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**EFFECTIVE:**

January 1, 2005

## FOREWORD

The Appraisal Standards Board (ASB) of The Appraisal Foundation develops, publishes, interprets, and amends the *Uniform Standards of Professional Appraisal Practice* (USPAP) on behalf of appraisers and users of appraisal services. Because USPAP will be used by state and federal regulatory agencies and others, the ASB has adopted a publication policy to ensure that all interested parties are informed of interpretations of or amendments to USPAP in a regular and timely manner. This 2005 edition is the fourteenth annual publication of USPAP.

The ASB publishes USPAP in a bound annual edition that includes a Key Features section that chronicles significant changes during the previous year. This 2005 edition of USPAP is divided into five sections: “DEFINITIONS,” “PREAMBLE,” “Rules,” “Standards and Standards Rules,” and “Statements on Appraisal Standards.”

In addition, for convenience of reference, this bound volume contains Advisory Opinions approved by the ASB and an Index. These reference materials are forms of “Other Communications” provided by the ASB for guidance only and are not an integral part of USPAP.

For clarification, the Statements and Advisory Opinions have been labeled as to their applicability to the various appraisal disciplines.

It is important that individuals understand and adhere to changes in each annual edition of USPAP. This edition becomes effective **January 1, 2005**. State and federal regulatory authorities enforce the content of the current or applicable edition of USPAP.

### Origin and History of USPAP

These Standards are based on the original *Uniform Standards of Professional Appraisal Practice* developed in 1986–87 by the Ad Hoc Committee on Uniform Standards and copyrighted in 1987 by The Appraisal Foundation. Prior to the establishment of the ASB in 1989, USPAP had been adopted by major appraisal organizations in North America. USPAP represents the generally accepted and recognized standards of appraisal practice in the United States.

At its organizational meeting on January 30, 1989, the ASB unanimously approved and adopted the original USPAP as the initial appraisal standards promulgated by the ASB. USPAP may be altered, amended, interpreted, supplemented, or repealed by the ASB after exposure to the appraisal profession, users of appraisal services, and the public in accordance with established rules of procedure.

Effective Date of Original Uniform Standards: April 27, 1987

The most recent amendments by the ASB, excluding administrative edits, are indicated below:

DEFINITIONS	June 15, 2004
PREAMBLE	June 27, 2003
ETHICS RULE	June 27, 2003
COMPETENCY RULE	September 15, 1999
DEPARTURE RULE	September 16, 1998
JURISDICTIONAL EXCEPTION RULE	July 19, 1994
SUPPLEMENTAL STANDARDS RULE	June 12, 2001
STANDARD 1	June 11, 2002
STANDARD 2	June 27, 2003
STANDARD 3	June 11, 2002
STANDARD 4	July 10, 2000
STANDARD 5	July 10, 2000

STANDARD 6	June 12, 2001
STANDARD 7	June 11, 2002
STANDARD 8	June 27, 2003
STANDARD 9	July 10, 2000
STANDARD 10	June 27, 2003

### Statements on Appraisal Standards

Statements on Appraisal Standards are authorized by the by-laws of The Appraisal Foundation and are specifically for the purpose of clarification, interpretation, explanation, or elaboration of USPAP. Statements have the full weight of a Standards Rule and can be adopted by the ASB only after public exposure and comment. To date the ASB has adopted ten Statements and retired three. The dates listed below are the dates they were originally adopted and, if applicable, the date retired.

SMT-1	Appraisal Review - Clarification of <u>Comment</u> on Standards Rule 3-1(g)	July 8, 1991, retired September 15, 1999
SMT-2	Discounted Cash Flow Analysis	July 8, 1991
SMT-3	Retrospective Value Opinions	July 8, 1991
SMT-4	Prospective Value Opinions	July 8, 1991
SMT-5	<u>Confidentiality</u> Section of the Ethics Rule	September 10, 1991 retired June 12, 2001
SMT-6	Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions	September 16, 1992
SMT-7	Permitted Departure from Specific Requirements in Real Property and Personal Property Appraisal Assignments	March 22, 1994
SMT-8	Electronic Transmission of Reports	July 18, 1995 retired June 12, 2001
SMT-9	Identification of the Client's Intended Use in Developing and Reporting Appraisal, Appraisal Review, or Appraisal Consulting Assignment Opinions and Conclusions	August 27, 1996
SMT-10	Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction	July 10, 2000

## Advisory Opinions

In addition to Statements on Appraisal Standards, the ASB issues Advisory Opinions. These communications by the ASB do not establish new Standards or interpret existing Standards. They are issued to illustrate the applicability of Standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems. To date the ASB has approved 27 Advisory Opinions and retired two. The dates listed below indicate the dates they were approved and either last revised or, if applicable, retired.

AO-1	Sales History	December 3, 1990, last revised June 11, 2002
AO-2	Inspection of Subject Property Real Estate	December 4, 1990, last revised September 16, 1998
AO-3	Update of a Prior Assignment	March 5, 1991, last revised June 11, 2002
AO-4	Standards Rule 1-5(b)	June 3, 1991, last revised June 11, 2002
AO-5	Assistance in the Preparation of an Appraisal	May 1, 1992, last revised September 15, 1999
AO-6	The Appraisal Review Function	June 2, 1992, retired June 15, 2004
AO-7	Marketing Time Opinions	September 16, 1992, last revised September 15, 1999
AO-8	Market Value vs. Fair Value in Real Property Appraisals	September 16, 1992, last revised September 15, 1999
AO-9	The Appraisal of Real Property That May Be Impacted by Environmental Contamination	December 8, 1992, last revised June 11, 2002
AO-10	The Appraiser-Client Relationship	March 23, 1993, retired June 27, 2003
AO-11	Content of the Appraisal Report Options of Standards Rule 2-2 and 8-2	July 20, 1994, last revised September 15, 1999
AO-12	Use of the Appraisal Report Options of Standards Rule 2-2 and 8-2	July 20, 1994, last revised September 15, 1999
AO-13	Performing Evaluations of Real Property Collateral to Conform with USPAP	July 18, 1995, last revised September 16, 1998
AO-14	Appraisals for Subsidized Housing	July 19, 1995, last revised September 16, 1998
AO-15	Using the DEPARTURE RULE in Developing a Limited Appraisal	July 26, 1996, last revised September 15, 1999

AO-16	Fair Housing Laws and Appraisal Report Content	June 10, 1996, last revised September 16, 1998
AO-17	Appraisals of Real Property with Proposed Improvements	July 26, 1996, last revised September 26, 1998
AO-18	Use of an Automated Valuation Model (AVM)	July 9, 1997, last revised September 16, 1998
AO-19	Unacceptable Assignment Conditions in Real Property Appraisal Assignments	September 15, 1999
AO-20	An Appraisal Review Assignment That Includes the Reviewer's Own Opinion of Value	July 10, 2000, last revised June 11, 2002
AO-21	USPAP Compliance	July 10, 2000 last revised June 15, 2004
AO-22	Scope of Work in Market Value Appraisal Assignments, Real Property	July 10, 2000
AO-23	Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment	July 10, 2000
AO-24	Normal Course of Business	June 27, 2003
AO-25	Clarification of the Client in a Federally Related Transaction	June 27, 2003
AO-26	Readdressing (Transferring) a Report to Another Party	June 27, 2003
AO-27	Appraising the Same Property for a New Client	June 27, 2003

The 1992, 1993, 1994, and 1995 editions of USPAP included a midyear supplement. In order to clarify public understanding of the effective dates of USPAP and the Advisory Opinions, in 1995 the ASB elected to discontinue the midyear supplement for the 1996 edition and all subsequent editions.

The Appraisal Standards Board develops and amends appraisal standards through communications with appraisers and users of appraisal services. If you have any comments, questions, or suggestions regarding USPAP, please contact the ASB.

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# APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION  
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## Past Appraisal Standards Board Officers and Members

<p><b><u>1989 Board Members</u></b>            Charles B. Akerson - Chair            John J. Leary - Vice Chair            Sherwood Darington            Daniel A. Dinote, Jr.            John L. Gadd</p> <p><b><u>1990 Board Members</u></b>            John J. Leary - Chair            Sherwood Darington - Vice Chair            Daniel A. Dinote, Jr.            John L. Gadd            Charles B. Akerson</p> <p><b><u>1991 Board Members</u></b>            John J. Leary - Chair            Sherwood Darington - Vice Chair            Daniel A. Dinote, Jr.            John L. Gadd            Charles B. Akerson</p> <p><b><u>1992 Board Members</u></b>            John J. Leary - Chair            Sherwood Darington - Vice Chair            Daniel A. Dinote, Jr.            John L. Gadd            Ritch LeGrand</p> <p><b><u>1993 Board Members</u></b>            Ritch LeGrand - Chair            Sherwood Darington - Vice Chair            Daniel A. Dinote, Jr.            John L. Gadd            John J. Leary</p>	<p><b><u>1994 Board Members</u></b>            Sherwood Darington - Chair            Daniel A. Dinote, Jr. - Vice Chair            Tim Leberman            John J. Leary            Ritch LeGrand</p> <p><b><u>1995 Board Members</u></b>            Sherwood Darington - Chair            Tim Leberman - Vice Chair            Daniel A. Dinote, Jr.            W. David Snook            Laurie Van Court</p> <p><b><u>1996 Board Members</u></b>            W. David Snook - Chair            Laurie Van Court - Vice Chair            Stephanie Coleman            Tim Leberman</p> <p><b><u>1997 Board Members</u></b>            W. David Snook - Chair            Laurie Van Court - Vice Chair            Stephanie Coleman            Kenneth J. Kaiser            Tim Leberman</p> <p><b><u>1998 Board Members</u></b>            Tim Leberman - Chair            Kenneth J. Kaiser - Vice Chair            Stephanie Coleman            Yale Kramer            W. David Snook            Laurie Van Court</p>	<p><b><u>1999 Board Members</u></b>            Kenneth J. Kaiser - Chair            Tim Leberman - Vice Chair            Yale Kramer            Lawrence E. Ofner            W. David Snook            Laurie Van Court</p> <p><b><u>2000 Board Members</u></b>            Kenneth J. Kaiser - Chair            Yale Kramer            Lawrence E. Ofner            W. David Snook            Richard A. Southern            Laurie Van Court            *No Vice Chair</p> <p><b><u>2001 Board Members</u></b>            Kenneth J. Kaiser - Chair            Richard A. Southern - Vice Chair            Thomas O. Jackson            Carla G. Glass            Lawrence E. Ofner            Danny K. Wiley</p> <p><b><u>2002 Board Members</u></b>            Danny K. Wiley - Chair            Lawrence E. Ofner - Vice Chair            Carla G. Glass            Thomas O. Jackson            Kenneth J. Kaiser            Richard A. Southern</p> <p><b><u>2003 Board Members</u></b>            Danny K. Wiley - Chair            Lawrence E. Ofner - Vice Chair            Gregory J. Accetta            Carla G. Glass            Paula K. Konikoff            Dawn M. Molitor-Gennrich</p>
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## **KEY FEATURES OF THE 2005 UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE (USPAP)**

The 2005 edition of USPAP is the result of exposure drafts that occurred on February 17 and April 26, 2004. On the basis of written responses, substantial public testimony at Appraisal Standards Board (ASB) public meetings, and extensive deliberation by the Board, the ASB formally adopted the 2005 USPAP on June 15, 2004. The effective date of the 2005 USPAP is January 1, 2005.

### **KEY FEATURES OF THE 2005 USPAP AND ADVISORY OPINIONS**

**DEFINITIONS:** The definition of APPRAISAL REVIEW was edited to clarify that appraisal review applies only to the work of another appraiser in an appraisal, appraisal review, or appraisal consulting assignment.

**DEFINITIONS:** The definition of CASH FLOW ANALYSIS was deleted because the term is not used in USPAP.

**DEFINITIONS:** The Comment in the definition of REPORT was edited to delete the reference to the three types of reports. The list was incomplete and was unnecessary.

**STANDARDS, STATEMENTS ON APPRAISAL STANDARDS, AND ADVISORY OPINIONS:** Edits were made throughout the document regarding the term “purpose,” due to its varied intended meanings. The edits result in more accurate language, including use of the terms “type and definition of value,” “intended use,” and “problem to be solved.”

**CITATION OF SOURCE FOR VALUE DEFINITION:** Language was added to clarify the requirements for reports to include citation of the source of the value definition used.

**Standards Rules 1-3(b) and 6-2(k):** Edits were made to remove the requirement to always value land as if vacant and available for development in accordance with its highest and best use, as this is considered methodology and not a part of standards.

**Standards Rules 2-1, 2-2, 3-2, 5-1, 5-2, 6-7, 8-1, 8-2, 10-1, 10-2, and STATEMENT ON APPRAISAL STANDARDS NO. 10 (SMT-10):** New language requires “clear and conspicuous” disclosure of extraordinary assumptions and hypothetical conditions rather than disclosure “in conjunction with” each opinion or conclusion. Language was deleted requiring the appraiser to indicate the “impact on value” of an extraordinary assumption or hypothetical condition and was replaced with language requiring disclosure that use of the extraordinary assumption or hypothetical condition might have affected the assignment results.

**Standards Rules 2-2, 6-7, 8-2 and 10-2:** Edits were made to clarify reporting requirements for reconciliation.

**Standards Rules 2-3, 5-3, 6-8, 8-3 and 10-3:** Edits were made to the requirements for certifications when multiple disciplines are involved in an assignment. These changes are designed to clarify an appraiser’s responsibility in an assignment.

**STANDARD 3:** Edits were made to clarify that appraisal review applies only to the work of another appraiser in an appraisal, appraisal review, or appraisal consulting assignment.

**STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6):** The requirement to report exposure time was deleted from SMT-6. This was done because disclosure of exposure time is not necessary for all assignments. This change does not affect the requirement for the appraiser to develop an estimate of exposure time in market value assignments.

**STATEMENT ON APPRAISAL STANDARDS NO. 7 (SMT-7):** Edits were made to more accurately address levels of reliability. The previous language incorrectly stated that a Complete Appraisal is always more reliable than a Limited Appraisal.

**Advisory Opinion 6 (AO-6):** AO-6, The Appraisal Review Function, was retired as more recent guidance has been issued by the Appraisal Standards Board, including AO-20, the newly revised AO-21, and Frequently Asked Questions.

**Advisory Opinion 21 (AO-21):** AO-21 was re-titled “USPAP Compliance” and has been revised with the intent of providing greater clarity as to an appraiser’s obligation for complying with USPAP.

**NOTE:** A new topical index was added, and administrative edits were made to appropriate sections of the document to improve consistency. In addition, edits were made where appropriate throughout the document for conformity with the changes approved or adopted on June 15, 2004.

#### **USPAP STRUCTURE AND USABILITY FEATURES:**

Each STATEMENT and Advisory Opinion is labeled as to its applicability to the various appraisal disciplines. These labels are located at the beginning of each SMT and AO as well as in the Table of Contents. The abbreviations are:

Real Property – RP

Personal Property – PP

Business – IP

\*No IP (Intangible Property, which includes business interests) abbreviations are utilized since all STATEMENTS and Advisory Opinions that apply to Intangible Property also apply to Real Property and Personal Property, and are thus part of the “ALL” label.

All disciplines - ALL

#### **ASB WORK IN PROGRESS**

Over the years, the USPAP document has evolved in content, form, and organizational structure. It is a work in progress, with an overall goal of Standards becoming more stable over time and guidance in the form of Statements and Advisory Opinions appearing as required. Toward this end, the ASB has developed a process for developing both Standards and guidance text based, in part, on written comments submitted in response to exposure drafts and oral testimony presented at public meetings. This process requests input on proposed changes to USPAP from all interested parties, including professional appraisers and professional appraisal organizations, users of appraisal services, educators, regulators and state enforcement agencies. In July 1998, the ASB established a mechanism for organizations to interact with the ASB and present official positions on USPAP topics during the research phase of the exposure draft process. Known as “work groups,” these entities, which are registered with The Appraisal Foundation, may develop recommendations for consideration by the ASB prior to its dissemination of proposed changes through the exposure draft process.

## TABLE OF CONTENTS

### UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

DEFINITIONS.....	1
ETHICS RULE.....	7
COMPETENCY RULE.....	11
DEPARTURE RULE.....	12
JURISDICTIONAL EXCEPTION RULE.....	14
SUPPLEMENTAL STANDARDS RULE.....	15
STANDARD 1: REAL PROPERTY APPRAISAL, DEVELOPMENT.....	16
STANDARD 2: REAL PROPERTY APPRAISAL, REPORTING.....	22
STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT AND REPORTING.....	33
STANDARD 4: REAL PROPERTY APPRAISAL CONSULTING, DEVELOPMENT.....	38
STANDARD 5: REAL PROPERTY APPRAISAL CONSULTING, REPORTING.....	42
STANDARD 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING.....	46
STANDARD 7: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT.....	57
STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING.....	63
STANDARD 9: BUSINESS APPRAISAL, DEVELOPMENT.....	73
STANDARD 10: BUSINESS APPRAISAL, REPORTING.....	77
(xi) include a signed certification in accordance with Standards Rule 10-3.....	80
STATEMENT ON APPRAISAL STANDARDS NO. 1 (SMT-1).....	84
SUBJECT: Appraisal Review—Clarification of <u>Comment</u> on Standards Rule 3-1(g)....	84
STATEMENT ON APPRAISAL STANDARDS NO. 2 (SMT-2).....	85
SUBJECT: Discounted Cash Flow Analysis.....	85
STATEMENT ON APPRAISAL STANDARDS NO. 3 (SMT-3).....	88
SUBJECT: Retrospective Value Opinions.....	88
STATEMENT ON APPRAISAL STANDARDS NO. 4 (SMT-4).....	90
SUBJECT: Prospective Value Opinions.....	90
STATEMENT ON APPRAISAL STANDARDS NO. 5 (SMT-5).....	92
SUBJECT: <u>Confidentiality</u> Section of the Ethics Rule.....	92
STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6).....	93
SUBJECT: Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions.....	93
STATEMENT ON APPRAISAL STANDARDS NO. 7 (SMT-7).....	95
SUBJECT: Permitted Departure from Specific Requirements in Real Property and Personal Property Appraisal Assignments.....	95
STATEMENT ON APPRAISAL STANDARDS NO. 8 (SMT-8).....	104
SUBJECT: Electronic Transmission of Reports.....	104
STATEMENT ON APPRAISAL STANDARDS NO. 9 (SMT- 9).....	105
SUBJECT: Identification of the Client’s Intended Use in Developing and Reporting Appraisal, Appraisal Review, or Appraisal Consulting Assignment Opinions and Conclusions.....	105
STATEMENT ON APPRAISAL STANDARDS NO. 10 (SMT-10).....	109

SUBJECT: Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction .....	109
THE ISSUE:.....	109
ADVISORY OPINION 1 (AO-1).....	125
SUBJECT: Sales History .....	125
ADVISORY OPINION 2 (AO-2).....	128
SUBJECT: Inspection of Subject Property Real Estate.....	128
ADVISORY OPINION 3 (AO-3).....	130
SUBJECT: Update of a Prior Assignment.....	130
ADVISORY OPINION 4 (AO-4).....	133
SUBJECT: Standards Rule 1-5(b) .....	133
ADVISORY OPINION 5 (AO-5).....	134
SUBJECT: Assistance in the Preparation of an Appraisal .....	134
ADVISORY OPINION 6 (AO-6).....	138
SUBJECT: The Appraisal Review Function .....	138
Please refer to Advisory Opinions AO-20 and AO-21 for related advice. ....	138
ADVISORY OPINION 7 (AO-7).....	139
SUBJECT: Marketing Time Opinions.....	139
ADVISORY OPINION 8 (AO-8).....	141
SUBJECT: Market Value vs. Fair Value in Real Property Appraisals.....	141
ADVISORY OPINION 9 (AO-9).....	143
SUBJECT: The Appraisal of Real Property That May Be Impacted by Environmental Contamination.....	143
ADVISORY OPINION 10 (AO-10).....	148
SUBJECT: The Appraiser-Client Relationship .....	148
Please refer to Advisory Opinions AO-25, AO-26, and AO-27 for related advice. ....	148
ADVISORY OPINION 11 (AO-11).....	149
SUBJECT: Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2..	149
ADVISORY OPINION 12 (AO-12).....	155
SUBJECT: Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2 .....	155
ADVISORY OPINION 13 (AO-13).....	157
SUBJECT: Performing Evaluations of Real Property Collateral to Conform with USPAP .....	157
ADVISORY OPINION 14 (AO-14).....	162
SUBJECT: Appraisals for Subsidized Housing.....	162
ADVISORY OPINION 15 (AO-15).....	165
SUBJECT: Using the DEPARTURE RULE in Developing a Limited Appraisal .....	165
ADVISORY OPINION 16 (AO-16).....	169
SUBJECT: Fair Housing Laws and Appraisal Report ContentSpecialized Terms and Definitions#Sites.....	169
ADVISORY OPINION 17 (AO-17).....	173
SUBJECT: Appraisals of Real Property with Proposed Improvements .....	173
ADVISORY OPINION 18 (AO-18).....	178
SUBJECT: Use of an Automated Valuation Model (AVM) .....	178
ADVISORY OPINION 19 (AO-19).....	186

SUBJECT: Unacceptable Assignment Conditions in Real Property Appraisal	
Assignments .....	186
ADVISORY OPINION 20 (AO-20).....	192
SUBJECT: An Appraisal Review Assignment That Includes the Reviewer’s Own	
Opinion of Value.....	192
ADVISORY OPINION 21 (AO-21).....	199
SUBJECT: USPAP Compliance.....	199
ADVISORY OPINION 22 (AO-22).....	208
SUBJECT: Scope of Work in Market Value Appraisal Assignments, Real Property ....	208
ADVISORY OPINION 23 (AO-23).....	215
SUBJECT: Identifying the Relevant Characteristics of the Subject Property of a Real	
Property Appraisal Assignment .....	215
ADVISORY OPINION 24 (AO-24).....	219
<i>This communication by the Appraisal Standards Board (ASB) does not establish new</i>	
<i>standards or interpret existing standards. Advisory Opinions are issued to</i>	
<i>illustrate the applicability of appraisal standards in specific situations and to</i>	
<i>offer advice from the ASB for the resolution of appraisal issues and problems.</i>	219
SUBJECT: Normal Course of Business .....	219
THE ISSUE:.....	219
ADVISORY OPINION 25 (AO-25).....	222
SUBJECT: Clarification of the Client in a Federally Related Transaction .....	222
THE ISSUE:.....	222
ADVICE FROM THE ASB ON THE ISSUE:.....	222
ADVISORY OPINION 26 (AO-26).....	224
SUBJECT: Readdressing (Transferring) a Report to Another Party .....	224
THE ISSUE:.....	224
ADVICE FROM THE ASB ON THE ISSUE:.....	224
USPAP defines the Client as: .....	224
ADVISORY OPINION 27 (AO-27).....	226
SUBJECT: Appraising the Same Property for a New Client .....	226
APPLICATION: Real Property, Personal Property, and Intangible Property .....	226
THE ISSUE:.....	226
ADVICE FROM THE ASB ON THE ISSUE:.....	226
INDEX .....	229



UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

as promulgated by the
Appraisal Standards Board of
The Appraisal Foundation

DEFINITIONS

For the purpose of the Uniform Standards of Professional Appraisal Practice (USPAP), the following definitions apply:

ADVOCACY: representing the cause or interest of another, even if that cause or interest does not necessarily coincide with one's own beliefs, opinions, conclusions, or recommendations.

APPRAISAL: (noun) the act or process of developing an opinion of value; an opinion of value. (adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

Complete Appraisal: the act or process of developing an opinion of value or an opinion of value developed without invoking the DEPARTURE RULE.

Limited Appraisal: the act or process of developing an opinion of value or an opinion of value developed under and resulting from invoking the DEPARTURE RULE.

Comment: An appraisal must be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).

APPRAISAL CONSULTING: the act or process of developing an analysis, recommendation, or opinion to solve a problem, where an opinion of value is a component of the analysis leading to the assignment results.

Comment: An appraisal consulting assignment involves an opinion of value but does not have an appraisal or an appraisal review as its primary purpose.

APPRAISAL PRACTICE: valuation services performed by an individual acting as an appraiser, including but not limited to appraisal, appraisal review, or appraisal consulting.

Comment: Appraisal practice is provided only by appraisers, while valuation services are provided by a variety of professionals and others. The terms appraisal, appraisal review, and appraisal consulting are intentionally generic and are not mutually exclusive. For example, an opinion of value may be required as part of an appraisal review and is required as a component of the analysis in an appraisal consulting assignment. The use of other nomenclature for an appraisal, appraisal review, or appraisal consulting assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the Uniform Standards of Professional Appraisal Practice.

APPRAISAL REVIEW: the act or process of developing and communicating an opinion about the quality of another appraiser's work that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment.

Comment: The subject of an appraisal review assignment may be all or part of a report, workfile, or a combination of these.

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41 **APPRAISER:** one who is expected to perform valuation services competently and in a manner that is  
42 independent, impartial, and objective.

43 Comment: Such expectation occurs when individuals, either by choice or by requirement  
44 placed upon them or upon the service they provide by law, regulation, or agreement with  
45 the client or intended users, represent that they comply. (See PREAMBLE.)

46 **APPRAISER'S PEERS:** other appraisers who have expertise and competency in the same or a similar  
47 type of assignment.

48 **ASSIGNMENT:** a valuation service provided as a consequence of an agreement between an appraiser and  
49 a client.

50 **ASSIGNMENT RESULTS:** an appraiser's opinions and conclusions developed specific to an assignment.

51 Comment: Assignment results include an appraiser's:

- 52 ▪ opinions or conclusions developed in an appraisal assignment, such as value;
- 53 ▪ opinions of adequacy, relevancy, or reasonableness developed in an appraisal review  
54 assignment; or
- 55 ▪ opinions, conclusions, or recommendations developed in an appraisal consulting  
56 assignment.

57 **ASSUMPTION:** that which is taken to be true.

58 **BIAS:** a preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in  
59 an assignment.

60 **BINDING REQUIREMENT:** all or part of a Standards Rule of USPAP from which departure is not  
61 permitted. (See DEPARTURE RULE.)

62 **BUSINESS ENTERPRISE:** an entity pursuing an economic activity.

63 **BUSINESS EQUITY:** the interests, benefits, and rights inherent in the ownership of a business enterprise  
64 or a part thereof in any form (including, but not necessarily limited to, capital stock, partnership interests,  
65 cooperatives, sole proprietorships, options, and warrants).

66 **CLIENT:** the party or parties who engage an appraiser (by employment or contract) in a specific  
67 assignment.

68 Comment: The client identified by the appraiser in an appraisal, appraisal review, or  
69 appraisal consulting assignment (or in the assignment workfile) is the party or parties  
70 with whom the appraiser has an appraiser-client relationship in the related assignment,  
71 and may be an individual, group, or entity.

72 **CONFIDENTIAL INFORMATION:** information that is either:

- 73 ▪ identified by the client as confidential when providing it to an appraiser and that is  
74 not available from any other source; or
- 75 ▪ classified as confidential or private by applicable law or regulation\*.

76 \*NOTICE: For example, pursuant to the passage of the Gramm-Leach-Bliley Act in November 1999, some  
77 public agencies have adopted privacy regulations that affect appraisers. As a result, the Federal Trade  
78 Commission issued a rule focused on the protection of "non-public personal information" provided by  
79 consumers to those involved in financial activities "found to be closely related to banking or usual in  
80 connection with the transaction of banking." These activities have been deemed to include "appraising real



or personal property.” (Quotations are from the Federal Trade Commission, Privacy of Consumer Financial Information; Final Rule, 16 CFR Part 313.)	81 82
<b>COST:</b> the amount required to create, produce, or obtain a property.	83
<u>Comment:</u> <i>Cost</i> is either a fact or an estimate of fact.	84
<b>EXTRAORDINARY ASSUMPTION:</b> an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions.	85 86
<u>Comment:</u> Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.	87 88 89 90
<b>FEASIBILITY ANALYSIS:</b> a study of the cost-benefit relationship of an economic endeavor.	91
<b>HYPOTHETICAL CONDITION:</b> that which is contrary to what exists but is supposed for the purpose of analysis.	92 93
<u>Comment:</u> Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.	94 95 96 97
<b>INTANGIBLE PROPERTY (INTANGIBLE ASSETS):</b> nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.	98 99 100
<b>INTENDED USE:</b> the use or uses of an appraiser’s reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.	101 102 103
<b>INTENDED USER:</b> the client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment.	104 105 106
<b>JURISDICTIONAL EXCEPTION:</b> an assignment condition that voids the force of a part or parts of USPAP, when compliance with part or parts of USPAP is contrary to law or public policy applicable to the assignment.	107 108 109
<b>MARKET VALUE:</b> a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.	110 111 112
<u>Comment:</u> Forming an opinion of market value is the purpose of many real property appraisal assignments, particularly when the client’s intended use includes more than one intended user. The conditions included in market value definitions establish market perspectives for development of the opinion. These conditions may vary from definition to definition but generally fall into three categories:	113 114 115 116 117
1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);	118
2. the terms of sale (e.g., cash, cash equivalent, or other terms); and	119
3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).	120 121

122 *Appraisers are cautioned to identify the exact definition of market value, and its*  
 123 *authority, applicable in each appraisal completed for the purpose of market value.*

124 **MASS APPRAISAL:** the process of valuing a universe of properties as of a given date using standard  
 125 methodology, employing common data, and allowing for statistical testing.

126 **MASS APPRAISAL MODEL:** a mathematical expression of how supply and demand factors interact in a  
 127 market.

128 **PERSONAL PROPERTY:** identifiable tangible objects that are considered by the general public as being  
 129 “personal” - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and  
 130 equipment; all tangible property that is not classified as real estate.

131 **PRICE:** the amount asked, offered, or paid for a property.

132 Comment: Once stated, *price* is a fact, whether it is publicly disclosed or retained in  
 133 private. Because of the financial capabilities, motivations, or special interests of a given  
 134 buyer or seller, the price paid for a property may or may not have any relation to the  
 135 *value* that might be ascribed to that property by others.

136 **REAL ESTATE:** an identified parcel or tract of land, including improvements, if any.

137 **REAL PROPERTY:** the interests, benefits, and rights inherent in the ownership of real estate.

138 Comment: In some jurisdictions, the terms *real estate* and *real property* have the same  
 139 legal meaning. The separate definitions recognize the traditional distinction between the  
 140 two concepts in appraisal theory.

141 **REPORT:** any communication, written or oral, of an appraisal, appraisal review, or appraisal consulting  
 142 service that is transmitted to the client upon completion of an assignment.

143 Comment: Most reports are written and most clients mandate written reports. Oral report  
 144 requirements (see the Record Keeping section of the ETHICS RULE) are included to  
 145 cover court testimony and other oral communications of an appraisal, appraisal review, or  
 146 appraisal consulting service.

147 **SCOPE OF WORK:** the amount and type of information researched and the analysis applied in an  
 148 assignment. Scope of work includes, but is not limited to, the following:

- 149 ▪ the degree to which the property is inspected or identified;
- 150 ▪ the extent of research into physical or economic factors that could affect
- 151 the property;
- 152 ▪ the extent of data research; and
- 153 ▪ the type and extent of analysis applied to arrive at opinions or conclusions.

154 **SIGNATURE:** personalized evidence indicating authentication of the work performed by the appraiser and  
 155 the acceptance of the responsibility for content, analyses, and the conclusions in the report.

156 Comment: A signature can be represented by a handwritten mark, a digitized image  
 157 controlled by a personal identification number, or other media, where the appraiser has  
 158 sole personal control of affixing the signature.

159 **SPECIFIC REQUIREMENT:** all or part of a Standards Rule of USPAP from which departure is  
 160 permitted under certain limited conditions. (See DEPARTURE RULE.)

<b>SUPPLEMENTAL STANDARDS:</b> requirements issued by government agencies, government sponsored enterprises, or other entities that establish public policy which add to the purpose, intent and content of the requirements in USPAP, that have a material effect on the development and reporting of assignment results.	161 162 163
<u>Comment:</u> Supplemental standards are published in regulations, rules, policies, and other similar documents, and have the same applicability to all properties or assignments in a particular category or class regardless of the contracting entity.	164 165 166
Contractual agreements that are unique to the contracting entity and that apply specifically to a particular property or assignment are not supplemental standards.	167 168
<b>VALUE:</b> the monetary relationship between properties and those who buy, sell, or use those properties.	169
<u>Comment:</u> <i>Value</i> expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified - for example, market value, liquidation value, or investment value.	170 171 172 173
<b>VALUATION SERVICES:</b> services pertaining to aspects of property value.	174
<u>Comment:</u> Valuation services pertain to all aspects of property value and include services performed both by appraisers and by others.	175 176
<b>WORKFILE:</b> documentation necessary to support an appraiser's analyses, opinions, and conclusions.	177

178 **PREAMBLE**

179 The purpose of the *Uniform Standards of Professional Appraisal Practice* (USPAP) is to promote and  
 180 maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. It is  
 181 essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended  
 182 users of their services in a manner that is meaningful and not misleading.

183 The Appraisal Standards Board promulgates USPAP for both appraisers and users of appraisal services.  
 184 The appraiser's responsibility is to protect the overall public trust and it is the importance of the role of the  
 185 appraiser that places ethical obligations on those who serve in this capacity. USPAP reflects the current  
 186 standards of the appraisal profession.

187 USPAP does not establish who or which assignments must comply. Neither The Appraisal Foundation nor  
 188 its Appraisal Standards Board is a government entity with the power to make, judge, or enforce law.  
 189 Compliance with USPAP is required when either the service or the appraiser is obligated to comply by law  
 190 or regulation, or by agreement with the client or intended users. When not obligated, individuals may still  
 191 choose to comply.

192 USPAP addresses the ethical and performance obligations of appraisers through DEFINITIONS, Rules,  
 193 Standards, Standards Rules, and Statements.

- 194 ▪ The DEFINITIONS establish the application of certain terminology in USPAP.
- 195 ▪ The ETHICS RULE sets forth the requirements for integrity, impartiality,  
 196 objectivity, independent judgment, and ethical conduct.
- 197 ▪ The COMPETENCY RULE presents pre-assignment and assignment conditions for  
 198 knowledge and experience.
- 199 ▪ The JURISDICTIONAL EXCEPTION RULE preserves the balance of USPAP if a  
 200 portion is contrary to law or public policy of a jurisdiction.
- 201 ▪ The SUPPLEMENTAL STANDARDS RULE provides the means for government  
 202 agencies, government sponsored enterprises, and other entities that establish public  
 203 policy to augment USPAP.
- 204 ▪ The ten Standards establish the requirements for appraisal, appraisal review, and  
 205 appraisal consulting service and the manner in which each is communicated. Each  
 206 Standard includes a series of Standards Rules that contain binding requirements, as  
 207 well as specific requirements to which the DEPARTURE RULE may apply under  
 208 certain conditions.
  - 209 - STANDARDS 1 and 2 establish requirements for the development and  
 210 communication of a real property appraisal.
  - 211 - STANDARD 3 establishes requirements for the development and  
 212 communication of an appraisal review.
  - 213 - STANDARDS 4 and 5 establish requirements for the development and  
 214 communication of a real property appraisal consulting assignment.
  - 215 - STANDARD 6 establishes requirements for the development and  
 216 communication of a mass appraisal.
  - 217 - STANDARDS 7 and 8 establish requirements for the development and  
 218 communication of a personal property appraisal.
  - 219 - STANDARDS 9 and 10 establish requirements for the development and  
 220 communication of a business or intangible asset appraisal.
- 221 ▪ Statements on Appraisal Standards clarify, interpret, explain, or elaborate on a Rule  
 222 or Standards Rule.
- 223 ▪ Comments are an integral part of USPAP and have the same weight as the  
 224 component they address. These extensions of the DEFINITIONS, Rules, and  
 225 Standards Rules provide interpretation and establish the context and conditions for  
 226 application.

<b>ETHICS RULE</b>	227
<b>To promote and preserve the public trust inherent in professional appraisal practice, an appraiser must observe the highest standards of professional ethics. This ETHICS RULE is divided into four sections: <u>Conduct</u>, <u>Management</u>, <u>Confidentiality</u>, and <u>Record Keeping</u>. The first three sections apply to all appraisal practice, and all four sections apply to appraisal practice performed under STANDARDS 1 through 10.</b>	228 229 230 231 232
<b><u>Comment:</u> This Rule specifies the personal obligations and responsibilities of the individual appraiser. However, it should also be noted that groups and organizations engaged in appraisal practice share the same ethical obligations.</b>	233 234 235
<b>Compliance with USPAP is required when either the service or the appraiser is obligated by law or regulation, or by agreement with the client or intended users, to comply. In addition to these requirements, an individual should comply any time that individual represents that he or she is performing the service as an appraiser.</b>	236 237 238 239
<b>An appraiser must not misrepresent his or her role when providing valuation services that are outside of appraisal practice.<sup>1</sup></b>	240 241
<b><u>Comment:</u> Honesty, impartiality, and professional competency are required of all appraisers under these <i>Uniform Standards of Professional Appraisal Practice</i> (USPAP). To document recognition and acceptance of his or her USPAP-related responsibilities in communicating an appraisal, appraisal review, or appraisal consulting assignment completed under USPAP, an appraiser is required to certify compliance with USPAP. (See Standards Rules 2-3, 3-3, 5-3, 6-8, 8-3, and 10-3.)</b>	242 243 244 245 246 247
<b><u>Conduct:</u></b>	248
<b>An appraiser must perform assignments ethically and competently, in accordance with USPAP and any supplemental standards agreed to by the appraiser in accepting the assignment. An appraiser must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.</b>	249 250 251 252
<b>In appraisal practice, an appraiser must not perform as an advocate for any party or issue.</b>	253
<b><u>Comment:</u> An appraiser may be an advocate only in support of his or her assignment results. Advocacy in any other form in appraisal practice is a violation of the ETHICS RULE.</b>	254 255 256
<b>An appraiser must not accept an assignment that includes the reporting of predetermined opinions and conclusions.</b>	257 258
<b>An appraiser must not communicate assignment results in a misleading or fraudulent manner. An appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report.<sup>2</sup></b>	259 260 261
<b>An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.</b>	262 263 264 265

<sup>1</sup> See Advisory Opinion AO-21. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>2</sup> See Advisory Opinion AO-5. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

266 Comment: An individual appraiser employed by a group or organization that conducts  
 267 itself in a manner that does not conform to these Standards should take steps that are  
 268 appropriate under the circumstances to ensure compliance with the Standards.

269 **Management:**

270 **The payment of undisclosed fees, commissions, or things of value in connection with the procurement**  
 271 **of an assignment is unethical.**

272 Comment: Disclosure of fees, commissions, or things of value connected to the  
 273 procurement of an assignment must appear in the certification and in any transmittal  
 274 letter in which conclusions are stated. In groups or organizations engaged in appraisal  
 275 practice, intra-company payments to employees for business development are not  
 276 considered unethical. Competency, rather than financial incentives, should be the primary  
 277 basis for awarding an assignment.

278 **It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement for**  
 279 **an assignment, that is contingent on any of the following:**

- 280 **1. the reporting of a predetermined result (e.g., opinion of value);**  
 281 **2. a direction in assignment results that favors the cause of the client;**  
 282 **3. the amount of a value opinion;**  
 283 **4. the attainment of a stipulated result; or**  
 284 **5. the occurrence of a subsequent event directly related to the appraiser's opinions and specific**  
 285 **to the assignment's purpose.**

286 **Advertising for or soliciting assignments in a manner that is false, misleading, or exaggerated is**  
 287 **unethical.**

288 Comment: In groups or organizations engaged in appraisal practice, decisions concerning  
 289 finder or referral fees, contingent compensation, and advertising may not be the  
 290 responsibility of an individual appraiser, but for a particular assignment, it is the  
 291 responsibility of the individual appraiser to ascertain that there has been no breach of  
 292 ethics, that the assignment is prepared in accordance with these Standards, and that the  
 293 report can be properly certified when required by Standards Rules 2-3, 3-3, 5-3, 6-8, 8-3,  
 294 or 10-3.

295 **Confidentiality:**

296 **An appraiser must protect the confidential nature of the appraiser-client relationship.**

297 **An appraiser must act in good faith with regard to the legitimate interests of the client in the use of**  
 298 **confidential information and in the communication of assignment results.**

299 **An appraiser must be aware of, and comply with, all confidentiality and privacy laws and regulations**  
 300 **applicable in an assignment\*.**

301 **An appraiser must not disclose confidential information or assignment results prepared for a client**  
 302 **to anyone other than the client and persons specifically authorized by the client; state enforcement**  
 303 **agencies and such third parties as may be authorized by due process of law; and a duly authorized**  
 304 **professional peer review committee except when such disclosure to a committee would violate**  
 305 **applicable law or regulation. It is unethical for a member of a duly authorized professional peer**  
 306 **review committee to disclose confidential information presented to the committee.**

<u>Comment:</u> When all confidential elements of confidential information are removed through redaction or the process of aggregation, client authorization is not required for the disclosure of the remaining information, as modified.	307 308 309
*NOTICE: Pursuant to the passage of the Gramm-Leach-Bliley Act in 1999, numerous agencies have adopted new privacy regulations. Such regulations are focused on the protection of information provided by consumers to those involved in financial activities “found to be closely related to banking or usual in connection with the transaction of banking.” These activities have been deemed to include “appraising real or personal property.” (Quotations are from the Federal Trade Commission, Privacy of Consumer Financial Information; Final Rule, 16 CFR Part 313.)	310 311 312 313 314 315
<b><u>Record Keeping:</u></b>	316
<b>An appraiser must prepare a workfile for each appraisal, appraisal review, or appraisal consulting assignment. The workfile must include:</b>	317 318
▪ <b>the name of the client and the identity, by name or type, of any other intended users;</b>	319
▪ <b>true copies of any written reports, documented on any type of media;</b>	320
▪ <b>summaries of any oral reports or testimony, or a transcript of testimony, including the appraiser’s signed and dated certification; and</b>	321 322
▪ <b>all other data, information, and documentation necessary to support the appraiser’s opinions and conclusions and to show compliance with this Rule and all other applicable Standards, or references to the location(s) of such other documentation.</b>	323 324 325
<b>An appraiser must retain the workfile for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last.</b>	326 327 328
<b>An appraiser must have custody of his or her workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile.</b>	329 330
<u>Comment:</u> A workfile preserves evidence of the appraiser’s consideration of all applicable data and statements required by USPAP and other information as may be required to support the appraiser’s opinions, conclusions, and recommendations. For example, the content of a workfile for a Complete Appraisal must reflect consideration of all USPAP requirements applicable to the specific Complete Appraisal assignment. However, the content of a workfile for a Limited Appraisal need only reflect consideration of the USPAP requirements from which there have been no departure and that are required by the specific Limited Appraisal assignment.	331 332 333 334 335 336 337 338
A photocopy or an electronic copy of the entire actual written appraisal, appraisal review, or appraisal consulting report sent or delivered to a client satisfies the requirement of a true copy. As an example, a photocopy or electronic copy of the Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report actually issued by an appraiser for a real property appraisal assignment satisfies the true copy requirement for that assignment.	339 340 341 342 343
Care should be exercised in the selection of the form, style, and type of medium for written records, which may be handwritten and informal, to ensure that they are retrievable by the appraiser throughout the prescribed record retention period.	344 345 346

347 A workfile must be in existence prior to and contemporaneous with the issuance of a  
348 written or oral report. A written summary of an oral report must be added to the workfile  
349 within a reasonable time after the issuance of the oral report.

350 A workfile must be made available by the appraiser when required by state enforcement  
351 agencies or due process of law. In addition, a workfile in support of a Restricted Use  
352 Appraisal Report must be sufficient for the appraiser to produce a Summary Appraisal  
353 Report (for assignments under STANDARDS 2 and 8) or an Appraisal Report (for  
354 assignments under STANDARD 10), and must be available for inspection by the client in  
355 accordance with the Comment to Standards Rules 2-2(c)(ix), 8-2(c)(ix), and 10-2(b)(ix).



**COMPETENCY RULE** 356

**Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently; or alternatively, must:** 357  
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1. **disclose the lack of knowledge and/or experience to the client before accepting the assignment;** 360  
361
2. **take all steps necessary or appropriate to complete the assignment competently; and** 362
3. **describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.** 363  
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Comment: Competency applies to factors such as, but not limited to, an appraiser's familiarity with a specific type of property, a market, a geographic area, or an analytical method. If such a factor is necessary for an appraiser to develop credible assignment results, the appraiser is responsible for having the competency to address that factor or for following the steps outlined above to satisfy this COMPETENCY RULE. 365  
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The background and experience of appraisers varies widely, and a lack of knowledge or experience can lead to inaccurate or inappropriate appraisal practice. The COMPETENCY RULE requires an appraiser to have both the knowledge and the experience required to perform a specific appraisal service competently. 370  
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If an appraiser is offered the opportunity to perform an appraisal service but lacks the necessary knowledge or experience to complete it competently, the appraiser must disclose his or her lack of knowledge or experience to the client before accepting the assignment and then take the necessary or appropriate steps to complete the appraisal service competently. This may be accomplished in various ways, including, but not limited to, personal study by the appraiser, association with an appraiser reasonably believed to have the necessary knowledge or experience, or retention of others who possess the required knowledge or experience. 374  
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In an assignment where geographic competency is necessary, an appraiser preparing an appraisal in an unfamiliar location must spend sufficient time to understand the nuances of the local market and the supply and demand factors relating to the specific property type and the location involved. Such understanding will not be imparted solely from a consideration of specific data such as demographics, costs, sales, and rentals. The necessary understanding of local market conditions provides the bridge between a sale and a comparable sale or a rental and a comparable rental. If an appraiser is not in a position to spend the necessary amount of time in a market area to obtain this understanding, affiliation with a qualified local appraiser may be the appropriate response to ensure development of credible assignment results. 382  
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Although this Rule requires an appraiser to identify the problem and disclose any deficiency in competence prior to accepting an assignment, facts or conditions uncovered during the course of an assignment could cause an appraiser to discover that he or she lacks the required knowledge or experience to complete the assignment competently. At the point of such discovery, the appraiser is obligated to notify the client and comply with items 2 and 3 of this Rule. 392  
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398 **DEPARTURE RULE<sup>3</sup>**

399 **This Rule permits exceptions from sections of USPAP that are classified as specific requirements rather**  
 400 **than binding requirements. The burden of proof is on the appraiser to decide before accepting an**  
 401 **assignment and invoking this Rule that the scope of work applied will result in opinions or conclusions that**  
 402 **are credible. The burden of disclosure is also on the appraiser to report any departures from specific**  
 403 **requirements.**

404 **An appraiser may enter into an agreement to perform an assignment in which the scope of work is**  
 405 **less than, or different from, the work that would otherwise be required by the specific requirements,**  
 406 **provided that prior to entering into such an agreement:**

- 407 **1. the appraiser has determined that the appraisal process to be performed is not so limited**  
 408 **that the results of the assignment are no longer credible;**
- 409 **2. the appraiser has advised the client that the assignment calls for something less than, or**  
 410 **different from, the work required by the specific requirements and that the report will**  
 411 **clearly identify and explain the departure(s); and**
- 412 **3. the client has agreed that the performance of a limited appraisal service would be**  
 413 **appropriate, given the intended use.**

414 Comment: Not all specific requirements are *applicable* to every assignment. When a specific  
 415 requirement is *not applicable* to a given assignment, the specific requirement is irrelevant  
 416 and therefore no departure is needed.

417 A specific requirement is *applicable* when:

- 418 ▪ it addresses factors or conditions that are present in the given assignment, or
- 419 ▪ it addresses analysis that is typical practice in such an assignment.

420 A specific requirement is *not applicable* when:

- 421 ▪ it addresses factors or conditions that are not present in the given  
 422 assignment,
- 423 ▪ it addresses analysis that is not typical practice in such an assignment, or
- 424 ▪ it addresses analysis that would not provide meaningful results in the given  
 425 assignment.

426 Of those specific requirements that are *applicable* to a given assignment, some may be  
 427 *necessary* in order to result in opinions or conclusions that are credible. When a specific  
 428 requirement is *necessary* to a given assignment, departure is not permitted.

429 Departure is permitted from those specific requirements that are *applicable* to a given  
 430 assignment but *not necessary* in order to result in opinions or conclusions that are  
 431 credible.

432 A specific requirement is considered to be both *applicable* and *necessary* when:

- 433 ▪ it addresses factors or conditions that are present in the given assignment, or
- 434 ▪ it addresses analysis that is typical practice in such an assignment, and
- 435 ▪ lack of consideration for those factors, conditions, or analyses would  
 436 significantly affect the credibility of the results.

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<sup>3</sup> See Statement on Appraisal Standards No. 7 (SMT-7). See also Advisory Opinion AO-15. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

Typical practice for a given assignment is measured by:	437
▪ the expectations of the participants in the market for appraisal services, and	438
▪ what an appraiser’s peers’ actions would be in performing the same or a similar assignment.	439
	440
If an appraiser enters into an agreement to perform an appraisal service that calls for something less than, or different from, the work that would otherwise be required by the specific requirements, Standards Rules 2-2(a)(xi), 2-2(b)(xi), 2-2(c)(xi), 6-7(p), 8-2(a)(xi), 8-2(b)(xi), 8-2(c)(xi), 10-2(a)(x), and 10-2(b)(x) require that the report clearly identify and explain departure(s) from the specific requirements.	441 442 443 444 445
Departure from the following development and reporting Standards Rules is not permitted: Standards Rules 1-1, 1-2, 1-5, 1-6, 2-1, 2-2, 2-3, 3-1, 3-2, 3-3, 4-1, 4-2, 5-1, 5-2, 5-3, 6-1, 6-3, 6-6, 6-7, 6-8, 7-1, 7-2, 7-5, 7-6, 8-1, 8-2, 8-3, 9-1, 9-2, 9-3, 9-5, 10-1, 10-2, and 10-3. This restriction on departure is reiterated throughout the document with the reminder: “This Standards Rule contains binding requirements from which departure is not permitted.”	446 447 448 449 450 451
The DEPARTURE RULE does not apply to the DEFINITIONS, PREAMBLE, ETHICS RULE, COMPETENCY RULE, JURISDICTIONAL EXCEPTION RULE or SUPPLEMENTAL STANDARDS RULE.	452 453 454

455 **JURISDICTIONAL EXCEPTION RULE**

456 **If any part of USPAP is contrary to the law or public policy of any jurisdiction, only that part shall**  
457 **be void and of no force or effect in that jurisdiction.**

458 Comment: The purpose of the JURISDICTIONAL EXCEPTION RULE is strictly  
459 limited to providing a saving or severability clause intended to preserve the balance of  
460 USPAP if one or more of its parts are determined to be contrary to law or public policy of  
461 a jurisdiction. By logical extension, there can be no violation of USPAP by an appraiser  
462 disregarding, with proper disclosure, only the part or parts of USPAP that are void and of  
463 no force and effect in a particular assignment by operation of legal authority. It is  
464 misleading for an appraiser to disregard a part or parts of USPAP as void and of no force  
465 and effect in a particular assignment without identifying in the appraiser's report the part  
466 or parts disregarded and the legal authority justifying this action.

467 As used in the JURISDICTIONAL EXCEPTION RULE, law means a body of rules with  
468 binding legal force established by controlling governmental authority. This broad  
469 meaning includes, without limitation, the federal and state constitutions; legislative and  
470 court-made law; and administrative rules, regulations, and ordinances. Public policy  
471 refers to more or less well-defined moral and ethical standards of conduct, currently and  
472 generally accepted by the community as a whole, and recognized by the courts with the  
473 aid of statutes, judicial precedents, and other similar available evidence. Jurisdiction  
474 refers to the legal authority to legislate, apply, or interpret law in any form at the federal,  
475 state, and local levels of government.

## SUPPLEMENTAL STANDARDS RULE

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**USPAP provides the common basis for all appraisal practice. Supplemental standards applicable to assignments prepared for specific purposes or property types may be issued (i.e., published) by government agencies, government sponsored enterprises, or other entities that establish public policy. An appraiser and client must ascertain whether any such published supplemental standards in addition to USPAP apply to the assignment being considered.<sup>4</sup>**

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Comment: The purpose of the SUPPLEMENTAL STANDARDS RULE is to provide a reasonable means to augment USPAP with requirements that add to the requirements set forth by USPAP.

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Supplemental standards cannot diminish the purpose, intent, or content of the requirements of USPAP.

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Upon agreeing to perform an assignment that includes acceptable supplemental standards, an appraiser is obligated to competently satisfy those supplemental standards, as well as applicable USPAP requirements.

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An appraiser who represents that an assignment is or will be completed in compliance with agreed-upon supplemental standards and who then knowingly fails to comply with those supplemental standards violates the ETHICS RULE, or who then inadvertently fails to comply with those supplemental standards violates the COMPETENCY RULE. (See the ETHICS RULE and the COMPETENCY RULE.)

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<sup>4</sup> See Advisory Opinions AO-7 and AO-8. See also Statement on Appraisal Standards No. 10 (SMT-10). References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into Standards Rules.

495 **STANDARD 1: REAL PROPERTY APPRAISAL, DEVELOPMENT**

496 **In developing a real property appraisal, an appraiser must identify the problem to be solved and the**  
497 **scope of work necessary to solve the problem, and correctly complete research and analysis necessary**  
498 **to produce a credible appraisal.**

499 Comment: STANDARD 1 is directed toward the substantive aspects of developing a  
500 competent appraisal of real property. The requirements set forth in STANDARD 1 follow  
501 the appraisal development process in the order of topics addressed and can be used by  
502 appraisers and the users of appraisal services as a convenient checklist.

503 **Standards Rule 1-1 (This Standards Rule contains binding requirements from which departure is**  
504 **not permitted.)**

505 **In developing a real property appraisal, an appraiser must:**

506 **(a) be aware of, understand, and correctly employ those recognized methods and techniques**  
507 **that are necessary to produce a credible appraisal;**

508 Comment: This Rule recognizes that the principle of change continues to affect the  
509 manner in which appraisers perform appraisal services. Changes and developments in the  
510 real estate field have a substantial impact on the appraisal profession. Important changes  
511 in the cost and manner of constructing and marketing commercial, industrial, and  
512 residential real estate as well as changes in the legal framework in which real property  
513 rights and interests are created, conveyed, and mortgaged have resulted in corresponding  
514 changes in appraisal theory and practice. Social change has also had an effect on  
515 appraisal theory and practice. To keep abreast of these changes and developments, the  
516 appraisal profession is constantly reviewing and revising appraisal methods and  
517 techniques and devising new methods and techniques to meet new circumstances. For  
518 this reason, it is not sufficient for appraisers to simply maintain the skills and the  
519 knowledge they possess when they become appraisers. Each appraiser must continuously  
520 improve his or her skills to remain proficient in real property appraisal.

521 **(b) not commit a substantial error of omission or commission that significantly affects an**  
522 **appraisal; and**

523 Comment: In performing appraisal services, an appraiser must be certain that the  
524 gathering of factual information is conducted in a manner that is sufficiently diligent,  
525 given the scope of work as identified according to Standards Rule 1-2(f), to ensure that  
526 the data that would have a material or significant effect on the resulting opinions or  
527 conclusions are identified and, where necessary, analyzed. Further, an appraiser must use  
528 sufficient care in analyzing such data to avoid errors that would significantly affect his or  
529 her opinions and conclusions.

530 **(c) not render appraisal services in a careless or negligent manner, such as by making a series of**  
531 **errors that, although individually might not significantly affect the results of an appraisal, in**  
532 **the aggregate affects the credibility of those results.**

533 Comment: Perfection is impossible to attain, and competence does not require perfection.  
534 However, an appraiser must not render appraisal services in a careless or negligent  
535 manner. This Standards Rule requires an appraiser to use due diligence and due care.

<b><u>Standards Rule 1-2</u></b> (This Standards Rule contains binding requirements from which departure is not permitted.)	536 537
<b>In developing a real property appraisal, an appraiser must:</b>	538
<b>(a) identify the client and other intended users;<sup>5</sup></b>	539
<b>(b) identify the intended use of the appraiser’s opinions and conclusions;</b>	540
<u>Comment:</u> Identification of the intended use is necessary for the appraiser and the client to decide:	541 542
▪ the appropriate scope of work to be completed, and	543
▪ the level of information to be provided in communicating the appraisal.	544
An appraiser must not allow a client’s objectives or intended use to cause an analysis to be biased.	545 546
<b>(c) identify the type and definition of value and, if the value opinion to be developed is market value,<sup>6</sup> ascertain whether the value is to be the most probable price:</b>	547 548
<b>(i) in terms of cash; or</b>	549
<b>(ii) in terms of financial arrangements equivalent to cash; or</b>	550
<b>(iii) in other precisely defined terms; and</b>	551
<b>(iv) if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser’s opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data;</b>	552 553 554 555
<u>Comment:</u> When developing an opinion of market value, the appraiser must also develop an opinion of reasonable exposure time linked to the value opinion. <sup>7</sup>	556 557
<b>(d) identify the effective date of the appraiser’s opinions and conclusions;<sup>8</sup></b>	558
<b>(e) identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal,<sup>9</sup> including:</b>	559 560
<b>(i) its location and physical, legal, and economic attributes;</b>	561
<b>(ii) the real property interest to be valued;</b>	562
<b>(iii) any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal;</b>	563 564

<sup>5</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>6</sup> See Advisory Opinion AO-8. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>7</sup> See Statement on Appraisal Standards No. 6 (SMT-6). See also Advisory Opinions AO-7 and AO-8. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>8</sup> See Statement on Appraisal Standards No. 3 (SMT-3).

<sup>9</sup> See Advisory Opinion AO-2. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

565 (iv) any known easements, restrictions, encumbrances, leases, reservations, covenants,  
566 contracts, declarations, special assessments, ordinances, or other items of a similar  
567 nature; and

568 (v) whether the subject property is a fractional interest, physical segment, or partial  
569 holding;

570 Comment on (i)–(v): If the necessary subject property information is not  
571 available because of assignment conditions that limit research opportunity (such  
572 as conditions that preclude an onsite inspection or the gathering of information  
573 from reliable third-party sources), an appraiser must:

- 574 ▪ obtain the necessary information before proceeding, or
- 575 ▪ where possible, in compliance with Standards Rule 1-2(g), use an  
576 extraordinary assumption about such information.

577 An appraiser may use any combination of a property inspection and documents,  
578 such as a physical legal description, address, map reference, copy of a survey or  
579 map, property sketch, or photographs, to identify the relevant characteristics of  
580 the subject property. Identification of the real property interest appraised can be  
581 based on a review of copies or summaries of title descriptions or other  
582 documents that set forth any known encumbrances. The information used by an  
583 appraiser to identify the property characteristics must be from sources the  
584 appraiser reasonably believes are reliable.

585 An appraiser is not required to value the whole when the subject of the appraisal  
586 is a fractional interest, a physical segment, or a partial holding.

587 (f) identify the scope of work necessary to complete the assignment;<sup>10</sup>

588 Comment: The scope of work is acceptable when it is consistent with:

- 589 ▪ the expectations of participants in the market for the same or similar appraisal  
590 services; and
- 591 ▪ what the appraiser's peers' actions would be in performing the same or a similar  
592 assignment in compliance with USPAP.

593 An appraiser must have sound reasons in support of the scope of work decision and must  
594 be prepared to support the decision to exclude any information or procedure that would  
595 appear to be relevant to the client, an intended user, or the appraiser's peers in the same  
596 or a similar assignment.

597 An appraiser must not allow assignment conditions or other factors to limit the extent of  
598 research or analysis to such a degree that the resulting opinions and conclusions developed  
599 in an assignment are not credible in the context of the intended use of the appraisal.

600 (g) identify any extraordinary assumptions necessary in the assignment; and

601 Comment: An extraordinary assumption may be used in an assignment only if:

- 602 ▪ it is required to properly develop credible opinions and conclusions;
- 603 ▪ the appraiser has a reasonable basis for the extraordinary assumption;

<sup>10</sup> See Statement on Appraisal Standards No. 7 (SMT-7) and Advisory Opinions AO-15, AO-19, and AO-22. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.



▪	use of the extraordinary assumption results in a credible analysis; and	604
▪	the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.	605 606
<b>(h)</b>	<b>identify any hypothetical conditions necessary in the assignment.</b>	607
	<u>Comment:</u> A hypothetical condition may be used in an assignment only if:	608
▪	use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;	609 610
▪	use of the hypothetical condition results in a credible analysis; and	611
▪	the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.	612 613
	<b><u>Standards Rule 1-3</u> (This Standards Rule contains specific requirements from which departure is permitted. See the DEPARTURE RULE.)</b>	614 615
	<b>When the value opinion to be developed is market value, and given the scope of work identified in accordance with Standards Rule 1-2(f), an appraiser must:</b>	616 617
<b>(a)</b>	<b>identify and analyze the effect on use and value of existing land use regulations, reasonably probable modifications of such land use regulations, economic supply and demand, the physical adaptability of the real estate, and market area trends; and</b>	618 619 620
	<u>Comment:</u> An appraiser must avoid making an unsupported assumption or premise about market area trends, effective age, and remaining life.	621 622
<b>(b)</b>	<b>develop an opinion of the highest and best use of the real estate.</b>	623
	<u>Comment:</u> An appraiser must analyze the relevant legal, physical, and economic factors to the extent necessary to support the appraiser’s highest and best use conclusion(s).	624 625
	<b><u>Standards Rule 1-4</u> (This Standards Rule contains specific requirements from which departure is permitted. See the DEPARTURE RULE.)</b>	626 627
	<b>In developing a real property appraisal, an appraiser must collect, verify, and analyze all information applicable to the appraisal problem, given the scope of work identified in accordance with Standards Rule 1-2(f).</b>	628 629 630
<b>(a)</b>	<b>When a sales comparison approach is applicable, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion.</b>	631 632
<b>(b)</b>	<b>When a cost approach is applicable, an appraiser must:</b>	633
<b>(i)</b>	<b>develop an opinion of site value by an appropriate appraisal method or technique;</b>	634
<b>(ii)</b>	<b>analyze such comparable cost data as are available to estimate the cost new of the improvements (if any); and</b>	635 636
<b>(iii)</b>	<b>analyze such comparable data as are available to estimate the difference between the cost new and the present worth of the improvements (accrued depreciation).</b>	637 638
<b>(c)</b>	<b>When an income approach is applicable, an appraiser must:</b>	639

- 640 (i) analyze such comparable rental data as are available and/or the potential earnings  
641 capacity of the property to estimate the gross income potential of the property;
- 642 (ii) analyze such comparable operating expense data as are available to estimate the  
643 operating expenses of the property;
- 644 (iii) analyze such comparable data as are available to estimate rates of capitalization  
645 and/or rates of discount; and
- 646 (iv) base projections of future rent and/or income potential and expenses on reasonably  
647 clear and appropriate evidence.<sup>11</sup>

648 Comment: In developing income and expense statements and cash flow  
649 projections, an appraiser must weigh historical information and trends, current  
650 supply and demand factors affecting such trends, and anticipated events such as  
651 competition from developments under construction.

- 652 (d) When developing an opinion of the value of a leased fee estate or a leasehold estate, an  
653 appraiser must analyze the effect on value, if any, of the terms and conditions of the lease(s).
- 654 (e) An appraiser must analyze the effect on value, if any, of the assemblage of the various estates  
655 or component parts of a property and refrain from valuing the whole solely by adding  
656 together the individual values of the various estates or component parts.

657 Comment: Although the value of the whole may be equal to the sum of the separate  
658 estates or parts, it also may be greater than or less than the sum of such estates or parts.  
659 Therefore, the value of the whole must be tested by reference to appropriate data and  
660 supported by an appropriate analysis of such data.

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

- 664 (f) An appraiser must analyze the effect on value, if any, of anticipated public or private  
665 improvements, located on or off the site, to the extent that market actions reflect such  
666 anticipated improvements as of the effective appraisal date.
- 667 (g) An appraiser must analyze the effect on value of any personal property, trade fixtures, or  
668 intangible items that are not real property but are included in the appraisal.

669 Comment: Competency in personal property appraisal (see STANDARD 7) or business  
670 appraisal (see STANDARD 9) may be required when it is necessary to allocate the  
671 overall value to the property components. A separate appraisal, developed in compliance  
672 with the Standard pertinent to the type of property involved, is required when the value of  
673 a non-realty item or combination of such items is significant to the overall value.

- 674 (h) When appraising proposed improvements,<sup>12</sup> an appraiser must examine and have available  
675 for future examination:
- 676 (i) plans, specifications, or other documentation sufficient to identify the scope and  
677 character of the proposed improvements;

<sup>11</sup> See Statement on Appraisal Standards No. 2 (SMT-2).

<sup>12</sup> See Advisory Opinion AO-17. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

(ii)	<b>evidence indicating the probable time of completion of the proposed improvements; and</b>	678 679
(iii)	<b>reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion.</b>	680 681 682
	<u>Comment:</u> Development of a value opinion for a subject property with proposed improvements as of a current date involves the use of the hypothetical condition that the described improvements have been completed as of the date of value when, in fact, they have not.	683 684 685 686
	The evidence required to be examined and maintained may include such items as contractors' estimates relating to cost and the time required to complete construction, market and feasibility studies, operating cost data, and the history of recently completed similar developments. The appraisal may require a complete feasibility analysis.	687 688 689 690 691
	<b><u>Standards Rule 1-5</u> (This Standards Rule contains binding requirements from which departure is not permitted.)</b>	692 693
	<b>In developing a real property appraisal, when the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business:<sup>13</sup></b>	694 695
(a)	<b>analyze all agreements of sale, options, or listings of the subject property current as of the effective date of the appraisal; and</b>	696 697
(b)	<b>analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.<sup>14</sup></b>	698 699
	<u>Comment:</u> See the <u>Comments</u> to Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-2(c)(ix) for corresponding reporting requirements relating to the availability and relevance of information.	700 701 702
	<b><u>Standards Rule 1-6</u> (This Standards Rule contains binding requirements from which departure is not permitted.)</b>	703 704
	<b>In developing a real property appraisal, an appraiser must:</b>	705
(a)	<b>reconcile the quality and quantity of data available and analyzed within the approaches used; and</b>	706 707
(b)	<b>reconcile the applicability or suitability of the approaches used to arrive at the value conclusion(s).</b>	708 709
	<u>Comment:</u> See the <u>Comments</u> to Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-2(c)(ix) for corresponding reporting requirements.	710 711

<sup>13</sup> See Advisory Opinion AO-24. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>14</sup> See Advisory Opinion AO-1. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

712 **STANDARD 2: REAL PROPERTY APPRAISAL, REPORTING**

713 **In reporting the results of a real property appraisal, an appraiser must communicate each analysis,**  
 714 **opinion, and conclusion in a manner that is not misleading.**

715 Comment: STANDARD 2 addresses the content and level of information required in a  
 716 report that communicates the results of a real property appraisal.

717 STANDARD 2 does not dictate the form, format, or style of real property appraisal  
 718 reports. The form, format, and style of a report are functions of the needs of users and  
 719 appraisers. The substantive content of a report determines its compliance.

720 **Standards Rule 2-1 (This Standards Rule contains binding requirements from which departure is**  
 721 **not permitted.)**

722 **Each written or oral real property appraisal report must:**

- 723 **(a) clearly and accurately set forth the appraisal in a manner that will not be misleading;**
- 724 **(b) contain sufficient information to enable the intended users of the appraisal to understand the**  
 725 **report properly; and**
- 726 **(c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**  
 727 **conditions, and limiting conditions used in the assignment.**

728 Comment: Examples of extraordinary assumptions or hypothetical conditions might  
 729 include items such as the execution of a pending lease agreement, atypical financing, a  
 730 known but not yet quantified environmental issue, or completion of onsite or offsite  
 731 improvements.

732 **Standards Rule 2-2 (This Standards Rule contains binding requirements from which departure is**  
 733 **not permitted.)**

734 **Each written real property appraisal report must be prepared under one of the following three**  
 735 **options and prominently state which option is used: Self-Contained Appraisal Report, Summary**  
 736 **Appraisal Report, or Restricted Use Appraisal Report.<sup>15</sup>**

737 Comment: When the intended users include parties other than the client, either a Self-  
 738 Contained Appraisal Report or a Summary Appraisal Report must be provided. When the  
 739 intended users do not include parties other than the client, a Restricted Use Appraisal  
 740 Report may be provided.

741 The essential difference among these three options is in the content and level of  
 742 information provided.

743 An appraiser must use care when characterizing the type of report and level of  
 744 information communicated upon completion of an assignment. An appraiser may use any  
 745 other label in addition to, but not in place of, the label set forth in this Standard for the  
 746 type of report provided.

<sup>15</sup> See Statement on Appraisal Standards No. 7 (SMT-7) and Advisory Opinion AO-12. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

The report content and level of information requirements set forth in this Standard are minimums for each type of report. An appraiser must supplement a report form, when necessary, to ensure that any intended user of the appraisal is not misled and that the report complies with the applicable content requirements set forth in this Standards Rule.	747 748 749 750
A party receiving a copy of a Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report in order to satisfy disclosure requirements does not become an intended user of the appraisal unless the appraiser identifies such party as an intended user as part of the assignment.	751 752 753 754
<b>(a) The content of a Self-Contained Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:</b>	755 756
<b>(i) state the identity of the client and any intended users, by name or type;<sup>16</sup></b>	757
<u>Comment:</u> An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the <u>Confidentiality</u> section of the ETHICS RULE. In those rare instances when the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the client's identity in the report.	758 759 760 761 762
Intended users of the report might include parties such as lenders, employees of government agencies, partners of a client, and a client's attorney and accountant.	763 764
<b>(ii) state the intended use of the appraisal;<sup>17</sup></b>	765
<b>(iii) describe information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;<sup>18</sup></b>	766 767 768
<u>Comment:</u> The real estate involved in the appraisal can be specified, for example, by a legal description, address, map reference, copy of a survey or map, property sketch and/or photographs or the like. The information can include a property sketch and photographs in addition to written comments about the legal, physical, and economic attributes of the real estate relevant to the type and definition of value and intended use of the appraisal.	769 770 771 772 773 774
<b>(iv) state the real property interest appraised;</b>	775
<u>Comment:</u> The statement of the real property rights being appraised must be substantiated, as needed, by copies or summaries of title descriptions or other documents that set forth any known encumbrances.	776 777 778
<b>(v) state the type and definition of value and cite the source of the definition;</b>	779

<sup>16</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>17</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>18</sup> See Advisory Opinion AO-2 and AO-23. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

780 Comment: Stating the definition of value also requires any comments needed to  
781 clearly indicate to intended users how the definition is being applied.<sup>19</sup>

782 When reporting an opinion of market value, state whether the opinion of value  
783 is:

- 784 ▪ in terms of cash or of financing terms equivalent to cash, or
- 785 ▪ based on non-market financing or financing with unusual conditions or  
786 incentives.

787 When an opinion of market value is not in terms of cash or based on financing  
788 terms equivalent to cash, summarize the terms of such financing and explain  
789 their contributions to or negative influence on value.

790 **(vi) state the effective date of the appraisal and the date of the report;**<sup>20</sup>

791 Comment: The effective date of the appraisal establishes the context for the  
792 value opinion, while the date of the report indicates whether the perspective of  
793 the appraiser on the market or property use conditions as of the effective date of  
794 the appraisal was prospective, current, or retrospective.

795 Reiteration of the date of the report and the effective date of the appraisal at  
796 various stages of the report in tandem is important for the clear understanding of  
797 the reader whenever market or property use conditions on the date of the report  
798 are different from such conditions on the effective date of the appraisal.

799 **(vii) describe sufficient information to disclose to the client and any other intended users  
800 of the appraisal the scope of work used to develop the appraisal;**<sup>21</sup>

801 Comment: This requirement is to ensure that the client and intended users whose  
802 expected reliance on an appraisal may be affected by the extent of the  
803 appraiser's investigation are properly informed and are not misled as to the  
804 scope of work. The appraiser has the burden of proof to support the scope of  
805 work decision and the level of information included in a report.

806 When any portion of the work involves significant real property appraisal  
807 assistance, the appraiser must describe the extent of that assistance. The signing  
808 appraiser must also state the name(s) of those providing the significant real  
809 property appraisal assistance in the certification, in accordance with SR 2-3.

810 **(viii) clearly and conspicuously:**

- 811 • state all extraordinary assumptions and hypothetical conditions; and
- 812 • state that their use might have affected the assignment results;

813 **(ix) describe the information analyzed, the appraisal procedures followed, and the  
814 reasoning that supports the analyses, opinions, and conclusions;**

<sup>19</sup> See Statement on Appraisal Standards No. 6 (SMT-6). See also Advisory Opinions AO-7, AO-8, and AO-22. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>20</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

<sup>21</sup> See Statement on Appraisal Standards No. 7 (SMT-7) and Advisory Opinion AO-22. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

- Comment: The appraiser must be certain the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 1-6. 815  
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- When reporting an opinion of market value, a summary of the results of analyzing the subject sales, options, and listings in accordance with Standards Rule 1-5 is required. If such information is unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required. 819  
820  
821  
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823  
824
- (x) **state the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal; and, when reporting an opinion of market value, describe the support and rationale for the appraiser’s opinion of the highest and best use of the real estate;** 825  
826  
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828
- Comment: The report must contain the appraiser’s opinion as to the highest and best use of the real estate, unless an opinion as to highest and best use is unnecessary, such as in insurance valuation or “value in use” appraisals. When reporting an opinion of market value, the appraiser’s support and rationale for the opinion of highest and best use is required. The appraiser’s reasoning in support of the opinion must be provided in the depth and detail required by its significance to the appraisal. 829  
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- (xi) **state and explain any permitted departures from specific requirements of STANDARD 1 and the reason for excluding any of the usual valuation approaches; and** 836  
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- Comment: A Self-Contained Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 1, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal. 839  
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- When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term “Limited Appraisal” makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken. 844  
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- The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 is not affected by the type of report prepared under STANDARD 2. The extent of the appraisal process performed under STANDARD 1 is the basis for the reliability of the value conclusion. 850  
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- (xii) **include a signed certification in accordance with Standards Rule 2-3.** 854

855 **(b) The content of a Summary Appraisal Report must be consistent with the intended use of the**  
856 **appraisal and, at a minimum:**

857 Comment: The essential difference between the Self-Contained Appraisal  
858 Report and the Summary Appraisal Report is the level of detail of presentation.

859 **(i) state the identity of the client and any intended users, by name or type;<sup>22</sup>**

860 Comment: An appraiser must use care when identifying the client to ensure a  
861 clear understanding and to avoid violations of the Confidentiality section of the  
862 ETHICS RULE. In those rare instances when the client wishes to remain  
863 anonymous, an appraiser must still document the identity of the client in the  
864 workfile but may omit the client's identity in the report.

865 Intended users of the report might include parties such as lenders, employees of  
866 government agencies, partners of a client, and a client's attorney and accountant.

867 **(ii) state the intended use of the appraisal;<sup>23</sup>**

868 **(iii) summarize information sufficient to identify the real estate involved in the**  
869 **appraisal, including the physical and economic property characteristics relevant to**  
870 **the assignment;<sup>24</sup>**

871 Comment: The real estate involved in the appraisal can be specified, for  
872 example, by a legal description, address, map reference, copy of a survey or  
873 map, property sketch, and/or photographs or the like. The summarized  
874 information can include a property sketch and photographs in addition to written  
875 comments about the legal, physical, and economic attributes of the real estate  
876 relevant to the type and definition of value and intended use of the appraisal.

877 **(iv) state the real property interest appraised;**

878 Comment: The statement of the real property rights being appraised must be  
879 substantiated, as needed, by copies or summaries of title descriptions or other  
880 documents that set forth any known encumbrances.

881 **(v) state the type and definition of value and cite the source of the definition;**

882 Comment: Stating the definition of value also requires any comments needed to  
883 clearly indicate to the intended users how the definition is being applied.<sup>25</sup>

884 When reporting an opinion of market value, state whether the opinion of value  
885 is:

- 886 ▪ in terms of cash or of financing terms equivalent to cash, or
- 887 ▪ based on non-market financing or financing with unusual conditions or
- 888 incentives.

<sup>22</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>23</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>24</sup> See Advisory Opinions AO-2 and AO-23. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>25</sup> See Statement on Appraisal Standards No. 6 (SMT-6). See also Advisory Opinions AO-7 and AO-8. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.



	When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.	889 890 891
<b>(vi)</b>	<b>state the effective date of the appraisal and the date of the report;<sup>26</sup></b>	892
	<u>Comment:</u> The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.	893 894 895 896
	Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.	897 898 899 900
<b>(vii)</b>	<b>summarize sufficient information to disclose to the client and any intended uses of the appraisal the scope of work used to develop the appraisal;<sup>27</sup></b>	901 902
	<u>Comment:</u> This requirement is to ensure that the client and intended users whose expected reliance on an appraisal may be affected by the extent of the appraiser's investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.	903 904 905 906 907
	When any portion of the work involves significant real property appraisal assistance, the appraiser must summarize the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant real property appraisal assistance in the certification, in accordance with SR 2-3.	908 909 910 911
<b>(viii)</b>	<b>clearly and conspicuously:</b>	912
	• <b>state all extraordinary assumptions and hypothetical conditions; and</b>	913
	• <b>state that their use might have affected the assignment results;</b>	914
<b>(ix)</b>	<b>summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;</b>	915 916
	<u>Comment:</u> The appraiser must be certain that the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinions and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 1-6.	917 918 919 920

<sup>26</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

<sup>27</sup> See Statement on Appraisal Standards No. 7 (SMT-7). See also Advisory Opinion AO-22. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

921 When reporting an opinion of market value, a summary of the results of  
 922 analyzing the subject sales, options, and listings in accordance with Standards  
 923 Rule 1-5 is required. If such information is unobtainable, a statement on the  
 924 efforts undertaken by the appraiser to obtain the information is required. If such  
 925 information is irrelevant, a statement acknowledging the existence of the  
 926 information and citing its lack of relevance is required.

927 **(x) state the use of the real estate existing as of the date of value and the use of the real**  
 928 **estate reflected in the appraisal; and, when reporting an opinion of market value,**  
 929 **summarize the support and rationale for the appraiser’s opinion of the highest and**  
 930 **best use of the real estate;**

931 Comment: The report must contain the appraiser’s opinion as to the highest and  
 932 best use of the real estate, unless an opinion as to highest and best use is  
 933 unnecessary such as in insurance valuation or “value in use” appraisals. When  
 934 reporting an opinion of market value, a summary of the appraiser’s support and  
 935 rationale for the opinion of highest and best use is required. The appraiser’s  
 936 reasoning in support of the opinion must be provided in the depth and detail  
 937 required by its significance to the appraisal.

938 **(xi) state and explain any permitted departures from specific requirements of**  
 939 **STANDARD 1 and the reason for excluding any of the usual valuation approaches;**  
 940 **and**

941 Comment: A Summary Appraisal Report must include sufficient information to  
 942 indicate that the appraiser complied with the requirements of STANDARD 1,  
 943 including any permitted departures from the specific requirements. The amount  
 944 of detail required will vary with the significance of the information to the  
 945 appraisal.

946 When the DEPARTURE RULE is invoked, the assignment is deemed to be a  
 947 Limited Appraisal. Use of the term “Limited Appraisal” makes clear that the  
 948 assignment involved something less than or different from the work that could  
 949 have and would have been completed if departure had not been invoked. The  
 950 report of a Limited Appraisal must contain a prominent section that clearly  
 951 identifies the extent of the appraisal process performed and the departures taken.

952 The reliability of the results of a Complete Appraisal or a Limited Appraisal  
 953 developed under STANDARD 1 is not affected by the type of report prepared  
 954 under STANDARD 2. The extent of the appraisal process performed under  
 955 STANDARD 1 is the basis for the reliability of the value conclusion.

956 **(xii) include a signed certification in accordance with Standards Rule 2-3.**

957 **(c) The content of a Restricted Use Appraisal Report must be consistent with the intended use of**  
 958 **the appraisal and, at a minimum:**

959 **(i) state the identity of the client, by name or type;<sup>28</sup>**

<sup>28</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

	<u>Comment:</u> An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the <u>Confidentiality</u> section of the ETHICS RULE. In those rare instances when the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the client's identity in the report.	960 961 962 963 964
<b>(ii)</b>	<b>state the intended use of the appraisal;</b> <sup>29</sup>	965
	<u>Comment:</u> The intended use of the appraisal must be consistent with the limitation on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e., client use only).	966 967 968
<b>(iii)</b>	<b>state information sufficient to identify the real estate involved in the appraisal;</b> <sup>30</sup>	969
	<u>Comment:</u> The real estate involved in the appraisal can be specified, for example, by a legal description, address, map reference, copy of a survey or map, property sketch, and/or photographs or the like.	970 971 972
<b>(iv)</b>	<b>state the real property interest appraised;</b>	973
<b>(v)</b>	<b>state the type of value, and cite the source of its definition;</b> <sup>31</sup>	974
<b>(vi)</b>	<b>state the effective date of the appraisal and the date of the report;</b> <sup>32</sup>	975
	<u>Comment:</u> The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.	976 977 978 979
<b>(vii)</b>	<b>state the extent of the process of collecting, confirming, and reporting data or refer to an assignment agreement retained in the appraiser's workfile that describes the scope of work to be performed;</b> <sup>33</sup>	980 981 982
	<u>Comment:</u> When any portion of the work involves significant real property appraisal assistance, the appraiser must state the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant real property appraisal assistance in the certification, in accordance with SR 2-3.	983 984 985 986
<b>(viii)</b>	<b>clearly and conspicuously:</b>	987
	<ul style="list-style-type: none"> <li>• <b>state all extraordinary assumptions and hypothetical conditions; and</b></li> </ul>	988
	<ul style="list-style-type: none"> <li>• <b>state that their use might have affected the assignment results;</b></li> </ul>	989

<sup>29</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>30</sup> See Advisory Opinion AO-2. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>31</sup> See Statement on Appraisal Standards No. 6 (SMT-6). See also Advisory Opinions AO-7 and AO-8. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

<sup>32</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

<sup>33</sup> See Statement on Appraisal Standards No. 7 (SMT-7). See also Advisory Opinion AO-22. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

990 **(ix) state the appraisal procedures followed, state the value opinion(s) and conclusion(s)**  
 991 **reached, and reference the workfile;**

992 Comment: An appraiser must maintain a specific, coherent workfile in support  
 993 of a Restricted Use Appraisal Report. The contents of the workfile must be  
 994 sufficient for the appraiser to produce a Summary Appraisal Report. The file  
 995 must be available for inspection by the client (or the client’s representatives,  
 996 such as those engaged to complete an appraisal review), state enforcement  
 997 agencies, such third parties as may be authorized by due process of law, and a  
 998 duly authorized professional peer review committee except when such  
 999 disclosure to a committee would violate applicable law or regulation.

1000 When reporting an opinion of market value, information analyzed in compliance  
 1001 with Standards Rule 1-5 is significant information that must be disclosed in a  
 1002 Restricted Use Appraisal Report. If such information is unobtainable, a  
 1003 statement on the efforts undertaken by the appraiser to obtain the information is  
 1004 required. If such information is irrelevant, a statement acknowledging the  
 1005 existence of the information and citing its lack of relevance is required.

1006 **(x) state the use of the real estate existing as of the date of value and the use of the real**  
 1007 **estate reflected in the appraisal; and, when reporting an opinion of market value,**  
 1008 **state the appraiser’s opinion of the highest and best use of the real estate;**

1009 Comment: The report must contain a statement of the property uses both as is  
 1010 and as reflected in the appraisal and include the appraiser’s opinion as to the  
 1011 highest and best use of the real estate, unless an opinion as to highest and best  
 1012 use is unnecessary such as in insurance valuation or “value in use” appraisals. If  
 1013 an opinion of highest and best use is required, the appraiser’s reasoning in  
 1014 support of the opinion must be stated in the depth and detail required by its  
 1015 significance to the appraisal or documented in the workfile and referenced in the  
 1016 report.

1017 **(xi) state and explain any permitted departures from applicable specific requirements of**  
 1018 **STANDARD 1; state the exclusion of any of the usual valuation approaches; and**  
 1019 **state a prominent use restriction that limits use of the report to the client and warns**  
 1020 **that the appraiser’s opinions and conclusions set forth in the report cannot be**  
 1021 **understood properly without additional information in the appraiser’s workfile;**  
 1022 **and**

1023 Comment: When the DEPARTURE RULE is invoked, the assignment is  
 1024 deemed to be a Limited Appraisal. Use of the term “Limited Appraisal” makes it  
 1025 clear that the assignment involved something less than or different from the  
 1026 work that could have and would have been completed if departure had not been  
 1027 invoked. The report of a Limited Appraisal must contain a prominent section  
 1028 that clearly identifies the extent of the appraisal process performed and the  
 1029 departures taken.

1030 The Restricted Use Appraisal Report is for client use only. Before entering into  
 1031 an agreement, the appraiser should establish with the client the situations where  
 1032 this type of report is to be used and should ensure that the client understands the  
 1033 restricted utility of the Restricted Use Appraisal Report.

1034 **(xii) include a signed certification in accordance with Standards Rule 2-3.**

**Standards Rule 2-3** (This Standards Rule contains binding requirements from which departure is not permitted.) 1035  
1036

Each written real property appraisal report must contain a signed certification that is similar in content to the following form: 1037  
1038

I certify that, to the best of my knowledge and belief: 1039

- the statements of fact contained in this report are true and correct. 1040
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions. 1041  
1042  
1043
- I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved. 1044  
1045  
1046
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment. 1047  
1048
- my engagement in this assignment was not contingent upon developing or reporting predetermined results. 1049  
1050
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. 1051  
1052  
1053  
1054  
1055
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*. 1056  
1057  
1058
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)<sup>34</sup> 1059  
1060  
1061  
1062
- no one provided significant real property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant real property appraisal assistance must be stated.) 1063  
1064  
1065

Comment: A signed certification is an integral part of the appraisal report. An appraiser who signs any part of the appraisal report, including a letter of transmittal, must also sign this certification. 1066  
1067  
1068

In an assignment that includes only assignment results developed by the real property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes personal property, business or intangible asset assignment results not developed by the real property appraiser(s), any real property appraiser(s) who signs a certification accepts full responsibility for the real property elements of the certification, for the real property assignment results, and for the real property contents of the appraisal report. 1069  
1070  
1071  
1072  
1073  
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1076

When a signing appraiser(s) has relied on work done by others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. 1077  
1078

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<sup>34</sup> See Advisory Opinion AO-2. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

1079 The signing appraiser(s) is required to have a reasonable basis for believing that those  
1080 individuals performing the work are competent and that their work is credible.<sup>35</sup>

1081 The names of individuals providing significant real property appraisal assistance who do  
1082 not sign a certification must be stated in the certification. It is not required that the  
1083 description of their assistance be contained in the certification, but disclosure of their  
1084 assistance is required in accordance with SR 2-2(a), (b), or (c)(vii), as applicable.

1085 **Standards Rule 2-4 (This Standards Rule contains specific requirements from which departure is**  
1086 **permitted. See DEPARTURE RULE.)**

1087 **An oral real property appraisal report must, at a minimum, address the substantive matters set forth**  
1088 **in Standards Rule 2-2(b).**

1089 Comment: Testimony of an appraiser concerning his or her analyses, opinions, and conclusions  
1090 is an oral report in which the appraiser must comply with the requirements of this Standards  
1091 Rule.

1092 See the Record Keeping section of the ETHICS RULE for corresponding requirements.

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<sup>35</sup> See Advisory Opinion AO-5. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

**STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT AND REPORTING** 1093

**In performing an appraisal review assignment, an appraiser acting as a reviewer must develop and report a credible opinion as to the quality of another appraiser’s work and must clearly disclose the scope of work performed.** 1094  
1095  
1096

Comment: Appraisal review is the act or process of developing and communicating an opinion about the quality of all or part of the work of another appraiser that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment. The reviewer’s opinion about quality must encompass the completeness, adequacy, relevance, appropriateness, and reasonableness of the work under review, developed in the context of the requirements applicable to that work. 1097  
1098  
1099  
1100  
1101  
1102

The COMPETENCY RULE applies to the reviewer, who must correctly employ those recognized methods and techniques necessary to develop credible appraisal review opinions and also avoid material errors of commission or omission. A misleading or fraudulent appraisal review report violates the ETHICS RULE. 1103  
1104  
1105  
1106

Appraisal review requires the reviewer to prepare a separate report setting forth the scope of work and the results of the appraisal review. 1107  
1108

Appraisal review is distinctly different from the cosigning activity addressed in Standards Rules 2-3, 5-3, 6-8, 8-3, and 10-3. To avoid confusion between these activities, a reviewer performing an appraisal review must not sign the work under review unless he or she intends to accept the responsibility of a cosigner of that work. 1109  
1110  
1111  
1112

**Standards Rule 3-1 (This Standards Rule contains binding requirements from which departure is not permitted.)** 1113  
1114

**In developing an appraisal review, the reviewer must:** 1115

**(a) identify the reviewer’s client and intended users, the intended use of the reviewer’s opinions and conclusions, and the purpose of the assignment;**<sup>36</sup> 1116  
1117

Comment: The intended use is in the context of the client’s use of the reviewer’s opinions and conclusions; examples include, without limitation, quality control, audit, qualification, or confirmation. The purpose of the assignment relates to the reviewer’s objective; examples include, without limitation, to evaluate compliance with relevant USPAP requirements, with a client’s requirements, or with applicable regulations. 1118  
1119  
1120  
1121  
1122

A reviewer must ascertain whether the purpose of the assignment includes the development of his or her own opinion of value about the subject property of the work under review. 1123  
1124  
1125

If the purpose of the assignment includes the reviewer developing his or her own opinion of value about the subject property of the work under review, that opinion is an appraisal whether it: 1126  
1127  
1128

- concurs with the opinion of value in the work under review, as of the date of value in that work or a different date of value; or 1129  
1130
- differs from the opinion of value in the work under review, as of the date of value in that work or a different date of value. 1131  
1132

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<sup>36</sup> See Statement on Appraisal Standards No. 9 (SMT-9). See also Advisory Opinion AO-20. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

- 1133 **(b) identify the:**
- 1134 **(i) subject of the appraisal review assignment,**  
 1135 **(ii) effective date of the review,**  
 1136 **(iii) property and ownership interest appraised (if any) in the work under review,**  
 1137 **(iv) date of the work under review and the effective date of the opinion or conclusion in**  
 1138 **the work under review, and**  
 1139 **(v) appraiser(s) who completed the work under review, unless the identity was**  
 1140 **withheld.**

1141 Comment: The subject of an appraisal review assignment may be all or part of a  
 1142 report, a workfile, or a combination of these, and may be related to an appraisal,  
 1143 appraisal review, or appraisal consulting assignment.

- 1144 **(c) identify the scope of work to be performed;**

1145 Comment: A reviewer must take appropriate steps to identify the precise extent of the  
 1146 review process to be completed in an assignment. The reviewer must have sound reasons  
 1147 in support of the scope of work decision, and the resulting opinions and conclusions  
 1148 developed in the assignment must be credible and consistent with the intended use of the  
 1149 review.

1150 In making the scope of work decision, the reviewer must identify any extraordinary  
 1151 assumptions necessary in the assignment. An extraordinary assumption may be used in an  
 1152 appraisal review assignment only if:

- 1153 ▪ it is required to properly develop credible opinions and conclusions;
- 1154 ▪ the reviewer has a reasonable basis for the extraordinary assumption;
- 1155 ▪ use of the extraordinary assumption results in a credible analysis; and
- 1156 ▪ the reviewer complies with the disclosure requirements set forth in SR 3-2(d) for  
 1157 extraordinary assumptions.

1158 The appraisal review must be conducted in the context of market conditions as of the effective  
 1159 date of the opinion in the work being reviewed. Information available to the reviewer that could  
 1160 not have been available to the appraiser as of or subsequent to the date of the work being  
 1161 reviewed must not be used by a reviewer in the development of an opinion as to the quality of  
 1162 the work under review.

1163 When the scope of work of the assignment includes a requirement for the reviewer to  
 1164 develop his or her own opinion of value, the following apply:

- 1165 ▪ The reviewer's scope of work in developing his or her own opinion of value may be  
 1166 different from that of the work under review.
- 1167 ▪ The effective date of the reviewer's opinion of value may be the same or different  
 1168 from the date of the work under review.
- 1169 ▪ The reviewer is not required to replicate the steps completed by the original  
 1170 appraiser. Those items in the work under review that the reviewer concludes are  
 1171 credible and in compliance with the applicable development Standard (STANDARD  
 1172 1, 3, 4, 6, 7, or 9) can be extended to the reviewer's value opinion development  
 1173 process on the basis of an extraordinary assumption by the reviewer. Those items not  
 1174 deemed to be credible or in compliance must be replaced with information or  
 1175 analysis by the reviewer, developed in conformance with STANDARD 1, 3, 4, 6, 7,  
 1176 or 9, as applicable, to produce a credible value opinion.



▪	The reviewer may use additional information available to him or her that was not available to the original appraiser in the development of his or her value opinion; however, the reviewer must not use such information as the basis to discredit the original appraiser's opinion of value.	1177 1178 1179 1180
<b>(d)</b>	<b>develop an opinion as to the completeness of the material under review, given the scope of work applicable in the assignment;</b>	1181 1182
	<u>Comment:</u> The reviewer is required to develop an opinion as to the completeness of the work under review within the context of the requirements applicable to that work.	1183 1184
<b>(e)</b>	<b>develop an opinion as to the apparent adequacy and relevance of the data and the propriety of any adjustments to the data, given the scope of work applicable in the assignment;</b>	1185 1186
	<u>Comment:</u> When reviewing a mass appraisal report and considering the propriety of any adjustment to value for isolated differences in data, the reviewer must develop an opinion as to the use of the coefficients from decomposition of a statistical model.	1187 1188 1189
<b>(f)</b>	<b>develop an opinion as to the appropriateness of the appraisal methods and techniques used, given the scope of work applicable in the assignment, and develop the reasons for any disagreement; and</b>	1190 1191 1192
<b>(g)</b>	<b>develop an opinion as to whether the analyses, opinions, and conclusions are appropriate and reasonable, given the scope of work applicable in the assignment, and develop the reasons for any disagreement.</b>	1193 1194 1195
	<u>Comment:</u> When reviewing a mass appraisal report, the reviewer must develop an opinion as to the standards of accuracy and adequacy of the mass appraisal testing performed and develop the reasons for any disagreement.	1196 1197 1198
	<b><u>Standards Rule 3-2</u> (This Standards Rule contains binding requirements from which departure is not permitted.)</b>	1199 1200
	<b>In reporting the results of an appraisal review, the reviewer must:<sup>37</sup></b>	1201
<b>(a)</b>	<b>state the identity of the client, by name or type, and intended users; the intended use of the assignment results; and the purpose of the assignment;</b>	1202 1203
<b>(b)</b>	<b>state the information that must be identified in accordance with Standards Rule 3-1(b);</b>	1204
	<u>Comment:</u> If the identity of the appraiser(s) in the work under review was withheld, state that fact in the review report.	1205 1206
<b>(c)</b>	<b>state the nature, extent, and detail of the review process undertaken (i.e., the scope of work) identified in accordance with Standards Rule 3-1(c);</b>	1207 1208
	<u>Comment:</u> When any portion of the work involves significant appraisal, appraisal review, or appraisal consulting assistance, the reviewer must state the extent of that assistance. The signing reviewer must also state the name(s) of those providing the significant assistance in the certification, in accordance with SR 3-3.	1209 1210 1211 1212

<sup>37</sup> See Statement on Appraisal Standards No. 9 (SMT-9). See also Advisory Opinion AO-20. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

1213 **(d) state the opinions, reasons, and conclusions required in Standards Rule 3-1(d–g), given the**  
 1214 **scope of work identified in compliance with Standards Rule 3-1(c);**

1215 Comment: When the scope of an appraisal review assignment includes the reviewer  
 1216 expressing his or her own opinion of value, the reviewer must:

- 1217 1. state which information, analyses, opinions, and conclusions in the material under  
 1218 review that the reviewer accepted as credible and used in developing the reviewer’s  
 1219 opinion of value;
- 1220 2. summarize any additional information relied on and the reasoning and basis for the  
 1221 reviewer’s opinion of value;
- 1222 3. state all assumptions and limiting conditions; and
- 1223 4. clearly and conspicuously:
- 1224 • state all extraordinary assumptions and hypothetical conditions connected with  
 1225 the reviewer’s opinion of value; and
  - 1226 • state that their use might have affected the assignment results.

1227 The reviewer may include his or her own value opinion within the appraisal review report  
 1228 itself without preparing a separate appraisal report. However, data and analyses provided  
 1229 by the reviewer to support a different value conclusion must match, at a minimum, the  
 1230 reporting requirements for a Summary Appraisal Report for a real property appraisal (SR  
 1231 2-2(b)) and a personal property appraisal (SR 8-2(b)), an appraisal consulting report for  
 1232 real property appraisal consulting (SR 5-2), a mass appraisal report for mass appraisal  
 1233 (SR 6-7), and an Appraisal Report for business appraisal (SR 10-2(a)).

1234 **(e) include all known pertinent information; and**

1235 Comment: The reviewer must be certain that the information provided is sufficient for the  
 1236 client and intended users to adequately understand the rationale for the reviewer’s opinion and  
 1237 conclusions.

1238 **(f) include a signed certification in accordance with Standards Rule 3-3.**

1239 **Standards Rule 3-3 (This Standards Rule contains binding requirements from which departure is not**  
 1240 **permitted.)**

1241 **Each written appraisal review report must contain a signed certification that is similar in content to**  
 1242 **the following form:**

1243 **I certify that, to the best of my knowledge and belief:**

- 1244 — **the facts and data reported by the reviewer and used in the review process are**  
 1245 **true and correct.**
- 1246 — **the analyses, opinions, and conclusions in this review report are limited only by**  
 1247 **the assumptions and limiting conditions stated in this review report and are my**  
 1248 **personal, impartial, and unbiased professional analyses, opinions, and**  
 1249 **conclusions.**
- 1250 — **I have no (or the specified) present or prospective interest in the property that is**  
 1251 **the subject of the work under review and no (or the specified) personal interest**  
 1252 **with respect to the parties involved.**

—	<b>I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment.</b>	1253
—	<b>my engagement in this assignment was not contingent upon developing or reporting predetermined results.</b>	1254
—	<b>my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.</b>	1255
—	<b>my analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.</b>	1256
—	<b>I have (or have not) made a personal inspection of the subject property of the work under review. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the subject property of the work under review.)</b>	1257
—	<b>no one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification. (If there are exceptions, the name of each individual(s) providing appraisal, appraisal review, or appraisal consulting assistance must be stated.)</b>	1258
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	<u>Comment:</u> A signed certification is an integral part of the appraisal review report. A reviewer who signs any part of the appraisal review report, including a letter of transmittal, must also sign this certification.	1270
		1271
		1272
	Any reviewer(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal review report.	1273
		1274
		1275
	When a signing reviewer(s) has relied on work done by others who do not sign the certification, the signing reviewer is responsible for the decision to rely on their work. The signing reviewer(s) is required to have a reasonable basis for believing that those individuals performing the work are competent and that their work is credible.	1276
		1277
		1278
		1279
	The names of individuals providing significant appraisal, appraisal review, or appraisal consulting assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with SR 3-2(c).	1280
		1281
		1282
		1283
	For reviews of business or intangible asset appraisal reports, the inspection portion of the above certification is not applicable.	1284
		1285
	<b><u>Standards Rule 3-4</u> (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)</b>	1286
		1287
	<b>An oral appraisal review report must address the substantive matters set forth in Standards Rule 3-2.</b>	1288
		1289
	<u>Comment:</u> Testimony of a reviewer concerning his or her appraisal review opinions and conclusions is an oral report in which the reviewer must comply with the requirements of this Standards Rule.	1290
		1291
		1292
	See the <u>Record Keeping</u> section of the ETHICS RULE for corresponding requirements.	1293

1294 **STANDARD 4: REAL PROPERTY APPRAISAL CONSULTING, DEVELOPMENT**

1295 **In developing a real property appraisal consulting assignment, an appraiser must identify the**  
 1296 **problem to be solved and the scope of work necessary to solve the problem, and correctly complete**  
 1297 **the research and analysis necessary to produce credible results.**

1298 Comment: Real property appraisal consulting assignments encompass a wide variety of  
 1299 problems to be solved. However, the purpose of an assignment under this Standard is  
 1300 always to develop, without advocacy, an analysis, recommendation, or opinion where at  
 1301 least one opinion of value is a component of the analysis leading to the assignment  
 1302 results.

1303 In some assignments, the opinion of value may originate from a source other than the  
 1304 consulting appraiser. In other assignments, the consulting appraiser may have to develop  
 1305 the opinion of value as a step in the analyses leading to the assignment results.

1306 An opinion of value or an opinion as to the quality of another appraiser's work cannot be  
 1307 the purpose of an appraisal consulting assignment. Developing an assignment for those  
 1308 purposes is an appraisal or an appraisal review assignment, respectively. Misrepresenting  
 1309 the purpose of an assignment performed under this Standard is a violation of the ETHICS  
 1310 RULE.

1311 The ETHICS and COMPETENCY RULES apply to the appraiser performing an  
 1312 appraisal consulting assignment. Appraisers practicing under this Standard must perform  
 1313 the assignment with impartiality, objectivity, independence, and without accommodation  
 1314 of personal interests.

1315 Except when required by law, regulation, agreement, or choice, this appraisal consulting  
 1316 STANDARD does not apply to services provided by an appraiser acting under the  
 1317 standards of other professions or business activities. For example, when an appraiser who  
 1318 is also an investment consultant provides a service that does not require an opinion of  
 1319 value, that appraiser, acting as an investment consultant, is not performing an assignment  
 1320 addressed by this Standard.

1321 **Standards Rule 4-1 (This Standards Rule contains binding requirements from which departure is not**  
 1322 **permitted.)**

1323 **In performing a real property appraisal consulting assignment, an appraiser must:**

- 1324 (a) **be aware of, understand, and correctly employ those recognized methods and techniques**  
 1325 **that are necessary to produce credible results;**
- 1326 (b) **not commit a substantial error of omission or commission that significantly affects the**  
 1327 **results of an appraisal consulting assignment; and**
- 1328 (c) **not render appraisal consulting services in a careless or negligent manner, such as by**  
 1329 **making a series of errors that, although individually might not significantly affect the**  
 1330 **results, in the aggregate affect the credibility of those results.**

1331 Comment: Standards Rule 4-1 is identical in scope and purpose to Standards Rule 1-1.

<b><u>Standards Rule 4-2</u></b> (This Standards Rule contains binding requirements from which departure is not permitted.)	1332 1333
<b>In developing real property appraisal consulting assignment results, an appraiser must:</b>	1334
(a) <b>identify the client and other intended users;</b> <sup>38</sup>	1335
(b) <b>identify the intended use of the appraisal consulting assignment results;</b>	1336
(c) <b>identify:</b>	1337
(i) <b>the problem to be solved; and</b>	1338
<u>Comment:</u> Identification includes, as applicable, the client’s criteria for property or investment performance; internal and external property and investment conditions to be addressed in the analyses; and the physical, legal, political, or economic factors pertinent to the assignment.	1339 1340 1341 1342
(ii) <b>the type and definition of value developed in the appraisal(s) that is a necessary component of an analysis supporting the appraisal consulting assignment results;</b>	1343 1344
<u>Comment:</u> If the applicable type and definition of value is market value, ascertain whether that value is to be the most probable price:	1345 1346
▪ in terms of cash; or	1347
▪ in terms of financial arrangements equivalent to cash; or	1348
▪ in other precisely defined terms; and	1349
▪ if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser’s opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data.	1350 1351 1352 1353 1354
(d) <b>identify the effective date of the appraisal consulting assignment results;</b> <sup>39</sup>	1355
(e) <b>identify the physical, legal, and economic characteristics of the property, properties, property type(s), or market area that are relevant to:</b>	1356 1357
(i) <b>the problem to be solved in the appraisal consulting assignment; and</b>	1358
(ii) <b>an opinion of value that is a necessary component of an analysis supporting the appraisal consulting assignment results;</b>	1359 1360
(f) <b>identify the scope of work necessary to complete the assignment, including:</b>	1361
(i) <b>the appraisal consulting methodologies to be applied, the extent of the data collection and analyses, and</b>	1362 1363
(ii) <b>the scope of work required to:</b>	1364

<sup>38</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>39</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

- 1365                   ▪   **ascertain the relevance, credibility, and reliability of an opinion of**  
 1366                   **value obtained from a source other than the appraiser performing the**  
 1367                   **appraisal consulting assignment, or**  
 1368                   ▪   **develop an opinion of value that is a necessary component of an analysis**  
 1369                   **supporting the appraisal consulting assignment results;**

1370                   Comment: The scope of work in a real property appraisal consulting assignment is  
 1371                   acceptable when it is consistent with:

- 1372                   ▪   the expectations of participants in the market for the same or similar appraisal  
 1373                   consulting services; and  
 1374                   ▪   what the appraiser’s peers’ actions would be in performing the same or a  
 1375                   similar assignment in compliance with USPAP.

1376                   An appraiser must have sound reasons in support of his or her scope of work decision,  
 1377                   and he or she must be prepared to support the decision to exclude any information or  
 1378                   procedure that would appear to be relevant to the client, an intended user, or the  
 1379                   appraiser’s peers.

1380                   An appraiser must not allow assignment conditions or other factors to limit the extent of  
 1381                   research or analysis to such a degree that the resulting opinions and conclusions developed  
 1382                   in an assignment are not credible in the context of the intended use of the appraisal  
 1383                   consulting assignment results.

1384                   An appraiser must ensure that any opinion of value used in an appraisal consulting  
 1385                   assignment was developed in compliance with STANDARD 1.

1386                   If an opinion of value used in a real property appraisal consulting assignment is from a  
 1387                   source other than the consulting appraiser, the assignment may include a review, prepared  
 1388                   in compliance with STANDARD 3, of that appraisal. Alternatively, the appraiser may  
 1389                   accept an appraisal from another source as an extraordinary assumption in the appraisal  
 1390                   consulting assignment, provided that all conditions necessary to use such an  
 1391                   extraordinary assumption are fulfilled.

1392                   If the opinion of value is from an appraisal developed by the appraiser performing the  
 1393                   real property appraisal consulting assignment, the appraiser must complete the steps set  
 1394                   forth in STANDARD 1 for the type of appraisal (Complete or Limited) pertinent to the  
 1395                   intended use of the opinion of value to be developed. The appraiser’s appraisal-related  
 1396                   scope of work must, at a minimum, include those steps necessary to comply with  
 1397                   Standards Rules 1-2(c), (d), and (e) and, given the intended use of the appraisal in an  
 1398                   analysis supporting the appraisal consulting assignment results, the research, verification,  
 1399                   analysis, and reconciliation steps necessary to comply with Standards Rules 1-3, 1-4, 1-5,  
 1400                   and 1-6 as applicable.

1401                   The DEPARTURE RULE may be invoked with regard to completing each of the steps  
 1402                   required to comply with a part of Standards Rules 1-3 and 1-4 but not with regard to any  
 1403                   part of Standards Rules 1-1, 1-2, 1-5, and 1-6, as applicable.

- 1404                   **(g) identify any extraordinary assumptions necessary in the appraisal consulting assignment**  
 1405                   **and in developing the opinion(s) of value necessary to support the appraisal consulting**  
 1406                   **assignment results; and**

1407                   Comment: An extraordinary assumption may be used in an assignment only if:

- 1408                   ▪   it is required to properly develop credible opinions and conclusions;  
 1409                   ▪   the appraiser has a reasonable basis for the extraordinary assumption;

▪	use of the extraordinary assumption results in a credible analysis; and	1410
▪	the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.	1411 1412
<b>(h)</b>	<b>identify any hypothetical conditions necessary in the appraisal consulting assignment and in developing the opinion(s) of value necessary to support the appraisal consulting assignment results.</b>	1413 1414 1415
	<u>Comment:</u> A hypothetical condition may be used in an assignment only if:	1416
▪	use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;	1417 1418
▪	use of the hypothetical condition results in a credible analysis; and	1419
▪	the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.	1420 1421

1422 **STANDARD 5: REAL PROPERTY APPRAISAL CONSULTING, REPORTING**

1423 **In reporting the results of a real property appraisal consulting assignment, an appraiser must**  
 1424 **communicate each analysis, opinion, and conclusion in a manner that is not misleading.**

1425 Comment: STANDARD 5 addresses the content and level of information required in a  
 1426 report that communicates the results of a real property appraisal consulting assignment.

1427 An appraiser must explain logically and convincingly the reasoning that leads to his or  
 1428 her conclusions. The flow of information must be orderly and progressive. The level of  
 1429 information detail in the report must be sufficient to ensure the client and intended users  
 1430 of the report understand the appraisal consulting assignment results and are not misled.

1431 STANDARD 5 does not dictate the form, format, or style of real property appraisal  
 1432 consulting reports. The form, format, and style of a report are functions of the needs of  
 1433 users and appraisers. The substantive content of a report determines its compliance.

1434 **Standards Rule 5-1 (This Standards Rule contains binding requirements from which departure is not**  
 1435 **permitted.)**

1436 **Each written or oral real property appraisal consulting report must:**

- 1437 (a) **clearly and accurately set forth the appraisal consulting assignment results in a manner that**  
 1438 **will not be misleading;**
- 1439 (b) **contain sufficient information to enable the intended users of the appraisal consulting**  
 1440 **assignment results to understand the report properly; and**
- 1441 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**  
 1442 **conditions, and limiting conditions used in the assignment.**

1443 Comment: The content of a real property appraisal consulting report must be sufficiently  
 1444 comprehensive so that an intended user can understand the problem addressed and the  
 1445 analyses, and follow the reasoning through each step of the analytical process. It is  
 1446 essential that throughout the report the data, analyses, assumptions and conclusions are  
 1447 logical and adequately supported.

1448 **Standards Rule 5-2 (This Standards Rule contains binding requirements from which departure is not**  
 1449 **permitted.)**

1450 **The content of each written real property appraisal consulting report must be consistent with the**  
 1451 **intended use of the appraisal consulting assignment results and, at a minimum:<sup>40</sup>**

- 1452 (a) **state the identity of the client and any intended users, by name or type;**

1453 Comment: An appraiser must use care when identifying the client to ensure a clear  
 1454 understanding and to avoid violations of the Confidentiality section of the ETHICS  
 1455 RULE. In those rare instances where the client wishes to remain anonymous, an appraiser  
 1456 must still document the identity of the client in the workfile, but may omit the client's  
 1457 identity in the report.

1458 Intended users of the report might include parties such as lenders, employees of  
 1459 government agencies, partners of a client, and a client's attorney and accountant.

<sup>40</sup> See Statement on Appraisal Standards No. 9 (SMT-9).



<b>(b)</b>	<b>state the problem to be solved;</b>	1460
<b>(c)</b>	<b>state the intended use of the appraisal consulting assignment;</b>	1461
<b>(d)</b>	<b>state information sufficient to identify the real property pertinent to the appraisal consulting assignment, and state the physical, legal, and economic characteristics of the property, properties, property types, or market area pertinent to the assignment;</b>	1462 1463 1464
<b>(e)</b>	<b>state the effective date of the appraisal consulting assignment results, the date of appraisal pertinent to each opinion of value used in an analysis in support of the appraisal consulting results, and the date of the appraisal consulting report;<sup>41</sup></b>	1465 1466 1467
<b>(f)</b>	<b>state the scope of work and the extent of the data collection process;</b>	1468
	<u>Comment:</u> This requirement is to ensure that the client and intended users whose expected reliance on the appraisal consulting results may be affected by the extent of the appraiser's investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.	1469 1470 1471 1472 1473
	When any portion of the work involves significant real property appraisal or appraisal consulting assistance, the appraisal consultant must describe the extent of that assistance. The signing consulting appraiser must also state the name(s) of those providing significant real property appraisal or appraisal consulting assistance in the certification, in accordance with SR 5-3.	1474 1475 1476 1477 1478
<b>(g)</b>	<b>clearly and conspicuously:</b>	1479
	• <b>state all extraordinary assumptions and hypothetical conditions; and</b>	1480
	• <b>state that their use might have affected the assignment results;</b>	1481
<b>(h)</b>	<b>summarize the information used in the appraisal consulting analyses, the appraisal consulting procedures applied, and summarize the reasoning that supports the analyses, opinions, and conclusions;</b>	1482 1483 1484
	<u>Comment:</u> If the value opinion used in the appraisal consulting assignment was not performed by the consulting appraiser, the appraisal consulting report must include:	1485 1486
	▪ the information required in Standards Rule 3-2, or	1487
	▪ a statement of the appraisal review results, and a reference to the appraisal review documentation retained in the appraisal consultant's appraisal consulting assignment workfile, or	1488 1489 1490
	▪ a statement supporting the use of that appraisal as an extraordinary assumption in the appraisal consulting assignment.	1491 1492
	If an opinion of value was developed by the consulting appraiser, the appraisal consulting report must include the information required to comply with Standards Rule 2-2(a) or (b)(ii) through (xi). Standards Rule 2-2(c)(ii) through (xi) is also permitted if the client is the only intended user of the assignment results.	1493 1494 1495 1496
<b>(i)</b>	<b>state the appraiser's appraisal consulting recommendations (if any), and conclusions or opinions; and</b>	1497 1498

<sup>41</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

1499 (j) include a signed certification in accordance with Standards Rule 5-3.

1500 **Standards Rule 5-3** (This Standards Rule contains binding requirements from which departure is not  
1501 permitted.)

1502 Each written real property appraisal consulting report must contain a signed certification that is  
1503 similar in content to the following form:

1504 I certify that, to the best of my knowledge and belief:

- 1505 — the statements of fact contained in this report are true and correct.
- 1506 — the reported analyses, opinions, and conclusions are limited only by the reported  
1507 assumptions and limiting conditions, and are my personal, impartial, and  
1508 unbiased professional analyses, opinions, conclusions, and recommendations.
- 1509 — I have no (or the specified) present or prospective interest in the property that is  
1510 the subject of this report, and I have no (or the specified) personal interest with  
1511 respect to the parties involved.
- 1512 — I have no bias with respect to any property that is the subject of this report or to  
1513 the parties involved with this assignment.
- 1514 — my engagement in this assignment was not contingent upon developing or  
1515 reporting predetermined results.
- 1516 — my compensation for completing this assignment is not contingent upon the  
1517 development or reporting of a predetermined value or direction in value that  
1518 favors the cause of the client, the amount of the value opinion, the attainment of a  
1519 stipulated result, or the occurrence of a subsequent event directly related to the  
1520 intended use of this appraisal consulting assignment.
- 1521 — my analyses, opinions, and conclusions were developed, and this report has been  
1522 prepared, in conformity with the *Uniform Standards of Professional Appraisal  
1523 Practice*.
- 1524 — I have (or have not) made a personal inspection of the property that is the subject  
1525 of this report. (If more than one person signs this certification, the certification  
1526 must clearly specify which individuals did and which individuals did not make a  
1527 personal inspection of the property).<sup>42</sup>
- 1528 — no one provided significant real property appraisal or appraisal consulting  
1529 assistance to the person signing this certification. (If there are exceptions, the name  
1530 of each individual providing significant real property appraisal or appraisal  
1531 consulting assistance must be stated.)

1532 **Comment:** A signed certification is an integral part of the appraisal consulting report. An  
1533 appraiser who signs any part of the appraisal consulting report, including a letter of  
1534 transmittal, must also sign the certification.

1535 In an assignment that includes only assignment results developed by the real property  
1536 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all  
1537 elements of the certification, for the assignment results, and for the contents of the  
1538 appraisal consulting report. In an assignment that includes personal property, business or  
1539 intangible asset assignment results not developed by the real property appraiser(s), any  
1540 real property appraiser(s) who signs a certification accepts full responsibility for the real  
1541 property elements of the certification, for the real property assignment results, and for the  
1542 real property contents of the appraisal consulting report.

1543 If the signing consulting appraiser(s) has relied on work from others, who do not sign the  
1544 certification, then the signing consulting appraiser(s) is responsible for the decision to

<sup>42</sup> See Advisory Opinion AO-2. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

rely on such work. The signing consulting appraiser is required to have a reasonable basis for believing that those individuals performing the work are competent and that their work is credible.	1545 1546 1547
The names of individuals providing significant real property appraisal or appraisal consulting assistance who do not sign the certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with SR 5-2(f).	1548 1549 1550 1551
<b><u>Standards Rule 5-4</u> (This Standards Rule contains specific requirements from which departure is permitted. See the DEPARTURE RULE.)</b>	1552 1553
<b>An oral real property appraisal consulting report must, at a minimum, address the substantive matters set forth in Standards Rule 5-2.</b>	1554 1555
<u>Comment:</u> Testimony of an appraiser concerning his or her appraisal consulting analyses, opinions, and conclusions is an oral report in which the appraiser must comply with the requirements of this Standards Rule.	1556 1557 1558
See the <u>Record Keeping</u> section of the ETHICS RULE for corresponding requirements.	1559

1560 **STANDARD 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING**

1561 **In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ**  
 1562 **those recognized methods and techniques necessary to produce and communicate credible mass**  
 1563 **appraisals.**

1564 Comment: STANDARD 6 applies to all mass appraisals regardless of the purpose or use  
 1565 of such appraisals. STANDARD 6 is directed toward the substantive aspects of  
 1566 developing and communicating competent analyses, opinions, and conclusions in the  
 1567 mass appraisal of properties, whether real property or personal property. Mass appraisals  
 1568 can be prepared with or without computer assistance. The reporting and jurisdictional  
 1569 exceptions applicable to public mass appraisals prepared for purposes of ad valorem  
 1570 taxation do not apply to mass appraisals prepared for other purposes.

1571 A mass appraisal includes:

- 1572 1) identifying properties to be appraised;
- 1573 2) defining market area of consistent behavior that applies to properties;
- 1574 3) identifying characteristics (supply and demand) that affect the creation of value  
1575 in that market area;
- 1576 4) developing a model structure that reflects the relationship among the  
1577 characteristics affecting value in the market area;
- 1578 5) calibrating the model structure to determine the contribution of the individual  
1579 characteristics affecting value;
- 1580 6) applying the conclusions reflected in the model to the characteristics of the  
1581 property(ies) being appraised; and
- 1582 7) reviewing the mass appraisal results.

1583 The JURISDICTIONAL EXCEPTION RULE may apply to several sections of  
 1584 STANDARD 6 because ad valorem tax administration is subject to various state, county,  
 1585 and municipal laws.

1586 **Standards Rule 6-1 (This Standards Rule contains binding requirements from which departure is not**  
 1587 **permitted.)**

1588 **In developing a mass appraisal, an appraiser must:**

- 1589 **(a) be aware of, understand, and correctly employ those recognized methods and techniques**  
 1590 **necessary to produce a credible mass appraisal;**

1591 Comment: Mass appraisal provides for a systematic approach and uniform application of  
 1592 appraisal methods and techniques to obtain estimates of value that allow for statistical  
 1593 review and analysis of results.

1594 This requirement recognizes that the principle of change continues to affect the manner in  
 1595 which appraisers perform mass appraisals. Changes and developments in the real  
 1596 property and personal property fields have a substantial impact on the appraisal  
 1597 profession.

1598 To keep abreast of these changes and developments, the appraisal profession is constantly  
 1599 reviewing and revising appraisal methods and techniques and devising new methods and  
 1600 techniques to meet new circumstances. For this reason it is not sufficient for appraisers to  
 1601 simply maintain the skills and the knowledge they possess when they become appraisers.  
 1602 Each appraiser must continuously improve his or her skills to remain proficient in mass  
 1603 appraisal.

- (b) **not commit a substantial error of omission or commission that significantly affects a mass appraisal; and** 1604  
1605

Comment: In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 6-2(c), to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, where necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions. 1606  
1607  
1608  
1609  
1610  
1611  
1612

- (c) **not render a mass appraisal in a careless or negligent manner.** 1613

Comment: Perfection is impossible to attain, and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This Rule requires an appraiser to use due diligence and due care. 1614  
1615  
1616

**Standards Rule 6-2 (This Standards Rule contains specific requirements from which departure is permitted. See the DEPARTURE RULE.)** 1617  
1618

**In developing a mass appraisal, an appraiser must observe the following specific appraisal requirements:** 1619  
1620

- (a) **identify the client and other intended users;** 1621
- (b) **identify the intended use of the appraisal;<sup>43</sup>** 1622
- (c) **identify the scope of work necessary to complete the assignment, including any special limiting conditions;** 1623  
1624

Comment: Constraints on the mass appraisal process must not limit the scope of work to such a degree that the mass appraisal results are not credible. 1625  
1626

The scope of work is acceptable when it is consistent with: 1627

- the expectations of participants in the market for the same or similar appraisal services; and 1628  
1629
- what the appraiser's peers' actions would be in performing the same or a similar assignment in compliance with USPAP. 1630  
1631

An appraiser must have sound reasons in support of the scope of work decision and must be prepared to support the decision to exclude any information or procedure that would appear to be relevant to the client, an intended user, or the appraiser's peers in the same or a similar assignment. 1632  
1633  
1634  
1635

An appraiser must not allow assignment conditions or other factors to limit the extent of research or analysis to such a degree that the resulting opinions and conclusions developed in an assignment are not credible in the context of the intended use of the appraisal. 1636  
1637  
1638  
1639

- (d) **identify any extraordinary assumptions and any hypothetical conditions necessary in the assignment;** 1640  
1641

<sup>43</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

1642 Comment: An extraordinary assumption may be used in an assignment only if:

- 1643 ▪ it is required to properly develop credible opinions and conclusions;
- 1644 ▪ the appraiser has a reasonable basis for the extraordinary assumption;
- 1645 ▪ use of the extraordinary assumption results in a credible analysis; and
- 1646 ▪ the appraiser complies with the disclosure requirements set forth in USPAP for
- 1647 extraordinary assumptions.

1648 A hypothetical condition may be used in an assignment only if:

- 1649 ▪ use of the hypothetical condition is clearly required for legal purposes, for purposes
- 1650 of reasonable analysis, or for purposes of comparison;
- 1651 ▪ use of the hypothetical condition results in a credible analysis; and
- 1652 ▪ the appraiser complies with the disclosure requirements set forth in USPAP for
- 1653 hypothetical conditions.

1654 **(e) identify the effective date of the appraisal;<sup>44</sup>**

1655 **(f) identify the type and definition of value, and, if the value opinion to be developed is market**  
 1656 **value, ascertain whether the value is to be the most probable price:**

1657 **(i) in terms of cash; or**

1658 **(ii) in terms of financial arrangements equivalent to cash; or**

1659 **(iii) in such other terms as may be precisely defined; and**

1660 **(iv) if the opinion of value is based on non-market financing or financing with unusual**  
 1661 **conditions or incentives, the terms of such financing must be clearly identified and**  
 1662 **the appraiser's opinion of their contributions to or negative influence on value must**  
 1663 **be developed by analysis of relevant market data;**

1664 Comment: For certain types of appraisal assignments in which a legal definition of  
 1665 market value has been established and takes precedence, the JURISDICTIONAL  
 1666 EXCEPTION RULE may apply.

1667 **(g) identify the characteristics of the properties that are relevant to the type and definition of**  
 1668 **value and intended use, including:**

1669 **(i) the group with which a property is identified according to similar market influence;**

1670 **(ii) the appropriate market area and time frame relative to the property being valued;**  
 1671 **and**

1672 **(iii) their location and physical, legal, and economic characteristics.**

1673 Comment: The properties must be identified in general terms, and each individual  
 1674 property in the universe must be identified, with the information on its identity stored or  
 1675 referenced in its property record.

1676 **(h) identify the characteristics of the market that are relevant to the purpose and intended use**  
 1677 **of the mass appraisal, including:**

<sup>44</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

(i)	<b>location of the market area;</b>	1678
(ii)	<b>physical, legal, and economic attributes;</b>	1679
(iii)	<b>time frame of market activity; and</b>	1680
(iv)	<b>property interests reflected in the market.</b>	1681
(i)	<b>in appraising real property or personal property:</b>	1682
(i)	<b>identify the appropriate market area and time frame relative to the property being valued;</b>	1683 1684
(ii)	<b>when the subject is real property, identify and consider any personal property, trade fixtures, or intangibles that are not real property but are included in the appraisal;</b>	1685 1686 1687
(iii)	<b>when the subject is personal property, identify and consider any real property or intangibles that are not personal property but are included in the appraisal;</b>	1688 1689
(iv)	<b>identify known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of similar nature; and</b>	1690 1691 1692
(v)	<b>identify and analyze whether an appraised fractional interest, physical segment or partial holding contributes pro rata to the value of the whole;</b>	1693 1694
	<u>Comment:</u> The above requirements do not obligate the appraiser to value the whole when the subject of the appraisal is a fractional interest, physical segment, or a partial holding. However, if the value of the whole is not identified, the appraisal must clearly reflect that the value of the property being appraised cannot be used to develop the value opinion of the whole by mathematical extension.	1695 1696 1697 1698 1699
(j)	<b>in appraising real property, identify and analyze the effect on use and value of the following factors: existing land use regulations, reasonably probable modifications of such regulations, economic supply and demand, the physical adaptability of the real estate, neighborhood trends, and highest and best use of the real estate; and</b>	1700 1701 1702 1703
	<u>Comment:</u> This requirement sets forth a list of factors that affect use and value. In considering neighborhood trends, an appraiser must avoid stereotyped or biased assumptions relating to race, age, color, gender, or national origin or an assumption that race, ethnic, or religious homogeneity is necessary to maximize value in a neighborhood. Further, an appraiser must avoid making an unsupported assumption or premise about neighborhood decline, effective age, and remaining life. In considering highest and best use, an appraiser must develop the concept to the extent required for a proper solution to the appraisal problem.	1704 1705 1706 1707 1708 1709 1710 1711
(k)	<b>in appraising personal property: identify and analyze the effects on use and value of industry trends, value-in-use, and trade level of personal property. Where applicable, identify the effect of highest and best use by measuring and analyzing the current use and alternative uses to encompass what is profitable, legal, and physically possible, as relevant to the type and definition of value and intended use of the appraisal. Personal property has several measurable marketplaces; therefore, the appraiser must define and analyze the appropriate market consistent with the type and definition of value; and</b>	1712 1713 1714 1715 1716 1717 1718

1719 Comment: The appraiser must recognize that there are distinct levels of trade and each  
 1720 may generate its own data. For example, a property may have a different value at a  
 1721 wholesale level of trade, a retail level of trade, or under various auction conditions.  
 1722 Therefore, the appraiser must analyze the subject property within the correct market  
 1723 context.

1724 **(l) analyze the relevant economic conditions at the time of the valuation, including market**  
 1725 **acceptability of the property and supply, demand, scarcity, or rarity.**

1726 **Standards Rule 6-3 (This Standards Rule contains binding requirements from which departure is not**  
 1727 **permitted.)**

1728 **In developing a mass appraisal, an appraiser must:**

1729 **(a) identify the appropriate procedures and market information required to perform the**  
 1730 **appraisal, including all physical, functional, and external market factors as they may affect**  
 1731 **the appraisal;**

1732 Comment: Such efforts customarily include the development of standardized data  
 1733 collection forms, procedures, and training materials that are used uniformly on the  
 1734 universe of properties under consideration.

1735 **(b) employ recognized techniques for specifying property valuation models; and**

1736 Comment: The formal development of a model in a statement or equation is called model  
 1737 specification. Mass appraisers must develop mathematical models that, with reasonable  
 1738 accuracy, represent the relationship between property value and supply and demand  
 1739 factors, as represented by quantitative and qualitative property characteristics. The  
 1740 models may be specified using the cost, sales comparison, or income approaches to value.  
 1741 The specification format may be tabular, mathematical, linear, nonlinear, or any other  
 1742 structure suitable for representing the observable property characteristics. Appropriate  
 1743 approaches must be used in appraising a class of properties. The concept of recognized  
 1744 techniques applies to both real and personal property valuation models.

1745 **(c) employ recognized techniques for calibrating mass appraisal models.**

1746 Comment: Calibration refers to the process of analyzing sets of property and market data  
 1747 to determine the specific parameters of a model. The table entries in a cost manual are  
 1748 examples of calibrated parameters, as well as the coefficients in a linear or nonlinear  
 1749 model. Models must be calibrated using recognized techniques, including, but not limited  
 1750 to, multiple linear regression, nonlinear regression, and adaptive estimation.

1751 **Standards Rule 6-4 (This Standards Rule contains specific requirements from which departure is**  
 1752 **permitted. See DEPARTURE RULE.)**

1753 **In developing a mass appraisal, an appraiser must observe the following specific requirements, when**  
 1754 **applicable:**

1755 **(a) collect, verify, and analyze such data as are necessary and appropriate to develop, when**  
 1756 **applicable:**

1757 **(i) the cost new of the improvements;**

1758 **(ii) accrued depreciation;**

1759 **(iii) value of the land by sales of comparable properties**



(iv)	<b>value of the property by sales of comparable properties;</b>	1760
(v)	<b>value by capitalization of income or potential earnings—i.e., rentals, expenses, interest rates, capitalization rates, and vacancy data;</b>	1761 1762
	<u>Comment:</u> This Standards Rule requires appraisers engaged in mass appraisal to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals. For example, in real property, where applicable and feasible, systems for routinely collecting and maintaining ownership, geographic, sales, income and expense, cost, and property characteristics data must be established. Geographic data must be contained in as complete a set of cadastral maps as possible, compiled according to current standards of detail and accuracy. Sales data must be collected, confirmed, screened, adjusted, and filed according to current standards of practice. The sales file must contain, for each sale, property characteristics data that are contemporaneous with the date of sale. Property characteristics data must be appropriate and relevant to the mass appraisal models being used. The property characteristics data file must contain data contemporaneous with the date of appraisal including historical data on sales, where appropriate and available. The data collection program must incorporate a quality control program, including checks and audits of the data to ensure current and consistent records.	1763 1764 1765 1766 1767 1768 1769 1770 1771 1772 1773 1774 1775 1776 1777
(b)	<b>base estimates of capitalization rates and projections of future rental rates and/or potential earnings capacity, expenses, interest rates, and vacancy rates on reasonable and appropriate evidence;</b>	1778 1779 1780
	<u>Comment:</u> This requirement calls for an appraiser, in developing income and expense statements and cash flow projections, to weigh historical information and trends, current market factors affecting such trends, and reasonably anticipated events, such as competition from developments either planned or under construction.	1781 1782 1783 1784
(c)	<b>identify and, as applicable, analyze terms and conditions of any available leases; and</b>	1785
(d)	<b>identify the need for and extent of any physical inspection.</b>	1786
	<b><u>Standards Rule 6-5</u> (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)</b>	1787 1788
	<b>In applying a calibrated mass appraisal model an appraiser must:</b>	1789
(a)	<b>value improved parcels by recognized methods or techniques based on the cost approach, the sales comparison approach, and income approach, as applicable;</b>	1790 1791
(b)	<b>value sites by recognized methods or techniques; such techniques include but are not limited to the sales comparison approach, allocation method, abstraction method, capitalization of ground rent, and land residual technique;</b>	1792 1793 1794
(c)	<b>when developing the value of a leased fee estate or a leasehold estate, analyze, as applicable, the effect on value, if any, of the terms and conditions of the lease;</b>	1795 1796
	<u>Comment:</u> In ad valorem taxation the appraiser may be required by rules or law to appraise the property as if in fee simple, as though unencumbered by existing leases. In such cases, market rent would be used in the appraisal, ignoring the effect of the individual, actual contract rents.	1797 1798 1799 1800

1801 **(d) analyze the effect on value, if any, of the assemblage of the various parcels, divided interests,**  
 1802 **or component parts of a property; the value of the whole must not be developed by adding**  
 1803 **together the individual values of the various parcels, divided interests, or component parts;**  
 1804 **and**

1805 Comment: When the value of the whole has been established and the appraiser seeks to  
 1806 value a part, the value of any such part must be tested by reference to appropriate market  
 1807 data and supported by an appropriate analysis of such data.

1808 **(e) analyze the effect on value, if any, of anticipated public or private improvements, located on**  
 1809 **or off the site, to the extent that market actions reflect such anticipated improvements as of**  
 1810 **the effective appraisal date; appraise proposed improvements only after examining and**  
 1811 **having available for future examination:**

1812 **(i) plans, specifications, or other documentation sufficient to identify the scope and**  
 1813 **character of the proposed improvements;**

1814 **(ii) evidence indicating the probable time of completion of the proposed improvements;**  
 1815 **and**

1816 **(iii) reasonably clear and appropriate evidence supporting development costs,**  
 1817 **anticipated earnings, occupancy projections, and the anticipated competition at the**  
 1818 **time of completion.**

1819 Comment: Ordinarily, proposed improvements are not appraised for ad valorem  
 1820 tax. Appraisers, however, are sometimes asked to provide opinions of value of  
 1821 proposed improvements so that developers can estimate future property tax  
 1822 burdens. Sometimes units in condominiums and planned unit developments are  
 1823 sold with an interest in unbuilt community property, the pro rata value of which,  
 1824 if any, must be considered in the analysis of sales data.

1825 Development of a value opinion for a subject property with proposed  
 1826 improvements as of a current date involves the use of the hypothetical condition  
 1827 that the described improvements have been completed as of the date of value  
 1828 when, in fact, they have not.

1829 The evidence required to be examined and maintained may include such items  
 1830 as contractors' estimates relating to cost and the time required to complete  
 1831 construction, market and feasibility studies; operating cost data, and the history  
 1832 of recently completed similar developments. The appraisal may require a  
 1833 complete feasibility analysis.

1834 **Standards Rule 6-6 (This Standards Rule contains binding requirements from which departure is not**  
 1835 **permitted.)**

1836 **In reconciling a mass appraisal an appraiser must:**

1837 **(a) reconcile the quality and quantity of data available and analyzed within the approaches used**  
 1838 **and the applicability or suitability of the approaches used; and**

1839 **(b) employ recognized mass appraisal testing procedures and techniques to ensure that**  
 1840 **standards of accuracy are maintained.**

1841 Comment: It is implicit in mass appraisal that, even when properly specified and  
 1842 calibrated mass appraisal models are used, some individual value conclusions will not

meet standards of reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, models produce value conclusions that meet attainable standards of accuracy. This responsibility requires appraisers to evaluate the performance of models, using techniques that may include but are not limited to, goodness-of-fit statistics, and model performance statistics such as appraisal-to-sale ratio studies, evaluation of hold-out samples, or analysis of residuals.	1843 1844 1845 1846 1847 1848 1849
<b><u>Standards Rule 6-7</u> (This Standards Rule contains binding requirements from which departure is not permitted.)</b>	1850 1851
<b>A written report of a mass appraisal must clearly communicate the elements, results, opinions, and value conclusions of the appraisal.</b>	1852 1853
<b>Each written report of a mass appraisal must:</b>	1854
(a) <b>clearly and accurately set forth the appraisal in a manner that will not be misleading;</b>	1855
(b) <b>contain sufficient information to enable the intended users of the appraisal to understand the report properly;</b>	1856 1857
<u>Comment:</u> Documentation for a mass appraisal for ad valorem taxation may be in the form of (1) property records, (2) sales ratios and other statistical studies, (3) appraisal manuals and documentation, (4) market studies, (5) model building documentation, (6) regulations, (7) statutes, and (8) other acceptable forms.	1858 1859 1860 1861
(c) <b>clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment;</b>	1862 1863
<u>Comment:</u> Examples of extraordinary assumptions or hypothetical conditions might include items such as the execution of a pending lease agreement, atypical financing, a known but not yet quantified environmental issue, or completion of onsite or offsite improvements. The report must clearly and conspicuously:	1864 1865 1866 1867
• state all extraordinary assumptions and hypothetical conditions; and	1868
• state that their use might have affected the assignment results.	1869
(d) <b>state the identity of the client and any intended users, by name and type;</b>	1870
(e) <b>state the intended use of the appraisal;<sup>45</sup></b>	1871
(f) <b>disclose any assumptions or limiting conditions that result in deviation from recognized methods and techniques or that affect analyses, opinions, and conclusions;</b>	1872 1873
<u>Comment:</u> One limiting condition that must be disclosed is whether or not any physical inspection was made.	1874 1875
(g) <b>set forth the effective date of the appraisal and the date of the report;</b>	1876
<u>Comment:</u> In ad valorem taxation the effective date of the appraisal may be prescribed by law. If no effective date is prescribed by law, the effective date of the appraisal, if not stated, is presumed to be contemporaneous with the data and appraisal conclusions.	1877 1878 1879

<sup>45</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

1880 The effective date of the appraisal establishes the context for the value opinion, while the  
 1881 date of the report indicates whether the perspective of the appraiser on the market or  
 1882 property use conditions as of the effective date of the appraisal was prospective, current,  
 1883 or retrospective.<sup>46</sup>

1884 Reiteration of the date of the report and the effective date of the appraisal at various  
 1885 stages of the report in tandem is important for the clear understanding of the reader  
 1886 whenever market or property use conditions on the date of the report are different from  
 1887 such conditions on the effective date of the appraisal.

1888 **(h) state the type and definition of value and cite the source of the definition;**

1889 Comment: Stating the type and definition of value also requires any comments needed to  
 1890 clearly indicate to intended users how the definition is being applied.

1891 When reporting an opinion of market value, state whether the opinion of value is:

- 1892 • In terms of cash or of financing terms equivalent to cash; or
- 1893 • Based on non-market financing with unusual conditions or incentives.

1894 When an opinion of market value is not in terms of cash or based on financing terms  
 1895 equivalent to cash, summarize the terms of such financing and explain their contributions  
 1896 to or negative influence on value.

1897 **(i) identify the properties appraised including the property rights;**

1898 Comment: The report documents the sources for location, describing and listing the  
 1899 property. When applicable, include references to legal descriptions, addresses, parcel  
 1900 identifiers, photos, and building sketches. In mass appraisal this information is often  
 1901 included in property records. When the property rights to be appraised are specified in a  
 1902 statute or court ruling, the law must be referenced.

1903 **(j) describe sufficient information to disclose to the client and any intended users of the  
 1904 appraisal the scope of work used to develop the appraisal;**

1905 Comment: This requirement is to ensure that the client and intended users whose  
 1906 expected reliance on an appraisal may be affected by the extent of the appraiser's  
 1907 investigation are properly informed and are not misled as to the scope of work. The  
 1908 appraiser has the burden of proof to support the scope of work decision and the level of  
 1909 information included in a report.

1910 When any portion of the work involves significant mass appraisal assistance, the  
 1911 appraiser must describe the extent of that assistance. The signing appraiser must also state  
 1912 the name(s) of those providing the significant mass appraisal assistance in the  
 1913 certification, in accordance with SR 6-8.

1914 **(k) describe and justify the model specification(s) considered, data requirements, and the  
 1915 model(s) chosen;**

1916 Comment: The user and affected parties must have confidence that the process and  
 1917 procedures used conform to accepted methods and result in credible value conclusions. In  
 1918 the case of mass appraisal for ad valorem taxation, stability and accuracy are important to

<sup>46</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

the credibility of value opinions. The report must include a discussion of the rationale for each model, the calibration techniques to be used, and the performance measures to be used.	1919 1920 1921
<b>(l) describe the procedure for collecting, validating, and reporting data;</b>	1922
<u>Comment:</u> The report must describe the sources of data and the data collection and validation processes. Reference to detailed data collection manuals must be made, as appropriate, including where they may be found for inspection.	1923 1924 1925
<b>(m) describe calibration methods considered and chosen, including the mathematical form of the final model(s); describe how value conclusions were reviewed; and, if necessary, describe the availability of individual value conclusions;</b>	1926 1927 1928
<b>(n) in the case of real property, discuss how highest and best use was determined;</b>	1929
<u>Comment:</u> The mass appraisal report must reference case law, statute, or public policy that describes highest and best-use requirements. When actual use is the requirement, the report must discuss how use-value opinions were developed. The appraiser's reasoning in support of the highest and best use opinion must be provided in the depth and detail required by its significance to the appraisal.	1930 1931 1932 1933 1934
<b>(o) identify the appraisal performance tests used and set forth the performance measures attained;</b>	1935 1936
<b>(p) describe the reconciliation performed, in accordance with Standards Rule 6-6;</b>	1937
<b>(q) provide any additional information necessary to explain the appraisal more fully, including departures permitted by the DEPARTURE RULE; and</b>	1938 1939
<b>(r) include a signed certification in accordance with Standards Rule 6-8.</b>	1940
<b><u>Standards Rule 6-8</u> (This Standards Rule contains binding requirements from which departure is not permitted.)</b>	1941 1942
<b>Each written mass appraisal report must contain a signed certification that is similar in content to the following form:</b>	1943 1944
<b>I certify that, to the best of my knowledge and belief:</b>	1945
— <b>the statements of fact contained in this report are true and correct.</b>	1946
— <b>the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.</b>	1947 1948 1949
— <b>I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest with respect to the parties involved.</b>	1950 1951 1952
— <b>I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.</b>	1953 1954
— <b>my engagement in this assignment was not contingent upon developing or reporting predetermined results.</b>	1955 1956
— <b>my compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the</b>	1957 1958 1959

- 1960 occurrence of a subsequent event directly related to the intended use of this  
 1961 appraisal.  
 1962 — my analyses, opinions, and conclusions were developed, and this report has been  
 1963 prepared, in conformity with the *Uniform Standards of Professional Appraisal*  
 1964 *Practice*.  
 1965 — I have (or have not) made a personal inspection of the properties that are the  
 1966 subject of this report. (If more than one person signs the report, this certification  
 1967 must clearly specify which individuals did and which individuals did not make a  
 1968 personal inspection of the appraised property.)<sup>47</sup>  
 1969 — no one provided significant mass appraisal assistance to the person signing this  
 1970 certification. (If there are exceptions, the name of each individual providing  
 1971 significant mass appraisal assistance must be stated.)

1972 Comment: The above certification is not intended to disturb an elected or appointed  
 1973 assessor's work plans or oaths of office. A signed certification is an integral part of the  
 1974 appraisal report. An appraiser, who signs any part of the mass appraisal report, including  
 1975 a letter of transmittal, must also sign this certification.

1976 In an assignment that includes only assignment results developed by the real property  
 1977 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all  
 1978 elements of the certification, for the assignment results, and for the contents of the  
 1979 appraisal report. In an assignment that includes personal property assignment results not  
 1980 developed by the real property appraiser(s), any real property appraiser(s) who signs a  
 1981 certification accepts full responsibility for the real property elements of the certification,  
 1982 for the real property assignment results, and for the real property contents of the appraisal  
 1983 report.

1984 In an assignment that includes only assignment results developed by the personal  
 1985 property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility  
 1986 for all elements of the certification, for the assignment results, and for the contents of the  
 1987 appraisal report. In an assignment that includes real property assignment results not  
 1988 developed by the personal property appraiser(s), any personal property appraiser(s) who  
 1989 signs a certification accepts full responsibility for the personal property elements of the  
 1990 certification, for the personal property assignment results, and for the personal property  
 1991 contents of the appraisal report.

1992 When a signing appraiser(s) has relied on work done by others who do not sign the  
 1993 certification, the signing appraiser is responsible for the decision to rely on their work.  
 1994 The signing appraiser(s) is required to have a reasonable basis for believing that those  
 1995 individuals performing the work are competent and that their work is credible.

1996 The names of individuals providing significant mass appraisal assistance who do not sign  
 1997 a certification must be stated in the certification. It is not required that the description of  
 1998 their assistance be contained in the certification, but disclosure of their assistance is  
 1999 required in accordance with SR 6-7(j).

<sup>47</sup> See Advisory Opinion AO-2. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

STANDARD 7: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT 2000

**In developing a personal property appraisal, an appraiser must identify the problem to be solved and the scope of work necessary to solve the problem and correctly complete research and analysis necessary to produce a credible appraisal.** 2001  
2002  
2003

Comment: STANDARD 7 is directed toward the substantive aspects of developing a competent appraisal of personal property. The requirements set forth in STANDARD 7 follow the appraisal development process in the order of topics addressed and can be used by appraisers and the users of appraisal services as a convenient checklist. 2004  
2005  
2006  
2007

**Standards Rule 7-1 (This Standards Rule contains binding requirements from which departure is not permitted.)** 2008  
2009

**In developing a personal property appraisal, an appraiser must:** 2010

**(a) be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal;** 2011  
2012

Comment: This Standards Rule recognizes that the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in personal property practice have a substantial impact on the appraisal profession. Important changes in the cost and manner of acquiring, producing, and marketing personal property and changes in the legal framework in which property rights and interests are created, marketed, conveyed, and financed have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession reviews and revises appraisal methods and techniques and develops methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in personal property appraisal. 2013  
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**(b) not commit a substantial error of omission or commission that significantly affects an appraisal; and** 2026  
2027

Comment: In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 7-2(f), to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, when necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions. 2028  
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**(c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.** 2035  
2036  
2037

Comment: Perfection is impossible to attain, and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This Rule requires an appraiser to use due diligence and due care. 2038  
2039  
2040

2041 **Standards Rule 7-2** (This Standards Rule contains binding requirements from which departure is not  
2042 permitted.)

2043 **In developing a personal property appraisal, an appraiser must:**

2044 **(a) identify the client and other intended users;<sup>48</sup>**

2045 **(b) identify the intended use of the appraiser's opinions and conclusions;**

2046 Comment: Identification of the intended use is necessary for the appraiser and the client  
2047 to decide:

- 2048 ▪ the appropriate scope of work to be completed, and
- 2049 ▪ the level of information to be provided in communicating the appraisal.

2050 An appraiser must not allow a client's objectives or intended use to cause an analysis to  
2051 be biased.

2052 **(c) identify the type and definition of value, and, if the value opinion to be developed is market  
2053 value, ascertain whether the value is to be the most probable price:**

2054 **(i) in terms of cash; or**

2055 **(ii) in terms of financial arrangements equivalent to cash; or**

2056 **(iii) in other precisely defined terms; and**

2057 **(iv) if the opinion of value is to be based on non-market financing or financing with  
2058 unusual conditions or incentives, the terms of such financing must be clearly  
2059 identified and the appraiser's opinion of their contributions to or negative influence  
2060 on value must be developed by analysis of relevant market data;**

2061 Comment: When developing an opinion of value in a specified market or at a  
2062 specified market level based on the potential sale of the property, the appraiser  
2063 must also develop an opinion of reasonable exposure time linked to the value  
2064 opinion.

2065 **(d) identify the effective date of the appraiser's opinions and conclusions;**

2066 **(e) identify the characteristics of the property that are relevant to the type and definition of  
2067 value and intended use of the appraisal, including:**

2068 **(i) sufficient characteristics to establish the identity of the item including the method of  
2069 identification;**

2070 **(ii) sufficient characteristics to establish the relative quality of the item (and its  
2071 component parts, where applicable) within its type;**

2072 **(iii) all other physical and economic attributes with a material effect on value;**

<sup>48</sup> See Statement on Appraisal Standards No. 9 (SMT-9).



	<u>Comment</u> : Some examples of physical and economic characteristics include condition, style, size, quality, manufacturer, author, materials, origin, age, provenance, alterations, restorations, and obsolescence. The type of property, the type and definition of value, and intended use of the appraisal determine which characteristics have a material effect on value.	2073 2074 2075 2076 2077
(iv)	<b>the ownership interest to be valued;</b>	2078
(v)	<b>any known restrictions, encumbrances, leases, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature; and</b>	2079 2080
(vi)	<b>any real property or intangible items that are not personal property but which are included in the appraisal.</b>	2081 2082
	<u>Comment</u> on (i)–(vi): If the necessary subject property information is not available because of conditions limiting the appraiser’s ability to inspect or research the subject property (such as lighting conditions at an onsite inspection, time constraints, lack of attainable information from reliable third-party sources), an appraiser must:	2083 2084 2085 2086 2087
	<ul style="list-style-type: none"> <li>▪ obtain the necessary information before proceeding, or</li> <li>▪ where possible, in compliance with Standards Rule 7-2(g), use an extraordinary assumption about such information.</li> </ul>	2088 2089 2090
	An appraiser may use any combination of a property inspection and documents or other resources to identify the relevant characteristics of the subject property. The information used by an appraiser to identify the property characteristics must be from sources the appraiser reasonably believes are reliable.	2091 2092 9093 2094
	An appraiser may not be required to value the whole when the subject of the appraisal is a fractional interest, a physical segment, or a partial holding.	2095 2096
(f)	<b>identify the scope of work necessary to complete the assignment;</b>	2097
	<u>Comment</u> : The scope of work is acceptable when it is consistent with:	2098
	<ul style="list-style-type: none"> <li>▪ the expectations of participants in the market for the same or similar appraisal services; and</li> <li>▪ what the appraiser’s peers’ actions would be in performing the same or a similar assignment in compliance with USPAP.</li> </ul>	2099 2100 2101 2102
	An appraiser must have sound reasons in support of the scope of work decision and must be prepared to support the decision to exclude any information or procedure that would appear to be relevant to the client, intended users, or the appraiser’s peers in the same or a similar assignment.	2103 2104 2105 2106
	An appraiser must not allow assignment conditions or other factors to limit the extent of research or analysis to such a degree that the resulting opinions and conclusions developed in an assignment are not credible in the context of the intended use of the appraisal.	2107 2108 2109 2110
(g)	<b>identify any extraordinary assumptions necessary in the assignment; and</b>	2111
	<u>Comment</u> : An extraordinary assumption may be used in an assignment only if:	2112

- 2113           ▪ it is required to properly develop credible opinions and conclusions;  
 2114           ▪ the appraiser has a reasonable basis for the extraordinary assumption;  
 2115           ▪ use of the extraordinary assumption results in a credible analysis; and  
 2116           ▪ the appraiser complies with the disclosure requirements set forth in USPAP for  
 2117           extraordinary assumptions.

2118       **(h) identify any hypothetical conditions necessary in the assignment.**

2119       Comment: A hypothetical condition may be used in an assignment only if:

- 2120           ▪ use of the hypothetical condition is clearly required for legal purposes, for purposes  
 2121           of reasonable analysis, or for purposes of comparison;  
 2122           ▪ use of the hypothetical condition results in a credible analysis; and  
 2123           ▪ the appraiser complies with the disclosure requirements set forth in USPAP for  
 2124           hypothetical conditions.

2125       **Standards Rule 7-3 (This Standards Rule contains specific requirements from which departure is  
 2126       permitted. See DEPARTURE RULE.)**

2127       **In developing a personal property appraisal, an appraiser must collect, verify, analyze, and reconcile  
 2128       all information pertinent to the appraisal problem, given the scope of work identified in accordance  
 2129       with Standards Rule 7-2(f).**

2130       **(a) Where applicable, identify the effect of highest and best use by measuring and analyzing the  
 2131       current use and alternative uses to encompass what is profitable, legal, and physically  
 2132       possible, as relevant to the type and definition of value and intended use of the appraisal;**

2133       **(b) Personal property has several measurable marketplaces; therefore, the appraiser must  
 2134       define and analyze the appropriate market consistent with the type and definition of value;  
 2135       and**

2136       Comment: The appraiser must recognize that there are distinct levels of trade and each  
 2137       may generate its own data. For example, a property may have a different value at a  
 2138       wholesale level of trade, a retail level of trade, or under various auction conditions.  
 2139       Therefore, the appraiser must analyze the subject property within the correct market  
 2140       context.

2141       **(c) Analyze the relevant economic conditions at the time of the valuation, including market  
 2142       acceptability of the property and supply, demand, scarcity, or rarity.**

2143       **Standards Rule 7-4 (This Standards Rule contains specific requirements from which departure is  
 2144       permitted. See DEPARTURE RULE.)**

2145       **In developing a personal property appraisal, an appraiser must collect, verify, and analyze all  
 2146       information applicable to the appraisal problem and the type of property, given the scope of work  
 2147       identified in accordance with Standards Rule 7-2(f).**

2148       **(a) When a sales comparison approach is applicable, an appraiser must analyze such  
 2149       comparable sales data as are available to indicate a value conclusion.**

2150       **(b) When a cost approach is applicable, an appraiser must:**

2151           **(i) analyze such comparable cost data as are available to estimate the cost new of the  
 2152           property; and**

(ii)	analyze such comparable data as are available to estimate the difference between cost new and the present worth of the property (accrued depreciation).	2153 2154
(c)	<b>When an income approach is applicable, an appraiser must:</b>	2155
(i)	analyze such comparable data as are available to estimate the market income of the property;	2156 2157
(ii)	analyze such comparable operating expense data as are available to estimate the operating expenses of the property;	2158 2159
(iii)	analyze such comparable data as are available to estimate rates of capitalization and/or rates of discount; and	2160 2161
(iv)	base projections of future income and expenses on reasonably clear and appropriate evidence.	2162 2163
	<u>Comment:</u> An appraiser must, in developing income and expense statements and cash flow projections, weigh historical information and trends, current supply and demand factors affecting such trends, and competition.	2164 2165 2166
(d)	<b>When developing an opinion of the value of a lease or leased property, an appraiser must analyze the effect on value, if any, of the terms and conditions of the lease(s).</b>	2167 2168
(e)	<b>An appraiser must analyze the effect on value, if any, of the assemblage of the various component parts of a property and refrain from valuing the whole solely by adding together the individual values of the various component parts.</b>	2169 2170 2171
	<u>Comment:</u> Although the value of the whole may be equal to the sum of the separate parts, it also may be greater than or less than the sum of such parts. Therefore, the value of the whole must be tested by reference to appropriate data and supported by an appropriate analysis of such data.	2172 2173 2174 2175
	A similar procedure must be followed when the value of the whole has been established and the appraiser seeks to value a part. The value of any such part must be tested by reference to appropriate data and supported by an appropriate analysis of such data.	2176 2177 2178
(f)	<b>An appraiser must analyze the effect on value, if any, of anticipated modifications to the subject property, to the extent that market actions reflect such anticipated modifications as of the effective appraisal date.</b>	2179 2180 2181
(g)	<b>An appraiser must analyze the effect on value of any real property or intangible items that are not personal property but are included in the appraisal.</b>	2182 2183
	<u>Comment:</u> Competency in real property appraisal (see STANDARD 1) or business appraisal (see STANDARD 9) may be required when it is necessary to allocate the overall value to the property components. In addition, competency in other types of personal property outside of the appraiser's specialty area may be necessary (see STANDARD 7 and the COMPETENCY RULE). A separate valuation, developed in compliance with the STANDARD pertinent to the type of property involved, is required when the value of an item or combination of items is significant to the overall value.	2184 2185 2186 2187 2188 2189 2190
(h)	<b>When appraising proposed modifications, an appraiser must examine and have available for future examination:</b>	2191 2192

- 2193 (i) **plans, specifications, or other documentation sufficient to identify the scope and**  
2194 **character of the proposed modifications;**
- 2195 (ii) **evidence indicating the probable time of completion of the proposed modifications;**  
2196 **and**
- 2197 (iii) **reasonably clear and appropriate evidence supporting implementation costs,**  
2198 **anticipated earnings, and output, as applicable.**

2199 Comment: Development of a value opinion for a subject property with proposed  
2200 modifications as of a current date involves the use of the hypothetical condition  
2201 that the described modifications have been completed as of the date of value  
2202 when, in fact, they have not.

2203 The evidence required to be examined and maintained may include such items  
2204 as vendors' or contractors' estimates relating to cost and the time required to  
2205 complete the proposed modifications; market and feasibility studies; operating  
2206 cost data; and the history of recently completed similar developments. The  
2207 appraisal may require a complete feasibility analysis.

2208 **Standards Rule 7-5 (This Standards Rule contains binding requirements from which departure is not**  
2209 **permitted.)**

2210 **In developing a personal property appraisal, when the value opinion to be developed is market value,**  
2211 **an appraiser must, if such information is available to the appraiser in the normal course of**  
2212 **business:<sup>49</sup>**

- 2213 (a) **analyze all agreements of sale, validated offers or third-party offers to sell, options, or**  
2214 **listings of the subject property current as of the effective date of the appraisal; and**
- 2215 (b) **analyze all prior sales of the subject property that occurred within a reasonable and**  
2216 **applicable time period, given the intended use and the type of property involved.**

2217 Comment: The data needed for the required analyses in SR 7-5(a) and 7-5(b) may not be  
2218 available or relevant in all assignments. See the Comments to Standards Rules 8-2(a)(ix),  
2219 8-2(b)(ix), and 8-2(c)(ix) for corresponding reporting requirements.

2220 **Standards Rule 7-6 (This Standards Rule contains binding requirements from which departure is not**  
2221 **permitted.)**

2222 **In developing a personal property appraisal, an appraiser must:**

- 2223 (a) **reconcile the quality and quantity of data available and analyzed within the approaches**  
2224 **used; and**
- 2225 (b) **reconcile the applicability or suitability of the approaches used to arrive at the value**  
2226 **conclusion(s).**

2227 Comment: See the Comments to Standards Rules 8-2(a)(ix), 8-2(b)(ix), and 8-2(c)(ix)  
2228 for corresponding reporting requirements.

<sup>49</sup> See Advisory Opinion AO-24. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into the Standards Rules.

**STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING** 2229

**In reporting the results of a personal property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.** 2230  
2231

Comment: STANDARD 8 addresses the content and level of information required in a report that communicates the results of a personal property appraisal. 2232  
2233

STANDARD 8 does not dictate the form, format, or style of personal property appraisal reports, which are functions of the needs of users and appraisers. The substantive content of a report determines its compliance. 2234  
2235  
2236

**Standards Rule 8-1 (This Standards Rule contains binding requirements from which departure is not permitted.)** 2237  
2238

**Each written or oral personal property appraisal report must:** 2239

**(a) clearly and accurately set forth the appraisal in a manner that will not be misleading;** 2240

Comment: Since many reports are used and relied upon by third parties, communications considered adequate by the appraiser's client may not be sufficient. An appraiser must take extreme care to make certain that his or her reports will not be misleading to the intended users of the appraisal report. 2241  
2242  
2243  
2244

**(b) contain sufficient information to enable the intended users of the appraisal to understand the report properly; and** 2245  
2246

Comment: The person(s) expected to receive or rely on a Self-Contained or Summary Appraisal Report are the client and intended users. Only the client is expected to receive or rely on the Restricted Use Appraisal Report. 2247  
2248  
2249

**(c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment.** 2250  
2251

**Standards Rule 8-2 (This Standards Rule contains binding requirements from which departure is not permitted.)** 2252  
2253

**Each written personal property appraisal report must be prepared under one of the following three options and prominently state which option is used: Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report.** 2254  
2255  
2256

Comment: When the intended users include parties other than the client, either a Self-Contained Appraisal Report or a Summary Appraisal Report must be provided. When the intended users do not include parties other than the client, a Restricted Use Appraisal Report may be provided. The essential difference among these three options is in the content and level of information provided. 2257  
2258  
2259  
2260  
2261

An appraiser must use care when characterizing the type of report and level of information communicated upon completion of an assignment. An appraiser may use any other label in addition to, but not in place of, the label set forth in this Standard for the type of report provided. 2262  
2263  
2264  
2265

2266 The report content and level of information requirements set forth in this Standard are  
 2267 minimums for each type of report. An appraiser must supplement a report form, when  
 2268 necessary, to ensure that any intended user of the appraisal is not misled and that the  
 2269 report complies with the applicable content requirements set forth in this Standards Rule.

2270 A party receiving a copy of a Self-Contained Appraisal Report, Summary Appraisal  
 2271 Report, or Restricted Use Appraisal Report in order to satisfy disclosure requirements  
 2272 does not become an intended user of the appraisal unless the appraiser identifies such  
 2273 party as an intended user as part of the assignment.

2274 **(a) The content of a Self-Contained Appraisal Report must be consistent with the intended use**  
 2275 **of the appraisal and, at a minimum:**

2276 **(i) state the identity of the client and any intended users, by name or type;**

2277 Comment: An appraiser must use care when identifying the client to ensure a  
 2278 clear understanding and to avoid violations of the Confidentiality section of the  
 2279 ETHICS RULE. In those rare instances where the client wishes to remain  
 2280 anonymous, an appraiser must still document the identity of the client in the  
 2281 workfile but may omit the client's identity in the report.

2282 **(ii) state the intended use of the appraisal;<sup>50</sup>**

2283 **(iii) describe information sufficient to identify the property involved in the appraisal,**  
 2284 **including the physical and economic property characteristics relevant to the**  
 2285 **assignment;**

2286 **(iv) state the property interest appraised;**

2287 **(v) state the type and definition of value and cite the source of the definition;**

2288 Comment: Stating the definition of value also requires any comments needed to  
 2289 clearly indicate to the intended users how the definition is being applied.

2290 When reporting an opinion of market value, state whether the opinion of value  
 2291 is:

- 2292 ▪ in terms of cash or of financing terms equivalent to cash, or
- 2293 ▪ based on non-market financing or financing with unusual conditions or
- 2294 incentives.

2295 When an opinion of market value is not in terms of cash or based on financing  
 2296 terms equivalent to cash, summarize the terms of such financing and explain  
 2297 their contributions to or negative influence on value.

<sup>50</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<b>(vi)</b>	<b>state the effective date of the appraisal and the date of the report;<sup>51</sup></b>	2298
	<u>Comment:</u> The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.	2299 2300 2301 2302
	Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.	2303 2304 2305 2306
<b>(vii)</b>	<b>describe sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;</b>	2307 2308
	<u>Comment:</u> This requirement is to ensure that the client and intended users whose expected reliance on an appraisal may be affected by the extent of the appraiser's investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.	2309 2310 2311 2312 2313
	When any portion of the work involves significant personal property appraisal assistance, the appraiser must describe the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with SR 8-3.	2314 2315 2316 2317
<b>(viii)</b>	<b>clearly and conspicuously:</b>	2318
	<ul style="list-style-type: none"> <li>• <b>state all extraordinary assumptions and hypothetical conditions; and</b></li> <li>• <b>state that their use might have affected the assignment results;</b></li> </ul>	2319 2320
<b>(ix)</b>	<b>describe the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;</b>	2321 2322
	<u>Comment:</u> The appraiser must be certain the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 7-6.	2323 2324 2325 2326
	When reporting an opinion of market value, a summary of the results of analyzing the subject sales, offers, options, and listings in accordance with Standards Rule 7-5 is required. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.	2327 2328 2329 2330 2331 2332
<b>(x)</b>	<b>state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when reporting an opinion of market value, describe the support and rationale for the appraiser's opinion of the highest and best use of the property;</b>	2333 2334 2335 2336

<sup>51</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

- 2337 Comment: The report must contain the appraiser’s opinion as to the highest and  
 2338 best use of the property, unless an opinion as to highest and best use is  
 2339 unnecessary such as in insurance valuation or “value in use” appraisals. When  
 2340 reporting an opinion of market value, a summary of the appraiser’s support and  
 2341 rationale for the opinion of highest and best use is required. The appraiser’s  
 2342 reasoning in support of the opinion must be provided in the depth and detail  
 2343 required by its significance to the appraisal. In the context of personal property,  
 2344 highest and best use may equate to the choice of the appropriate market or  
 2345 market level for the type of item, the type and definition of value, and intended  
 2346 use of the report.
- 2347 **(xi) state and explain any permitted departures from specific requirements of**  
 2348 **STANDARD 7 and the reason for excluding any of the usual valuation approaches;**  
 2349 **and**
- 2350 Comment: A Self-Contained Appraisal Report must include sufficient  
 2351 information to indicate that the appraiser complied with the requirements of  
 2352 STANDARD 7, including any permitted departures from the specific  
 2353 requirements. The amount of detail required will vary with the significance of  
 2354 the information to the appraisal.
- 2355 When the DEPARTURE RULE is invoked, the assignment is deemed to be a  
 2356 Limited Appraisal. Use of the term “Limited Appraisal” makes clear that the  
 2357 assignment involved something less than or different from the work that could  
 2358 have and would have been completed if departure had not been invoked. The  
 2359 report of a Limited Appraisal must contain a prominent section that clearly  
 2360 identifies the extent of the appraisal process performed and the departures taken.
- 2361 The reliability of the results of a Complete Appraisal or a Limited Appraisal  
 2362 developed under STANDARD 7 is not affected by the type of report prepared  
 2363 under STANDARD 8. The extent of the appraisal process performed under  
 2364 STANDARD 7 is the basis for the reliability of the value conclusion.
- 2365 **(xii) include a signed certification in accordance with Standards Rule 8-3.**
- 2366 **(b) The content of a Summary Appraisal Report must be consistent with the intended use of the**  
 2367 **appraisal and, at a minimum:**
- 2368 Comment: The essential difference between the Self-Contained Appraisal  
 2369 Report and the Summary Appraisal Report is the level of detail of presentation.
- 2370 **(i) state the identity of the client and any intended users, by name or type;**
- 2371 Comment: An appraiser must use care when identifying the client to ensure a  
 2372 clear understanding and to avoid violations of the Confidentiality section of the  
 2373 ETHICS RULE. In those rare instances where the client wishes to remain  
 2374 anonymous, an appraiser must still document the identity of the client in the  
 2375 workfile but may omit the client’s identity in the report.
- 2376 **(ii) state the intended use of the appraisal;**
- 2377 **(iii) summarize information sufficient to identify the property involved in the appraisal,**  
 2378 **including the physical and economic property characteristics relevant to the**  
 2379 **assignment;**



<b>(iv)</b>	<b>state the property interest appraised;</b>	2380
<b>(v)</b>	<b>state the type and definition of value and cite the source of the definition;</b>	2381
	<u>Comment:</u> Stating the definition of value also requires any comments needed to clearly indicate to the intended users how the definition is being applied.	2382 2383
	When reporting an opinion of market value, state whether the opinion of value is:	2384 2385
	<ul style="list-style-type: none"> <li>▪ in terms of cash or of financing terms equivalent to cash, or</li> <li>▪ based on non-market financing or financing with unusual conditions or incentives.</li> </ul>	2386 2387 2388
	When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.	2389 2390 2391
<b>(vi)</b>	<b>state the effective date of the appraisal and the date of the report;</b>	2392
	<u>Comment:</u> The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.	2393 2394 2395 2396
	Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.	2397 2398 2399 2400
<b>(vii)</b>	<b>summarize sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;</b>	2401 2402
	<u>Comment:</u> This requirement is to ensure that the client and intended users whose expected reliance on an appraisal may be affected by the extent of the appraiser's investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.	2403 2404 2405 2406 2407
	When any portion of the work involves significant personal property appraisal assistance, the appraiser must summarize the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with SR 8-3.	2408 2409 2410 2411 2412
<b>(viii)</b>	<b>clearly and conspicuously:</b>	2413
	<ul style="list-style-type: none"> <li>• state all extraordinary assumptions and hypothetical conditions; and</li> <li>• state that their use might have affected the assignment results;</li> </ul>	2414 2415
<b>(ix)</b>	<b>summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;</b>	2416 2417

2418 Comment: The appraiser must be certain that the information provided is  
 2419 sufficient for the client and intended users to adequately understand the rationale  
 2420 for the opinion and conclusions, including reconciliation of the data and  
 2421 approaches, in accordance with Standards Rule 7-6.

2422 When reporting an opinion of market value, a summary of the results of the  
 2423 analysis of the subject sales, offers, options, and listings in accordance with  
 2424 Standards Rule 7-5 is necessary. If such information was unobtainable, a  
 2425 statement on the efforts undertaken by the appraiser to obtain the information is  
 2426 required. If such information is irrelevant, a statement acknowledging the  
 2427 existence of the information and citing its lack of relevance is required.

2428 **(x) state, as appropriate to the class of personal property involved, the use of the**  
 2429 **property existing as of the date of value and the use of the property reflected in the**  
 2430 **appraisal; and, when reporting an opinion of market value, summarize the support**  
 2431 **and rationale for the appraiser’s opinion of the highest and best use of the property;**

2432 Comment: The report must contain the appraiser’s opinion as to the highest and  
 2433 best use of the property, unless an opinion as to highest and best use is  
 2434 unnecessary such as in insurance valuation or “value in use” appraisals. When  
 2435 reporting an opinion of market value, a summary of the appraiser’s support and  
 2436 rationale for the opinion of highest and best use is required. The appraiser’s  
 2437 reasoning in support of the opinion must be provided in the depth and detail  
 2438 required by its significance to the appraisal. In the context of personal property,  
 2439 highest and best use may equate to the choice of the appropriate market or  
 2440 market level for the type of item and the type and definition of value and  
 2441 intended use of the report.

2442 **(xi) state and explain any permitted departures from specific requirements of**  
 2443 **STANDARD 7, and the reason for excluding any of the usual valuation approaches;**  
 2444 **and**

2445 Comment: A Summary Appraisal Report must include sufficient information to  
 2446 indicate that the appraiser complied with the requirements of STANDARD 7,  
 2447 including any permitted departures from the specific requirements. The amount  
 2448 of detail required will vary with the significance of the information to the  
 2449 appraisal.

2450 When the DEPARTURE RULE is invoked, the assignment is deemed to be a  
 2451 Limited Appraisal. Use of the term “Limited Appraisal” makes clear that the  
 2452 assignment involved something less than or different from the work that could  
 2453 have and would have been completed if departure had not been invoked. The  
 2454 report of a Limited Appraisal must contain a prominent section that clearly  
 2455 identifies the extent of the appraisal process performed and the departures taken.

2456 The reliability of the results of a Complete Appraisal or a Limited Appraisal  
 2457 developed under STANDARD 7 is not affected by the type of report prepared  
 2458 under STANDARD 8. The extent of the appraisal process performed under  
 2459 STANDARD 7 is the basis for the reliability of the value conclusion.

2460 **(xii) include a signed certification in accordance with Standards Rule 8-3.**

2461 **(c) The content of a Restricted Use Appraisal Report must be consistent with the intended use of**  
 2462 **the appraisal and, at a minimum:**

<b>(i)</b>	<b>state the identity of the client, by name or type;</b>	2463
	<u>Comment:</u> An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the <u>Confidentiality</u> section of the ETHICS RULE. In those rare instances when the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the client's identity in the report.	2464 2465 2466 2467 2468
<b>(ii)</b>	<b>state the intended use of the appraisal;</b>	2469
	<u>Comment:</u> The intended use of the appraisal must be consistent with the limitation on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e., client use only).	2470 2471 2472
<b>(iii)</b>	<b>state information sufficient to identify the property involved in the appraisal;</b>	2473
<b>(iv)</b>	<b>state the property interest appraised;</b>	2474
<b>(v)</b>	<b>state the type of value, and cite the source of its definition;</b>	2475
<b>(vi)</b>	<b>state the effective date of the appraisal and the date of the report;<sup>52</sup></b>	2476
	<u>Comment:</u> The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.	2477 2478 2479 2480
<b>(vii)</b>	<b>state the extent of the process of collecting, confirming, and reporting data or refer to an assignment agreement retained in the appraiser's workfile, which describes the scope of work to be performed;</b>	2481 2482 2483
	<u>Comment:</u> When any portion of the work involves significant personal property appraisal assistance, the appraiser must state the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with SR 8-3.	2484 2485 2486 2487 2488
<b>(viii)</b>	<b>clearly and conspicuously:</b>	2489
	• <b>state all extraordinary assumptions and hypothetical conditions; and</b>	2490
	• <b>state that their use might have affected the assignment results;</b>	2491
<b>(ix)</b>	<b>state the appraisal procedures followed, state the value opinion(s) and conclusion(s) reached, and reference the workfile;</b>	2492 2493

<sup>52</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

2494 Comment: An appraiser must maintain a specific, coherent workfile in support  
 2495 of a Restricted Use Appraisal Report. The contents of the workfile must be  
 2496 sufficient for the appraiser to produce a Summary Appraisal Report. The file  
 2497 must be available for inspection by the client (or the client’s representatives,  
 2498 such as those engaged to complete an appraisal review), state enforcement  
 2499 agencies, such third parties as may be authorized by due process of law, and a  
 2500 duly authorized professional peer review committee except when such  
 2501 disclosure to a committee would violate applicable law or regulation.

2502 When reporting an opinion of market value, information analyzed in compliance  
 2503 with Standards Rules 7-5 is significant information that must be disclosed in a  
 2504 Restricted Use Appraisal Report. If such information was unobtainable, a  
 2505 statement on the efforts undertaken by the appraiser to obtain the information is  
 2506 required. If such information is irrelevant, a statement acknowledging the  
 2507 existence of the information and citing its lack of relevance is required.

2508 **(x) state, as appropriate to the class of personal property involved, the use of the**  
 2509 **property existing as of the date of value and the use of the property reflected in the**  
 2510 **appraisal; and, when reporting an opinion of market value, state the appraiser’s**  
 2511 **opinion of the highest and best use of the property;**

2512 Comment: If an opinion of highest and best use is required, the appraiser’s  
 2513 reasoning in support of the opinion must be stated in the depth and detail  
 2514 required by its significance to the appraisal or documented in the workfile and  
 2515 referenced in the report. In the context of personal property, highest and best use  
 2516 may equate to the choice of the appropriate market or market level for the type  
 2517 of item, the type and definition of value, and intended use of the report.

2518 **(xi) state and explain any permitted departures from applicable specific requirements of**  
 2519 **STANDARD 7; state the exclusion of any of the usual valuation approaches; and**  
 2520 **state a prominent use restriction that limits use of the report to the client and warns**  
 2521 **that the appraiser’s opinions and conclusions set forth in the report cannot be**  
 2522 **understood properly without additional information in the appraiser’s workfile;**  
 2523 **and**

2524 Comment: When the DEPARTURE RULE is invoked, the assignment is  
 2525 deemed to be a Limited Appraisal. Use of the term “Limited Appraisal” makes it  
 2526 clear that the assignment involved something less than or different from the  
 2527 work that could have and would have been completed if departure had not been  
 2528 invoked. The report of a Limited Appraisal must contain a prominent section  
 2529 that clearly identifies the extent of the appraisal process performed and the  
 2530 departures taken.

2531 The Restricted Use Appraisal Report is for client use only. Before entering into  
 2532 an agreement, the appraiser should establish with the client the situations where  
 2533 this type of report is to be used and should ensure that the client understands the  
 2534 restricted utility of the Restricted Use Appraisal Report.

2535 **(xii) include a signed certification in accordance with Standards Rule 8-3.**

2536

**Standards Rule 8-3** (This Standards Rule contains binding requirements from which departure is not permitted.) 2536  
2537

Each written personal property appraisal report must contain a signed certification that is similar in content to the following form: 2538  
2539

I certify that, to the best of my knowledge and belief: 2540

- the statements of fact contained in this report are true and correct. 2541
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions. 2542  
2543  
2544
- I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved. 2545  
2546  
2547
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment. 2548  
2549
- my engagement in this assignment was not contingent upon developing or reporting predetermined results. 2550  
2551
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. 2552  
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2556
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*. 2557  
2558  
2559
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.) 2560  
2561  
2562  
2563
- no one provided significant personal property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant personal property appraisal assistance must be stated.) 2564  
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2566

Comment: A signed certification is an integral part of the appraisal report. An appraiser who signs any part of the appraisal report, including a letter of transmittal, must also sign this certification. 2567  
2568  
2569

In an assignment that includes only assignment results developed by the personal property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes real property, business or intangible asset assignment results not developed by the personal property appraiser(s), any personal property appraiser(s) who signs a certification accepts full responsibility for the personal property elements of the certification, for the personal property assignment results, and for the personal property contents of the appraisal report. 2570  
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When a signing appraiser(s) has relied on work done by others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent and that their work is credible. 2578  
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The names of individuals providing significant personal property appraisal assistance who do not sign a certification must be stated in the certification. It is not required that 2582  
2583

2584 the description of their assistance be contained in the certification, but disclosure of their  
2585 assistance is required in accordance with SR 8-2(a), (b), or (c)(vii), as applicable.

2586 **Standards Rule 8-4 (This Standards Rule contains specific requirements from which departure is**  
2587 **permitted. See DEPARTURE RULE.)**

2588 **An oral personal property appraisal report must, at a minimum, address the substantive matters set**  
2589 **forth in Standards Rule 8-2(b).**

2590 Comment: Testimony of an appraiser concerning his or her analyses, opinions, and  
2591 conclusions is an oral report in which the appraiser must comply with the requirements of  
2592 this Standards Rule.

2593 See the Record Keeping section of the ETHICS RULE for corresponding requirements.

**STANDARD 9: BUSINESS APPRAISAL, DEVELOPMENT** 2594

**In developing a business or intangible asset appraisal, an appraiser must identify the problem to be solved and the scope of work necessary to solve the problem and correctly complete the research and analysis steps necessary to produce a credible appraisal.** 2595  
2596  
2597

Comment: STANDARD 9 is directed toward the substantive aspects of developing a competent business or intangible asset appraisal. The requirements of STANDARD 9 apply when the specific purpose of an assignment is to develop an appraisal of a business or intangible asset. 2598  
2599  
2600  
2601

**Standards Rule 9-1 (This Standards Rule contains binding requirement from which departure is not permitted.)** 2602  
2603

**In developing a business or intangible asset appraisal, an appraiser must:** 2604

**(a) be aware of, understand, and correctly employ those recognized methods and procedures that are necessary to produce a credible appraisal;** 2605  
2606

Comment: Changes and developments in the economy and in investment theory have a substantial impact on the business appraisal profession. Important changes in the financial arena, securities regulation, and tax law and major new court decisions may result in corresponding changes in business appraisal practice. 2607  
2608  
2609  
2610

**(b) not commit a substantial error of omission or commission that significantly affects an appraisal; and** 2611  
2612

Comment: In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 9-2(e), to reasonably ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, when necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions. 2613  
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**(c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.** 2620  
2621  
2622

Comment: Perfection is impossible to attain and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This Rule requires an appraiser to use diligence and care. 2623  
2624  
2625

**Standards Rule 9-2 (This Standards Rule contains binding requirements from which departure is not permitted.)** 2626  
2627

**In developing a business or intangible asset appraisal, an appraiser must identify:** 2628

**(a) the client and any other intended users of the appraisal and the client's intended use of the appraiser's opinions and conclusions;** 2629  
2630

Comment: An appraiser must not allow a client's objectives or intended use of the appraisal to cause an analysis to be biased. 2631  
2632

**(b) the type and definition of value;** 2633

- 2634 (c) **the effective date of the appraisal;**<sup>53</sup>
- 2635 (d) **the business enterprises, assets, or equity to be valued;**
- 2636 (i) **identify any buy-sell agreement, investment letter stock restrictions, restrictive**
- 2637 **corporate charter or partnership agreement clauses, and any similar features or**
- 2638 **factors that may have an influence on value; and**
- 2639 (ii) **ascertain the extent to which the interests contain elements of ownership control.**

2640 Comment: Special attention should be paid to the attributes of the interest being

2641 appraised, including the rights and benefits of ownership. The elements of

2642 control in a given situation may be affected by law, distribution of ownership

2643 interests, contractual relationships, and many other factors. As a consequence,

2644 the degree of control or lack of it depends on a broad variety of facts and

2645 circumstances that must be evaluated in the specific situation.

2646 Equity interests in a business enterprise are not necessarily worth the pro rata

2647 share of the business enterprise value as a whole. Conversely, the value of the

2648 business enterprise is not necessarily a direct mathematical extension of the

2649 value of the fractional interests.

- 2650 (e) **the scope of work that will be necessary to complete the assignment;**

2651 Comment: The scope of work is acceptable when it is consistent with:

- 2652 • the expectations of participants in the market for the same or similar appraisal
- 2653 services; and
- 2654 • what the appraiser's peers' actions would be in performing the same or a similar
- 2655 business appraisal assignment in compliance with USPAP.<sup>54</sup>

2656 An appraiser must have sound reasons in support of the scope of work decision and must

2657 be prepared to support the decision to exclude any information or procedure that would

2658 appear to be relevant to the client, an intended user, or the appraiser's peers in the same

2659 or a similar assignment. An appraiser must not allow assignment conditions to limit the

2660 extent of research or analysis to such a degree that the resulting opinions and conclusions

2661 developed in an assignment are not credible in the context of the intended use of the

2662 appraisal.

- 2663 (f) **any extraordinary assumptions necessary in the assignment; and**

2664 Comment: An extraordinary assumption may be used in an appraisal only if:

- 2665 • it is required to properly develop credible opinions and conclusions;
- 2666 • the appraiser has a reasonable basis for the extraordinary assumption;
- 2667 • use of the extraordinary assumption results in a credible analysis; and
- 2668 • the appraiser complies with the disclosure requirements set forth in USPAP for
- 2669 extraordinary assumptions.
- 2670

<sup>53</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

<sup>54</sup> See Statement on Appraisal Standards No. 7 (SMT-7).



<b>(g) any hypothetical conditions necessary in the assignment.</b>	2670
<u>Comment:</u> A hypothetical condition may be used in an appraisal only if:	2671
▪ use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;	2672 2673
▪ use of the hypothetical condition results in a credible analysis; and	2674
▪ the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.	2675 2676
<b><u>Standards Rule 9-3</u> (This Standards Rule contains binding requirements from which departure is not permitted.)</b>	2677 2678
<b>In developing a business or intangible asset appraisal relating to an equity interest with the ability to cause liquidation of the enterprise, an appraiser must investigate the possibility that the business enterprise may have a higher value by liquidation of all or part of the enterprise than by continued operation as is. If liquidation of all or part of the enterprise is the indicated basis of valuation, an appraisal of any real estate or personal property to be liquidated may be appropriate.</b>	2679 2680 2681 2682 2683
<u>Comment:</u> This Standards Rule requires the appraiser to recognize that continued operation of a business is not always the best premise of value because liquidation of all or part of the enterprise may result in a higher value. However, this typically applies only when the business equity being appraised is in a position to cause liquidation. If liquidation of all or part of the enterprise is the appropriate premise of value, competency in the appraisal of assets such as real estate (STANDARD 1) and tangible personal property (STANDARD 7) may be required to complete the business appraisal assignment.	2684 2685 2686 2687 2688 2689 2690 2691
<b><u>Standards Rule 9-4</u> (This Standards Rule contains specific requirements from which departure is permitted. See the DEPARTURE RULE.)</b>	2692 2693
<b>In developing a business or intangible asset appraisal, an appraiser must collect and analyze all information pertinent to the appraisal problem, given the scope of work identified in accordance with Standards Rule 9-2(e).</b>	2694 2695 2696
<b>(a) An appraiser must develop value opinion(s) and conclusion(s) by use of one or more approaches that apply to the specific appraisal assignment; and</b>	2697 2698
<u>Comment:</u> This Standards Rule requires the appraiser to use all relevant approaches for which sufficient reliable data are available. However, it does not mean that the appraiser must use all approaches in order to comply with the Standards Rule if certain approaches are not applicable.	2699 2700 2701 2702
<b>(b) include in the analyses, when relevant, data regarding:</b>	2703
<b>(i) the nature and history of the business;</b>	2704
<b>(ii) financial and economic conditions affecting the business enterprise its industry, and the general economy;</b>	2705 2706
<b>(iii) past results, current operations, and future prospects of the business enterprise;</b>	2707
<b>(iv) past sales of capital stock or other ownership interests in the business enterprise being appraised;</b>	2708 2709

- 2710 (v) sales of similar businesses or capital stock of publicly held similar businesses;  
2711  
2712 (vi) prices, terms, and conditions affecting past sales of similar business equity; and  
2713 (vii) economic benefit of intangible assets.

2714 Comment: This Standards Rule directs the appraiser to study the prospective and  
2715 retrospective aspects of the business enterprise and to study it in terms of the  
2716 economic and industry environment within which it operates. Further, sales of  
2717 securities of the business itself or similar businesses for which sufficient  
2718 information is available should also be considered.

2719 **Standards Rule 9-5 (This Standards Rule contains binding requirements from which departure is not**  
2720 **permitted.)**

2721 **In developing a business or intangible asset appraisal, an appraiser must reconcile the indications of**  
2722 **value resulting from the various approaches to arrive at the value conclusion.**

2723 Comment: The appraiser must evaluate the relative reliability of the various indications  
2724 of value. The appraiser must consider the quality and quantity of data leading to each of  
2725 the indications of value. The value conclusion is the result of the appraiser's judgment  
2726 and not necessarily the result of a mathematical process.

**STANDARD 10: BUSINESS APPRAISAL, REPORTING** 2726

**In reporting the results of a business or intangible asset appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.** 2727  
2728

Comment: STANDARD 10 addresses the content and level of information required in a report that communicates the results of a business or intangible asset appraisal developed under STANDARD 9. 2729  
2730  
2731

STANDARD 10 does not dictate the form, format, or style of business or intangible asset appraisal reports, which are functions of the needs of users and providers of appraisal services. The substantive content of a report determines its compliance. 2732  
2733  
2734

**Standards Rule 10-1 (This Standards Rule contains binding requirements from which departure is not permitted.)** 2735  
2736

**Each written or oral business or intangible asset appraisal report must:** 2737

- (a) **clearly and accurately set forth the appraisal in a manner that will not be misleading:** 2738
- (b) **contain sufficient information to enable the intended user (s) to understand it and note any specific limiting conditions concerning information; and** 2739  
2740
- (c) **clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment.** 2741  
2742

Comment: Examples might include items such as the execution of a pending agreement, atypical financing, infusion of additional working capital or making other capital additions, or compliance with regulatory authority rules. 2743  
2744  
2745

**Standards Rule 10-2 (This Standards Rule contains binding requirements from which departure is not permitted.)** 2746  
2747

**Each written business appraisal or intangible asset appraisal report must be prepared in accordance with one of the following options and prominently state which option is used: Appraisal Report or Restricted Use Appraisal Report.** 2748  
2749  
2750

Comment: When the intended users include parties other than the client, an Appraisal Report must be provided. When the only intended user is the client, a Restricted Use Appraisal Report may be provided. 2751  
2752  
2753

The essential difference between these options is in the content and level of information provided. 2754  
2755

An appraiser may use any other label in addition to, but not in place of, the label set forth in this Standard for the type of report provided. 2756  
2757

The report content and level of information requirements set forth in this Standard are minimums for both types of report. An appraiser must ensure that any intended user of the appraisal is not misled and that the report complies with the applicable content requirements set forth in this Standards Rule. 2758  
2759  
2760  
2761

A party receiving a copy of an Appraisal Report or Restricted Use Appraisal Report does not become an intended user of the appraisal unless the appraiser identifies such party as an intended user as part of the assignment. 2762  
2763  
2764

2766 (a) **The content of an Appraisal Report must be consistent with the intended use of the appraisal**  
 2767 **and, at a minimum:**

2768 (i) **state the identity of the client and any intended users, by name or type;**

2769 Comment: An appraiser must use care when identifying the client to ensure a  
 2770 clear understanding and to avoid violations of the Confidentiality section of the  
 2771 ETHICS RULE. In those rare instances when the client wishes to remain  
 2772 anonymous, an appraiser must still document the identity of the client in the  
 2773 workfile but may omit the client's identity in the report.

2774 (ii) **state the intended use of the appraisal;<sup>55</sup>**

2775 (iii) **summarize information sufficient to identify the business or intangible asset**  
 2776 **appraised;**

2777 Comment: The identification information must include property characteristics  
 2778 relevant to the assignment.

2779 (iv) **state as relevant to the assignment, the extent to which the business interest or the**  
 2780 **interest in the intangible asset appraised contains elements of ownership control,**  
 2781 **including the basis for that determination;**

2782 (v) **state the type and definition of value and cite the source of the definition;**

2783 Comment: Stating the definition of value also requires any comments needed to  
 2784 clearly indicate to the intended users how the definition is being applied.

2785 (vi) **state the effective date of the appraisal and the date of the report;<sup>56</sup>**

2786 Comment: The effective date of the appraisal establishes the context for the  
 2787 value opinion, while the date of the report indicates whether the perspective of  
 2788 the appraiser on the market or property use conditions as of the effective date of  
 2789 the appraisal was prospective, current, or retrospective.

2790 (vii) **summarize sufficient information to disclose to the client and any intended users of**  
 2791 **the appraisal the scope of work used to develop the appraisal;**

2792 Comment: This requirement is to ensure that the client and intended users whose  
 2793 expected reliance on an appraisal may be affected by the extent of the  
 2794 appraiser's investigation are properly informed and are not misled as to the  
 2795 scope of work. The appraiser has the burden of proof to support the scope of  
 2796 work decision and the level of information included in a report.

2797 When any portion of the work involves significant business appraisal assistance,  
 2798 the appraiser must summarize the extent of that assistance. The signing appraiser  
 2799 must also state the name(s) of those providing the significant business appraisal  
 2800 assistance in the certification, in accordance with SR 10-3.

2801 (viii) **clearly and conspicuously:**

2802 **• state all extraordinary assumptions and hypothetical conditions; and**

<sup>55</sup> See Statement on Appraisal Standards No. 9 (SMT-9).

<sup>56</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

	• state that their use might have affected the assignment results;	2802
(ix)	summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;	2803 2804
	<u>Comment:</u> The appraiser must attempt to determine that the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions, including reconciliation in accordance with Standards Rule 9-5.	2805 2806 2807 2808
(x)	state and explain any permitted departures from specific requirements of STANDARD 9 and the reason for excluding any of the usual valuation approaches; and	2809 2810 2811
	<u>Comment:</u> An Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 9, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.	2812 2813 2814 2815
	When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term “Limited Appraisal” makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.	2816 2817 2818 2819 2820 2821
(xi)	include a signed certification in accordance with Standards Rule 10-3.	2822
(b)	The content of a Restricted Use Appraisal Report must be for client use only and consistent with the intended use of the appraisal and, at a minimum:	2823 2824
(i)	state the identity of the client;	2825
	<u>Comment:</u> An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the <u>Confidentiality</u> section of the ETHICS RULE.	2826 2827 2828
(ii)	state the intended use of the appraisal;	2829
	<u>Comment:</u> The intended use of the appraisal must be client use only.	2830
(iii)	state information sufficient to identify the business or intangible asset appraised;	2831
	<u>Comment:</u> The identification information must include property characteristics relevant to the assignment.	2832 2833
(iv)	state as relevant to the assignment, the extent to which the business interest or the interest in the intangible asset appraised contains elements of ownership control, including the basis for that determination;	2834 2835 2836
(v)	state the type of value and cite the source of its definition;	2837
(vi)	state the effective date of the appraisal and the date of the report; <sup>57</sup>	2838

<sup>57</sup> See Statement on Appraisal Standards No. 3 (SMT-3) and Statement on Appraisal Standards No. 4 (SMT-4).

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Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

- (vii) state the extent of the process of collecting, confirming, and reporting data or refer to an assignment agreement retained in the appraiser’s workfile that describes the scope of work to be performed;**

Comment: When any portion of the work involves significant business appraisal assistance, the appraiser must state the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant business appraisal assistance in the certification, in accordance with SR 10-3.

- (viii) clearly and conspicuously:**

- **state all extraordinary assumptions and hypothetical conditions; and**
- **state that their use might have affected the assignment results;**

- (ix) state the appraisal procedures followed, state the value opinion(s) and conclusion(s) reached, and reference the workfile;**

Comment: An appraiser must maintain a specific, coherent workfile in support of a Restricted Use Appraisal Report. The contents of the workfile must be sufficient for the appraiser to produce an Appraisal Report. The file must be available for inspection by the client (or the client’s representatives, such as those engaged to complete an appraisal review), such third parties as may be authorized by due process of law, and a duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation.

- (x) state and explain any permitted departures from applicable specific requirements of STANDARD 9; state the exclusion of any of the usual valuation approaches; and state a prominent use restriction that limits use of the report to the client and warns that the appraiser’s opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraiser’s workfile; and**

Comment: When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term “Limited Appraisal” makes it clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The Restricted Use Appraisal Report is for client use only. Before entering into an agreement, the appraiser should establish with the client the situations where this type of report is to be used and should ensure that the client understands the restricted utility of the Restricted Use Appraisal Report.

- (xi) include a signed certification in accordance with Standards Rule 10-3.**

**Standards Rule 10-3** (This Standards Rule contains binding requirements from which departure is not permitted.) 2880  
2881

Each written business or intangible asset appraisal report must contain a signed certification that is similar in content to the following form: 2882  
2883

I certify that, to the best of my knowledge and belief: 2884

- the statements of fact contained in this report are true and correct. 2885
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions. 2886  
2887  
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- I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest with respect to the parties involved. 2889  
2890  
2891
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment. 2892  
2893
- my engagement in this assignment was not contingent upon developing or reporting predetermined results. 2894  
2895
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. 2896  
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- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*. 2901  
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- no one provided significant business appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant business appraisal assistance must be stated.) 2904  
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2906

Comment: A signed certification is an integral part of the appraisal report. An appraiser who signs any part of the appraisal report, including a letter of transmittal, must also sign this certification. 2907  
2908  
2909

In an assignment that includes only assignment results developed by the business and/or intangible asset appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes real property or personal property assignment results not developed by the business and/or intangible asset appraiser(s), any business and/or intangible asset appraiser(s) who signs a certification accepts full responsibility for the business and/or intangible asset elements of the certification, for the business and/or intangible asset assignment results, and for the business and/or intangible asset contents of the appraisal report. 2910  
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When a signing appraiser(s) has relied on work done by others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent and that their work is credible. 2919  
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The names of individuals providing significant business appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification but disclosure of their assistance is required in accordance with SR 10-2(a) or (b)(vii), as applicable. 2923  
2924  
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2926

2928 **Standards Rule 10-4** (This Standards Rule contains specific requirements from which departure is  
2929 permitted. See DEPARTURE RULE.)

2930 **An oral business or intangible asset appraisal report must, at a minimum, address the substantive**  
2931 **matters set forth in Standards Rule 10-2(a).**

2932 Comment: See the Record Keeping section of the ETHICS RULE for corresponding  
2933 requirements.



<b>STATEMENTS ON APPRAISAL STANDARDS</b>	2933
<b>Statements on Appraisal Standards are authorized by the by-laws of The Appraisal Foundation and are specifically for the purposes of clarification, interpretation, explanation, or elaboration of the Uniform Standards of Professional Appraisal Practice (USPAP). Statements have the full weight of a Standards Rule and can be adopted by the Appraisal Standards Board only after exposure and comment.</b>	2934 2935 2936 2937 2938
<b>INDEX TO STATEMENTS</b>	2939
SMT-1 Appraisal Review – Clarification of <u>Comment</u> on Standards Rule 3-1(g) – Retired.....	84 2940
SMT-2 Discounted Cash Flow Analysis (RP) .....	85 2941
SMT-3 Retrospective Value Opinions (RP, PP) .....	88 2942
SMT-4 Prospective Value Opinions (RP, PP) .....	90 2943
SMT-5 <u>Confidentiality</u> Section of the ETHICS RULE – Retired.....	92 2944
SMT-6 Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions (RP, PP).....	93 2945 2946
SMT-7 Permitted Departure from Specific Requirements in Real Property and Personal Property Appraisal Assignments (RP, PP).....	95 2947 2948
SMT-8 Electronic Transmission of Reports – Retired.....	104 2949
SMT-9 Identification of the Client’s Intended Use in Developing and Reporting Appraisal, Appraisal Review, or Appraisal Consulting Assignment Opinions and Conclusions (ALL) .....	105 2950 2951
SMT-10 Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction (RP) .....	109 2952 2953

2955 **STATEMENT ON APPRAISAL STANDARDS NO. 1 (SMT-1)**

2956 **SUBJECT: Appraisal Review—Clarification of Comment on Standards Rule 3-1(g)**

2957 Adopted July 8, 1991

2958 Retired September 15, 1999

<b>STATEMENT ON APPRAISAL STANDARDS NO. 2 (SMT-2)</b>	2958
<b>SUBJECT: Discounted Cash Flow Analysis</b>	2959
<b>APPLICATION: Real Property</b>	2960
<b>THE ISSUE:</b>	2961
Discounted cash flow (DCF) analysis is an accepted analytical tool and method of valuation within the income capitalization approach to value. DCF is not a new method, but it did not enjoy widespread use until modern computer technology enabled appraisers to automate the process. Because DCF analysis is profit oriented and dependent on the analysis of uncertain future events, it is vulnerable to misuse. What steps can the appraiser take to avoid misuse of DCF analysis?	2962 2963 2964 2965 2966
<b>THE STATEMENT:</b>	2967
The acceptance of DCF analysis as a method of valuation began in the institutional real estate market and has spread to investment real estate in the general real estate market. DCF techniques may be applied in the valuation or analysis of proposed construction, land development, condominium development or conversion, rehabilitation development, and income-producing real estate of various types. DCF analysis is becoming a requirement of advisors, asset managers, fiduciaries, portfolio managers, syndicators, underwriters, and others dealing in investment-grade real estate. These users of appraisal services favor the inclusion of DCF analysis as a management tool in projecting cash flow and return expectations, capital requirements, refinancing opportunities, and timing of future property dispositions. DCF analysis is regarded as one of the best methods of replicating steps taken to reach investor buy/sell/hold decisions and is often a part of the exercise of due diligence in the evaluation of an investment.	2968 2969 2970 2971 2972 2973 2974 2975 2976 2977
DCF methodology is based on the principle of anticipation—i.e., value is created by the anticipation of future benefits. DCF analysis reflects investment criteria and requires the appraiser to make empirical and subjective assumptions. DCF analysis can be used for investment value and market value appraisals, as well as for other purposes such as sensitivity tests.	2978 2979 2980 2981
DCF analysis is an additional tool available to the appraiser and is best applied in developing value opinions in the context of one or more other approaches. This statement focuses on the criteria for proper DCF analysis and does not imply that DCF analysis is or should be the only method employed.	2982 2983 2984
To avoid misuse or misunderstanding when DCF analysis is used in an appraisal assignment to develop an opinion of market value, it is the responsibility of the appraiser to ensure that the controlling input is consistent with market evidence and prevailing market attitudes. Market value DCF analyses should be supported by market derived data, and the assumptions should be both market and property specific. Market value DCF analyses, along with available factual data, are intended to reflect the expectations and perceptions of market participants. They should be judged on the support for the forecasts that existed when made, not on whether specific items in the forecasts are realized at a later date. An appraisal report that includes the results of DCF analysis must clearly state the assumptions on which the analysis is based and must set forth the relevant data used in the analysis.	2985 2986 2987 2988 2989 2990 2991 2992 2993

2995 Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or  
2996 commission that significantly affects an appraisal. Standards Rule 1-1(c) states that the appraiser must not  
2997 render appraisal services in a careless or negligent manner, such as making a series of errors that, although  
2998 individually might not significantly affect the results of an appraisal, in the aggregate would affect the  
2999 credibility of those results. These two Standards Rules are significant for DCF analysis because of the  
3000 potential for the compounding effect of errors in the input, unrealistic assumptions, and programming  
3001 errors.

3002 Computer printouts showing the results of DCF analysis may be generated by commercial software or by  
3003 software prepared by the appraiser. Either way, the appraiser is responsible for the entire analysis including  
3004 the controlling input, the calculations, and the resulting output. If using commercial software the appraiser  
3005 should cite the name and version of the software and provide a brief description of the methods and  
3006 assumptions inherent in the software. Standards Rule 1-4(h) requires realistic forecasts in the appraisal of  
3007 proposed improvements and development projects. Standards Rule 1-4(c)(iv) requires that projections of  
3008 anticipated future rent and/or income potential and expenses be based on reasonably clear and appropriate  
3009 evidence. The Comment to this Standards Rule makes specific reference to cash flow projections, the  
3010 essence of DCF analysis.

3011 DCF accounts for and reflects those items and forces that affect the revenue, expenses, and ultimate earning  
3012 capacity of real estate and represents a forecast of events that would be considered likely within a specific  
3013 market. For example, in the appraisal of a multi-tenant property, a lease-by-lease analysis addresses  
3014 contract and market rents, specific escalations, operating expenses, pass-through provisions, market-  
3015 derived or specific concessions, capital expenditures, and any other measurable specific provisions  
3016 applicable. Revenue growth rate or decline rate assumptions are premised on analysis of supply/demand  
3017 factors and other economic conditions and trends within the market area of the subject. Operating expense  
3018 change rates should reflect both overall expense trends and the specific trend of significant expense items.

3019 Discount rates applied to cash flows and estimates of reversion should be derived from data and  
3020 information in the real estate and capital markets. Surveys of investor opinion and yield indices are also  
3021 useful in the rate selection process, but only when the type of and market for the real estate being appraised  
3022 is consistent with the type of and market for the real estate typically acquired by the investors interviewed  
3023 in the survey. Considerations used in the selection of rates are risk, inflation, and real rates of return.

3024 When reversion capitalization rates are used, they should reflect investor expectations considering the real  
3025 estate type, age and condition, cash flow characteristics, and related factors. The projection period is a  
3026 variable and should be set on the basis of the facts and circumstances of each analysis.

3027 The results of DCF analysis should be tested and checked for errors and reasonableness. Because of the  
3028 compounding effects in the projection of income and expenses, even slight input errors can be magnified  
3029 and can produce unreasonable results. For example, it is good practice to test whether cash flows are  
3030 changing at reasonable rates and to compare the reversion capitalization rate with the inferred entrance  
3031 capitalization rate to see if the relationship between these rates is reasonable and explainable.

3032 STANDARD 2 requires the appraiser to communicate each analysis, opinion, and conclusion in a manner  
3033 that is not misleading. Appraisals using the DCF method in the income capitalization approach may contain  
3034 computerized projections of itemized future cash flow supported by exhaustive printouts that can be  
3035 misleading. The seeming precision of computer-generated projections may give the appearance of certainty  
3036 to projections that are actually variable within a wide range. In DCF analysis, all of the assumptions  
3037 (growth rates, decline rates, rental rates, discount rates, financing terms, expense trends, capitalization  
3038 rates, etc.) directly affect the conclusion and must be clearly and accurately disclosed in the appraisal  
3039 report.

<b>CONCLUSIONS:</b>	3039
▪ DCF analysis is an additional tool available to the appraiser and is best applied in developing value opinions in the context of one or more other approaches.	3040 3041
▪ It is the responsibility of the appraiser to ensure that the controlling input is consistent with market evidence and prevailing market attitudes.	3042 3043
▪ Market value DCF analyses should be supported by market-derived data, and the assumptions should be both market- and property-specific.	3044 3045
▪ If using commercial software the appraiser should cite the name and version of the software and provide a brief description of the methods and assumptions inherent in the software.	3046 3047 3048
▪ DCF accounts for and reflects those items and forces that affect the revenue, expenses, and ultimate earning capacity of real estate and represents a forecast of events that would be considered likely within a specific market.	3049 3050 3051
▪ The results of DCF analysis should be tested and checked for errors and reasonableness.	3052 3053
▪ Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or commission that significantly affects an appraisal.	3054 3055
Adopted July 8, 1991	3056
Last Revised September 16, 1998	3057

3059 **STATEMENT ON APPRAISAL STANDARDS NO. 3 (SMT-3)**

3060 **SUBJECT: Retrospective Value Opinions**

3061 **APPLICATION: Real Property, Personal Property**

3062 **THE ISSUE:**

3063 Two dates are essential to an appraisal report. Standards Rules 2-2(a)(vi), (b)(vi), and (c)(vi), and 8-2(a)(vi),  
 3064 (b)(vi), and (c)(vi) require that each appraisal report specify the effective date of the appraisal and the date of the  
 3065 report. The date of the report indicates the perspective from which the appraiser is examining the market. The  
 3066 effective date of the appraisal establishes the context for the value opinion. Three categories of effective dates -  
 3067 retrospective, current, or prospective - may be used, according to the intended use of the appraisal assignment.

3068 When a retrospective effective date is used, how can the appraisal be prepared and presented in a manner that is  
 3069 not misleading?

3070 **THE STATEMENT:**

3071 Retrospective appraisals (effective date of the appraisal prior to the date of the report) may be required for property  
 3072 tax matters, estate or inheritance tax matters, condemnation proceedings, suits to recover damages, and similar  
 3073 situations.

3074 Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the report.  
 3075 Since most appraisals require current value opinions, the importance of specifying both the date of the report and  
 3076 the effective date of the analysis is sometimes lost.

3077 Prospective appraisals (effective date of the appraisal subsequent to the date of the report) may be required for  
 3078 valuations of property interests related to proposed developments as the basis for value at the end of a cash flow  
 3079 projection and for other reasons. (See SMT-4 on Prospective Value Opinions.)

3080 The use of clear and concise language and appropriate terminology in appraisal reports helps to eliminate  
 3081 misleading reports. To avoid confusion, the appraiser must clearly establish the date to which the value opinion  
 3082 applies. In retrospective value opinions, use of a modifier for the term “market value” and past verb tenses  
 3083 increases clarity (e.g., “. . . the retrospective market value was . . .” instead of “. . . the market value is . . .”).

3084 A retrospective appraisal is complicated by the fact that the appraiser already knows what occurred in the market  
 3085 after the effective date of the appraisal. Data subsequent to the effective date may be considered in developing a  
 3086 retrospective value as a confirmation of trends that would reasonably be considered by a buyer or seller as of that  
 3087 date. The appraiser should determine a logical cut-off because at some point distant from the effective date, the  
 3088 subsequent data will not reflect the relevant market. This is a difficult determination to make. Studying the market  
 3089 conditions as of the date of the appraisal assists the appraiser in judging where he or she should make this cut-off.  
 3090 In the absence of evidence in the market that data subsequent to the effective date were consistent with and  
 3091 confirmed market expectations as of the effective date, the effective date should be used as the cut-off date for data  
 3092 considered by the appraiser.

3093 Use of direct excerpts from then-current appraisal reports prepared at the time of the retrospective effective date  
 3094 helps the appraiser and the reader understand market conditions as of the retrospective effective date.

3095 **CONCLUSIONS:**

- 3096
- 3097 ▪ A retrospective appraisal is complicated by the fact that the appraiser already knows
  - 3098 ▪ Data subsequent to the effective date may be considered in developing a
  - 3099 retrospective value as a confirmation of trends.

▪ The appraiser should determine a logical cut-off.	3099
▪ Use of direct excerpts from then-current appraisal reports prepared at the time of the retrospective effective date helps the appraiser and the reader understand market conditions as of the retrospective effective date.	3100 3101 3102
▪ In the absence of evidence in the market that data subsequent to the effective date were consistent with and confirmed market expectations as of the effective date, the effective date should be used as the cut-off date.	3103 3104 3105
Adopted July 8, 1991	3106
Last Revised September 16, 1998	3107

3109 **STATEMENT ON APPRAISAL STANDARDS NO. 4 (SMT-4)**

3110 **SUBJECT: Prospective Value Opinions**

3111 **APPLICATION: Real Property, Personal Property**

3112 **THE ISSUE:**

3113 Two dates are essential to an appraisal report. Standards Rules 2-2(a)(vi), (b)(vi), and (c)(vi), and 8-2(a)(vi),  
3114 (b)(vi), and (c)(vi) require that each appraisal report specify the effective date of the appraisal and the date of the  
3115 report. The date of the report indicates the perspective from which the appraiser is examining the market.  
3116 The effective date of the appraisal establishes the context for the value opinion. Three categories of  
3117 effective dates - retrospective, current, or prospective - may be used, according to the intended use of the  
3118 appraisal assignment.

3119 When a prospective effective date is used, how can the appraisal be prepared and presented in a manner  
3120 that is not misleading?

3121 **THE STATEMENT:**

3122 Retrospective appraisals (effective date of the appraisal prior to the date of the report) may be required for  
3123 property tax matters, estate or inheritance tax matters, condemnation proceedings, suits to recover damages,  
3124 and similar situations. (See SMT-3 on Retrospective Value Opinions.)

3125 Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the  
3126 report. Since most appraisals require current value opinions, the importance of specifying both the date of  
3127 the report and the effective date of the analysis is sometimes lost.

3128 Prospective appraisals (effective date of the appraisal subsequent to the date of the report) may be required  
3129 for valuations of property interests related to proposed developments as the basis for value at the end of a  
3130 cash flow projection and for other reasons.

3131 The use of clear and concise language and appropriate terminology in appraisal reports helps to eliminate  
3132 misleading reports. To avoid confusion, the appraiser must clearly establish the date to which the value  
3133 opinion applies. In prospective value opinions, use of the term “market value” without a modifier such as  
3134 “forecasted” or “prospective” and without future verb tenses is improper (i.e., “...the prospective market  
3135 value is expected to be...” and not “...the market value is...”).

3136 Prospective value opinions, along with available factual data, are intended to reflect the current  
3137 expectations and perceptions of market participants. They should be judged on the support for the forecasts  
3138 that existed when made, not on whether specific items in the forecasts are realized at a later date.

3139 When prospective value opinions are required with regard to proposed improvements to real property, Standards  
3140 Rule 1-4(h) regarding the scope, character, and probable time of completion of the proposed improvements and  
3141 Standards Rule 1-4(c)(iv) regarding the basis for anticipated future rent and expenses are relevant. Evidence that  
3142 proposed improvements can be completed by the effective date of the appraisal is important. Support for projected  
3143 income and expenses at the time of completion of proposed improvements, and during the rent-up or sell-out  
3144 period, requires the incorporation of sufficient market research in the appraisal and the consideration of existing  
3145 and future competition. It is appropriate to study comparable projects for evidence of construction periods,  
3146 development costs, income and expense levels, and absorption. Items such as rental concessions, commissions,  
3147 tenant finish allowances, add-on factors, and expense pass-throughs must be studied to develop realistic income  
3148 expectancy. The same issues are relevant when appraising personal property with proposed modifications, as set  
3149 forth in Standards Rules 7-4(c) and (h).



With regard to proposed developments of real property, two prospective value opinions may be required: 3149  
one as of the time the development is to be completed and one as of the time the development is projected 3150  
to achieve stabilized occupancy. These prospective values form a basis for investment decisions and loan 3151  
underwriting. 3152

In a prospective appraisal, the appraiser analyzes market trends to provide support for forecasted income 3153  
and expense or sell-out opinions, absorption periods, capitalization rates, and discount rates as of the 3154  
effective date of the appraisal. Economic trends such as growth in population, employment, and future 3155  
competition are also analyzed. The overall economic climate and variations in the business cycle should be 3156  
considered and weighed in the performance of the appraisal process. All value conclusions should include 3157  
reference to the time frame when the analysis was prepared to clearly delineate the market conditions and 3158  
the point of reference from which the appraiser developed the prospective value opinion. It is essential to 3159  
include a limiting condition citing the market conditions from which the prospective value opinion was 3160  
made and indicating that the appraiser cannot be held responsible for unforeseeable events that alter market 3161  
conditions prior to the effective date of the appraisal. 3162

**CONCLUSIONS:** 3163

- Prospective value opinions, along with available factual data, are intended to reflect 3164  
the current expectations and perceptions of market participants. They should be 3165  
judged on the market support for the forecasts when made, not on whether specific 3166  
items in the forecasts are realized. 3167
- It is appropriate to study comparable projects for evidence of construction periods, 3168  
development costs, income and expense levels, and absorption. 3169
- Items such as rental concessions, commissions, tenant finish allowances, add-on 3170  
factors, and expense pass-throughs must be studied to develop realistic income 3171  
expectancy. 3172
- All value conclusions should include reference to the time frame when the analysis 3173  
was prepared to clearly delineate the market conditions and the point of reference 3174  
from which the appraiser developed the prospective value opinion. 3175
- It is essential to include a limiting condition citing the market conditions from which 3176  
the prospective value opinion was made and indicating that the appraiser cannot be 3177  
held responsible for unforeseeable events that alter market conditions prior to the 3178  
effective date of the appraisal. 3179

Adopted July 8, 1991 3180

Last Revised September 15, 1999 3881

3183 **STATEMENT ON APPRAISAL STANDARDS NO. 5 (SMT-5)**

3184 **SUBJECT: Confidentiality Section of the Ethics Rule**

3185 Adopted on September 10, 1991

3186 Last Revised September 15, 1999

3187 Retired June 12, 2001 \*Effective July 1, 2001

<b>STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6)</b>	3187
<b>SUBJECT: Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions</b>	3188 3189
<b>APPLICATION: Real Property, Personal Property</b>	3190
<b>THE ISSUE:</b>	3191
In USPAP, the <u>Comment</u> to Standards Rules 1-2(c) states (SR 7-2(c) also includes a similar <u>Comment</u> ):	3192
<i>When developing an opinion of market value, the appraiser must also develop an opinion of reasonable exposure time linked to the value opinion.</i>	3193 3194
The <u>Comment</u> to Standards Rules 2-2(a)(v), 2-2(b)(v), 8-2(a)(v), and 8-2(b)(v) states:	3195
<i>Stating the definition of value also requires any comments needed to clearly indicate to intended users how the definition is being applied.</i>	3196 3197
How is the opinion of reasonable exposure time developed? Is it presumed to occur prior to or starting from the effective date of the appraisal?	3198 3199
<b>THE STATEMENT:</b>	3200
Reasonable exposure time is one of a series of conditions in most market value definitions. Exposure time is always presumed to precede the effective date of the appraisal.	3201 3202
Exposure time may be defined as follows: the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market.	3203 3204 3205 3206
Exposure time is different for various types of property and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time but also adequate, sufficient, and reasonable effort. This statement focuses on the time component.	3207 3208 3209
The fact that exposure time is always presumed to occur prior to the effective date of the appraisal is substantiated by related facts in the appraisal process: supply/demand conditions as of the effective date of the appraisal; the use of current cost information; the analysis of historical sales information (sold after exposure and after completion of negotiations between the seller and buyer); and the analysis of future income expectancy projected from the effective date of the appraisal.	3210 3211 3212 3213 3214
<b>Rationale and Method for Developing an Opinion of Reasonable Exposure Time</b>	3215
The opinion of the time period for reasonable exposure is not intended to be a prediction of a date of sale or a one-line statement. Instead, it is an integral part of the analyses conducted during the appraisal assignment. The opinion may be expressed as a range and can be based on one or more of the following:	3216 3217 3218
<ul style="list-style-type: none"> <li>▪ statistical information about days on market;</li> <li>▪ information gathered through sales verification; and</li> <li>▪ interviews of market participants.</li> </ul>	3219 3220 3221
Related information garnered through this process may include the identification of typical buyers and sellers for the type of property involved and typical equity investment levels and/or financing terms.	3222 3223

3225 The reasonable exposure period is a function of price, time, and use, not an isolated opinion of time alone.  
3226 As an example, an office building, an important artwork, a fine gemstone, a process facility, or an aircraft  
3227 could have been on the market for two years at a price of \$2,000,000, which informed market participants  
3228 considered unreasonable. Then the owner lowered the price to \$1,600,000 and started to receive offers,  
3229 culminating in a transaction at \$1,400,000 six months later. Although the actual exposure time was 2.5  
3230 years, the reasonable exposure time at a value range of \$1,400,000 to \$1,600,000 would be six months. The  
3231 answer to the question “what is reasonable exposure time?” should always incorporate the answers to the  
3232 question “for what kind of property at what value range?” rather than appear as a statement of an isolated  
3233 time period.

#### 3234 **Applications to Client Uses of an Appraisal**

3235 When an appraisal is commissioned as the result of a mortgage application after a potential seller and buyer  
3236 enter into a Contract for Sale, no conflict exists between the presumption in the appraisal process that  
3237 exposure time occurs prior to the effective date of the appraisal and the function (client use) of the  
3238 appraisal.

3239 When an appraisal is commissioned for employee relocation, asset evaluation, foreclosure, or asset  
3240 management purposes, the presumption in the appraisal process that exposure time occurs prior to the  
3241 effective date of the appraisal may conflict with the intended use of the appraisal as envisioned by the  
3242 client.

3243 Problems arise when clients attempt to make business decisions or account for assets without understanding  
3244 the difference between reasonable exposure time and marketing time (see related Advisory Opinion AO-7  
3245 on Marketing Time Opinions).

#### 3246 **CONCLUSIONS:**

- 3247       ▪ The reasonable exposure time inherent in the market-value concept is always
- 3248       presumed to precede the effective date of the appraisal.
- 3249       ▪ Exposure time is different for various types of property and under various market
- 3250       conditions.
- 3251       ▪ The answer to the question “what is reasonable exposure time?” should always
- 3252       incorporate the answers to the question “for what kind of property at what value
- 3253       range?” rather than appear as a statement of an isolated time period.

3254 Adopted September 16, 1993  
3255 Last Revised June 15, 2004

<b>STATEMENT ON APPRAISAL STANDARDS NO. 7 (SMT-7)<sup>58</sup></b>	3255
<b>SUBJECT: Permitted Departure from Specific Requirements in Real Property and Personal Property Appraisal Assignments</b>	3256 3257
<b>APPLICATION: Real Property, Personal Property</b>	3258
<b>THE ISSUE:</b>	3259
When is it appropriate to invoke the DEPARTURE RULE in performing real property and personal property appraisals, and what are the reporting requirements when the DEPARTURE RULE is utilized?	3260 3261
Throughout the history of appraisal practice, a perception has existed that certain types of market transactions require something less than or different from a Complete Appraisal. The phrase “something less than or different from” in this context has meant a Limited Appraisal and a condensed report.	3262 3263 3264
When legitimate requests are made by a knowledgeable client or client group for a Limited Appraisal for a particular transaction or type of transaction, do the <i>Uniform Standards of Professional Appraisal Practice</i> allow an appraiser to perform such a service? If so, under what conditions?	3265 3266 3267
<b>THE STATEMENT:</b>	3268
<b>Response to the Issue</b>	3269
The DEPARTURE RULE and STANDARDS 1 and 7 permit the development of two types of appraisals (Complete Appraisal and Limited Appraisal). Appraisers are trained and qualified to identify when a Limited Appraisal is appropriate. At the same time, appraisers must adhere to USPAP in the performance of all types of assignments.	3270 3271 3272 3273
In STANDARD 1 (Real Property Appraisal, Development), the requirements from which an appraiser is permitted to depart are within Standards Rules 1-3 and 1-4. In STANDARD 7 (Personal Property Appraisal, Development), the requirements from which an appraiser is permitted to depart are within Standards Rules 7-3 and 7-4. These are specific requirements that might not need to be applied in every assignment in order to produce a credible appraisal.	3274 3275 3276 3277 3278
No departure is permitted from the requirements of Standards Rules 1-1, 1-2, 1-5, or 1-6 (in real property appraisal) or Standards Rules 7-1, 7-2, 7-5, or 7-6 (in personal property appraisal) because exceptions to these binding requirements would jeopardize the credibility of any appraisal.	3279 3280 3281
Although no appraisal conclusion is a guarantee, USPAP allows for different levels of reliability in real property and personal property appraisals. The results of an appraisal must be credible given the type and definition of value and intended use of the assignment. The burden of proof is on the appraiser to decide that the scope of work applied in an assignment is adequate and leads to results that are credible.	3282 3283 3284 3285
The attached table illustrates the relationship of the action steps set forth in STANDARDS 1 and 7 and the report content elements addressed in STANDARDS 2 and 8 to steps in the real property and personal property appraisal processes.	3286 3287 3288
<b>Scope of Work</b>	3289
The DEPARTURE RULE states, “The burden of proof is on the appraiser to decide before accepting an assignment and invoking this Rule that the scope of work applied will result in opinions or conclusions that are credible.”	3290 3291 3292

<sup>58</sup> See DEPARTURE RULE.

3294 Standards Rules 1-2(f) and 7-2(f) require the appraiser to identify the scope of work necessary to complete  
 3295 the assignment. It is important that both the appraiser and the client fully understand the scope of work.

3296 **Applicable vs. Necessary Specific Requirements**

3297 The Comment to the DEPARTURE RULE states, in part:

3298 *Not all specific requirements are applicable to every assignment. When a specific*  
 3299 *requirement is not applicable to a given assignment, the specific requirement is*  
 3300 *irrelevant and therefore no departure is needed.*

3301 A real estate example of when a specific requirement would not be applicable is when the property  
 3302 appraised consists of unimproved land. Standards Rule 1-4(b), which requires a cost approach, is not  
 3303 applicable and for that assignment is effectively void. Therefore, departure is not an issue, and the appraisal  
 3304 does not become a Limited Appraisal because Standards Rule 1-4(b) was not followed. Similarly, in a  
 3305 personal property appraisal, failure to analyze an income approach in accordance with Standards Rule 7-  
 3306 4(c) would not result in a Limited Appraisal if the subject property is not potentially an income-producing  
 3307 property.

3308 *Of those specific requirements that are **applicable** to a given assignment, some may be*  
 3309 *necessary in order to result in opinions or conclusions that are credible. When a specific*  
 3310 *requirement is **necessary** to a given assignment, departure is not permitted. (Bold added*  
 3311 *for emphasis)*

3312 As an example in a real property appraisal context, Standards Rule 1-4(a) says that when a sales  
 3313 comparison approach is applicable to an assignment, the appraiser must analyze comparable data to  
 3314 develop a value opinion. Departure is permitted from this requirement. However, if the property appraised  
 3315 is a single-family residence and if the sales comparison approach is both applicable and necessary for  
 3316 credible results, departure would not be permitted. Similarly, in a personal property appraisal context, the  
 3317 appraiser must consider the sales comparison approach in accordance with Standards Rule 7-4(a) if the  
 3318 property being appraised is of a type that is normally traded as a whole and in an identifiable marketplace  
 3319 and if such analysis is consistent with the intended use of the report.

3320 The Comment to the DEPARTURE RULE continues in part:

3321 *Departure is permitted from those specific requirements that are **applicable** to a given*  
 3322 *assignment but not **necessary** in order to result in opinions or conclusions that are*  
 3323 *credible. (Bold added for emphasis)*

3324 As an example, Standards Rule 1-4(b) says that when a cost approach is applicable to an assignment, the  
 3325 appraiser must, in effect, develop a cost approach to value. In the case of the appraisal of a single-family  
 3326 residence, a cost approach may be applicable. However, if it is not necessary for credible results, departure  
 3327 would be permitted. Similarly, in accordance with Standards Rule 7-4(b), a personal property appraiser  
 3328 valuing a collectable item such as a work of art or rare book would not need to consider the cost approach  
 3329 because a replication would not result in an item of equal value or desirability.

3330 The Comment to the DEPARTURE RULE defines “applicable”:

3331 *A specific requirement is **applicable** when:*

- 3332
  - *it addresses factors or conditions that are present in the given assignment, or*

- *it addresses analysis that is typical practice in such an assignment.* (Bold added for emphasis) 3332

Examples of when specific requirements would be applicable include (but are not limited to) the following: 3334

- Standards Rule 1-4(a) is nearly always applicable when the property appraised is a single-family residence because a sales comparison approach is typical practice for this property type. 3336
- Standards Rule 1-4(b) is probably applicable when the property improvements are proposed or newly constructed. 3337
- Standards Rule 1-4(c) is applicable to most appraisals of income-producing properties. 3338
- Standards Rule 1-4(d) is applicable whenever the interest appraised is a lease or leasehold estate. 3339
- Standards Rule 1-4(e) is applicable whenever the property appraised involves an assemblage of interests or physical components. 3340
- Standards Rule 1-4(f) is applicable whenever onsite or offsite, public or private improvements that could affect the subject property are anticipated. 3341
- Standards Rule 1-4(g) is applicable whenever the appraisal includes property that is not real property. 3342
- Standards Rule 1-4(h) is applicable whenever the appraisal involves proposed improvements. 3343
- Standards Rule 7-4(a) is nearly always applicable when the property appraised is a classic automobile, 18<sup>th</sup> century chair, antique brooch, or metal-working equipment, et cetera; because a sales comparison approach is typical practice for that type of property. 3344
- Standards Rule 7-4(b) is nearly always applicable when the property being appraised is new or a special design property. 3345
- Standards Rule 7-4(c) is applicable when the property being appraised is income producing. 3346
- Standards Rule 7-4(d) is applicable when the property being appraised is leased. 3347
- Standards Rule 7-4(e) is applicable when the property being appraised involves an assemblage, a complete set, or a complete series. 3348
- Standards Rule 7-4(f) is applicable when the property being appraised is damaged and a restoration or modification will affect market acceptance (such as replacement of three damaged legs to an 18<sup>th</sup> century high chest on chest or such as user customization of the property). 3349
- Standards Rule 7-4(g) is applicable when the property being appraised includes property that is not personal property. 3350
- Standards Rule 7-4(h) is applicable when the property appraised involves proposed modifications. 3351

The Comment to the DEPARTURE RULE also defines “not applicable”:  
3372

*A specific requirement is not applicable when:* 3373

- *it addresses factors or conditions that are not present in the given assignment, or* 3374
- *it addresses analysis that is not typical practice in such an assignment, or* 3375
- *it addresses analysis that would not provide meaningful results in the given assignment.* 3376

3379 An example of when a specific requirement is considered *not applicable* might be Standards Rule 1-4(c),  
 3380 which calls for an income approach to value when the property appraised is a single-family residence. For  
 3381 this property type, an income approach is not typical practice and it generally would not provide  
 3382 meaningful results.

3383 Another example of when a specific requirement is considered *not applicable* might be Standards Rule 7-  
 3384 4(c), which calls for an income approach to value when the property appraised is a diamond necklace, a  
 3385 19th-century Meissen vase, a rare book, an autoclave, or similar item. For this property type, an income  
 3386 approach is not typical practice and it generally would not provide meaningful results.

3387 The Comment to the DEPARTURE RULE also defines “necessary”:

3388 *A specific requirement is considered to be both applicable and necessary when:*

- 3389 ▪ *it addresses factors or conditions that are present in the given assignment or*
- 3390 ▪ *it addresses analysis that is typical practice in such an assignment and*
- 3391 ▪ *lack of consideration for those factors, conditions, or analyses would significantly*  
 3392 *affect the credibility of the results.*

3393 When a specific requirement is considered “necessary,” it is inappropriate to depart from it. Examples of  
 3394 when adherence to specific requirements become necessary include (but are not limited to) the following:

- 3395 ▪ Standards Rule 1-4(a) or 7-4(a) become a necessary requirement when the sales  
 3396 comparison approach is the most meaningful valuation approach and failure to apply  
 3397 it would result in an appraisal that is not credible.
- 3398 ▪ Standards Rule 1-4(b) or 7-4(b) become a necessary requirement when the cost  
 3399 approach is the most meaningful valuation approach and failure to apply it would  
 3400 result in an appraisal that is not credible.
- 3401 ▪ Standards Rule 1-4(c) or 7-4(c) become a necessary requirement when the income  
 3402 approach is the most meaningful valuation approach and failure to apply it would  
 3403 result in an appraisal that is not credible.
- 3404 ▪ Standards Rule 1-4(d) or 7-4(d) become a necessary requirement when failure to take  
 3405 into account the terms and conditions of the lease: SMT-7 would result in a lease  
 3406 interest appraisal that is not credible.
- 3407 ▪ Standards Rule 1-4(e) or 7-4(e) become a necessary requirement when failure to  
 3408 properly account for the assemblage of various estates or component parts would  
 3409 result in an appraisal that over- or understates the value of the whole or is otherwise  
 3410 not credible.
- 3411 ▪ Standards Rule 1-4(f) or 7-4(f) become a necessary requirement when failure to take  
 3412 into account anticipated public or private, onsite or offsite improvements would  
 3413 result in an appraisal that is not credible.
- 3414 ▪ Standards Rule 1-4(g) or 7-4(g) become a necessary requirement when failure to  
 3415 account properly for non-real-estate items would result in an appraisal that is not  
 3416 credible.
- 3417 ▪ Standards Rule 1-4(h) or 7-4(h) become a necessary requirement when failure to  
 3418 properly analyze proposed improvements or modifications to personal property  
 3419 would result in an appraisal that is not credible.

3420 The Comment to the DEPARTURE RULE also defines what is meant by “typical practice”:

3421 *Typical practice for a given assignment is measured by:*

- 3422 ▪ *the expectations of the participants in the market for appraisal services, and*
- 3423 ▪ *what an appraiser’s peers’ actions would be in performing the same or a similar*  
 3424 *assignment.*



“The expectations of the participants in the market for appraisal services” means those entities that are commonly clients of appraisers and who regularly use appraisals. “Appraiser’s peers” are other competent, qualified appraisers who have expertise in similar types of assignments involving similar types of properties.

Standards Rules 1-4 and 7-4 address most of the operational steps in the appraisal process, including the three traditional approaches to value. The ability to invoke departure from these Standards Rules allows flexibility in the scope of work relating to these operational steps.

### **Reporting Requirements**

STANDARD 2 (Real Property Appraisal, Reporting) and STANDARD 8 (Personal Property Appraisal, Reporting) contain written reporting Standards to which departure does not apply. STANDARDS 2 and 8 mandate one of three options for written report formats (Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report) and specify content items for each option.

USPAP does not dictate the form, format, or style of appraisal reports, which are functions of the needs of users and providers of appraisal services. USPAP also does not mandate that each appraisal report be lengthy and full of disclaimers.

When reporting the results of a Limited Appraisal, the appraiser must disclose permitted departures in compliance with Standards Rule 2-2(a), (b), or (c) in a written real property appraisal report and Standards Rule 8-2(a), (b), or (c) in a written personal property appraisal report; this is so that the client and intended users of the report can understand the scope of work of the Limited Appraisal. Specifically, these rules require that the report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.<sup>59</sup>

### **CONCLUSIONS:**

- Appraisers are trained and qualified to identify when a Limited Appraisal is appropriate. At the same time, appraisers must adhere to USPAP in the performance of all types of assignments.
- As long as the appraiser determines that the request for something less than or different from a Complete Appraisal would result in opinions and conclusions that are credible, then the DEPARTURE RULE can be invoked and the assignment can be accepted and performed.
- To make the initial determination that the requested Limited Appraisal is appropriate, the appraiser must at least know the level of understanding that the client has of the type of real estate and market conditions involved and the intended use of the appraisal.
- It is not always appropriate to expect a single point opinion of value when a Limited Appraisal is authorized and performed. The resulting opinion of value may be expressed as a single point value opinion, a range in value, or a value relationship (e.g., not less than, not more than) from a previous value opinion or established benchmark (e.g., assessed value, collateral value).
- Standards Rules 2-2 and 8-2 set forth three options for any written report (Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report) and specify content items for each option.
- Although no appraisal conclusion is a guarantee, USPAP allows for different levels of reliability in real property and personal property appraisal assignments.

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<sup>59</sup> See DEPARTURE RULE.

- 3468           ▪   When reporting the result of a Limited Appraisal, the appraiser must disclose  
 3469 permitted departures in compliance with Standards Rule 2-2(a), (b), or (c) in a  
 3470 written real property appraisal report and Standards Rule 8-2(a), (b), or (c) in a  
 3471 written personal property appraisal report; this is so that the client and intended users  
 3472 of the report can understand the scope of work of the Limited Appraisal.

### 3473 **Relevant USPAP References**

3474 In the DEFINITIONS section of USPAP, the Comment to the definition of appraisal practice states:

3475           *The use of other nomenclature for an appraisal, appraisal review, or appraisal*  
 3476 *consulting assignment (e.g., analysis, counseling, evaluation, study, submission, or*  
 3477 *valuation) does not exempt an appraiser from adherence to the Uniform Standards of*  
 3478 *Professional Appraisal Practice.*

3479 The DEPARTURE RULE of USPAP states:

3480           *...An appraiser may enter into an agreement to perform an assignment in which the*  
 3481 *scope of work is less than, or different from, the work that would otherwise be required*  
 3482 *by the specific requirements...*

3483 This Rule goes on to permit exceptions from specific requirements, provided that (in summary):

- 3484           ▪   the appraiser determines the appraisal process is not so limited that the results of the  
 3485 assignment are no longer credible;  
 3486           ▪   the appraiser advises the client of the limitations and discloses the limitations in the  
 3487 report; and  
 3488           ▪   the client agrees that the limited service would be appropriate given the intended use.

3489 The following definitions from the DEFINITIONS section of USPAP are also relevant to the understanding  
 3490 of the response to this issue:

3491 **APPRAISAL:** (noun) the act or process of developing an opinion of value...

3492           **Complete Appraisal:** the act or process of developing an opinion of value or an opinion  
 3493 of value developed without invoking the DEPARTURE RULE.

3494           **Limited Appraisal:** the act or process of developing an opinion of value or an opinion of  
 3495 value developed under and resulting from invoking the DEPARTURE RULE.

3496 **BINDING REQUIREMENT:** all or part of a Standards Rule of USPAP from which departure is not  
 3497 permitted.

3498 **REPORT:** any communication, written or oral, of an appraisal, appraisal review, or appraisal consulting  
 3499 service that is transmitted to the client upon completion of an assignment.

3500 **SCOPE OF WORK:** the amount and type of information researched and the analysis applied in an  
 3501 assignment. Scope of work includes, but is not limited to, the following:

- 3502           ▪   the degree to which the property is inspected or identified;  
 3503           ▪   the extent of research into physical or economic factors that could affect the  
 3504 property;  
 3505           ▪   the extent of data research; and  
 3506           ▪   the type and extent of analysis applied to arrive at opinions or conclusions.

**SPECIFIC REQUIREMENT:** all or part of a Standards Rule of USPAP from which departure is permitted under certain limited conditions. 3506  
3507

Adopted March 22, 1994 3508

Last Revised June 15, 2004 3509

## Relationship Between the Real Property Appraisal Process and USPAP Standards 1 and 2

### *The Real Property Appraisal Process*

#### **Define the Appraisal Problem**

- (1) Identify the Intended Use and Users of the Appraisal
- (2) Define Value(s) to be Developed
- (3) Establish Date(s) of Value Opinion(s)
- (4) Identify and Locate the Real Estate
- (5) Identify the Property Rights to be Valued
- (6) Identify Limiting Conditions or Limitations

#### **Preliminary Analysis and Plan: Select and Collect Data**

General (market):	Subject Property:	Competitive Properties:
<b>Market Analysis</b>	<b>Property Analysis</b>	<b>Comparison Analysis</b>
Demand Components	Site/Improvements	Sales
Supply Components	Size	Rentals
Trends	Age and Condition	Costs
Forecasts	Location	Elements of Comparison
	Legal (Title, Use)	Units of Comparison

#### **Develop Highest and Best Use Opinion**

- Land as if Vacant and Available
- Property as Improved (Existing or Proposed)

#### **Develop Indicator(s) of Land/Site/Value (As Defined)**

Sales Comparison	Income Capitalization	Subdivision/Development
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#### **Develop Indicator(s) of Improved Property Value (As Defined)**

Cost	Sales Comparison	Income Capitalization
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#### **Analyze Prior Sales (3 Years Minimum)/Current Agreements, Options, or Listings of Subject Property**

#### **Reconcile Value Indicators; Reach Defined Value Opinion**

#### **Report Opinion(s) of Value(s) (As Defined)**

### *USPAP References*

#### **DEVELOPMENT RULES**

- ETHIC RULE
- COMPETENCY RULE
- DEPARTURE RULE
- DEFINITIONS
- Standards Rules 1-1, 1-2

#### **REPORTING RULES**

- Standards Rule 2-1
- Standards Rule 2-2:
  - (a)(i), (ii), (iii), (iv), (v), (vi), (viii)
  - (b)(i), (ii), (iii), (iv), (v), (vi), (viii)
  - (c)(i), (ii), (iii), (iv), (v), (vi), (viii)

Standards Rule 1-3

Standards Rule 2-2:

- (a)(ix)
- (b)(ix)
- (c)(ix)

Standards Rule 1-3

Standards Rule 2-2:

- (a)(x)
- (b)(x)
- (c)(x)

Standards Rule 1-4

Standards Rule 2-2:

- (a)(ix) and (xi)
- (b)(ix) and (xi)
- (c)(ix) and (xi)

Standards Rule 1-4

Standards Rule 1-5

Standards Rule 1-6

STANDARD 2

Standards Rule 2-3

# Relationship Between the Personal Property Appraisal Process and USPAP Standards 7 and 8

## The Personal Property Appraisal Process

## USPAP References

### Define the Appraisal Problem

- (1) Identify the Intended Use and Users of the Appraisal
- (2) Define Value(s) to be Developed
- (3) Establish Date(s) of Value Opinion(s)
- (4) Identify Subject Property(s)
- (5) Identify Property Rights to be Valued
- (6) Identify Limiting Conditions or Limitations

### DEVELOPMENT RULES

- ETHICS RULE
- COMPETENCY RULE
- DEPARTURE RULE
- DEFINITIONS
- Standards Rules 7-1, 7-2

### REPORTING RULES

- Standards Rule 8-1
- Standards Rule 8-2:
  - (a)(i), (ii), (iii), (iv), (v), (vi), (viii)
  - (b)(i), (ii), (iii), (iv), (v), (vi), (viii)
  - (c)(i), (ii), (iii), (iv), (v), (vi), (viii)

### Preliminary Analysis and Plan: Select and Collect Data

General (Market)	Subject Property	Competitive Analysis
<b>Market Analysis</b>	<b>Property Analysis</b>	<b>Comparison Analysis</b>
Relevant Market	Description	Sales
Demand Components	Origin	Rentals
Supply Components	Age and Condition	Costs
Trends	Dimensions	Elements of Comparison
Forecasts	Creator / Manufacturer	Units of Comparison

Standards Rule 7-3

Standards Rule 8-2:

- (a)(ix)
- (b)(ix)
- (c)(ix)

### Analyze Highest and Best Use Opinion

Identify the Location of the Most Relevant Market

Standards Rule 7-3

Standards Rule 8-2:

- (a)(x)
- (b)(x)
- (c)(x)

### Analysis of Indicators of Value

Collect Data, Analyze Data, and Verify Where Appropriate

Standards Rule 7-4

Standards Rule 8-2:

- (a)(ix) and (xi)
- (b)(ix) and (xi)
- (c)(ix) and (xi)

### Develop the Appropriate Approach(es) to Value (As Defined)

Cost, Income, and/or Sales Comparison

Standards Rule 7-5

Analyze Prior Sales of the Subject Property/Analyze Current Agreements of Sale, Validated Third Party Offers to Sell Options of Listings of the Subject Property

Standards Rule 7-6

Reconcile Value Indicators; Reach Defined Value Opinion

STANDARD 8

Report Opinion(s) of Value(s) (As Defined)

Standards Rule 8-3

3511 **STATEMENT ON APPRAISAL STANDARDS NO. 8 (SMT-8)**

3512 **SUBJECT: Electronic Transmission of Reports**

3513 Adopted July 18, 1995

3514 Retired June 12, 2001

<b>STATEMENT ON APPRAISAL STANDARDS NO. 9 (SMT- 9)</b>	3514
<b>SUBJECT: Identification of the Client’s Intended Use in Developing and Reporting Appraisal, Appraisal Review, or Appraisal Consulting Assignment Opinions and Conclusions</b>	3515 3516
<b>APPLICATION: Real Property, Personal Property, Intangible Property</b>	3517
<b>THE ISSUE:</b>	3518
An appraiser must identify and consider the client’s intended use of the appraiser’s reported opinions and conclusions in order to properly define the problem under study and to understand his or her development and reporting responsibilities in an appraisal, appraisal review, or appraisal consulting assignment.	3519 3520 3521
An appraiser must state the client’s intended use of the appraisal opinions and conclusions in an appraisal report.	3522 3523
What kind of information must an appraiser identify and consider regarding the client’s intended use of an appraisal, appraisal review, or appraisal consulting report in the course of accepting and completing an assignment, and how much of that information must an appraiser include in the report?	3524 3525 3526
<b>THE STATEMENT:</b>	3527
<b>General</b>	3528
Although identification of the client’s intended use of an appraisal, appraisal review, or appraisal consulting report is also a business concern, this activity is an essential step to be taken by an appraiser in performing professional appraisal, appraisal review, or appraisal consulting services.	3529 3530 3531
This Statement addresses an appraiser’s obligations related to the client’s intended use when performing professional appraisal practices under USPAP.	3532 3533
STANDARDS 1, 3, 4, 6, 7, and 9 require an appraiser to identify the intended use of the appraisal in the course of developing his or her opinions or conclusions in the assignment.	3534 3535
STANDARDS 2, 3, 5, 6, 8, and 10 require an appraiser to state the intended use of the appraisal in the report. In the context of a written real property appraisal report, Standards Rule 2-2(a) states “The content of a Self-Contained Appraisal Report must be consistent with the intended use of the appraisal...” Standards Rule 2-2(b) states “The content of a Summary Appraisal Report must be consistent with the intended use of the appraisal ...” Standards Rule 2-2(c) states “The content of a Restricted Use Appraisal Report must be consistent with the intended use of the appraisal...” Identical language appears in Standards Rules 8-2(a), (b) and (c). Similar language appears in other USPAP reporting Standards.	3536 3537 3538 3539 3540 3541 3542
The intended use of an appraiser’s reported appraisal, appraisal review, or appraisal consulting assignment conclusions and opinions is established by the client. The client’s intended use may encompass requirements of one or more other intended users. An appraiser cannot reasonably identify the client’s intended use without having identified the client and having established a clear understanding of the client’s requirements by communicating with the client or the client’s agent. An appraiser identifies the client’s intended use by communicating with the client before accepting an assignment.	3543 3544 3545 3546 3547 3548

3550 Although an appraiser bound by the *Uniform Standards of Professional Appraisal Practice* must identify  
3551 and consider the client’s intended use of the appraiser’s reported appraisal, appraisal review, or appraisal  
3552 consulting opinions and conclusions, an appraiser must not allow a client’s intended use or the  
3553 requirements of any intended user of the report to affect the appraiser’s independence and objectivity in  
3554 performing an assignment. An appraiser must not allow a client’s objectives to cause the analysis or report  
3555 to be biased.

#### 3556 **Identification of the Client and Other Intended Users in an Assignment**

3557 In order to properly define the problem under study and to understand his or her responsibilities in an  
3558 assignment, an appraiser must identify the client and, to the extent practical, other intended users as part of  
3559 the process of identifying the client’s intended use of the appraisal, appraisal review, or appraisal  
3560 consulting report. This could be accomplished by communication with the client prior to accepting the  
3561 assignment.

3562 An appraiser should use care when identifying the client to ensure a clear understanding and to avoid  
3563 violations of the Confidentiality section of the ETHICS RULE. In this context, the client may be identified  
3564 as a person or entity, or as an agent of an intended user. In those rare instances where the client wishes to  
3565 remain anonymous, the appraiser must still document the identity of the client in the workfile but may omit  
3566 the client’s identity in the appraisal, appraisal review, or appraisal consulting report.

3567 The term “Client” is defined in the DEFINITIONS section of USPAP as

3568 *the party or parties who engage an appraiser (by employment or contract) in a specific*  
3569 *assignment.*

3570 The term “Intended Use” is defined as

3571 *the use or uses of an appraiser’s reported appraisal, appraisal review, or appraisal consulting*  
3572 *assignment opinions and conclusions, as identified by the appraiser based on communication with*  
3573 *the client at the time of the assignment.*

3574 The term “Intended User” is defined as

3575 *the client and any other party as identified, by name or type, as users of the appraisal,*  
3576 *appraisal review, or appraisal consulting report by the appraiser on the basis of*  
3577 *communication with the client at the time of the assignment.*

3578 An appraiser’s obligations to the client are established in the course of considering and accepting an  
3579 assignment. Once an assignment is accepted, an appraiser is obligated to complete the assignment as agreed  
3580 and in compliance with USPAP. However, if an appraiser becomes aware of a change in the client’s  
3581 intended use of the report, the appraiser must consider whether the extent of the appraisal, appraisal review,  
3582 or appraisal consultation process and type of report initially agreed upon are still appropriate, and if they  
3583 are not, the appraiser must communicate with the client to establish an appropriate basis upon which to  
3584 proceed.

3585 If the appraiser is contacted regarding an assignment or report by a party other than the appraiser’s client,  
3586 before responding the appraiser must review his or her obligations to that client. An appraiser may need to  
3587 review the Confidentiality section of the ETHICS RULE and Advisory Opinions AO-25, AO-26, and AO-  
3588 27 for guidance.



An appraiser’s obligations to other intended users may impose additional development and reporting requirements in the assignment. It is essential that an appraiser establish with the client a clear and mutual understanding of the needs of all intended users prior to accepting an assignment. An appraiser’s obligation to intended users other than the client is limited to addressing their requirements as identified by the appraiser at the time the appraiser accepts the assignment.	3588 3589 3590 3591 3592
Neither the client nor the appraiser is obligated to identify an intended user by name. If identification by name is not appropriate or practical, an appraiser’s client and the appraiser may identify an intended user by type.	3593 3594 3595
A party receiving a report copy from the client does not, as a consequence, become a party to the appraiser-client relationship.	3596 3597
Parties who receive a copy of an appraisal, appraisal review, or appraisal consulting report as a consequence of disclosure requirements applicable to an appraiser’s client do not become intended users of the report unless the client specifically identifies them at the time of the assignment.	3598 3599 3600
<b>Disclosure of Client and Other Intended User(s) in an Appraisal, Appraisal Review, or Appraisal Consulting Report</b>	3601 3602
Except when specifically requested not to do so as part of the agreement with the client, an appraiser must disclose the identity of the client and, to the extent practical, any other intended users in an appraisal, appraisal review, or appraisal consulting report. The purpose of this reporting requirement is to (1) ensure that the client and any other intended users can recognize their relationship to the assignment and report, and (2) ensure that unintended users will not be misled by notifying them that they are neither the client nor an intended user. For example, a statement similar to the following may be appropriate:	3603 3604 3605 3606 3607 3608
This report is intended for use only by (identify the client) and (identify any other intended users by name or type). Use of this report by others is not intended by the appraiser.	3609 3610 3611
If the client’s identity is omitted from an appraisal report, the appraiser must (1) identify the client and any other intended users in the workfile, and (2) provide a notice in the appraisal report that the identity of the client has been omitted in accordance with the client’s request and that the report is intended for use only by the client and any other intended users identified by the client at the time the assignment was accepted.	3612 3613 3614 3615
<b>Identification of the Client’s Intended Use in an Appraisal, Appraisal Review, or Appraisal Consulting Assignment</b>	3616 3617
Identification of the client’s intended use is one of the essential steps in defining the appraisal, appraisal review, or appraisal consulting problem. Identification of the client’s intended use helps the appraiser and the client make two important decisions about the assignment:	3618 3619 3620
<ul style="list-style-type: none"> <li>▪ the appropriate extent of the appraisal, appraisal review, or appraisal consulting development process to employ; and</li> <li>▪ the level of detail to provide in the appraisal, appraisal review, or appraisal consulting report.</li> </ul>	3621 3622 3623 3624
An appraiser needs to be aware, to the fullest degree practical, of the client’s intended use of the report so as to reasonably ensure that the appraisal, appraisal review, or appraisal consulting development process and report address the client’s stated needs. When the client intends that a report be used by others, the needs of those additional users may affect the extent of the appraisal, appraisal review, or appraisal consulting process as well as the content of a report.	3625 3626 3627 3628 3629

3631 **Disclosure of the Client's Intended Use in a Report**

3632 An appraiser can avoid misleading parties in possession of an appraisal, appraisal review, or appraisal  
3633 consulting report by clearly identifying the client's intended use in the report and stating that other uses are  
3634 not intended. For example, a statement similar to the following may be appropriate:

3635           This report is intended only for use in (describe the use). This report is not intended for any  
3636           other use.

3637 The intended use description provided in the statement must be specific to the assignment.

3638 **CONCLUSIONS:**

- 3639           ▪ An appraiser must identify the client and, to the extent practical, other intended users  
3640           as part of the process of identifying the client's intended use of an appraisal,  
3641           appraisal review, or appraisal consulting report, by communication with the client  
3642           prior to accepting the assignment.
- 3643           ▪ An appraiser should use care when identifying the client to ensure a clear  
3644           understanding and to avoid violations of the Confidentiality section of the ETHICS  
3645           RULE.
- 3646           ▪ The appraiser's obligations to the client are established in the course of considering  
3647           and accepting an assignment.
- 3648           ▪ The appraiser's obligation to intended users other than the client is limited to  
3649           addressing their requirements as identified by the client at the time the appraiser  
3650           accepts the assignment.
- 3651           ▪ Identification of the client's intended use of the report is one of the essential steps in  
3652           defining the appraisal, appraisal review, or appraisal consulting problem.
- 3653           ▪ An appraiser identifies the client's intended use of an appraisal, appraisal review, or  
3654           appraisal consulting report by communicating with the client before accepting an  
3655           assignment.
- 3656           ▪ Appraisers can avoid misleading parties in possession of a report by clearly  
3657           identifying the client's intended use in the report and stating that other uses are not  
3658           intended by the appraiser.
- 3659           ▪ Except when specifically requested not to do so as part of the agreement with the  
3660           client, an appraiser must disclose the identity of the client and, to the extent practical,  
3661           any other intended users of an appraisal report in the report to (1) ensure that all  
3662           intended users recognize their relationship to the assignment and report and (2)  
3663           ensure unintended users will not be misled by notifying them that they are neither the  
3664           client nor an intended user.
- 3665           ▪ If the client's identity is omitted from an appraisal report, the appraiser must (1)  
3666           document the identity of the client and the identities of any other intended users in  
3667           the workfile, and (2) provide a notice in the appraisal report that the identity of the  
3668           client has been omitted in accordance with the client's request and that the report is  
3669           intended for use only by the client and any other intended users.

3670 Adopted August 27, 1996

3671 Last Revised September 15, 1999

<b>STATEMENT ON APPRAISAL STANDARDS NO. 10 (SMT-10)</b>	3671
<b>SUBJECT: Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction</b>	3672 3673
<b>APPLICATION: Real Property</b>	3674
<b>THE ISSUE:</b>	3675
Federal financial institution regulatory agencies (agencies) have experience that indicate some appraisers are not following <i>Uniform Standards of Professional Appraisal Practice</i> (USPAP) and, when applicable, the agencies' appraisal regulations <sup>60</sup> and guidelines <sup>61</sup> issued by the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS). This is particularly true in appraisals of commercial real estate and residential tract development projects. The agencies' concerns involve three general appraisal areas: USPAP compliance, appraiser independence and appraisal review.	3676 3677 3678 3679 3680 3681 3682
Federally insured depository institutions recognize that the agencies' appraisal regulations and guidelines include the requirement that appraisals comply with USPAP in a federally related transaction.	3683 3684
Most appraisers recognize that the agencies' appraisal regulations and guidelines supplement the USPAP requirements when an intended user of the assignment results is a federally insured depository institution for a federally related transaction. However, some appraisers are uncertain as to:	3685 3686 3687
<ul style="list-style-type: none"> <li>▪ What does USPAP require when the intended user of assignment results is a federally insured depository institution and the intended use is in a federally related transaction, and</li> <li>▪ how do the agencies' appraisal regulations and guidelines, which include supplemental standards, affect the appraiser's scope of work and report content requirements?</li> </ul>	3688 3689 3690 3691 3692
<b>THE STATEMENT:</b>	3693
This Statement provides appraisers, users of appraisal services, and enforcement bodies with clarification, interpretation, explanation, and elaboration to reaffirm an appraiser's USPAP obligations when performing an assignment for use by a federally insured depository institution in a federally related transaction.	3694 3695 3696
The requirements in this Statement apply and are binding when an appraiser is developing an opinion of market value of real property for intended use by a federally insured depository institution in a federally related transaction.	3697 3698 3699
<b>ASB Response to the Issue</b>	3700
Each ASB response on how USPAP applies to a specific concern appears in <i>italics</i> followed by references to USPAP and guidance material in the Advisory Opinions section.	3701 3702
When the agencies' appraisal regulations and guidelines supplement USPAP requirements, this Statement notes the agencies' appraisal regulations or guidelines as SUPPLEMENTAL STANDARDS. The ASB's statements about compliance with those requirements are in the context of the appraiser's obligation to comply with the ETHICS RULE or COMPETENCY RULE, as applicable.	3703 3704 3705 3706
Given the scope of this Statement, a Table of Contents is provided on the following page.	3707

<sup>60</sup> 12 CFR 323 (FDIC); 12 CFR 225, subpart G (FRB); 12 CFR 34.44, subpart C (OCC); and 12 CFR 564 (OTS)  
<sup>61</sup> Interagency Appraisal and Evaluation Guidelines, October 27, 1994

3709	<b>TABLE OF CONTENTS</b>
3710	<b>A. GENERAL USPAP COMPLIANCE QUESTIONS</b>
3711	<b>1. Applicability of USPAP</b>
3712	<b>2. Competency is required</b>
3713	<b>3. Departure is permitted</b>
3714	<b>4. Jurisdictional exception</b>
3715	<b>5. Supplemental standards</b>
3716	<b>B. APPRAISER INDEPENDENCE ISSUES</b>
3717	<b>1. Relationships with borrowers</b>
3718	<b>2. Altering reports to mislead a reader</b>
3719	<b>C. DEPARTURE ISSUES</b>
3720	<b>1. Insufficiently supporting an opinion of value</b>
3721	<b>2. Failing to clearly identify and explain reasons for departure</b>
3722	<b>3. Omitting an approach to value that typical practice and peers would require</b>
3723	<b>4. Failing to obtain client’s concurrence in the use of departure</b>
3724	<b>D. USING HYPOTHETICAL CONDITIONS</b>
3725	<b>1. Failing to disclose known facts concerning the property being appraised</b>
3726	<b>2. Failing to indicate the “as is” value of the property as of the date of the report and</b>
3727	<b>how the “as is” value differs from the value conclusion under a hypothetical</b>
3728	<b>condition</b>
3729	<b>E. ANALYSIS ISSUES</b>
3730	<b>1. Failing to adequately address real estate market risk (trends)</b>
3731	<b>2. Using comparable sales transactions that are not arm’s length</b>
3732	<b>3. Reporting the sum of retail values of units in a tract development project as market</b>
3733	<b>value</b>
3734	<b>4. Using non-market-based time constraints when applying deductions and discounts</b>
3735	<b>5. Providing an undiscounted value conclusion to an institution; and failing to report</b>
3736	<b>appropriate deductions and discounts for a tract development appraisal</b>
3737	<b>6. Failing to analyze a current agreement of sale, option, or listing of the property</b>
3738	<b>being appraised; and failing to identify and analyze all prior sales of the subject</b>
3739	<b>property (within required time frames), which may facilitate “land flip” deals</b>
3740	<b>F. APPRAISAL REVIEW ISSUES</b>
3741	<b>1. Changing the market value opinion in the appraisal report without adequate</b>
3742	<b>support</b>
3743	<b>2. Failing to meet minimum USPAP reporting requirements in an appraisal review</b>
3744	<b>report</b>
3745	<b>G. CONCLUSIONS</b>

<b>A.</b>	<b>GENERAL USPAP COMPLIANCE QUESTIONS:</b>	3745
	Appraisers who provide valuation services to a federally insured depository institution for use in a federally related transaction may be uncertain as to:	3746 3747
	<ul style="list-style-type: none"> <li>▪ when USPAP applies;</li> <li>▪ whether the COMPETENCY RULE requirements extend to a client’s appraisal regulations and guidelines, which supplement USPAP;</li> <li>▪ whether use of the DEPARTURE RULE is permitted;</li> <li>▪ whether the JURISDICTIONAL EXCEPTION RULE applies in such assignments; and</li> <li>▪ whether compliance with the client’s appraisal regulations and guidelines that apply under the SUPPLEMENTAL STANDARDS RULE is a USPAP compliance requirement.</li> </ul>	3748 3749 3750 3751 3752 3753 3754 3755 3756
<b>1.</b>	<b>Applicability of USPAP</b>	3757
	<i>Compliance with USPAP is required when either the service or the appraiser is obligated by law or regulation, or by agreement with the client or intended users, to comply. The agencies’ appraisal regulations and guidelines require appraisers’ compliance with USPAP in an assignment where the intended user of the assignment results in a federally insured depository institution and the intended use is in a federally related transaction. Therefore, appraisers are bound to comply with USPAP in performing those assignments.</i>	3758 3759 3760 3761 3762 3763 3764
	USPAP Reference: ETHICS RULE <u>Comment</u> <u>Conduct</u> section	3765 3766
<b>2.</b>	<b>Competency is Required</b>	3767
	<i>Competency to perform an assignment includes the ability to complete the assignment in compliance with USPAP and any supplemental standards that the appraiser agrees are applicable in the assignment at the time the assignment is accepted by the appraiser.</i>	3768 3769 3770
	<i>An appraiser violates the ETHICS RULE if he or she knowingly misrepresents his or her competency to complete an assignment in compliance with USPAP and the agencies’ appraisal regulations and guidelines (supplemental standards).</i>	3771 3772 3773
	<i>Failure to complete the assignment competently, in accordance with the applicable USPAP requirements and supplemental standards the appraiser agreed to in accepting the assignment, violates the COMPETENCY RULE.</i>	3774 3775 3776
	USPAP References: ETHICS RULE COMPETENCY RULE SUPPLEMENTAL STANDARDS RULE	3777 3778 3779
<b>3.</b>	<b>Departure is Permitted</b>	3780
	<i>The DEPARTURE RULE may be invoked in an appraisal assignment only when:</i>	3781
	<ul style="list-style-type: none"> <li>▪ the appraiser has determined that the scope of work in performing the appraisal assignment is not so limited that the results of the assignment are no longer credible;</li> <li>▪ the appraiser has advised the client that the assignment calls for something less than, or different from, the work required by the specific requirements and that the report will clearly identify and explain the departure(s); and</li> </ul>	3782 3783 3784 3785 3786 3787

- 3789                   ▪    *the client has agreed that performing the assignment as a limited appraisal*  
3790                                *would be appropriate, given the intended use.*

3791                   USPAP Reference:       DEPARTURE RULE

3792                   **4.    Jurisdictional Exception**

3793                   *None of the requirements in the agencies' appraisal regulations and guidelines cause a*  
3794                                *need to apply the JURISDICTIONAL EXCEPTION RULE.*

3795                   USPAP Reference:       JURISDICTIONAL EXCEPTION RULE

3796                   **5.    Supplemental Standards**

3797                   *The agencies' appraisal regulations and guidelines contain requirements that supplement*  
3798                                *USPAP. These supplemental standards, which affect an appraiser's obligations in*  
3799                                *several areas, include:*

3800                   a)    *Appraiser Independence: The agencies' appraisal regulations require that an*  
3801                                *appraiser have no direct or indirect interest, financial or otherwise, in the*  
3802                                *property or the transaction.*

3803                   b)    *Departure: The agencies' appraisal regulations require that appraisals include*  
3804                                *sufficient information and analysis to support the institution's decision to*  
3805                                *engage in the transaction.*

3806                   c)    *Analysis: The agencies' guidelines require an appraisal to include the current*  
3807                                *market value of the property in its actual physical condition and subject to the*  
3808                                *zoning in effect as of the date of the appraisal (a current date of value).*

3809                   d)    *Reporting: The agencies' appraisal regulations require that appraisals be*  
3810                                *written.*

3811                   *An appraiser accepting an assignment to be performed under the agencies' appraisal*  
3812                                *regulations and guidelines is obligated to complete that assignment in a manner that*  
3813                                *complies with the above and any other supplemental standards included in the agencies'*  
3814                                *appraisal regulations and guidelines.*

3815                   USPAP Reference:       SUPPLEMENTAL STANDARDS RULE

3816                   **Specific Concerns Involving Noncompliance, Inconsistencies, and Omissions in Assignments**  
3817                   **Completed for Use by a Federally Insured Depository Institution in a Federally Related**  
3818                   **Transaction Are As Follows:**

3819                   Bankers and examiners report that some appraisers are not following USPAP and the agencies'  
3820                                appraisal regulations and guidelines. Each area of noncompliance, inconsistency, or omission is noted  
3821                                in **bold and underlined text**, followed by the ASB's response in *italicized text* as to the appraiser's  
3822                                obligations to ensure compliance with USPAP. Where necessary, reference is also provided to the  
3823                                agencies' appraisal regulations and guidelines following the subheading of SUPPLEMENTAL  
3824                                STANDARDS RULE.

3825                   **B.    APPRAISER INDEPENDENCE ISSUES:**

3826                   **1.    Failing to follow existing appraisal standards to disclose present or prospective**  
3827                                **relationships with borrowers**

Accepting an assignment involving parties or property in which the appraiser has a current or prospective interest that causes bias violates the ETHICS RULE. 3827  
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Failure to disclose in the appraiser's certification any present or prospective relationships with a party involved with the assignment or the subject of the assignment violates Standards Rule 2-3. 3829  
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SUPPLEMENTAL STANDARDS RULE: The agencies' appraisal regulations do not permit an appraiser to accept an assignment involving a property or transaction in which the appraiser has a direct or indirect interest, financial or otherwise. If an appraiser who has such an interest violates the agencies' appraisal regulations by accepting such an assignment, he or she violates the SUPPLEMENTAL STANDARDS RULE. 3832  
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USPAP References: ETHICS RULE 3838  
COMPETENCY RULE 3839  
DEFINITIONS section, Bias 3840  
Standards Rule 2-3 3841  
SUPPLEMENTAL STANDARDS RULE 3842

2. **Altering the title page, transmittal letter, or the identity of the intended user of an appraisal report to mislead the reader to believe the report was originally prepared for the lender and not the borrower** 3843  
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Altering a report in a manner that conceals the original client or intended users in the assignment is misleading and violates the Conduct section of the ETHICS RULE. For example, an appraiser performs an appraisal and delivers the report to his client. The appraiser's client then asks the appraiser to readdress this appraisal to a specific federally insured depository institution. The client knows that the appraiser is on that institution's approved appraiser list. The appraiser knows, when the original assignment is offered, that the client intends to request a loan from that institution after the original appraisal is completed. Accommodating the client's request to readdress the appraisal report in this example violates the ETHICS RULE. Indeed, even if the appraiser did not know the client's original intent, altering such a report in a manner to conceal the original client or intended users violates the ETHICS RULE. 3846  
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USPAP Reference: ETHICS RULE 3857  
USPAP Guidance: AO-26 Readdressing (Transferring) a Report to Another Party 3858

C. **DEPARTURE ISSUES—MISUSING THE DEPARTURE RULE:** 3859

1. **Insufficiently supporting an opinion of value that results in a conclusion that is not credible (by inappropriate use of the DEPARTURE RULE)** 3860  
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Using departure as the basis for not completing a part of the appraisal process stated as a specific requirement in USPAP is not permitted unless the appraiser has satisfied all three conditions for such use set forth in the DEPARTURE RULE. The first condition is that the appraiser has determined that the scope of work in performing the appraisal assignment is not so limited that the results of the assignment are no longer credible. The appraiser has the burden of proof to support his or her scope-of-work decision [SR 1-2(f)], including the appropriateness of any departures. 3862  
3863  
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Failure to develop credible opinions and conclusions in an assignment wherein departure is invoked violates the DEPARTURE RULE and Standards Rule 1-2(f). 3869  
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3872 USPAP References: DEPARTURE RULE  
3873 Standards Rule 1-2(f)

3874 **2. Failing to clearly identify and explain the reasons for the departure**

3875 *Failure to state and explain permitted departures from specific requirements in*  
3876 *STANDARD 1 violates the applicable reporting rules [SR 2-2(a) or (b)(xi)] as well as the*  
3877 *DEPARTURE RULE. For example, if a Cost Approach is applicable, but not necessary,*  
3878 *in a particular assignment, and if the client and appraiser agree on departure by*  
3879 *excluding this approach, the appraiser must state in the report that he or she is invoking*  
3880 *departure and then identify and explain the departure and the specific requirement*  
3881 *involved — in this case, SR 1-4(b).*

3882 USPAP References: DEPARTURE RULE  
3883 Standards Rule 1-4(b)  
3884 Standards Rules 2-2(a) and (b)(xi)

3885 **3. Omitting an approach to value that typical practice and peers would require**

3886 *Omitting an approach to value that would be completed as typical practice by an*  
3887 *appraiser's peers in the same or a similar assignment, without adequate and reasonable*  
3888 *support for such omission, violates Standards Rule 1-2(f). For example, using other*  
3889 *approaches while failing to develop an indication of value by a direct sales comparison*  
3890 *approach [SR 1-4(a)] when there are sufficient sales for analysis and the market*  
3891 *response to the property is most credibly indicated by direct sales analysis violates SR 1-*  
3892 *2(f).*

3893 *Failure to state and explain the reason for excluding any of the usual valuation*  
3894 *approaches violates the applicable reporting rules [SR 2-2(a) or (b)(xi)].*

3895 USPAP References: DEPARTURE RULE  
3896 Standards Rule 1-2(e)  
3897 Standards Rules 1-4(a)  
3898 Standards Rule 1-2(f)  
3899 Standards Rules 2-2(a) and (b)(xi)

3900 **4. Failing to obtain written concurrence from the client that there is agreement with**  
3901 **the use of departure**

3902 *Use of the DEPARTURE RULE requires agreement by the client after the appraiser has*  
3903 *informed the client that the assignment calls for something less than, or different from,*  
3904 *the work required by the specific requirements and that the report will clearly identify*  
3905 *and explain the departures. Failure to obtain the concurrence of a thus informed client*  
3906 *violates the DEPARTURE RULE.*

3907 *As a prudent professional practice, to ensure a common understanding of the scope of*  
3908 *work to be completed in an assignment, appraisers could obtain written confirmation of*  
3909 *the client's concurrence in the scope of work. This is particularly critical when departure*  
3910 *is invoked as it documents the expectation and obligation of both parties and precludes*  
3911 *either party being misled as to the scope of work. Such confirmation can be part of an*  
3912 *engagement letter or other similar documentation.*

3913 USPAP Reference: DEPARTURE RULE



<b>D.</b>	<b>USING HYPOTHETICAL CONDITIONS:</b>	3913
<b>1.</b>	<b><u>Failing to disclose known facts concerning the physical, legal, or economic characteristics of the property being appraised when using a hypothetical condition</u></b>	3914 3915
	<i>When a property is appraised for market value as of a current date based on a hypothetical condition, an appraiser must ensure:</i>	3916 3917
	▪ That use of a hypothetical condition [SR 1-2(h)], such as when the subject property involves proposed improvements as of a current date [SR 1-4(h)], is appropriate and produces credible assignment results.	3918 3919 3920
	▪ The appraisal report states the property use as of the date of value and the use reflected in the appraisal under the hypothetical condition [SR 2-2(a) or (b)(x)]. For example, the subject property that exists as of the date of value, which is a current date, is raw land but is appraised under a hypothetical condition as an improved property. The property use information included in response to Standards Rule 2-2(a) or (b)(x) must include the property characteristics relevant to both the existing and proposed uses.	3921 3922 3923 3924 3925 3926 3927
	<i>When the client requests a prospective value for the property under an extraordinary assumption [SR 1-2(g)] that the proposed improvement project or rehabilitation is completed as of a future date, an appraiser must ensure compliance with SR 1-4(h) and review Statement on Appraisal Standards No. 4 (SMT-4), “Prospective Value Opinions.” Additional guidance is contained in Advisory Opinion AO-17, “Appraisal of Real Property with Proposed Improvements.”</i>	3928 3929 3930 3931 3932 3933
	USPAP References:	
	Standards Rules 1-2(g) and (h)	3934
	Standards Rule 1-4(h)	3935
	Standards Rules 2-2(a) and (b)(x)	3936
	Statement on Appraisal Standards No. 4 (SMT-4), <i>Prospective Value Opinions</i>	3937 3938
	USPAP Guidance:	
	Advisory Opinion AO-17, <i>Appraisal of Real Property with Proposed Improvements</i>	3939 3940
<b>2.</b>	<b><u>Failing to indicate the “as is” value of the property as of the date of the report and how the “as is” value differs from the value conclusion under a hypothetical condition</u></b>	3941 4942 3943
	<i>When a property is appraised for market value as of a current date based on a hypothetical condition, an appraiser must ensure that the appraisal report contains appropriate disclosure of the hypothetical condition, including that its use might have affected the assignment results [SR 2-1(c) and SR 2-2(a), (b), or (c)(viii)].</i>	3944 3945 3946 3947
	<i>SUPPLEMENTAL STANDARDS RULE: The agencies’ appraisal regulations require sufficient information and analysis to support the regulated institution’s decision to engage in the transaction. The agencies’ guidelines state that for federally related transactions, “an appraisal is to include the current market value of the property in its actual physical condition and subject to the zoning in effect as of the date of the appraisal” (current date of value). If, by failing to provide this opinion, when possible, an appraiser violates the agencies’ appraisal regulation and guidelines, the appraiser violates the SUPPLEMENTAL STANDARDS RULE.</i>	3948 3949 3950 3951 3952 3953 3954 3955

3957 *If it is not possible to provide an opinion as to the current market value of the property in*  
 3958 *its actual physical condition and subject to the zoning in effect as of the date of the*  
 3959 *appraisal, the appraiser must clearly explain the circumstances and reasons why such an*  
 3960 *opinion could not be developed and reported.*

3961 USPAP References: ETHICS RULE  
 3962 COMPETENCY RULE  
 3963 Standards Rule 2-1(c)  
 3964 Standards Rules 2-2(a) and (b)(viii)  
 3965 SUPPLEMENTAL STANDARDS RULE

3966 **E. ANALYSIS ISSUES:**

3967 **1. Failing to adequately address real estate market risk (trends)**

3968 *An appraiser must be certain that the gathering of factual information is conducted in a*  
 3969 *manner that is sufficiently diligent, given the scope of work as identified according to*  
 3970 *Standards Rule 1-2(f), to ensure that the data that would have a material or significant*  
 3971 *effect on the resulting opinions or conclusions are identified and, where necessary,*  
 3972 *analyzed [SR 1-1(b), Comment].*

3973 *An appraiser must have sound reasons in support of the scope-of-work decision and be*  
 3974 *prepared to support the decision to exclude any information or procedure that would*  
 3975 *appear relevant to the client, an intended user, or the appraiser's peers in the same or a*  
 3976 *similar assignment. Failing to include in the scope of work sufficient market trend*  
 3977 *research and analyses to develop credible results violates Standards Rules 1-1(a) and (b)*  
 3978 *and Standards Rule 1-2(f).*

3979 *SUPPLEMENTAL STANDARDS RULE: The agencies' appraisal regulations require*  
 3980 *sufficient information and analysis to support the regulated institution's decision to*  
 3981 *engage in the transaction. Market area trend analysis information is essential to the*  
 3982 *intended user's understanding of market risk and how market trend was addressed in*  
 3983 *developing the value opinion in a market value appraisal.*

3984 *Analysis of market area trend information is a necessary part of the scope of work to*  
 3985 *comply with the requirements stated in Standards Rules 1-3(a), 1-4(c)(iv), and 1-4(h)(iii).*  
 3986 *While departure is permitted from each of these specific requirements, an appraiser must*  
 3987 *ensure that the scope of work is not so limited that the results of the assignment are no*  
 3988 *longer credible. An appraiser has the burden of proof to support his or her scope-of-work*  
 3989 *decision [SR 1-2(f)], including the appropriateness of any departures in view of the*  
 3990 *agencies' appraisal regulations that require sufficient information and analysis to*  
 3991 *support the regulated institution's decision to engage in the transaction that prompted*  
 3992 *the need for the appraisal.*

3993 *Standards Rule 1-3(a) includes the requirement to identify and analyze, among other*  
 3994 *things, economic demand and market area trends. The Comment to Standards Rule 1-*  
 3995 *3(a) states, "An appraiser must avoid making an unsupported assumption or premise*  
 3996 *about market area trends, ..." If an appraiser violates the agencies' appraisal*  
 3997 *regulations by failure to conduct sufficient research and analysis of market area trend*  
 3998 *data or by failure to include the result of such analysis in the appraisal report, the*  
 3999 *appraiser thus violates the SUPPLEMENTAL STANDARDS RULE.*

4000 *Standards Rule 1-4(c)(iv) states, "When an income approach is applicable, an appraiser*  
 4001 *must: ... base projections of future rent and expenses on reasonably clear and*  
 4002 *appropriate evidence." The Comment to Standards Rule 1-4(c)(iv) states, "An appraiser*  
 4003 *must, in developing income and expense statements and cash flow projections, weigh*

historical information and trends, current demand and supply factors affecting such trends, and anticipated events such as competition from developments under construction” If an appraiser violates the agencies’ appraisal regulations by failure to complete sufficient research and analysis of market area trends affecting rental and expense levels and relationships in an appraisal of income-producing commercial real estate in which an income approach was completed, or by failure to include the result of such analysis in the appraisal report, the appraiser thus violates the SUPPLEMENTAL STANDARDS RULE.

Standards Rule 1-4(h)(iii) states, “When appraising proposed improvements, an appraiser must examine and have available for future examination: ... reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion.” Market area trend information and analysis is essential to understand and evaluate the credibility of such information. If, an appraiser violates the agencies’ appraisal regulations by failure to conduct sufficient research and analysis of market trends affecting these elements in an appraisal involving a property appraised with proposed improvements, or by failure to include the result of such analysis in the appraisal report, the appraiser thus violates the SUPPLEMENTAL STANDARDS RULE.

USPAP References: Standards Rule 1-1(b) 4021  
Standards Rule 1-2(f) 4022  
Standards Rules 1-3(a) and (b) 4023  
Standards Rules 1-4(c)(iv) and (h)(iii) 4024  
Standards Rule 2-2(a) or (b)(ix) 4025  
SUPPLEMENTAL STANDARDS RULE 4026

2. **Using comparable sales transactions that are not arm’s length** 4027

The definition of market value applicable in an assignment establishes the conditions for an arm’s length sale transaction under that definition. When developing an opinion of market value, using sales that are not arm’s length is not acceptable appraisal practice if an adequate number of relevant arm’s length sales are available for analysis. If market conditions result in the necessity to use sales that are not arm’s length in an appraisal, the sale analysis must identify and apply appropriate adjustments to result in a value indication consistent with the terms and conditions of sale set forth in the market value definition applicable in the assignment.

USPAP References: Standards Rule 1-1(b) 4036  
Standards Rule 1-4(a) 4037

3. **Reporting the sum of retail values of units for a tract development project (5 units or more in a single development) as representing the market value of the whole property** 4038  
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The subject property in an appraisal of a subdivision or a tract development is the project itself (e.g., land with entitlements to develop improved properties, such as lots or finished lots with structures), not the individual units of finished product.

The sum of “retail values” for the lots or homes produced in tracts is not the market value of the project in an appraisal developed for use in project development financing. It is inappropriate to value a subdivision or tract development project by adding together the values for the individual units of finished product. It is misleading to report the sum of the values for individual units of production as the market value of the subdivision or tract development project. If the market value for individual units of production (e.g., proposed residences) is requested by the client, such as for use in take-out loan

4052 *commitments, those value opinions must be developed in the context of that intended use.*  
 4053 *The individual values must not be summed and characterized in an appraisal report as*  
 4054 *the market value of the project.*

4055 USPAP References: Standards Rule 1-1(a)  
 4056 Standards Rules 1-2(b) and (e)  
 4057 Standards Rules 1-4(e)  
 4058 Standards Rule 2-2(a) or (b)(iii)

4059 USPAP Guidance: Advisory Opinion AO-23, *Identifying the Relevant*  
 4060 *Characteristics of the Subject Property of a Real Property*  
 4061 *Appraisal Assignment*

4062 **4. Using non-market-based time constraints when applying deductions and discounts**  
 4063 **in the valuation of proposed construction or renovation, partially leased buildings,**  
 4064 **non-market lease terms, and tract developments with unsold units. For example,**  
 4065 **some appraisers do not apply deductions and discounts if they believe the tract will**  
 4066 **sell within a year**

4067 *The use of non-market-based time constraints when analyzing a property produces a*  
 4068 *result that is not market value. In the event a client requests use of non-market based*  
 4069 *factors, or no discounting for a defined time period, the result is more in character with*  
 4070 *an investment value or some other value under its specified marketing, loan liquidation*  
 4071 *or collection criteria, or accounting applications. When an assignment includes client-*  
 4072 *specified marketing, sale, or acquisition conditions that are distinct from typical market*  
 4073 *conditions, it is misleading to label the result a market value opinion.*

4074 USPAP References: Standards Rules 1-2(b) and (c)  
 4075 Standard Rule 1-3(a)  
 4076 Standards Rules 1-4(e), (f), and (h)  
 4077 Statement on Appraisal Standards No. 2 (SMT-2), *Discounted*  
 4078 *Cash Flow Analysis*

4079 **5. Providing an undiscounted value conclusion to an institution when the institution is**  
 4080 **financing the development of and not the end purchase of the individual unit(s); and**  
 4081 **failing to report appropriate deductions and discounts for a tract development**  
 4082 **appraisal**

4083 *When the intended use of assignment results is for tract development project financing*  
 4084 *and a market value opinion is developed by use of a discounted cash flow analysis*  
 4085 *(DCF), the DCF analyses must include appropriate market-based deductions and*  
 4086 *discounts to reflect market value (present worth).*

4087 *When the subject of the appraisal is a proposed project and an analysis method is a*  
 4088 *DCF, or other methods that involve discounting, the time frame over which discounting*  
 4089 *occurs must be consistent with the project's overall production and completed unit*  
 4090 *absorption period. The factors applied should be market-derived and must reflect the*  
 4091 *market's anticipated response to the difference between the date of value and receipt of*  
 4092 *the cash flows, project risk, and market trends, not only the time-value of money.*

4093 USPAP References: Standards Rules 1-2(b) and (e)  
 4094 Standards Rules 1-4(e) and (h)  
 4095 Statement on Appraisal Standards No. 2 (SMT-2), *Discounted*  
 4096 *Cash Flow Analysis*  
 4097

USPAP Guidance: Advisory Opinion AO-23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment.* 4097  
4098  
4099

6. **Failing to analyze a current option, or listing of the property being appraised; and failing to identify and analyze all prior sales of the subject property (within required time frames), which may facilitate “land flip” deals** 4100  
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*Given the intended use of the assignment results by a federally insured depository institution, an appraiser must take all reasonable steps to gather and verify relevant information concerning the subject property’s current market activity and marketing history.* 4103  
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*An appraiser can demonstrate due diligence efforts, in compliance with Standards Rule 1-1(b), to obtain relevant information regarding all agreements of sale, or options, or current listing of the property being appraised [SR 1-5(a)] by documenting in the appraisal report the appraiser’s direct inquiry to the federally insured depository institution, or its agent, that requested the appraisal service. Failure to make such due diligence effort, or failure to state adequate supporting reasons in response to Standards Rule 2-2(a) or (b)(ix) why such information is not obtainable or is not relevant, violates Standards Rule 1-1(b).* 4107  
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*The time frames cited in Standards Rule 1-5(b) are minimums. If market activity concerning the subject property from prior periods is known and relevant, it should also be analyzed and addressed. The requirement is for an analysis of all sales that occurred in the minimum time frame, not just the most recent sale. For example, if a property sold twice within the minimum time frame, both sales must be analyzed. The summary of the sales’ analyses reported in compliance with Standards Rule 2-2(a) or (b)(ix) must include data sufficient to identify each relevant prior sale of the subject, including (when available) sale date, amount, type and terms of financing if any, and names of the seller and buyer. If relevant and necessary to a proper understanding of the sale, the conditions of sale and the property condition at sale must also be reported.* 4115  
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USPAP References: Standards Rule 1-1(b) 4125  
Standards Rules 1-5(a) and (b) 4126  
Standards Rules 2-2(a) and (b)(ix) 4127

F. **APPRAISAL REVIEW ISSUES:** 4128

1. **Changing the market value opinion in the appraisal report without adequately supporting their opinion, thus producing a conclusion that is not credible** 4129  
4130

*An appraiser functioning as reviewer may state his or her own opinion of value as part of the appraisal review assignment results. However, changes to the report content by the reviewer to support a different value conclusion must match, at a minimum, the reporting requirements for a Summary Appraisal Report. When appropriate, the reviewer can use extraordinary assumptions regarding the elements of the work under review that the reviewer accepts as credible in support of the reviewer’s value opinion. Elements of the work under review that the reviewer does not deem credible or in compliance must be replaced with information or analysis by the reviewer in developing his or her value opinion.* 4131  
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USPAP References: Standards Rules 3-1(c)–(g) 4140  
Standards Rule 3-2(d) 4141

4143 USPAP Guidance: Advisory Opinion AO-20, *An Appraisal Review Assignment*  
 4144 *That Includes the Reviewer's Own Opinion of Value*

4145 **2. Failing to meet minimum USPAP reporting requirements for an institution that**  
 4146 **requires USPAP Standard 3 reviews**

4147 *An appraiser functioning as reviewer has the obligation to include information in the*  
 4148 *appraisal review report as required in Standards Rules 3-2 and 3-3.*

4149 USPAP References: Standards Rule 3-2  
 4150 Standards Rule 3-3

4151 **G. CONCLUSIONS:**

4152 **▪ General USPAP Compliance Questions**

4153 *Appraisers are bound to comply with USPAP in performing assignments where the intended user*  
 4154 *of the assignment results is a federally insured depository institution and the intended use is in a*  
 4155 *federally related transaction. Competency to perform an assignment includes the ability to*  
 4156 *complete the assignment in compliance with USPAP and any supplemental standards that the*  
 4157 *appraiser agrees are applicable in the assignment at the time the assignment is accepted by the*  
 4158 *appraiser.*

4159 *An appraiser accepting an assignment to be performed under the agencies' appraisal regulations*  
 4160 *and guidelines is obligated to complete that assignment in a manner that complies with USPAP*  
 4161 *and the supplemental standards included in the agencies' appraisal regulations and guidelines.*

4162 *Accepting an assignment that the appraiser knowingly cannot complete in compliance with*  
 4163 *USPAP and the agencies' appraisal regulations and guidelines that the appraiser agreed to in*  
 4164 *accepting the assignment violates the ETHICS RULE.*

4165 *Failure to complete the assignment competently, in accordance with the applicable USPAP*  
 4166 *requirements and supplemental standards the appraiser agreed to in accepting the assignment,*  
 4167 *violates the COMPETENCY RULE.*

4168 **▪ Appraiser Independence Issues**

4169 *The agencies' appraisal regulations, which supplement USPAP, do not permit an appraiser to*  
 4170 *accept an assignment involving a property or transaction in which the appraiser has a direct or*  
 4171 *indirect interest, financial or otherwise. If an appraiser who has such an interest violates the*  
 4172 *agencies' appraisal regulations by accepting such an assignment, he or she violates the*  
 4173 *SUPPLEMENTAL STANDARDS RULE.*

4174 *Altering a report in a manner that conceals the original client or intended users in the assignment*  
 4175 *is misleading and violates the Conduct section of the ETHICS RULE.*

4176 **▪ Departure Issues—Misusing the DEPARTURE RULE**

4177 *Failure to develop credible opinions and conclusions in an assignment wherein departure is*  
 4178 *invoked violates the DEPARTURE RULE and Standards Rule 1-2(f).*

4179 *Failure to state and explain permitted departures from specific requirements in STANDARD 1*  
 4180 *violates the applicable reporting rules [SR 2-2(a) or (b)(xi)] as well as the DEPARTURE RULE.*

<i>Failure to state and explain the reason for excluding any of the usual valuation approaches violates the applicable reporting rules [SR 2-2(a) or (b)(xi)].</i>	4180 4181
<i>Use of the DEPARTURE RULE requires agreement by the client after the appraiser has informed the client that the assignment calls for something less than, or different from, the work required by the specific requirements and that the report will clearly identify and explain the departures. Failure to obtain the concurrence of a thus informed client violates the DEPARTURE RULE.</i>	4182 4183 4184 4185
<b>▪ Using Hypothetical Conditions</b>	4186
<i>The agencies' appraisal regulations require sufficient information and analysis to support the regulated institution's decision to engage in the transaction. The agencies' guidelines state that for federally related transactions, an appraisal is to include the current market value of the property in its actual physical condition and subject to the zoning in effect as of the date of the appraisal.</i>	4187 4188 4189 4190 4191
<i>When such an appraisal with a current date of value is based on a hypothetical condition, the information in the appraisal report must include the appraiser's opinion of the current market value of the property in its actual physical condition and subject to the zoning in effect as of the date of the appraisal (current date of value). If, by failing to provide this opinion when possible, an appraiser violates the agencies' appraisal regulation and guidelines, the appraiser violates the SUPPLEMENTAL STANDARDS RULE. If it is not possible to provide an opinion as to the current market value of the property in its actual physical condition and subject to the zoning in effect as of the date of the appraisal, the appraiser must clearly explain the circumstances and reasons why such an opinion could not be developed and reported.</i>	4192 4193 4194 4195 4196 4197 4198 4199 4200
<b>▪ Analysis Issues</b>	4201
<i>Failing to include in the scope of work sufficient market trend research and analyses to develop credible results violates Standards Rules 1-1(a) and (b) and Standards Rule 1-2(f).</i>	4202 4203
<i>If an appraiser violates the agencies' appraisal regulations by failure to conduct sufficient research and analysis of market area trend data or failure to include the result of such analysis in the appraisal report, an appraiser thus violates the SUPPLEMENTAL STANDARDS RULE.</i>	4204 4205 4206
<i>If an appraiser violates the agencies' appraisal regulations by failure to complete sufficient research and analysis of market area trends affecting rental and expense levels and relationships in an appraisal of income-producing commercial real estate in which an income approach was completed, or failure to include the result of such analysis in the appraisal report, the appraiser thus violates the SUPPLEMENTAL STANDARDS RULE.</i>	4207 4208 4209 4210 4211
<i>When developing an opinion of market value, using sales that are not arm's length is not acceptable appraisal practice if an adequate number of relevant arm's length sales are available for analysis. If market conditions result in the necessity to use sales that are not arm's length in an appraisal, the sale analysis must identify and apply appropriate adjustments to result in a value indication consistent with the terms and conditions of sale set forth in the market value definition applicable in the assignment.</i>	4212 4213 4214 4215 4216 4217
<i>It is inappropriate to value a subdivision or tract development project by adding together the values for the individual units of finished production. It is misleading to report the sum of the values for individual units of production as the market value of the subdivision or tract development project.</i>	4218 4219 4220 4221
<i>The use of non-market-based time constraints when analyzing a property produces a result that is not market value. When an assignment includes client-specified marketing, sale, or acquisition</i>	4222 4223

4225 *conditions that are distinct from typical market conditions, it is misleading to label the result a*  
4226 *market value opinion.*

4227 *When the intended use of assignment results is for tract development project financing and a*  
4228 *market value opinion is developed by use of a discounted cash flow analysis (DCF), the DCF*  
4229 *analyses must include appropriate market-based deductions and discounts to reflect market value*  
4230 *(present worth).*

4231 *When the subject of the appraisal is a proposed project and an analysis method is a DCF, or other*  
4232 *methods that involve discounting, the time frame over which discounting occurs must be consistent*  
4233 *with the project's overall production and completed unit absorption period. The factors applied*  
4234 *should be market-derived and must reflect the market's anticipated response to the difference*  
4235 *between the date of value and receipt of the cash flows, project risk, and market trends, not only*  
4236 *the time-value of money.*

4237 *An appraiser must take all reasonable steps to gather and verify relevant information concerning*  
4238 *the subject property's current market activity and marketing history. The time-frame cited in*  
4239 *Standards Rule 1-5(b) is a minimum requirement. If market activity concerning the subject*  
4240 *property from prior periods is known and relevant, it should also be analyzed and addressed. The*  
4241 *requirement is for an analysis of all sales that occurred in the minimum time-frame, not just the*  
4242 *most recent sale. The summary of the sales' analyses reported in compliance with Standards Rule*  
4243 *2-2(a) or (b)(ix) must include data sufficient to identify each relevant prior sale of the subject,*  
4244 *including (when available) sale date, amount, type and terms of financing if any, and the seller*  
4245 *and buyer. If relevant and necessary to a proper understanding of the sale, the conditions of sale*  
4246 *and the property condition at sale must also be reported.*

4247 **▪ Appraisal Review Issues**

4248 *An appraiser functioning as reviewer may state his or her own opinion of value as part of the*  
4249 *appraisal review assignment results. However, changes to the report content by the reviewer to*  
4250 *support a different value conclusion must match, at a minimum, the reporting requirements for a*  
4251 *Summary Appraisal Report.*

4252 *An appraiser functioning as reviewer has the obligation to include information in the appraisal*  
4253 *review report as required in Standards Rule 3-2 and 3-3.*

4254 Adopted July 10, 2000



**ADDENDA  
REFERENCE MATERIAL  
(for guidance only)**

ADVISORY OPINIONS .....	125
INDEX.....	229

**ADVISORY OPINIONS**

Advisory Opinions issued by the Appraisal Standards Board (ASB) do not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems. Advisory Opinions do not have the full weight of a Standards Rule and can be approved by the ASB without exposure and comment.

**INDEX TO ADVISORY OPINIONS**

AO-1 Sales History (RP).....	125
AO-2 Inspection of Subject Property Real Estate (RP).....	128
AO-3 Update of a Prior Assignment (ALL).....	130
AO-4 Standards Rule 1-5(b) (RP).....	133
AO-5 Assistance in the Preparation of an Appraisal (ALL).....	134
AO-6 The Appraisal Review Function (Retired) .....	138
AO-7 Marketing Time Opinions (RP, PP) .....	139
AO-8 Market Value vs. Fair Value in Real Property Appraisals (RP).....	141
AO-9 The Appraisal of Real Property That May Be Impacted by Environmental Contamination (RP) .....	143
AO-10 The Appraiser-Client Relationship (Retired) .....	148
AO-11 Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2 (RP, PP).....	149
AO-12 Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2 (RP, PP) .....	155
AO-13 Performing Evaluations of Real Property Collateral to Conform with USPAP (RP).....	157
AO-14 Appraisals for Subsidized Housing (RP).....	162
AO-15 Using the DEPARTURE RULE in Developing a Limited Appraisal (ALL).....	165
AO-16 Fair Housing Laws and Appraisal Report Content (RP) .....	169
AO-17 Appraisals of Real Property with Proposed Improvements (RP) .....	173
AO-18 Use of an Automated Valuation Model (AVM) (ALL) .....	178
AO-19 Unacceptable Assignment Conditions in Real Property Appraisal Assignments (RP) .....	186
AO-20 An Appraisal Review Assignment That Includes the Reviewer’s Own Opinion of Value (ALL) .....	192
AO-21 USPAP Compliance (ALL).....	199
AO-22 Scope of Work in Market Value Appraisal Assignments, Real Property (RP) .....	208
AO-23 Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment (RP).....	215
AO-24 Normal Course of Business (RP, PP).....	219
AO-25 Clarification of the Client in a Federally Related Transaction (RP).....	222

AO-26 Readdressing (Transferring) a Report to Another Party (ALL) .....224  
AO-27 Appraising the Same Property for a New Client (ALL).....226

**ADVISORY OPINION 1 (AO-1)**

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*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

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**SUBJECT: Sales History**

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**APPLICATION: Real Property**

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**THE ISSUE:**

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The *Uniform Standards of Professional Appraisal Practice* (USPAP) and supplemental standards issued by others contain sales history requirements that obligate appraisers of real property to analyze and report pending and recent agreements, options, listings, and sales involving the property being appraised. Because of differences in federal law and regulations, state laws and operating practices relating to the disclosure and confidentiality of real property sales data, the ways in which appraisers comply with the sales history requirements vary according to the jurisdiction and the availability of information. This lack of consistency has raised questions regarding the applicability and relevance of the sales history requirements.

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How can the appraiser best comply with the sales history provisions of the applicable appraisal standards in the face of obstacles that are beyond the control of the appraiser?

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**ADVICE FROM THE ASB ON THE ISSUE:**

18

**Relevant USPAP & Advisory References**

19

- Advisory Opinion 24 (AO-24) which addresses the “normal course of business”.

20

This Advisory Opinion offers advice and guidance for compliance with the requirements to analyze and report sales history and related information in the appraisal of real property.

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USPAP Standards Rules 1-5(a) and (b) require an appraiser, when the value opinion to be developed is market value, and if such information is available to the appraiser in the normal course of business<sup>62</sup>, to analyze (1) all agreements of sale, option, or listings of the subject property current as of the effective date of the appraisal and (2) all sales of the subject property that occurred within three (3) years prior to the effective date of the appraisal. USPAP Standards Rules 2-2(a)(ix), (b)(ix), and (c)(ix) call for the written appraisal report to contain sufficient information to indicate compliance with the sales history requirement. Standards Rules 2-2(a)(ix), (b)(ix), and (c)(ix) further require that, if sales history information is unobtainable, the written appraisal report must include a commentary on the efforts taken by the appraiser to obtain the information.

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Supplemental standards issued by government agencies, government sponsored enterprises, or other entities that establish public policy also contain requirements that require the appraiser to analyze and report sales history information, and these requirements vary according to jurisdiction.

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<sup>62</sup> See Advisory Opinion AO-24.

34 The requirement for the appraiser to analyze and report sales history and related information is fundamental  
35 to the appraisal process. Just as the appraiser must analyze pending and recent sales of comparable  
36 properties, the appraiser must take into account all pending and recent sales of the subject property itself.  
37 This is not to say that the agreed price in a pending or recent sale of the subject property is necessarily  
38 representative of value as defined in the report, but the appraiser's failure to analyze and report these facts  
39 may exclude important information from the sales comparison approach. Information pertaining to the  
40 current market status and the sales history of the subject property may also be useful information for the  
41 determination of highest and best use or the analysis of market trends.

#### 42 **Sample Sales Histories**

43 The following sample sales histories are offered as examples of information that might be included in an  
44 appraisal report in compliance with the applicable standards.

45 For a property that is not under agreement or option, that is not offered for sale on the open market and that  
46 has not changed hands within the past three years, the sales history might be shown in the appraisal report  
47 as follows:

48         Research of the applicable public records, private data services and an interview of the current  
49         owner, revealed that the subject property is not under current agreement or option and is not  
50         offered for sale on the open market. Additionally, according to these sources, the subject property  
51         has not been transferred during the past three years.

52 For a property that is offered for sale on the open market and that was acquired by the current owner during  
53 the past three years, the sales history to be included in the appraisal report might appear as follows:

54         The subject property is currently offered for sale at a listing price of \$XXX,XXX. A copy of the  
55         listing agreement with Mary Smith, real estate broker, is included in the addendum to this report.

56         The subject property was sold by John Jones to the current owner on June 1, 20XX, for a reported  
57         price of \$XXX,XXX. The parties to the transaction have affirmed that the seller received all cash  
58         and that the reported price was unaffected by special or creative financing or sales concessions  
59         granted by anyone associated with the sale. This sale is analyzed in the Sales Comparison  
60         Approach section of the appraisal report.

61         According to the public records, there have been no other transfers of the subject property within  
62         the past three years.

#### 63 **Sample Comments**

64 The following sample comments are offered as examples of comments that might be included in an  
65 appraisal report in cases where pertinent information is not available to the appraiser in the normal course  
66 of business. The comments are fictitious and are offered only for purposes of illustration.

67 In cases where the property being appraised is known to be the subject of a pending transaction, but the  
68 appraiser is not privy to the terms of the pending transaction and the parties to the transaction have declined  
69 to disclose the terms of the transaction to the appraiser, the sales history to be included in the appraisal  
70 report might include a comment such as the one shown below:

71         The property being appraised is known to be the subject of a pending purchase and sale  
72         agreement, but the appraiser was unable to obtain the terms of the agreement. The current owner  
73         confirmed that the property is under agreement but declined to disclose the terms of the agreement  
74         or to discuss the nature of the agreement.

In jurisdictions where reliable price information cannot be found in the public records and where the appraiser is unable to obtain complete information in the normal course of business <sup>63</sup> , it would be appropriate to include in the appraisal report a comment similar to the one shown below:	76 77 78
The subject property was sold by John Jones to the current owner on June 1, 20XX, for an unknown price. The appraiser attempted to obtain the purchase price and other terms of the transaction without success. The parties to the transaction declined to discuss the terms or conditions of the sale.	79 80 81 82
According to the public records, there have been no other transfers of the subject property within the past three years.	83 84
<i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	85 86 87
Approved December 3, 1990	88
Last Revised June 11, 2002	89

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<sup>63</sup> See Advisory Opinion AO-24.

1 **ADVISORY OPINION 2 (AO-2)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Inspection of Subject Property Real Estate**

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

8 What constitutes a minimum inspection of the real estate of the subject property under the applicable  
9 standards of the *Uniform Standards of Professional Appraisal Practice (USPAP)*? Under what conditions is  
10 an appraisal without the benefit of an interior and complete exterior inspection permissible?

11 **ADVICE FROM THE ASB ON THE ISSUE:**

12 The elements of USPAP relating to inspection of real estate for the purpose of developing an appraisal  
13 require that the appraiser adequately identify the real estate, the type and definition of value and intended  
14 use of the appraisal, the extent of the data collection process, any limiting conditions, and the effective date  
15 of the appraisal. USPAP also mandates that each written appraisal report must contain a signed certification  
16 that requires each appraiser to certify that he or she has or has not made a personal inspection of the  
17 property. The extent and depth of the inspection process vary with the type of property appraised and the  
18 conditions of the appraisal. This Advisory Opinion addresses only the minimum general requirements of  
19 the inspection process, with no discussion of special requirements or property types. It is the appraiser's  
20 responsibility to determine if adequate information is available about the subject real estate to develop a  
21 real property appraisal that conforms with USPAP. An appraiser cannot rationally develop an appraisal if  
22 adequate information on the subject real estate is not available. Consequently, where information about  
23 physical characteristics is not available through an opportunity for a complete inspection or from reliable  
24 third-party sources, an appraiser has the duty to obtain the necessary information to develop the appraisal  
25 before continuing or to withdraw from the assignment.

26 Many appraisals involve an inspection of the land and an exterior and interior inspection of the existing  
27 improvements by an appraiser on a walk-through basis. This type of inspection is not necessarily the  
28 equivalent of an inspection by a qualified engineer. An appraiser's inspection should, at the minimum, be  
29 thorough enough to adequately describe the real estate in the appraisal report; develop an opinion of highest  
30 and best use, when such an opinion is necessary and appropriate; and make meaningful comparisons in the  
31 appraisal of the property.

32 There are situations where interior and complete exterior inspections are not possible as of the effective  
33 date of the appraisal. For example, inspections are not physically possible where improvements have been  
34 destroyed, removed, or not yet built. Inspections are not legally or contractually possible if the appraiser is  
35 denied access by the property owner or if the contract stipulates an appraisal based on an exterior only  
36 inspection.

37 Where an interior and complete exterior inspection is not possible for any valid reason, physical  
38 characteristics information about the real estate should be obtained from reliable third-party sources in the  
39 form of photographs, public information from local assessors and other governmental agencies, and private  
40 information from multiple listing and other data service firms and files of individuals. The same sources  
41 that are utilized to research and verify comparable sales data can be used to obtain information about the  
42 subject property. An appraisal developed without the benefit of an interior and complete exterior inspection  
43 by the appraiser is subject to the same Standards that would apply if the appraiser had made a complete  
44 personal inspection.

An appraisal report with a certification stating that a personal inspection was made represents that the performed inspection was sufficient to satisfy all the requirements of the applicable Standards Rules. If a personal inspection was made of a property with existing enclosed improvements and the inspection was limited to an external observation, this limitation should be disclosed. On the other hand, an inspection of a property consisting of land only without enclosed improvements would require no such disclosure.

An appraisal report may contain a certification stating that a personal inspection was not made by the appraiser. Simply disclosing this fact, however, does not relieve the appraiser of the responsibility to determine whether adequate information about the subject real estate is available to develop a credible appraisal.<sup>64</sup>

**Examples of Limiting Conditions**

The examples cited below are illustrations of the wording of a limiting condition in an appraisal report for a client who requested an appraisal based on an exterior only inspection.

The appraiser has been requested to perform an appraisal based on an exterior only inspection and not to disturb the occupants by entering the building. The physical characteristics used to develop this appraisal are based on an inspection that the appraiser made three years ago when the property was appraised for estate tax purposes. For the purpose of this appraisal, it is assumed that the interior condition of the subject property has not materially changed during the past three years. The subject property was observed from the public street as of the effective date of the appraisal. This exterior inspection revealed that the outside of the building has been repainted and that the roof has been replaced.

or

The appraiser has been requested to perform an appraisal based on an exterior only inspection and not to disturb the occupants by entering the building. The physical characteristics used to develop this appraisal are based on the assessment records of (cite jurisdiction) and on the multiple listing service information of (cite source). The subject property was observed from the public street as of the effective date of the appraisal. On the basis of the observed conditions, the assessment records and multiple listing service information appear to be accurate. For the purposes of this appraisal, it is assumed that the interior condition of the subject property is consistent with the exterior conditions as observed and that the information concerning the interior condition as provided by the assessor's records and the multiple listing service is accurate.

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

Approved December 4, 1990  
Last Revised September 16, 1998

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<sup>64</sup> See Advisory Opinion AO-5.

1     **ADVISORY OPINION 3 (AO-3)**

2     *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3     *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4     *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5     **SUBJECT: Update of a Prior Assignment**

6     **APPLICATION: Real Property, Personal Property, Intangible Property**

7     **THE ISSUE:**

8     Once an appraisal of a property, or an appraisal consulting assignment, has been completed, there are many  
 9     cases in which a client may need a subsequent appraisal or analysis involving the same property. Examples  
 10    include:

- 11       ▪ In the appraisal of real property, a current value is commonly required by lenders and  
 12       secondary market participants when the time frame between the effective date of a prior  
 13       appraisal and the closing of a loan exceeds certain limits. A current value is also required by  
 14       agencies in eminent domain cases when time has elapsed between a prior appraisal and the  
 15       date of taking.
- 16       ▪ In the appraisal of business equity of privately held companies held by Employee Stock  
 17       Ownership Trusts, current values are required at least annually.
- 18       ▪ In the appraisal of personal property, it may be necessary to appraise equipment every two  
 19       years for financing purposes.
- 20       ▪ Similarly, a client may request an update of a prior appraisal consulting assignment, or a  
 21       review assignment that included the reviewer’s opinion of value.

22    Clients sometimes label such requests as “updates”, “reappraisals”, or “recertifications”. Does USPAP  
 23    address these and how can an appraiser comply with USPAP for such assignments?

24    **ADVICE FROM THE ASB ON THE ISSUE:**

25    **Clarification of Nomenclature**

26    Various nomenclature has been developed by clients and client groups for certain appraisal assignments,  
 27    including “updates” and “recertifications”. While such terms may be convenient for use in a business  
 28    setting, they do not necessarily impart the same meaning in every situation.

29    The term “Update” is often used by clients when they are seeking a current appraisal of a property that was  
 30    the subject of a prior assignment. This practice is addressed in this Advisory Opinion.

31    The term “Recertification of Value” is often mistakenly used by some clients in lieu of the term “Update”.  
 32    A Recertification of Value is performed to confirm whether or not the conditions of a prior appraisal have  
 33    been met. A Recertification of Value does not change the effective date of the value opinion. If a client uses  
 34    this term in an assignment request that includes an updated value opinion, then it constitutes a new  
 35    appraisal assignment that must be completed as discussed in this Advisory Opinion.



## **A New Assignment**

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Regardless of the nomenclature used, when a client seeks a more current value or analysis of a property that was the subject of a prior assignment, this is not an *extension* of that prior assignment that was already completed – it is simply a new assignment. An “assignment” is defined in USPAP as:

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*a valuation service provided as a consequence of an agreement between an appraiser and a client.*

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The same USPAP requirements apply when appraising or analyzing a property that was the subject of a prior assignment. There are no restrictions on who the appraiser is in such a circumstance, who the client is<sup>65</sup>, what length of time may have elapsed between the prior and current assignments, or whether the characteristics of the subject property are unchanged or significantly different than in the prior assignment.

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## **Development Requirements**

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For all assignments, the development of the assignment results must be in accordance with the requirements contained in the applicable STANDARD (1, 3, 4, 6, 7, or 9). When developing an opinion regarding a property that was the subject of a previous assignment, the scope of work in the new assignment may be different from the scope of work in the prior one. In addition, rather than duplicating steps in the appraisal process, the appraiser can elect to incorporate some of the analyses from the previous assignment (those items that the appraiser concludes are credible and in compliance with the applicable development Standard) into the new assignment through the use of an extraordinary assumption.

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## **Reporting Requirements**

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For all assignments, the results must be reported in accordance with the requirements of STANDARDS 2, 3, 5, 6, 8, or 10, as applicable. The new report is not required to have the same level of detail as the original report – i.e. a different reporting option may be used. However, the new report must contain sufficient information to be meaningful and not misleading to the intended users. There are three ways that the reporting requirements can be satisfied for these types of assignments:

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1. Provide a new report that contains all the necessary information/analysis to satisfy the applicable reporting requirements, *without incorporation* of the prior report by either attachment or reference. 59  
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2. Provide a new report that *incorporates by attachment* specified information/analysis from the prior report so that, in combination, the attached portions and the new information/analysis added satisfies the applicable reporting requirements. 62  
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3. Provide a new report that *incorporates by reference* specified information/analysis from the prior report so that, in combination, the referenced portions and the new information/analysis added satisfies the applicable reporting requirements. This option can only be used if the original appraiser’s firm and original intended users are involved, since the prior report was issued from that appraiser to those intended users, assuring they have access to a copy. When this incorporation by reference option is used, the following items from that prior report must be specifically identified in the new report to avoid being misleading: 65  
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  - subject property 72
  - client and any other intended users 73
  - intended use 74
  - appraiser(s) 75
  - effective date of value or assignment results 76

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<sup>65</sup> See Advisory Opinion AO-27.

- 77           ▪    date of report, and  
78           ▪    interest(s) appraised

79   When information is being extended to the report by use of an extraordinary assumption, the requirements  
80   in USPAP for use of an extraordinary assumption must be met.

81   **Confidentiality**

82   In all assignments the appraiser must comply with the Confidentiality section of the ETHICS RULE with  
83   respect to the handling of confidential information – i.e. if the prior appraisal, appraisal review, or appraisal  
84   consulting report included any confidential information, its disclosure in a new report to a different client or  
85   intended user might violate the ETHICS RULE. This includes the requirement to comply with “*all*  
86   *confidentiality and privacy laws and regulations*”.

87   **Record Keeping**

88   If the assignment includes use of, or reliance upon, all or part of a prior report, that report (or the portions  
89   used or relied upon) must be retained in the workfile for the new assignment, or its location must be  
90   properly referenced in the workfile. Refer to the Record Keeping section of the ETHICS RULE for more  
91   information.

92   *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
93   *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
94   *the problems discussed or that it applies equally to seemingly similar situations.*

95   Approved March 5, 1991

96   Last Revised June 11, 2002

**ADVISORY OPINION 4 (AO-4)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: Standards Rule 1-5(b)**

**APPLICATION: Real Property**

**THE ISSUE:**

In developing a real property appraisal, Standards Rule 1-5(b) requires an appraiser to analyze all sales of the subject property being appraised that occurred within three (3) years prior to the effective date of the appraisal. Must a transfer of title in lieu of foreclosure or a foreclosure sale be analyzed?

**ADVICE FROM THE ASB ON THE ISSUE:**

The intent of Standards Rule 1-5(b) is to encourage the research and analysis of prior sales of the subject property. All sales of the appraised property within the 3 year time period stated in Standards Rule 1-5(b) includes transfers in lieu of foreclosure and foreclosure sales.

Foreclosure sales and voluntary transfers of title by mortgagor to mortgagee in lieu of foreclosure are transactions grounded in objective necessity. Nevertheless, they are sales because they transfer ownership of and title to property for a valuable consideration. With research and analysis, an appraiser would be able to report under STANDARD 2 that a prior sale of the subject property is influenced by undue stimulation or that the sale does not reflect typical buyer and seller motivation.

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

Approved June 3, 1991

Last Revised June 11, 2002

1 **ADVISORY OPINION 5 (AO-5)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Assistance in the Preparation of an Appraisal**

6 **APPLICATION: Real Property, Personal Property, Intangible Property**

7 **THE ISSUE:**

8 What is the appropriate level of participation for assistants in the appraisal process? Clients that require a  
 9 licensed or certified appraiser, along with the agencies and entities responsible for federally related  
 10 transactions, are concerned about the extent of participation of non-licensed or uncertified assistants in the  
 11 appraisal process. The issue is often expressed in terms of whether the assistant can conduct the property  
 12 inspection alone, perform other parts of the appraisal process, or prepare an appraisal and appraisal report  
 13 certification that only the principal appraiser signs. The primary area of concern is in situations where the  
 14 typical ratio of assistants to principal appraisers is relatively high. What guidance can be found in the  
 15 *Uniform Standards of Professional Appraisal Practice (USPAP)* on this issue?

16 **ADVICE FROM THE ASB ON THE ISSUE:**

17 Although the parties who raised this issue are primarily concerned with the field of residential appraising,  
 18 the advice applies to all appraising.

19 **Relevant USPAP & Advisory References**

- 20       ▪ The relevant responsibilities of appraisers with regard to this issue in USPAP are stated in the  
 21 Conduct section of the ETHICS RULE, the COMPETENCY RULE, and Standards Rules 2-  
 22 3, 3-3, 6-8, 8-3, and 10-3. Advisory Opinion AO-2 on *Inspection of Subject Property Real*  
 23 *Estate* offers additional guidance for real estate appraisers.
- 24       ▪ The Comments to Standards Rules 2-3, 6-8, 8-3, and 10-3, as applicable, are the most direct  
 25 references in relation to this issue and require that any appraiser who signs a report prepared  
 26 by another must accept full responsibility for the appraisal and report. The text of each  
 27 Standards Rule is unequivocal and directly addresses the concerns of the parties who raised  
 28 this issue. The purpose of the Comments to Standards Rules 2-3, 6-8, 8-3, and 10-3, as  
 29 applicable, is to prevent a principal appraiser from attempting to avoid full responsibility for  
 30 an appraisal by using a conditional label on or near the signature line.
- 31       ▪ Standards Rules 2-3, 6-8, and 8-3 require each appraiser signing a report to state whether or  
 32 not he or she inspected the subject property and whether anyone not signing the report  
 33 provided significant professional assistance. This mandatory disclosure informs and protects  
 34 the client and other intended users of the appraisal.
- 35       ▪ Advisory Opinion AO-2 states: “An appraisal report may contain a certification stating that  
 36 a personal inspection was not made by the appraiser. Simply disclosing this fact, however,  
 37 does not relieve the appraiser of the responsibility to determine whether adequate  
 38 information about the subject real estate is available to develop an appraisal that is not  
 39 meaningless or misleading.”<sup>66</sup>
- 40       ▪ The Conduct section of the ETHICS RULE states that “An appraiser must not communicate  
 41 assignment results in a misleading or fraudulent manner. An appraiser must not use or  
 42 communicate a misleading or fraudulent report or knowingly permit an employee or other  
 43 person to communicate a misleading or fraudulent report.”

<sup>66</sup> See Advisory Opinion AO-2

**Responsibility of Principal Appraisers and Competence of Assistants**

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The responsibility of the principal for the work of one or more assistants is inherent in most professions. For example, lawyers use associates, paralegals, and researchers, but are ultimately responsible for the document presented to the client. Partners in accounting firms often rely on audit assistants and tax preparers but are ultimately responsible to the client for the audit or tax return.

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As in other professions, the principal appraiser is responsible for closely supervising the work of assistants, for the training and development of assistants, and for exercising judgment as to the level of work the assistant is capable of and competent to perform. The assistant, in turn, uses education, experience, and work product performed under the direction of the principal appraiser to achieve licensing, certification, and/or professional designation.

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Each assistant will demonstrate proficiency in various aspects of the appraisal process at differing time intervals during his or her professional development. For example, the new assistant with minimal appraisal or related education and experience cannot be allowed to perform any step of the appraisal process alone without the guidance of a principal appraiser or a more experienced assistant. In contrast, in the context of real property appraisal, an assistant who recently entered the appraisal field but who has previous experience as a builder or real estate salesperson may possess the knowledge and experience to adequately identify building materials, items of deferred maintenance, and forms of obsolescence. Although this assistant may be qualified to complete an inspection of the subject real estate alone, he or she would not be competent to relate the inspection to the appraisal approaches, and an inspection by the principal appraiser or a more experienced assistant would be required.

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As proficiency is demonstrated by an assistant, it is appropriate for the principal appraiser to place greater reliance on the work of that assistant. In the context of a real property appraisal assignment, an assistant who has meaningful appraisal education and extensive work experience may well be competent to inspect the real estate and prepare the appraisal report alone, subject to an appropriate final reconciliation by the principal appraiser who will be signing or cosigning the certification in the report. In this situation, the assistant's contribution is both significant and professional. The appropriate final reconciliation should include a discussion of which aspects of the appraisal process were performed by the assistant and the principal appraiser.

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If the principal appraiser signs the certification alone, the contribution of the assistant must be acknowledged (Standards Rule 2-3, 6-8, 8-3, or 10-3), and the specific tasks performed by the assistant should be clearly stated as part of the scope of work disclosure required in Standards Rule 2-2(a)(vii), (b)(vii), or (c)(vii); 6-7(j), Standards Rule 8-2(a)(vii), (b)(vii), or (c)(vii), or Standards Rule 10-2(a)(vii), or (b)(vii); as applicable. If both the assistant and the principal appraiser sign the certification, the principal must accept full responsibility for all aspects of the appraisal process as evidenced by the contents of the report (See the Comment to Standards Rules 2-3, 6-8, 8-3, or 10-3, as applicable). In no circumstance is it appropriate for the principal appraiser to merely sign the certification in an appraisal report prepared by an assistant.

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**Illustrations of Proper Use of Assistants in the Appraisal Process**

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The following examples illustrate proper use of assistants in the appraisal process. Although the examples involve a real estate appraisal firm, personal property and intangible property appraisers should find them equally helpful. Standards Rules 8-3 and 10-3 are equal in intent to Standards Rule 2-3.

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85 Assistant Smith has been employed by Expert Valuers, Inc., for six months and is assigned to a team with  
86 Principal Appraiser Jones and four other assistants. Smith was required to complete a company orientation  
87 program during the first month of employment and has taken and passed course work in appraisal standards  
88 and principles. Jones or Assistant Brown, a team leader with two years experience, accompanies Smith on  
89 all real estate inspections and guides her research and analysis activities daily. Smith completes rough  
90 drafts of various sections of the appraisal report and rewrites them after consultation with Jones or Brown.

91 By company policy, Smith is not yet allowed to cosign appraisal reports. Jones signs the certification in  
92 each report as principal appraiser, acknowledges the specific contributions of Smith and/or Brown in the  
93 certification (Standards Rule 2-3), and takes full responsibility for the contents of the report (Standards  
94 Rule 2-2(a)(vii), (b)(vii), or (c)(vii), as applicable). If the certification shows that Brown inspected the real  
95 estate with Smith and that Jones did not, then Jones must disclose that Brown was relied on for and is  
96 qualified to perform an inspection of the type of real estate being appraised.

97 Assistant Brown has two years of experience working with Expert Valuers, Inc., and is now a team leader  
98 working under Principal Appraiser Jones. Brown did not begin cosigning appraisal reports with Jones until  
99 he had successfully completed course work in appraisal standards, principles, and procedures and had  
100 demonstrated basic proficiency in most steps of the appraisal process. Until that time, he was always  
101 accompanied on real estate inspections by Jones or another senior person in the firm. Brown is now  
102 permitted to conduct inspections with less experienced assistants and regularly advises Jones of any unique  
103 physical attributes of a subject that may require reinspection by Jones. Brown conducts all steps of the  
104 appraisal process, discusses his findings with Jones, and prepares final drafts of appraisal reports. In  
105 addition, he guides three other assistants in portions of the appraisal process when Jones is not available. If  
106 Brown cosigns a certification in a report with Jones, he also acknowledges the specific contributions of  
107 other assistants in the certification (Standards Rule 2-3) and takes full responsibility for the contents of the  
108 report (Standards Rule 2-2(a)(vii), (b)(vii), or (c)(vii), as applicable).

109 Principal Appraiser Jones is a partner in Expert Valuers, Inc., and is state certified. She has 15 years  
110 appraisal experience and is responsible for two four-person appraisal teams headed by senior assistants.  
111 Jones runs the company orientation program for new assistants and conducts weekly team meetings that  
112 provide her with an opportunity to evaluate the appraisal competence of the assistants working with her.  
113 Four of the eight assistants have demonstrated a level of education and understanding of the process that  
114 enable them to conduct most steps of an appraisal. Jones allows these four assistants to conduct real estate  
115 inspections alone and to cosign the certification in appraisal reports. Detailed interior photographs are  
116 required by company policy. Jones examines the photos with assistants when discussing preliminary  
117 conclusions and rough drafts of appraisals, and she always conducts exterior inspections of the subject real  
118 estate at minimum. If unique characteristics are noted in an interior inspection conducted by an assistant,  
119 Jones reinspects the real estate before the appraisal process is completed. Jones discloses the type and  
120 extent of her inspection in the certification of each report (Standards Rule 2-3) and acknowledges and takes  
121 full responsibility for the contributions of assistants (Standards Rules 2-3 and 2-2(a)(vii), (b)(vii), or  
122 (c)(vii), as applicable).

### 123 **Concluding Comments**

124 The extent of assistance that can be provided in the appraisal process is directly related to the competence  
125 of the assistant, and the principal appraiser is responsible for continually evaluating the competence of his  
126 or her assistants.

127 If a client has evidence that a particular appraiser or firm is not taking appropriate responsibility for the  
128 actions of assistants, a complaint to a state appraiser regulatory body or an appraisal organization would be  
129 in order. This complaint should be brought against the principal appraiser as well as against the assistant.

USPAP requires an appraiser to disclose and accept responsibility. The state regulatory procedures established under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and appraisal organizations' ethics enforcement provide the ultimate recourse when a real property appraiser abdicates the responsibility required by USPAP.	130 131 132 133
<i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	134 135 136
Approved May 1, 1992	137
Last Revised September 15, 1999	138

1 **ADVISORY OPINION 6 (AO-6)**

2 **SUBJECT: The Appraisal Review Function**

3 Approved June 2, 1992

4 Retired June 15, 2004

5 Please refer to Advisory Opinions AO-20 and AO-21 for related advice.



**ADVISORY OPINION 7 (AO-7)**

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*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

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**SUBJECT: Marketing Time Opinions**

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**APPLICATION: Real Property, Personal Property**

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**THE ISSUE:**

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The *Uniform Standards of Professional Appraisal Practice* recognizes that supplemental standards applicable to appraisals prepared for specific purposes or property types may be issued by government agencies, government sponsored enterprises or other entities that establish public policy. Some of these supplemental standards require the appraiser to analyze and report a reasonable marketing period for the subject property when developing and reporting an opinion of market value of real or personal property.

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How is this reasonable marketing period opinion developed, and what is the relationship of this opinion of marketing time to the appraisal process?

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**ADVICE FROM THE ASB ON THE ISSUE:**

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The reasonable marketing time is an opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal.

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Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.<sup>67</sup>

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**Rationale and Method for Developing a Marketing Time Opinion**

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The development of a marketing time opinion uses some of the same data analyzed in the process of developing a reasonable exposure time opinion as part of the appraisal process and is not intended to be a prediction of a date of sale or a one-line statement. It is an integral part of the analyses conducted during the appraisal assignment. The opinion may be a range and can be based on one or more of the following:

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- statistical information about days on market,
- information gathered through sales verification,
- interviews of market participants, and
- anticipated changes in market conditions.

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Related information garnered through this process includes other market conditions that may affect marketing time, such as the identification of typical buyers and sellers for the type of real or personal property involved and typical equity investment levels and/or financing terms. The reasonable marketing time is a function of price, time, use, and anticipated market conditions, such as changes in the cost and availability of funds, and is not an isolated opinion of time alone.

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<sup>67</sup> See Statement on Appraisal Standards No. 6 (SMT-6).

35 **Discussion of Marketing Time in the Appraisal Report**

36 Marketing time occurs after the effective date of the market value opinion and the marketing time opinion  
37 is related to, yet apart from, the appraisal process therefore, it is appropriate for the section of the appraisal  
38 report that discusses marketing time and its implications to appear toward the end of the report after the  
39 market value conclusion. The request to provide a reasonable marketing time opinion exceeds the normal  
40 information required for the appraisal process and should be treated separately from that process.

41 It is also appropriate for the appraiser to discuss the impact of price/value relationships on marketing time  
42 and to contrast different potential prices and their associated marketing times with an appraiser's market  
43 value opinion for the subject property.

44 **Applications to Client Uses of an Appraisal**

45 Clients concerned with marketing real or personal properties who obtain a market value appraisal as part of  
46 their decision-making process should be aware that it may be inappropriate to assume that the value  
47 remains stable during the marketing period. Therefore, it is technically incorrect for the user of an appraisal  
48 to take a current value opinion, carry it forward to the end of a concluded marketing period, and then  
49 discount back to the present.

50 Some clients attempt to solve their problem by ordering a "120-day market value," a "six-month market  
51 value," or a "one-year market value" from the appraiser. Unless the opinion of reasonable exposure time  
52 made by the appraiser in the course of such an assignment coincides with the precondition imposed by the  
53 client, the answer to this assignment cannot be stated as market value under a typical definition of the term.  
54 In such situations, the appraiser must clearly distinguish between a market value opinion allowing for  
55 reasonable exposure time and any alternative, appropriately defined, value opinion(s) subject to a special  
56 limiting condition resulting from the client-imposed marketing time.

57 Whether or not the appraiser and client define the appraisal problem to include more than one opinion of  
58 market value, the roles of the parties must be kept clear. The appraiser provides the client with a supported  
59 opinion of defined value in an appropriately documented report that includes a section on reasonable  
60 marketing time and any inherent price/value implications. The ultimate decision on issues like what price to  
61 ask, when to accept a particular offering price, and how to account for the asset during the interim, rests  
62 with the client.

63 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
64 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
65 *the problems discussed or that it applies equally to seemingly similar situations.*

66 Approved September 16, 1992

67 Last Revised September 15, 1999

**ADVISORY OPINION 8 (AO-8)**

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*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

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**SUBJECT: Market Value vs. Fair Value in Real Property Appraisals**

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**APPLICATION: Real Property**

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**THE ISSUE:**

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Most real property appraisal assignments require a market value opinion. Some regulatory agency rules require opinions of fair value for troubled real estate loans and real estate owned by a financial institution. Does fair value differ from market value?

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**ADVICE FROM THE ASB ON THE ISSUE:**

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Fair value is an accounting term and market value is an appraisal term. The accounting literature is clear on this distinction. The term “fair value” appears in four statements by the Financial Accounting Standards Board (FASB): No. 13, No. 15, No. 67, and No. 121. These references are summarized below and on the next page.

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FASB Statement of Financial Accounting Standards No. 13 [Accounting for Leases, Effective January 1, 1977]. The fair value of the leased property is the price for which the property could be sold in an arm’s length transaction between unrelated parties.

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FASB Statement of Financial Accounting Standards No. 15 [Accounting by Debtors and Creditors for Troubled Debt Restructuring, Effective December 31, 1977]. The fair value of the assets transferred is the amount that the debtor could reasonably expect to receive for them in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value of assets shall be measured by their market value if an active market for them exists. If no active market exists for the assets transferred but exists for similar assets, the selling prices in that market may be helpful in estimating the fair value of the assets transferred. If no market price is available, a forecast of expected cash flows may aid in estimating the fair value of assets transferred, provided the expected cash flows are discounted at a rate commensurate with the risk involved.

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FASB Statement of Financial Accounting Standards No. 67 [Accounting for Costs and Initial Rental Operations of Real Estate Projects, Effective December 31, 1982]. The amount in cash or cash equivalent value of other consideration that a real estate parcel would yield in a current sale between a willing buyer and a willing seller (i.e., selling price), that is, other than in a forced or liquidation sale. The fair value of a parcel is affected by its physical characteristics, its probable ultimate use, and the time required for the buyer to make such use of the property considering access, development plans, zoning restrictions, and market absorption factors.

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The American Institute of Certified Public Accountants states in its *Guide for the Use of Real Estate Appraisal Information* (1987 and 1990):

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Fair value is defined in several authoritative accounting pronouncements: FASB Statement No. 13...; ...No. 15...; No. 67...; and ...No. 121. Although the definitions are phrased to fit the circumstances to which the pronouncements refer, fair value is generally defined as the amount that can be reasonably expected to be received in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale.

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43 Rarely will market value and fair value be exactly the same because market value assumes the  
44 property has been previously exposed for sale and the closing takes place on the appraisal date,  
45 while fair value assumes that the property has not yet been exposed to sale and the sale will occur  
46 in the future.

47 The auditor can generally relate the definition of fair value in the accounting literature to the appraiser's  
48 definition of market value.

49 It is clear from the accounting literature that the accountant looks to the appraisal concept of market value  
50 in establishing fair value. Informed appraisers and accountants should understand the relationship between  
51 the accounting term "fair value" and the appraisal term "market value" and be in a position to clarify the  
52 use of these terms for their common clients.

53 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
54 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
55 *the problems discussed or that it applies equally to seemingly similar situations.*

56 Approved September 16, 1993

57 Last Revised September 15, 1999

**ADVISORY OPINION 9 (AO-9)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: The Appraisal of Real Property That May Be Impacted by Environmental Contamination**

**APPLICATION: Real Property**

**THE ISSUE:**

Appraisals of contaminated properties, or properties suspected of being contaminated, are sometimes developed using either a hypothetical condition or an extraordinary assumption that the property is free of the contamination. While this is acceptable practice under certain assignment conditions and for certain intended uses, there are assignments that require an appraisal of the “as-is” condition of the property, with full consideration of the effects of environmental contamination. In these assignments, the appraiser is asked to analyze the effects of known environmental contamination on the value of the subject property.

How does an appraiser comply with USPAP when appraising properties that may be impacted by environmental contamination?

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

- DEFINITIONS, specifically the definitions of
  - EXTRAORDINARY ASSUMPTION: an assumption, directly related to a specific assignment, which, if found to be false could alter the appraiser’s opinions or conclusions.*
  - HYPOTHETICAL CONDITION: that which is contrary to what exists but is supposed for the purpose of analysis.*
- ETHICS RULE, particularly
  - Conduct: An appraiser must perform assignments ethically and competently, in accordance with USPAP and any supplemental standards agreed to by the appraiser in accepting the assignment. ... An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests .... An appraiser must not communicate assignment results in a misleading or fraudulent manner.*
- COMPETENCY RULE: *Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently; or alternatively, must: (1) disclose the lack of knowledge and/or experience to the client before accepting the assignment; (2) take all steps necessary or appropriate to complete the assignment competently; and (3) describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.*
- Standards Rule 1-1(a): *In developing a real property appraisal, an appraiser must: (a) be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal;*
- Standards Rule 1-2(e): *In developing a real property appraisal, an appraiser must: (e) identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal....*

- 46           ▪ Standards Rule 1-2(g) and (h): *In developing a real property appraisal, an appraiser must:*  
 47                     *(g) identify any extraordinary assumptions necessary in the assignment; and (h) identify*  
 48                     *any hypothetical conditions necessary in the assignment.*  
 49           ▪ Standards Rule 1-3(b): *When the value opinion to be developed is market value, and given the*  
 50                     *scope of work identified in accordance with Standard Rule 1-2(f), an appraiser must: (b)*  
 51                     *develop an opinion of the highest and best use of the real estate.*  
 52           ▪ Standards Rule 1-4: *In developing a real property appraisal, an appraiser must collect,*  
 53                     *verify, and analyze all information applicable to the appraisal problem, given the scope*  
 54                     *of work identified in accordance with Standards Rule 1-2 (f).*

## 55    Competency and Related Issues

56    Consistent with Standards Rule 1-1(a): in the appraisal of a property as impacted by environmental  
 57    contamination, an appraiser must “*be aware of, understand, and correctly employ those recognized*  
 58    *methods and techniques necessary to develop and communicate a credible appraisal.*” Accordingly, an  
 59    appraiser must have the requisite knowledge about appropriate methods, and be able to assemble the  
 60    required information. An appraiser who lacks knowledge and experience in analyzing the impact of  
 61    environmental contamination on the value of real property must take the steps necessary to complete the  
 62    assignment competently, as required by the COMPETENCY RULE. However, an appraiser need not be an  
 63    expert on the scientific aspects of environmental contamination, and in most situations the appraiser will  
 64    utilize scientific and other technical data prepared by others, such as environmental engineers. In these  
 65    situations, the appraiser should utilize an extraordinary assumption [see Standards Rule 1-2(g)] regarding  
 66    the information obtained from other experts that is used in the appraisal. Examples of such information  
 67    include items (1) to (10) under the header titled “Relevant Property Characteristics” later in this Advisory  
 68    Opinion. This is especially important in situations where there is conflicting information about such  
 69    information.

## 70    Specialized Terms and Definitions

71    The appraisal of properties that may be impacted by environmental contamination involves specialized  
 72    terms and definitions that might not be used in an appraisal assignment in which the effect of the property’s  
 73    environmental condition is not analyzed, or when the property is not contaminated. Though it is recognized  
 74    that there are other valid definitions of these and similar terms, for purposes of this Advisory Opinion, the  
 75    following definitions apply:

76    **Diminution in Value (Property Value Diminution):** The difference between the unimpaired and impaired  
 77    values of the property being appraised. This difference can be due to the increased risk and/or costs  
 78    attributable to the property’s environmental condition.

79    **Environmental Contamination:** Adverse environmental conditions resulting from the release of  
 80    hazardous substances into the air, surface water, groundwater or soil. Generally, the concentrations of these  
 81    substances would exceed regulatory limits established by the appropriate federal, state, and/or local  
 82    agencies.

83    **Environmental Risk:** The additional or incremental risk of investing in, financing, buying and/or owning  
 84    property attributable to its environmental condition. This risk is derived from perceived uncertainties  
 85    concerning:

- 86           1) the nature and extent of the contamination;
- 87           2) estimates of future remediation costs and their timing;
- 88           3) potential for changes in regulatory requirements;

4) liabilities for cleanup (buyer, seller, third party);	89
5) potential for off-site impacts; and	90
6) other environmental risk factors, as may be relevant.	91
<b>Environmental Stigma:</b> An adverse effect on property value produced by the market’s perception of increased environmental risk due to contamination. (See Environmental Risk)	92 93
<b>Impaired Value:</b> The market value of the property being appraised with full consideration of the effects of its environmental condition and the presence of environmental contamination on, adjacent to, or proximate to the property. Conceptually, this could be considered the “as-is” value of a contaminated property.	94 95 96
<b>Remediation Cost:</b> The cost to cleanup (or remediate) a contaminated property to the appropriate regulatory standards. These costs can be for the cleanup of on-site contamination as well as mitigation of off-site impacts due to migrating contamination.	97 98 99
<b>Remediation Lifecycle:</b> A cycle consisting of three stages of cleanup of a contaminated site: before remediation or cleanup; during remediation; and after remediation. A contaminated property’s remediation lifecycle stage is an important determinant of the risk associated with environmental contamination. Environmental risk can be expected to vary with the remediation lifecycle stage of the property.	100 101 102 103
<b>Source, Non-source, Adjacent and Proximate Sites:</b> Source sites are the sites on which contamination is, or has been, generated. Non-source sites are sites onto which contamination, generated from a source site, has migrated. An adjacent site is not contaminated, but shares a common property line with a source site. Proximate sites are not contaminated and not adjacent to a source site, but are in close proximity to the source site.	104 105 106 107 108
<b>Unimpaired Value:</b> The market value of a contaminated property developed under the hypothetical condition that the property is not contaminated.	109 110
<b><u>Relevant Property Characteristics</u></b>	111
The appraisal of a property that includes the effects of environmental contamination on its value usually requires data not typically used in an appraisal of an otherwise similar but uncontaminated property or an appraisal of a potentially impacted property using either a hypothetical condition or an extraordinary assumption that it is uncontaminated or not impacted. The inclusion of these additional relevant property characteristics is consistent with Standards Rule 1-2(e). The relevant property characteristics may include, but are not limited to:	112 113 114 115 116 117
1) whether the contamination discharge was accidental or permitted;	118
2) the status of the property with respect to regulatory compliance requirements;	119
3) the remediation lifecycle stage (before, during or after cleanup) of the property as of the appraisal date;	120 121
4) the contamination constituents (petroleum hydrocarbons, chlorinated solvents, etc.);	122
5) the contamination conveyance (air, groundwater, soil, etc.);	123
6) whether the property is a source, non-source, adjacent or proximate site;	124
7) the cost and timing of any site remediation plans;	125

- 126 8) liabilities and potential liabilities for site cleanup;
- 127 9) potential limitations on the use of the property due to the contamination and its remediation; and
- 128 10) potential or actual off-site impacts due to contaminant migration (for source sites).

129 Since the appraiser is usually not an expert on the scientific aspects of contamination, experts from other  
130 fields will typically provide this information. Appropriate regulatory authorities should also be consulted to  
131 confirm the presence or absence of contamination. The appraiser should consider the use of extraordinary  
132 assumptions when this information serves as a basis for an opinion of value. The appraiser should also  
133 collect similar data for any comparable sales used in the analysis.

#### 134 **Valuation Issues – As If Unimpaired**

135 In some assignments, the appraiser may be asked to appraise a property known to be contaminated under  
136 the *hypothetical condition* that the real estate is free of contamination. In these assignments, an appraiser  
137 may appraise interests in real estate that is known to be contaminated under the hypothetical condition that  
138 the real estate is free of contamination when:

- 139 1) the resulting appraisal is not misleading,
- 140 2) the client has been advised of the limitation, and
- 141 3) all the requirements of the ETHICS RULE have been satisfied.

142 To avoid confusion in the marketplace, the appraiser should disclose available information about the  
143 contamination problem, explain the purpose of the hypothetical condition that the real estate is not  
144 contaminated, and state that the use of the hypothetical condition might have affected the assignment  
145 results in accordance with SR 2-2(a), (b), and (c)(viii).

146 In other situations, the appraiser may be asked to appraise a property believed to be free of contamination  
147 or for which the environmental status is uncertain due to the lack of information or conflicting information.  
148 For these assignments, the property may be appraised under the *extraordinary assumption* concerning  
149 assumed factual information about its environmental condition and status. Indeed, since an appraiser is  
150 usually not an expert in detecting contamination, or confirming its absence, extraordinary assumptions  
151 regarding environmental condition may be necessary in many assignments.

#### 152 **Valuation Issues - As Impaired**

153 **Highest & Best Use Issues:** The appraisal of properties that may be impacted by environmental  
154 contamination usually involves extensive highest and best use analysis. In accordance with Standards Rules  
155 1-2(e) and 1-3(b), the appraiser must consider relevant factors in developing an opinion of the highest and  
156 best use of the property in its impaired condition. The valuation of properties impacted by environmental  
157 contamination usually involves the estimate of two values: the unimpaired value and the impaired. As such,  
158 two highest and best use analyses are typically required. The first does not consider any limitations on the  
159 property due to the environmental contamination. The second does consider any limitations due to the  
160 contamination, its remediation, and any legal use restrictions associated with the cleanup of the  
161 contamination source. Environmental contamination and its remediation to appropriate regulatory standards  
162 may affect the feasibility of site development or redevelopment, use of the site during remediation, use of  
163 the site after remediation, marketability of the site, and other economic and physical characteristics of a  
164 contaminated property. The appraiser should consider the possibility that site remediation and any  
165 remaining limitations on the use of the site following remediation may alter or limit its highest and best use  
166 in the impaired condition. In addition, excessive environmental risk and stigma may deter site development  
167 or redevelopment and thereby limit the highest and best use until the property's environmental risk is  
168 reduced to levels acceptable to the relevant market participants.



<u>Satisfying SR 1-4 Requirements:</u> When the appraiser addresses the diminution in value of a contaminated property and/or its impaired value, the appraiser must recognize that the value of an interest in impacted or contaminated real estate may not be measurable simply by deducting the remediation or compliance cost estimate from the opinion of the value as if unaffected (unimpaired value). Rather, <i>cost</i> , <i>use</i> and <i>risk</i> effects can potentially impact the value of contaminated property. <i>Cost effects</i> primarily represent deductions for costs to remediate a contaminated property. These costs are usually estimated by someone other than the appraiser, and should include consideration of any increased operating costs due to property remediation. The appraiser should also be aware that the market might not recognize all estimated costs as having an effect on value. <i>Use effects</i> reflect impacts on the utility of the site as a result of the contamination. If the contamination and/or its cleanup rendered a portion of the site unusable, or limited the future highest and best use of the property, then there could be a use effect on value. <i>Risk effects</i> are typically estimated by the appraiser and often represent the most challenging part of the appraisal assignment. These effects are derived from the market's perception of increased environmental risk and uncertainty. The analysis of the effects of increased environmental risk and uncertainty on property value (environmental stigma) must be based on market data, rather than unsupported opinion or judgment.	169 170 171 172 173 174 175 176 177 178 179 180 181 182 183
In general, the unimpaired value of the property being appraised can be estimated using the sales comparison approach [SR 1-4(a)], income approach [SR 1-4(b)], and cost approach [SR 1-4(c)]. Estimating the effects of environmental contamination on real property value usually involves the application of one or more specialized valuation methods. These methods should be consistent with the requirements related to the valuation approaches in USPAP.	184 185 186 187 188
<i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	189 190 191
Approved December 8, 1992	192
Last Revised June 11, 2002	193

1    **ADVISORY OPINION 10 (AO-10)**

2    **SUBJECT: The Appraiser-Client Relationship**

3    Approved March 23, 1993

4    Retired June 27, 2003

5    Please refer to Advisory Opinions AO-25, AO-26, and AO-27 for related advice.

**ADVISORY OPINION 11 (AO-11)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2<sup>68</sup>**

**APPLICATION: Real Property, Personal Property**

**THE ISSUE:**

Standards Rules 2-2 and 8-2 of the *Uniform Standards of Professional Appraisal Practice (USPAP)* offer three written appraisal report options. What information should be contained in each type of report?

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

- Under Standards Rules 2-2 and 8-2, an appraiser may communicate the results of the Complete or Limited Appraisal in one of three formats: Self-Contained Appraisal Report (Standards Rules 2-2(a) and 8-2(a), Summary Appraisal Report (Standards Rules 2-2(b) and 8-2(b)), or Restricted Use Appraisal Report (Standards Rules 2-2(c) and 8-2(c)). Standards Rules 2-2 and 8-2 require that the report prominently state which option is used.
- The Comments to Standards Rules 2-2 and 8-2 state that “*the essential difference among the three options is in the content and level of information provided.*”
- The Comments to Standards Rules 2-2(a)(xi) and 2-2(b)(xi) state: “*The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 is not affected by the type of report prepared under STANDARD 2. The extent of the appraisal process performed under STANDARD 1 is the basis for the reliability of the value conclusion.*” The Comments to Standards Rules 8-2(a)(xi) and 8-2(b)(xi) include a similar remark.

**Prominent Statement of Option Used**

The prominent statement of which option was used is a label that indicates to the reader how the appraisal is reported. Therefore, the statement should appear at or near the beginning of the report.

In narrative appraisal reports, the prominent statement of which report option is used could appear with the statement of the intended use of the appraisal because the decision on which report option to use is primarily related to the intended use of the appraisal. For added prominence, a statement of the report option used could also appear on any cover page or transmittal letter, if part of the report.

In form appraisal reports, the prominent statement of which report option is used could appear in the margin at the top of the front of the form.

**Content of the Self-Contained Appraisal Report**

The Self-Contained Appraisal Report should contain all information significant to the solution of the appraisal problem. “Describe” is the distinguishing term related to the Self-Contained Appraisal Report.

<sup>68</sup> See Standards Rule 2-2, Standards Rule 8-2, and Statement on Appraisal Standards No. 7 (SMT-7). Also see related Advisory Opinion AO-12.

37 Standards Rules 2-2(a)(vii) and 8-2(a)(vii) require a description of sufficient information to disclose the  
38 scope of work used to develop the appraisal to the client and any intended users of the appraisal. The  
39 reader of the Self-Contained Appraisal Report should expect to find all significant data reported in  
40 comprehensive detail.

#### 41 **Content of the Summary Appraisal Report**

42 As noted in the Comments to Standards Rules 2-2(b) and 8-2(b):

43 *The essential difference between the Self-Contained Appraisal Report and the Summary Appraisal*  
44 *Report is the level of detail of presentation.*

45 The Summary Appraisal Report should contain a summary of all information significant to the solution of  
46 the appraisal problem. “Summarize” is the distinguishing term related to the Summary Appraisal Report.

47 Standards Rules 2-2(b)(vii) and 8-2(b)(vii) require a summary of sufficient information to disclose to the  
48 client and any intended users of the appraisal the scope of work used to develop the appraisal. The reader  
49 of the Summary Appraisal Report should expect to find all significant data reported in tabular or  
50 abbreviated narrative formats.

#### 51 **Content of the Restricted Use Appraisal Report**

52 As noted in the Comment to Standards Rules 2-2(c)(xi) and 8-2(c)(xi):

53 *The Restricted Use Appraisal Report is for client use only. Before entering into an agreement, the*  
54 *appraiser should establish with the client the situations where this type of report is to be used and*  
55 *should ensure that the client understands the restricted utility of the Restricted Use Appraisal*  
56 *Report.*

57 The Restricted Use Appraisal Report should contain a brief statement of information significant to the  
58 solution of the appraisal problem. “State” is the distinguishing term related to the Restricted Use Appraisal  
59 Report.

60 Standards Rules 2-2(c)(vii) and 8-2(c)(vii) require a statement on the extent of the process of collecting,  
61 confirming, and reporting data or a reference to an assignment agreement retained in the appraiser’s  
62 workfile that describes the scope of work to be performed. The reader of the Restricted Use Appraisal  
63 Report should not expect to find all significant data reported.

64 The report must reference the existence of specific workfile information in support of the appraiser’s  
65 opinions and conclusions. The contents of the workfile must be sufficient for the appraiser to produce a  
66 Summary Appraisal Report. The workfile should be available for inspection by the client (or a client’s  
67 representative, such as those engaged to complete an appraisal review), state enforcement agencies, and  
68 such third parties as may be authorized by due process of law, and a duly authorized professional peer  
69 review committee, except when such disclosure to a committee would violate applicable law or regulation.

#### 70 **Differences in the Appraisal Report Options**

71 Each of the appraisal report options has 12 reporting rules that serve as a content outline. The reporting  
72 rules for the Self-Contained Appraisal Report are Standards Rules 2-2(a)(i)-(xii) and 8-2(a)(i)-(xii). The  
73 reporting rules for the Summary Appraisal Report are Standards Rules 2-2(b)(i)-(xii) and 8-2(b)(i)-(xii).  
74 The reporting rules for the Restricted Use Appraisal Report are Standards Rules 2-2(c)(i)-(xii) and 8-2  
75 (c)(i)-(xii).

The chart on the following page displays a rule-by-rule comparison of the reporting rules for the three types of reports. Space does not permit inclusion of the Comment to the reporting rules in the chart. The Comments contain important distinctions that must be considered in the preparation of each type of appraisal report, and the reader of this Advisory Opinion should refer to the full text of Standards Rules 2-2 and 8-2.

81 **STANDARDS RULES 2-2 AND 8-2 REPORT COMPARISON CHART:** The essential difference  
 82 among the three options is in the use and application of the terms “describe,” “summarize,” and “state.”  
 83 “Describe” is used to connote a comprehensive level of detail in the presentation of information.  
 84 “Summarize” is used to connote a more concise presentation of information. “State” is used to connote the  
 85 minimal presentation of information.

a) Self-Contained Appraisal Report	b) Summary Appraisal Report	c) Restricted Use Appraisal Report
i. state the identity of the client and any intended users, by name or type;	i. state the identity of the client and any intended users, by name or type;	i. state the identity of the client by name or type;
ii. state the intended use of the appraisal;	ii. state the intended use of the appraisal;	ii. state the intended use of the appraisal;
iii. describe information sufficient to identify the real estate or personal property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. summarize information sufficient to identify the real estate or personal property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. state information sufficient to identify the real estate or personal property involved in the appraisal;
iv. state the property interest appraised;	iv. state the property interest appraised;	iv. state the property interest appraised;
v. state the type and definition of value and cite the source of the definition;	v. state the type and definition of value and cite the source of the definition;	v. state the type of value, and cite the source of its definition of value pertinent to the purpose;
vi. state the effective date of the appraisal and the date of the report;	vi. state the effective date of the appraisal and the date of the report;	vi. state the effective date of the appraisal and the date of the report;
vii. describe sufficient information to disclose to the client and any other intended users of the appraisal the Scope of Work used to develop the appraisal;	vii. summarize sufficient information to disclose to the client and any other intended users of the appraisal the Scope of Work used to develop the appraisal;	vii. state the extent of the process of collecting, confirming, and reporting data or refer to an assignment agreement retained in the appraiser’s workfile, that describes the Scope of Work to be performed;
viii. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results;	viii. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results;	viii. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results;
ix. describe the information analyzed, the appraisal procedures followed and the reasoning that supports the analyses, opinions, and conclusions;	ix. summarize the information analyzed, the appraisal procedures followed and the reasoning that supports the analyses, opinions, and conclusions;	ix. state the appraisal procedures followed, the value opinion(s) and conclusion(s) reached and reference the workfile;
x. state the use of the property existing as of the date of value and the use of the real estate or personal property reflected in the appraisal; and, when reporting an opinion of market value, describe the support and rationale for the appraiser’s opinion of the highest and best use of the real estate or personal property;	x. state the use of the property existing as of the date of value and the use of the real estate or personal property reflected in the appraisal; and, when reporting an opinion of market value, summarize the support and rationale for the appraiser’s opinion of the highest and best use of the real estate or personal property;	x. state the use of the property, existing as of the date of value and the use of the real estate or personal property reflected in the appraisal; and, when reporting an opinion of market value, state the appraiser’s opinion of the highest and best use of the real estate or personal property;
xi. state and explain any permitted departures from specific requirements of STANDARD 1 or 7 and the reason for excluding any of the usual appraisal approaches;	xi. state and explain any permitted departures from specific requirements of STANDARD 1 or 7 and the reason for excluding any of the usual appraisal approaches;	xi. state and explain any permitted departures from applicable specific requirements of STANDARD 1 or 7; state the exclusion of any of the usual appraisal approaches; and state a prominent use restriction that limits use of the report to the client and warns that the appraiser’s opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraiser’s workfile;
xii. include a signed certification in accordance with Standards Rule 2-3 or 8-3	xii. include a signed certification in accordance with Standards Rule 2-3 or 8-3.	xii. include a signed certification in accordance with Standards Rule 2-3 or 8-3.

Comments have not been included in this chart

<b>Examples of the Application of the Terms “Describe,” “Summarize,” and “State” in the Context of a Real Property Appraisal Report</b>	134
	135
The following presentations of the zoning section of a commercial appraisal report are used to exemplify the content differences in the three appraisal report options. These examples show a relative illustration of depth and detail of presentation and are not intended to characterize the format for an entire appraisal report. The examples are not intended to imply that information on zoning is necessary in all appraisal reports.	136 137 138 139 140
<b><u>EXAMPLE OF “DESCRIBE”</u></b>	141
<b>Zoning</b>	142
The General Business B-4 zoning classification applies to the subject real estate. The purpose of the B-4 zone is to encourage local commercial development along arterial streets to serve the surrounding residential areas. The uses of B-4 zoning and yard and bulk regulations to the B-4 zone are described below.	143 144 145 146
<b>Principal Permitted Uses</b>	147
Banking facilities, houses of worship, public buildings and facilities, service establishments, sit-down restaurants serving patrons on the premises, and stores for the sale of goods at retail.	148 149
<b>Special Permit Uses</b>	150
Business and professional offices, manufacturing of goods sold on the premises, medical clinics, multifamily dwellings (sites in excess of 15,000 sq. ft.), and take-out restaurants (sites in excess of 25,000 sq. ft.).	151 152 153
<b>Yard and Bulk Regulations</b>	154
Minimum Requirements	
Lot Area:	10,000 sq. ft.
Lot Width:	100 feet
Front Yard:	20 feet
Side Yards:	10 feet (each)
Rear Yard:	10 feet
Off-Street Parking (Stores):	4 spaces per 1,000 sq. ft. of sales area
Maximum Requirements	
Building Coverage:	50% of lot area
Building Height:	2 stories or 20 feet
<b>Conclusion</b>	163
On the basis of a review of the zoning regulations and a discussion with John N. Forcer of the Anytown planning and zoning office, the existing use and subject improvements are in conformance with zoning.	164 165

166 **EXAMPLE OF “SUMMARIZE”**

167 **Zoning**

168 The General Business B-4 zoning classification applies. Its purpose is to encourage local commercial  
169 development of banking facilities, retail stores, and service establishments along arterial streets on  
170 minimum lots of 10,000 sq. ft. with a width of 100 feet. Building coverage is limited to 50% of the lot, and  
171 building height is limited to two stories or 20 feet. John N. Forcer of the Anytown planning and zoning  
172 office indicates that the existing use and subject improvements conform.

173 **EXAMPLE OF “STATE”**

174 **Zoning**

175 General Business, B-4; existing use and subject improvements conform.

176 The purpose of the above examples is to show one view of the differences among the application of the  
177 terms “describe,” “summarize,” and “state.” The examples should not be extended beyond this Advisory  
178 Opinion to every section of an appraisal report.

179 **Varying Depth and Detail Within the Report Option Selected**

180 Standard Rules 2-2(a)(ix) and 8-2(a)(ix) and 2-2(b)(viii) and 8-2(b)(ix) use the words “describe” and  
181 “summarize,” respectively, as the distinguishing verb, but they contain the identical Comment that each  
182 item must be addressed in the depth and detail required by its significance to the appraisal. The overall  
183 depth and detail of information presented to satisfy each Standards Rule, not the length of any specific  
184 item, determine the proper application of the report option utilized.

185 This Advisory Opinion focuses on the content of the appraisal report options and should be read in  
186 conjunction with Advisory Opinion AO-12, which focuses on the use of the appraisal report options of  
187 STANDARD 2 and STANDARD 8.

188 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
189 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
190 *the problems discussed or that it applies equally to seemingly similar situations.*

191 Approved July 30, 1993

192 Last Revised September 15, 1999



**ADVISORY OPINION 12 (AO-12)**

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*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

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**SUBJECT: Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2<sup>58</sup>**

5

**APPLICATION: Real Property, Personal Property**

6

**THE ISSUE:**

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Standards Rules 2-2 and 8-2 of the *Uniform Standards of Professional Appraisal Practice* (USPAP) offer three written appraisal report options. What are appropriate circumstances for the use of these options?

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9

**ADVICE FROM THE ASB ON THE ISSUE:**

10

**Relevant USPAP & Advisory References**

11

- Under STANDARDS 1 and 7 of USPAP, an appraiser may develop either a Complete Appraisal performed without invoking the DEPARTURE RULE or a Limited Appraisal performed under and resulting from invoking the DEPARTURE RULE. 12-14
- Under Standards Rules 2-2 and 8-2, an appraiser may communicate the results of the Complete or Limited Appraisal in one of three formats: Self-Contained Appraisal Report (Standards Rules 2-2(a) and 8-2(a)), Summary Appraisal Report (Standards Rules 2-2(b) and 8-2(b)), or Restricted Use Appraisal Report (Standards Rules 2-2(c) and 8-2(c)). 15-18
- The above-referenced Standards Rules result in six combinations of appraisal and report permitted under USPAP: 19-27
 

STANDARD 1 or 7	STANDARD 2 or 8
Complete Appraisal	Self-Contained Appraisal Report
Complete Appraisal	Summary Appraisal Report
Complete Appraisal	Restricted Use Appraisal Report
Limited Appraisal	Self-Contained Appraisal Report
Limited Appraisal	Summary Appraisal Report
Limited Appraisal	Restricted Use Appraisal Report
- The Comments to Standards Rules 2-2(a)(xi) and 2-2(b)(xi) state: “*The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 is not affected by the type of report prepared under STANDARD 2. The extent of the appraisal process performed under STANDARD 1 is the basis for the reliability of the value conclusion.*” The Comments to Standards Rules 8-2(a)(xi) and 8-2(b)(xi) include a similar remark. 28-33
- SMT-7 reiterates the Comments under the report options in Standards Rules 2-2 and 8-2 that: “*...the report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.*” 34-36

<sup>58</sup> See Standards Rule 2-2, Standards Rule 8-2, and Statement on Appraisal Standards No. 7 (SMT-7). See also related Advisory Opinion AO-11.

37 **Deciding Which Report Option to Use**

38 As with other business decisions that involve the application of USPAP, the existence of appraisal report  
39 options implies a dialogue between the appraiser and the client to define the appraisal problem prior to  
40 reaching an agreement to perform an assignment. Part of the definition of the appraisal problem is a  
41 decision on which report option is appropriate for the assignment. This dialogue/decision process can be  
42 applied to a single assignment or to a series of assignments performed by an appraiser for the same client.  
43 In most situations, the client may decide which report option is appropriate for the assignment. The  
44 appraiser may agree to provide the report option suggested by the client as long as the report option is  
45 consistent with the intended use of the appraisal.

46 The decision between using a Self-Contained Appraisal Report and a Summary Appraisal Report is not  
47 absolute. The following factors should be considered by the appraiser and the client in deciding whether a  
48 Self-Contained Appraisal Report or a Summary Appraisal Report is appropriate:

- 49       ▪ the intended use of the appraisal;
- 50       ▪ that the appraiser and client understand the differences between the options; and
- 51       ▪ whether the intended use of the appraisal warrants comprehensive or summary disclosure of  
52       the steps in, and information considered in, the appraisal process.

53 A decision to use the Restricted Use Appraisal Report is absolute because the minimum level of  
54 information required in a Restricted Use Appraisal Report is not designed to address the needs of any third-  
55 party users. When an appraiser uses the Restricted Use Appraisal Report option, a prominent notice to any  
56 reader must be provided. The prominent notice must warn any reader of the report that the appraiser's  
57 opinions and conclusions set forth in the report cannot be understood properly without the additional  
58 information in the appraiser's workfile. The Restricted Use Appraisal Report may be useful when:

- 59       ▪ only the client is expected to use the appraiser's opinions and conclusions set forth in the  
60       report;
- 61       ▪ the client understands the limited utility of this option;
- 62       ▪ the intended use of the appraisal warrants restricted disclosure about the appraisal process  
63       steps completed in the assignment; and
- 64       ▪ the client (the only intended user) does not need the level of information required in a Self-  
65       Contained Appraisal Report or Summary Appraisal Report.

66 This Advisory Opinion focuses on the use of the appraisal report options and should be read in conjunction  
67 with Advisory Opinion AO-11, which focuses on the content of the appraisal report options of  
68 STANDARDS 2 and 8.

69 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
70 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
71 *the problems discussed or that it applies equally to seemingly similar situations.*

72 Approved July 20, 1994

73 Last Revised September 15, 1999

**ADVISORY OPINION 13 (AO-13)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: Performing Evaluations of Real Property Collateral to Conform with USPAP**

**APPLICATION: Real Property**

**THE ISSUE:**

How can an appraiser operating under the *Uniform Standards of Professional Appraisal Practice* (USPAP) develop an evaluation of real property collateral (evaluation)?

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

- Under STANDARD 1, 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.
- The DEPARTURE RULE of USPAP states in part, “An appraiser may enter into an agreement to perform an assignment in which the scope of work is less than, or different from, the work that would otherwise be required by the specific requirements....”

**Background**

The terms “appraisal” and “evaluation” have special meaning and use for institutions regulated by and under the rules and published guidelines of the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System(FRS), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of Thrift Supervision (OTS) (Agencies). The October 27, 1994, *Interagency Appraisal and Evaluation Guidelines* (Agencies’ Guidelines) discusses “evaluation” as a term used to describe an estimate of value for certain real estate-related transactions that are exempt from the Agencies’ appraisal requirements. The federal regulators have ruled that an appraisal must conform to generally accepted appraisal standards as evidenced by USPAP but that an evaluation need not conform to USPAP. This distinction is important because appraisers who are bound by USPAP must comply with USPAP whenever they provide an opinion of value.

Many professional appraisers and state appraiser regulators have expressed uncertainty as to whether evaluations of real property collateral comply with USPAP. Appraisers are concerned with the potential consequences of a violation of USPAP.

The October 27, 1994, *Interagency Appraisal and Evaluation Guidelines* state:

*An institution should establish prudent standards for the preparation of evaluations. At a minimum, an evaluation should:*

- *be written;*
- *include the preparer’s name, address, and signature, and the effective date of the evaluation;*
- *describe the real estate collateral, its condition, and its current and projected use;*
- *describe the source(s) of information used in the analysis;*
- *describe the analysis and supporting information; and*
- *provide an estimate of the real estate’s market value, with any limiting conditions.*

42 *An evaluation report should include calculations, supporting assumptions, and, if utilized, a*  
43 *discussion of comparable sales. Documentation should be sufficient to allow an institution to*  
44 *understand the analysis, assumptions, and conclusions. An institution's own real estate loan*  
45 *portfolio experience and value estimates prepared for recent loans on comparable properties*  
46 *might provide a basis for evaluations.*

47 *An evaluation should provide an estimate of value to assist the institution in assessing the*  
48 *soundness of the transaction. Prudent practices also require that as an institution engages in*  
49 *more complex real estate-related financial transactions, or as its overall exposure increases, a*  
50 *more detailed evaluation should be performed. For example, an evaluation for a home equity loan*  
51 *might be based primarily on information derived from a sales data services organization or*  
52 *current tax assessment information, while an evaluation for an income-producing real estate*  
53 *property should fully describe the current and expected use of the property and include an*  
54 *analysis of the property's rental income and expenses.*

55 Appraisers need to be aware that lenders regulated by different agencies may have different interpretations  
56 of the Agencies' Guidelines. Lender institutions may have developed different requirements for evaluations  
57 based on their interpretations of the Agencies' Guidelines. It is critical that the appraiser and the client have  
58 a mutual understanding of the nature and scope of the assignment. One way to enhance this mutual  
59 understanding is for the appraiser to request copies of the institution's evaluation standards or requirements  
60 pertinent to the assignment.

#### 61 **ASB Opinion on Evaluations of Real Property Collateral**

62 Appraisers operating under USPAP may accept all requests for evaluations of real property collateral as  
63 long as the appraiser's work meets minimum USPAP requirements.

64 When an evaluation assignment includes a request for an opinion of value, under USPAP the evaluation  
65 becomes an appraisal, which USPAP defines as *"the act or process of developing an opinion of value; an*  
66 *opinion of value."*

67 Any request for an opinion of value of real property calling for something less than, or different from, the  
68 work required by the specific requirements of STANDARD 1 (Standards Rules 1-3 and 1-4) can be  
69 performed as a Limited Appraisal when the DEPARTURE RULE is properly invoked by the appraiser.  
70 (Reporting the results of the assignment is a separate issue discussed later in this document.) To properly  
71 invoke the DEPARTURE RULE, an appraiser practicing under USPAP must believe that the appraisal  
72 method(s) used in a Limited Appraisal are of primary relevance to the appraisal of the type of real property  
73 involved. The limitations on the appraisal process requested by a client may extend to specific requirements  
74 other than those related to appraisal methods (Standards Rule 1-4(a), (b), or (c)). For example, an appraiser  
75 might be requested to appraise a property while not considering the impact of anticipated public  
76 improvements near the property (Standards Rule 1-4(f)). Whatever the request, the three conditions of the  
77 DEPARTURE RULE must be satisfied for the appraiser to properly invoke the DEPARTURE RULE and  
78 accept the assignment as a Limited Appraisal.

79 A client's request for an evaluation may also present a situation where no limitations on the appraisal  
80 process are involved. In such a case, a Complete Appraisal can be performed. An example of this might be  
81 an appraisal of undeveloped land. The elimination of the cost approach, in this example, may not be a  
82 departure because the cost approach is ordinarily not used in this type of appraisal assignment.

If the evaluation request does not call for an opinion of value of a specific property, the request might be a part of appraisal practice for which there are no specific performance standards in USPAP. If the evaluation request requires information that is an aspect of value, but not an opinion of value, the appraiser would then be obligated to comply only with the <u>Conduct</u> , <u>Management</u> , and <u>Confidentiality</u> sections of the ETHICS RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE, and the SUPPLEMENTAL STANDARDS RULE. Examples of requests for services that do not require a value conclusion of a specific property include, without limitation:	83 84 85 87 87 88 89
— providing sales and rent data, listings, assessments and other similar information, without adjustments to indicate the value of a specific property; and	90 91
— providing data describing a neighborhood, community, or any other real estate market segment and analyses on real estate market trends.	92 93
Appraisers who believe certain requests for evaluations of real property collateral are inconsistent with USPAP or contrary to law should explain their concerns to the potential client. If necessary, additional information and advice may be obtained from the appropriate federal regulator regarding the Agencies' Guidelines. Issues regarding state law should be directed to those state government regulators with jurisdiction.	94 95 96 97 98
<b><u>Illustrations</u></b>	99
<b>Scenario #1: Market Value</b>	100
A potential client requests two evaluations of real property collateral. The client wants as little as possible in writing on the current market value of the fee simple interest for each property. The client is knowledgeable about the market for the type(s) of property involved.	101 102 103
In either case, the appraiser should decide whether the DEPARTURE RULE can be properly invoked to develop a Limited Appraisal under STANDARD 1 before considering the reporting options of STANDARD 2.	104 105 106
One evaluation is for an existing single-family residential fee simple property in connection with a real estate loan of \$250,000 or less. The client requests only the sales comparison approach for this residential evaluation.	107 108 109
If market experience reasonably supports the view that the sales comparison approach is of primary relevance in the appraisal of the residential property, an evaluation based solely on this evidence can qualify as a Limited Appraisal.	110 111 112
The other evaluation is for an existing office building, occupied by the owner (without a lease). The lender is considering a business loan of \$1,000,000 or less that is not dependent on the sale of or rental income derived from real estate as the primary source of repayment. The client requests only the income capitalization approach for this office building evaluation.	113 114 115 116
If market experience supports the view that the income capitalization approach is of primary relevance in the appraisal of the office building property, an evaluation of this property based solely on this evidence could qualify as a Limited Appraisal.	117 118 119
<b>Scenario #2: Value/Assessments</b>	120
The potential client requests evaluations, including value conclusions, of the same two properties based only on their current assessments for real estate taxation purposes.	121 122

123 In the example of the residential evaluation, the appraiser should first verify the processes,  
 124 accuracy, and reliability of the assessing agency. Assuming these are sound, the appraiser may be  
 125 able to accept the assignment as a Limited Appraisal if the appraiser is competent to employ  
 126 sales/assessment ratio techniques and employs a valid sales/assessment ratio analysis as part of the  
 127 evaluation.

128 In the example of the office building evaluation, if the income approach is not used in determining  
 129 the assessed value, the assessment analysis alone would not appear to be sufficient as a Limited  
 130 Appraisal.

131 In either case, the appraiser must be sufficiently diligent to ensure that any value opinion will not  
 132 result in significant errors of omission or commission.

### 133 **Scenario #3: Providing Market Information**

134 The potential client requests a residential or office property evaluation but asks for an opinion on  
 135 market trends or conditions and not an opinion of value. However, since market trend information  
 136 includes data on aspects of value, these assignments may be completed as a part of appraisal  
 137 practice, in compliance with USPAP, but no specific performance standards apply. USPAP would  
 138 require that when an appraiser provides this service he or she do so competently, impartially,  
 139 independently and without bias or accommodation of personal interests, in recognition of any  
 140 applicable jurisdictional requirements, as well as any supplemental standards. As examples and  
 141 without limitation, the appraiser could provide, as part of appraisal practice, information and/or  
 142 conclusions on:

- 143 ▪ rent, sale, or assessment levels, for such purposes as to address a client’s need for market  
 144 trend conclusions;
- 145 ▪ sales and/or assessment levels at various or certain points in time, for such purposes as to  
 146 address sales/assessment ratio or loan portfolio ratio questions;
- 147 ▪ the rate of market absorption of new or existing properties—such as time from listing to sale  
 148 or lease of a property, a set of properties, or a volume of space—for such purposes as to  
 149 address questions on market supply/demand balance.

150 The above are examples of only a few of the many situations when an appraiser may best serve  
 151 the client’s evaluation-related needs by simply providing market information without indicating a  
 152 value conclusion of a specific property. Such assignments are not appraisals and have no specific  
 153 performance standards in USPAP.

### 154 **Scenario #4: Subdivision Lot**

155 The potential client requests an evaluation on a vacant residential subdivision lot where many  
 156 nearby lots have been sold and improved with new homes within recent years.

157 If a value opinion for a specific lot is requested, the evaluation could be performed and reported as  
 158 an appraisal assignment under STANDARDS 1 and 2 of USPAP. According to Statement on  
 159 Appraisal Standards No. 7 (SMT-7), an opinion of value may be expressed as a single point value,  
 160 a range in value, or a value relationship.

161 If a value opinion for a specific lot is not required, the appraiser could provide a variety of market  
 162 data, including a listing of sales that have occurred in the subdivision, or information relating to  
 163 assessment values of other lots in the subdivision. Such an assignment is not an appraisal and has  
 164 no specific performance standards in USPAP.

**Reporting the Results of an Evaluation**

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When reporting evaluations, appraisers need to be aware that the evaluation content, described in the Agencies' Guidelines, differs from the content required for appraisal reports under STANDARD 2 (see Statement on Appraisal Standards No. 7 [SMT-7] and Advisory Opinion AO-11). It is important that appraisers take care that the contents of their appraisal reports satisfy the requirements of STANDARD 2. When reporting the results of an evaluation that includes a value conclusion, an appraiser would typically use the Summary Appraisal Report format, as described in Standards Rule 2-2(b). In some instances, and depending on the client's needs, a Self-Contained or a Restricted Use Appraisal Report may also be appropriate.

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*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

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Approved July 18, 1995

177

Revised September 16, 1998

178

1 **ADVISORY OPINION 14 (AO-14)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Appraisals for Subsidized Housing**

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

8 Preparation of appraisals for subsidized housing in compliance with the *Uniform Standards of Professional*  
 9 *Appraisal Practice* (USPAP) requires knowledge and experience that goes beyond typical residential  
 10 appraisal competency. What guidance does USPAP provide for the appraisal of subsidized housing?

11 **ADVICE FROM THE ASB ON THE ISSUE:**

12 **Relevant USPAP & Advisory References**

- 13     ▪ The COMPETENCY RULE requires the appraiser to “...properly identify the problem to be  
 14 addressed...” and (in the Comment) “...understand the nuances of the local market and the  
 15 supply and demand factors relating to the specific property type and the location involved.”  
 16     ▪ The Comment to Standards Rule 1-1(a) states: “Important changes in the cost and manner of  
 17 constructing and marketing commercial, industrial, and residential real estate as well as  
 18 changes in the legal framework in which real property rights and interests are created,  
 19 conveyed, and mortgaged have resulted in corresponding changes in appraisal theory and  
 20 practice. Social change has also had an effect...”  
 21     ▪ Standards Rule 1-2, particularly (a), (b), (c)(iv), (e) and (f); Standards Rule 1-3(a) and (b);  
 22 and Standards Rule 1-4(g).

23 **Identification of Subsidized Housing**

24 Subsidized housing may be defined as single- or multifamily residential real estate targeted for ownership  
 25 or occupancy by low- or moderate-income households as a result of public programs and other financial  
 26 tools that assist or subsidize the developer, purchaser, or tenant in exchange for restrictions on use and  
 27 occupancy. The United States Department of Housing and Urban Development (HUD) provides the  
 28 primary definition of income and asset eligibility standards for low- and moderate-income households.  
 29 Other federal, state, and local agencies define income eligibility standards for specific programs and  
 30 developments under their jurisdictions.

31 **Competency Issues**

32 Appraisers should be aware that the competency required to appraise subsidized housing extends beyond  
 33 typical residential appraisal competency. Subsidized housing appraisals require the appraiser to understand  
 34 the various programs, definitions, and pertinent tax considerations involved in the particular assignment  
 35 applicable to the location and development. An appraiser should be capable of analyzing the impact of the  
 36 programs and definitions in the local subsidized housing submarket, as well as in the general market that is  
 37 unaffected by subsidized housing programs. Appraisers should also be aware of possible political changes  
 38 that will affect the durability of the benefits and restrictions to subsidized housing projects and fully  
 39 understand interpretation and enforcement of subsidy programs. An appraiser’s lack of knowledge and  
 40 understanding of the impact of the various influences that affect subsidized housing projects could lead to  
 41 misleading conclusions. For example, subsidized housing projects may have differences in income,



expenses, and rates of returns when compared with non-subsidized housing projects. Appraisers should reflect the actions of the participants in the market and avoid any stereotyped or biased assumptions.

### **Property Rights Issues**

Subsidies and incentives that encourage housing for low- and moderate-income households may create intangible property rights in addition to real property rights and may also create restrictions that modify real property rights. The appraiser should demonstrate the ability to discern the differences between the real and intangible property rights and value the various rights involved. Low-Income Housing Tax Credits (LIHTCs) are an example of an incentive that results in intangible property rights that are not real property but might be included in the appraisal. Project-based rent subsidies are an example of a subsidy accompanied by restrictions that modify real property rights. Appraisers should be aware that tenant-based rent subsidies do not automatically result in a property right to the owner or developer of subsidized housing.

Standards Rule 1-2(e) allows the inclusion of intangible assets that are not real property in the appraisal. If they are significant to the overall value, the value of the intangibles should be developed and reported separately, as required by Standards Rule 1-4(g). One way to measure the significance of the intangible asset's value is to develop a value opinion including the intangibles and to compare the results with an opinion of value excluding the intangibles. Additional guidance is provided in the Comment to Standards Rule 1-4(g).

A critical factor in all subsidized housing appraisals is the analysis of whether or not the various subsidies, incentives, and restrictions remain with the real property following a sale or foreclosure and thus are marketable property rights to be included in the appraisal.

### **Value Definition Issues**

The value definition in any appraisal is a controlling factor of the bundle of rights to be considered in the appraisal. Standards Rule 1-2(c) requires an appraiser to define the value being considered. Standards Rule 1-2(c) further states, *if the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:*

- (i) *in terms of cash; or*
- (ii) *in terms of financial arrangements equivalent to cash; or*
- (iii) *in other precisely defined terms; and*
- (iv) *if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser's opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data.*

If the appraisal of a subsidized housing assignment is for market value, the appraiser must determine if requirement (i), (ii), (iii), or (iv) above applies to the specific definition selected or required by the client. The appraiser can then determine if the programs and intangible assets created by the programs affecting the subject property qualify under the selected or required market value definition. This determination requires competent knowledge of the programs and whether the programs qualify under (i), (ii), (iii), or (iv) above.

USPAP does not mandate market value appraisals, but it does require that the value be defined. If the defined value for the total property (real property and intangible assets) is not market value, then (i), (ii), (iii), and (iv) above may not be applicable. Additional guidance is provided in the Comment to Standards Rule 1-4(g).

85 In appraisal of subsidized housing, the value definition selected or required by the client and the reporting  
86 techniques used should be discussed with the client prior to the acceptance of the assignment because the  
87 analyses may be based on general market terms, subsidized housing submarket financing with unusual  
88 conditions or incentives, both, or some other defined premise.

89 Because Standards Rule 1-2(c) also states that the terms of submarket financing or financing with unusual  
90 conditions or incentives must be clearly set forth, their contributions to or negative influence on value must  
91 be developed by analysis of relevant market data.

92 Subsidies and incentives should be explained in the appraisal report, and their impact on value, if any,  
93 needs to be reported in conformity with the Comment to Standards Rule 1-4(g), which states in part, “A  
94 separate valuation, developed in compliance with the Standard pertinent to the property type involved, is  
95 required when the value of a non-realty item or combination of such items is significant to the overall  
96 value.”

97 Appraisers should be aware that appraisal of subsidized housing usually requires more than one value  
98 analysis predicated on different scenarios. In appraisal of subsidized housing, value conclusions that  
99 include the intangibles arising from the programs also have to be analyzed under a scenario without the  
100 intangibles in order to measure their influence on value and report the results without misleading the  
101 intended user.

#### 102 **Market Analysis Issues**

103 Certain specific steps should be taken when appraising subsidized property. Research with housing  
104 organizations and public agencies should be completed to find appropriate data on financing, rental and  
105 occupancy restrictions, resale restrictions, and sales of comparably subsidized or restricted properties.  
106 Knowledge of the general markets and the subsidized housing submarkets should be evident in all analyses.  
107 The market analyses should also address the subject’s ability to attract a sufficient number of subsidized  
108 tenants. Reversion projections should be based on interviews with market participants; any factual  
109 information from developments that have reached the expiration of their subsidies, incentives, and  
110 restrictions; and other relevant information.

#### 111 **Legal Jurisdictions**

112 Appraisers should be aware that some jurisdictions may have laws, administrative rules, regulations, or  
113 ordinances that stipulate requirements in the appraisal of subsidized housing within their jurisdiction. If so,  
114 appraisers, who are bound to utilize these requirements, comply with USPAP under the  
115 JURISDICTIONAL EXCEPTION RULE.

116 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
117 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
118 *the problems discussed or that it applies equally to seemingly similar situations.*

119 Approved July 19, 1995

120 Revised September 16, 1998

**ADVISORY OPINION 15 (AO-15)** 1

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.* 2  
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**SUBJECT: Using the DEPARTURE RULE in Developing a Limited Appraisal** 5

**APPLICATION: Real Property, Personal Property, Intangible Property** 6

**THE ISSUE:** 7

The DEPARTURE RULE permits appropriate exceptions from all or part of a Standards Rule that is a specific requirement. (Departure from binding requirements is never permitted.) How can use of the DEPARTURE RULE assist appraisers complying with the *Uniform Standards of Professional Appraisal Practice* (USPAP) in providing credible, cost-efficient, and timely services? 8  
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**ADVICE FROM THE ASB ON THE ISSUE:** 12

**Relevant USPAP & Advisory References** 13

- The DEPARTURE RULE distinguishes between the Standards Rules that are binding requirements and those that are specific requirements of USPAP. It discusses the circumstances under which an appraiser may agree to perform an assignment that calls for something less than or different from work that would otherwise be performed in the development of a Complete Appraisal. 14  
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- STANDARD 1<sup>59</sup> contains the rules for development of a real property value opinion under USPAP. An appraiser may depart from specific requirements of STANDARD 1 but must always meet the binding requirements. 19  
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- STANDARD 2 details real property appraisal reporting rules. For written reports there is no departure from the binding requirements in STANDARD 2. 22  
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- Note: Standards Rule 2-4, which states, “An oral real property appraisal report must, at a minimum address the substantive matters set forth in Standards Rule 2-2(b)” is a specific requirement. 24  
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- This Advisory Opinion does not address situations where the JURISDICTIONAL EXCEPTION RULE applies. By definition, JURISDICTIONAL EXCEPTION renders a specific portion of USPAP void and of no force or effect; therefore, for purposes of that assignment, the excepted portion of USPAP does not exist and so cannot be subject to the DEPARTURE RULE. 27  
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**The Appraisal Assignment** 32

Appraisers need to be familiar with the DEPARTURE RULE because it is a powerful tool that allows the extent of appraisal analysis or development (conducted under STANDARD 1, 6, 7 or 9) to be varied as appropriate for the appraisal assignment. Appropriate use of the DEPARTURE RULE provides appraisers with an effective means to compete in an increasingly competitive market. 33  
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In accepting an appraisal assignment, an appraiser needs to make two immediate decisions: 37

1. What is the appropriate level of analysis to develop the value opinion? 38

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<sup>59</sup> References to STANDARD 1 also apply to STANDARDS 4, 6, 7, and 9.

39 2. Which report option is to be provided?

40 The first question is addressed in this document. Selecting the appropriate report option for the assignment  
41 is discussed in STANDARDS 2, 8, and 10, and in the Statement on Appraisal Standards No. 7 (SMT-7).  
42 Additional guidance is provided in Advisory Opinions AO-11 and AO-12.

43 It is important to view development of a value opinion and reporting of that opinion as two distinctly  
44 separate components of an assignment.

45 **Using the DEPARTURE RULE**

46 Appraisers strive to offer a variety of appraisal services and products in response to clients' needs. Some  
47 appraisers attempt to achieve this by conducting all of the analysis typically performed under STANDARD  
48 1 (performing a Complete Appraisal)<sup>60</sup> and delivering as brief an appraisal report as possible. However,  
49 appraisers generally spend far more time in developing, rather than reporting, a value opinion. Attempts to  
50 condense a report do not usually allow an appraiser to markedly reduce the total time he or she dedicates to  
51 an assignment.

52 An effective means to satisfy client needs for a credible, cost-efficient, timely service lies in appropriate  
53 use of the DEPARTURE RULE in development of a value opinion under STANDARD 1, 6, 7 or 9.

54 For example, using a real property appraisal assignment as a model, no departure is permitted from  
55 Standards Rule 1-1, which discusses appraiser competency and ethics, or from Standards Rule 1-2, which  
56 addresses identifying the scope of work and other assignment criteria. Departure is also not permitted from  
57 Standards Rules 1-5 and 1-6, which require consideration of the subject property's current and past sales as  
58 well as reconciliation of the data and approaches used. Appraisers must meet the requirements of these  
59 Standards Rules in all assignments. However, Standards Rules 1-3 and 1-4 contain development  
60 requirements from which departure is permitted.

61 In this example, deciding whether to exercise the DEPARTURE RULE regarding any part of the specific  
62 requirements of Standards Rules 1-3 or 1-4 depends on the nature of the particular assignment. An  
63 appraiser should examine the conditions of the DEPARTURE RULE in light of the requirements for a  
64 particular assignment and identify appropriate departure(s), if any.

65 The following excerpt from the DEPARTURE RULE indicates the conditions under which appraisers may  
66 depart from specific requirements:

67 *An appraiser may enter into an agreement to perform an assignment in which the scope of work is*  
68 *less than, or different from, the work that would otherwise be required by the specific*  
69 *requirements, provided that prior to entering into such an agreement:*

- 70 1. *the appraiser has determined that the appraisal process to be performed is not so limited that*  
71 *the results of the assignment are no longer credible;*
- 72 2. *the appraiser has advised the client that the assignment calls for something less than, or*  
73 *different from, the work required by the specific requirements and that the report will clearly*  
74 *identify and explain the departure(s); and*
- 75 3. *the client has agreed that the performance of a limited appraisal service would be*  
76 *appropriate, given the intended use.*

<sup>60</sup> See the DEFINITIONS for the meaning of Complete Appraisal and Limited Appraisal.

An appraiser can invoke and properly use the DEPARTURE RULE when he or she elects not to perform analysis that otherwise could be performed in the context of a particular assignment. Elimination of an approach to value constitutes departure only when that approach is applicable and is typically used in developing the value opinion. Typical practice for an assignment is measured by:

- the expectations of the participants in the market for appraisal services, and
- what an appraiser’s peers’ actions would be in performing the same or a similar assignment.

For example, consider the appraisal of a newly constructed detached single-family home located in a predominantly owner-occupied neighborhood with few rentals. When the sales comparison approach is necessary in order to produce credible results, eliminating it would be inappropriate, and departure from this approach would not be permitted. Eliminating the income approach in this example would not typically constitute departure because it is not “typical practice” and generally would not produce meaningful results for this type of assignment. However, eliminating the cost approach in the same example would typically constitute departure because the cost approach is generally considered “typical practice” for newly constructed detached single-family homes.

**Workfile and Report Considerations**

The requirements for preparation of a Self-Contained Appraisal Report, a Summary Appraisal Report, and a Restricted Use Appraisal Report mandate that all departures be clearly identified. (See Standards Rules 2-2(a)(xi), (b)(xi), and (c)(xi) and 8-2 (a)(xi), (b)(xi), and (c)(xi).)

Appraisers who elect to use the DEPARTURE RULE need to ensure that the appraisal report contains information indicating satisfaction of the requirements of the DEPARTURE RULE. It is important to understand that neither the workfile nor the report needs to contain evidence of *analytical consideration* of the particular item from which the appraiser departs. Departure from a specific requirement of STANDARD 1 means that the value opinion is developed without consideration of the analysis item from which the appraiser departed. An appraiser may depart from one or more of the specific requirements of STANDARD 1 as appropriate for an assignment, but he or she must be aware that the DEPARTURE RULE requires that elimination of any analysis items must not result in a value opinion that is not credible.

**Illustrations**

1. An opinion of market value is requested by a prospective buyer of a special-purpose property to be sold at a foreclosure auction the next day. Could an appraiser depart from consideration of the sales comparison approach and perform only the cost approach?

This could be a legitimate means to complete the assignment, assuming the following:

- the sales comparison is applicable but not necessary to produce results that are credible;
- the income approach is not applicable to this particular assignment;
- the appraiser is familiar with and regularly performs the cost approach to develop an opinion of market value;
- the resulting value opinion will be credible;
- the client agrees that the performance of a Limited Appraisal is appropriate;
- and the appraisal report clearly identifies the departures.

2. The same situation occurs, except the property to be auctioned is a single-family residence in a neighborhood where similar residences are bought and sold on a regular basis.

Departure in the form of eliminating the sales comparison approach would not be appropriate in this instance because actions of both market participants and local appraisers suggest that the sales comparison approach is necessary.

120 3(a). A client telephones an appraiser and requests information about a condominium project, including  
121 the number and size of the project's units, as well as demographic information about the  
122 surrounding community. After the appraiser provides the requested information orally, the client  
123 asks the appraiser to provide an oral opinion of value of units within the project. The appraiser has  
124 appraised other units in this project and is familiar with the market for these types of condominium  
125 units. The sales comparison approach was found in those prior appraisals to be the only approach  
126 that provided meaningful results. Is it necessary for the appraiser to invoke the DEPARTURE  
127 RULE to provide the value opinions as requested?

128 The appraiser can complete this assignment without invoking the DEPARTURE RULE. Because the  
129 income and cost approaches are not applicable, there is no need to depart from Standards Rules 1-4(b)  
130 or (c).

131 The appraiser must identify the scope of work to be applied, in accordance with Standards Rule 1-2(f).  
132 scope of work includes the degree to which a property inspection (if any) is performed. In this case, the  
133 Scope of Work will include the application of prior knowledge about the subject condominium project, as  
134 opposed to knowledge obtained through a current inspection of the unit appraised. The appraiser must  
135 ascertain with the client that this scope of work is adequate, given the intended use of the appraisal.  
136 However, the lack of a property inspection with this assignment does not constitute a departure from any  
137 Standards Rule.

138 The value opinions can be given orally, provided the appraiser complies with the requirements of Standards  
139 Rule 2-4 regarding oral reports.

140 3(b). The same situation occurs, but the appraiser has not seen the specific units and has no firsthand  
141 knowledge of the project except what information the client has stated over the telephone. The  
142 appraiser is, however, familiar with the market for this type of condominium unit.

143 In this case, the scope of work, which would lack a property inspection or application of prior knowledge  
144 about the property, would be inadequate for an appraiser to develop a credible value opinion. The appraiser  
145 would not be able to complete this assignment without first gathering sufficient information, via a property  
146 inspection or otherwise, to meet the requirements of Standards Rule 1-2(e).

147 However, the appraiser could develop the appraisal on the basis of extraordinary assumptions about the  
148 missing information, as long as the requirements of Standards Rule 1-2(g) can be met. If this is done, it is  
149 critical that the client be made fully aware that the extraordinary assumptions may impact the value  
150 conclusion. The appraiser and the client must agree that such an appraisal is appropriate, given the intended  
151 use.

### 152 **Competency to Use the DEPARTURE RULE**

153 Use of the DEPARTURE RULE allows appraisers to vary the extent of the analyses conducted in  
154 developing a value opinion as appropriate for each particular appraisal assignment. It is important to realize  
155 that some assignments can be most practically completed by departing from some of the analysis normally  
156 conducted under specific requirements of STANDARD 1, 6, 7 or 9. The DEPARTURE RULE is a useful  
157 tool that enables appraisers to provide reliable, timely, and cost-efficient services.

158 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
159 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
160 *the problems discussed or that it applies equally to seemingly similar situations.*

161 Approved July 26, 1996

162 Revised September 15, 1999

**ADVISORY OPINION 16 (AO-16)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: Fair Housing Laws and Appraisal Report Content**Specialized Terms and Definitions#Sites

**APPLICATION: Real Property**

**THE ISSUE:**

In developing and reporting an appraisal, appraisal review, or appraisal consulting assignment, what should an appraiser consider to comply with current fair housing laws?

**BACKGROUND:**

Fair housing law(s) preclude the use of certain specific information or supported conclusions related to protected group(s) in some assignments. Accordingly, an appraiser should be knowledgeable about the laws that affect the subject property of an assignment. Laws and public policy on fair lending and fair housing (such as the Fair Housing Act; the Equal Credit Opportunity Act ECOA, and the laws and public policy of applicable federal, state, and local jurisdictions) continue to evolve. Further, appraisers must continue to provide appraisals that do not illegally discriminate or contribute to illegal discrimination. The Conduct section of the ETHICS RULE states in part, “An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an **unsupported** conclusion that homogeneity of such characteristics is necessary to maximize value”. (Bold added for emphasis)

In some cases, even **supported** conclusions in assignments relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or group homogeneity cannot be used because they are precluded by applicable law.

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

- The PREAMBLE states, “It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.”
- The Conduct section of the ETHICS RULE states, “An appraiser must perform assignments ethically and competently, in accordance with USPAP and any supplemental standards agreed to by the appraiser in accepting the assignment. An appraiser must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.”
- The COMPETENCY RULE states, “...an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently....”
- The Comment to Standards Rule 1-1(a) states, “Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession is constantly reviewing and revising appraisal methods and techniques and developing new methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in real property appraisal.”

- 44       ▪ Standards Rule 2-1(a) states, “Each written or oral real property appraisal report must  
45       clearly and accurately set forth the appraisal in a manner that will not be misleading.”
- 46       ▪ The content of the certification in Standards Rules 2-3, 3-3, 5-3, 6-8, 8-3, and 10-3 requires  
47       the following disclosures: “I certify that, to best of my knowledge and belief, ... the reported  
48       analyses, opinions, and conclusions are my personal, impartial, and unbiased professional  
49       analyses, opinions, and conclusions ...[and] my analyses, opinions, and conclusions were  
50       developed, and this report has been prepared, in conformity with the Uniform Standards of  
51       Professional Appraisal Practice.”
- 52       ▪ The Conduct section of the ETHICS RULE states, “An appraiser must not use or rely on  
53       unsupported conclusions relating to characteristics such as race, color, religion, national  
54       origin, gender, marital status, familial status, age, receipt of public assistance income,  
55       handicap, or an unsupported conclusion that homogeneity of such characteristics is  
56       necessary to maximize value.”
- 57       ▪ Appraisers must be aware that jurisdictions have laws or public policy that may affect the  
58       consideration of certain information in the development and reporting process. In some of  
59       these cases the JURISDICTIONAL EXCEPTION RULE or SUPPLEMENTAL  
60       STANDARDS RULE may apply.

### 61       Appraisal Report Content

62       An appraiser must ensure that his or her appraisal, appraisal review, or appraisal consulting opinions and  
63       conclusions are impartial and objective and do not illegally discriminate or contribute to illegal  
64       discrimination through subjective or stereotypical assumptions.

65       The use of terms or descriptive phrases in place of factual information in a report imposes particular  
66       obligations on an appraiser to ensure that the user properly understands the report and is not misled. An  
67       appraiser needs to have, and should report wherever possible and appropriate, factual information to  
68       support the use of terms or descriptive phrases that reflect a scale or rating of a market or property that  
69       affects value or marketability conclusions. If such factual information is absent, an appraiser should clearly  
70       disclose that the rating or descriptive phrase is the appraiser’s opinion but that no factual information was  
71       available to support that rating or descriptive phrase and ensure that the use of the term or descriptive  
72       phrase is not illegally discriminatory.

73       An appraiser should research the actions of participants in the subject’s market to identify factors having a  
74       direct favorable or unfavorable influence on marketability or value. Failure to extract pertinent market  
75       information (e.g., sales, rents, occupancy rates, expense ratios, capitalization or discount rates, construction  
76       costs, depreciation, or exposure times) from the subject’s market could produce conclusions that are  
77       misleading and/or illegally discriminatory.

78       Appraisers should exercise care that comments made in a report will not be perceived as illegally biased or  
79       discriminatory. Factual descriptions, rather than subjective phrases, allow the user of a report to draw his or  
80       her own conclusions. The use of terms that reflect a scale such as “high,” “low,” “good,” “fair,” “poor,”  
81       “strong,” “weak,” “rapid,” “slow,” “average,” or the like should also provide contextual information that  
82       properly explains the frame of reference and the relative position of the subject property on the scale. For  
83       example, if absorption is stated as “rapid,” the context of the rating should be cited as well (“rapid” relative  
84       to what?).

85       Appraisers should be aware that some jurisdictions may have laws, administrative rules, regulations, or  
86       ordinances that stipulate requirements within their jurisdiction that address discrimination issues that may  
87       affect the information an appraiser may consider in developing opinions or conclusions in an assignment.  
88       In some such cases, the SUPPLEMENTAL STANDARDS RULE or the JURISDICTIONAL  
89       EXCEPTION RULE may apply.



<b><u>Competency</u></b>	90
Situations such as those listed below require specific research and competency to avoid the use of unsupported conclusions:	91 92
▪ the property is designed to suit the needs of a protected group;	93
▪ there is little or no transaction information available on similar properties;	94
▪ the property is in a market setting where similar properties have not previously existed;	95
▪ market conditions are not similar to the conditions prevailing during the time frame in which previous market transactions occurred; or	96 97
▪ there are financially subsidized rental or ownership programs.	98
<b><u>Illustrations:</u></b>	99
1. An appraiser is completing an assignment in an area where crime activity has recently been publicized. The appraiser considers the use of the term “high-crime area.”	100 101
This is a subjective term that may be understood by the appraiser but may mislead the client.	102
This term does not provide the evidence that the appraiser used in making the observation.	103
The appraiser may provide a specific reference that is factual and objective (e.g., one crime per 100 people or one crime per 1,000,000 people), but may still mislead the client. If the appraiser is to be competent with these types of statistics, the crime ratio should be correlated to the actions of the market in reflecting a valuation adjustment or other indication of property demand. If all of the comparables used by the appraiser are from a market sharing the same crime characteristic, the appraiser should question whether the term and/or the statistic(s) are relevant to the appraisal assignment.	104 105 106 107 108 109 110
2. A religious organization requests an appraiser to determine if a facility offering unique services to specific religious members is feasible. The appraiser must research a geographic market and identify concentrations of individuals that are members of that specific religion. Is the appraiser permitted to complete the assignment under USPAP?	111 112 113 114
The assignment is not covered by ECOA or the Fair Housing Act. Under USPAP, the appraiser must comply with the ETHICS RULE concerning discrimination.	115 116
The key in this case is not to use or rely on unsupported conclusions. If the appraiser can identify the market behavior of the religious members and relate that behavior to the assignment, the appraiser is not in violation of USPAP.	117 118 119
3. An appraiser is requested to review a portfolio of apartment appraisal reports in a market area where apartments with public rent subsidies also exist. How does the <u>Conduct</u> section of the ETHICS RULE affect the appraisal reviewer’s actions?	120 121 122
The review and conclusion of acceptance or rejection of the reports should not rely on the appraisal reviewer’s unsupported conclusions regarding public assistance projects.	123 124
4. An appraiser is requested to appraise a house with specific features (e.g., ramps, wider doorways, and special plumbing fixtures) designed to accommodate handicapped individuals. How does the appraiser analyze the unique improvements?	125 126 127
The appraiser should reflect market preferences for the components of the structure. However, the appraiser should not draw an unsupported conclusion that the fixtures either enhance or diminish value.	128 129 130

131 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
132 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
133 *the problems discussed or that it applies equally to seemingly similar situations.*

134 Approved June 10, 1996

135 Revised September 16, 1998

**ADVISORY OPINION 17 (AO-17)** 1

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.* 2  
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**SUBJECT: Appraisals of Real Property with Proposed Improvements** 5

**APPLICATION: Real Property** 6

**THE ISSUE:** 7

Can either a current or a prospective value opinion for a property subject to completion of proposed improvements be provided in compliance with the *Uniform Standards of Professional Appraisal Practice* (USPAP)? 8  
9  
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**BACKGROUND:** 11

An appraisal of real property with proposed improvements presents complex analysis and reporting issues because some portion of the property appraised does not exist at the time of the appraisal. Consequently, an appraiser must use particular care when performing an appraisal of such property to ensure that the results are credible and the appraisal report is not misleading. 12  
13  
14  
15

A client may have a legitimate need for either a current or a prospective opinion of value (or both) concerning proposed improvements to real property. This kind of appraisal may be performed for a variety of client types, such as lenders, developers, private investors, trusts, attorneys, government agencies, or insurance companies. Further, such an appraisal may be for purposes other than providing an opinion of market value. 16  
17  
18  
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Many real property appraisers have been uncertain whether a current value opinion, rather than a prospective value opinion, may be provided in compliance with USPAP for a property subject to completion of proposed improvements and, if so, which portions of USPAP are most relevant to the assignment. 21  
22  
23  
24

Statement on Appraisal Standards No. 4 (SMT-4) addresses how an appraiser may provide a prospective value opinion in a manner that is not misleading. This Advisory Opinion provides guidance in performing an assignment involving proposed improvements to real property, whether the purpose of the assignment is to develop a current value opinion or to develop a prospective value opinion. 25  
26  
27  
28

The value opinion in an appraisal assignment involving proposed improvements is developed on the basis of one or more extraordinary assumptions. Using an extraordinary assumption always requires specific reporting steps. An appraiser must properly address the requirements set forth in Standards Rule 1-4(h) related to use of an extraordinary assumption in developing an appraisal and must address Standards Rules 2-2(a)(viii), (b)(viii), and (c)(viii) in reporting the appraisal opinions and conclusions so as to ensure that the results are credible and not misleading. 29  
30  
31  
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**ADVICE FROM THE ASB ON THE ISSUE:** 35

**Relevant USPAP & Advisory References** 36

The following USPAP references are applicable when completing an assignment involving proposed improvements to real property: 37  
38

- 39           ▪    COMPETENCY RULE, as it relates to the complexity of an appraisal assignment involving
- 40                    proposed improvements;
- 41           ▪    SUPPLEMENTAL STANDARDS RULE, particularly as to which describes when and under
- 42                    what conditions a client’s requirements may augment USPAP;
- 43           ▪    JURISDICTIONAL EXCEPTION RULE, particularly which describes when applicable law
- 44                    requires use of a hypothetical condition that is not consistent with the highest and best use of
- 45                    the subject property;
- 46           ▪    STANDARD 1, particularly Standards Rules 1-1(a), 1-2(d), 1-2(e), 1-2(f), 1-3(a), 1-4(h); and
- 47           ▪    STANDARD 2, particularly Standards Rules 2-1(a), 2-1(c), and Standards Rule 2-2.

48           Additional standards information is provided in these Statements on Appraisal Standards:

- 49           ▪    No. 2 (SMT-2), addressing discounted cash flow analysis;
- 50           ▪    No. 4 (SMT-4), explaining that three categories of effective appraisal dates may be used—
- 51                    retrospective, current, or prospective—according to the intended use of the appraisal
- 52                    assignment, and addressing how an appraisal can be prepared and presented in a manner that
- 53                    will not be misleading when a prospective value opinion is required;
- 54           ▪    No. 6 (SMT-6), addressing reasonable exposure time in market value opinions; and
- 55           ▪    No. 7 (SMT-7), addressing permitted departure from specific requirements for real property
- 56                    appraisal.

57           Additional guidance also appears in Advisory Opinion 7 (AO-7), which addresses marketing time

58           opinions.

### 59           General Comments

60           Both current and prospective value appraisals subject to completion of proposed improvements to real

61           property are permitted under USPAP. As noted in Statement on Appraisal Standards No. 4 (SMT-4), a

62           current value appraisal occurs when the effective date of appraisal is contemporaneous with the date of the

63           report, and a prospective value appraisal occurs when the effective date of appraisal is after the date of the

64           report.

65           Development of a value opinion(s) for a subject property with proposed improvements in a current value

66           appraisal involves at least one hypothetical condition, specifically that the described improvements have

67           been completed as of the date of value. The use of a hypothetical condition, in turn, imposes additional

68           reporting requirements as set forth in Standards Rule 1-2(h) and Standards Rules 2-2(a)(viii), (b)(viii), and

69           (c)(viii). The additional reporting requirements are to ensure that a report user clearly understands that:

- 70           (a)   the improved subject property does not yet, in fact, exist as of the date of appraisal;
- 71           (b)   the analyses performed to develop the opinion of value are based on a hypothesis, specifically that
- 72                    the improved subject property is assumed to exist when in fact it does not exist;
- 73           (c)   certain events need to occur, as disclosed in the report, before the property appraised with the
- 74                    proposed improvements will in fact exist; and
- 75           (d)   the appraisal does not address unforeseeable events that could alter the proposed property
- 76                    improvements and/or the market conditions reflected in the analyses.

77           Development of a value opinion based on a hypothetical condition is addressed in Standards Rule 1-2(h).

78           Use of a hypothetical condition is permitted when it is clearly required for legal purposes, for purposes of

79           reasonable analysis, or for purposes of comparison. An analysis based on a hypothetical condition must not

80           result in an appraisal, appraisal review, or appraisal consulting report that is misleading. The hypothetical

81           condition must be clearly and conspicuously disclosed in the report with a description of the hypothetical

82           condition, the rationale for its use, and a statement that its use might have affected the assignment results.

Clients may have supplemental standards that affect how and when a hypothetical condition may be used in an appraisal assignment. An appraiser should consider a client’s supplemental standards, but he or she must make certain that developing and reporting a current value opinion under a hypothetical condition in accordance with a client’s supplemental standards still results in an appraisal that complies with USPAP.	83 84 85 86
The SUPPLEMENTAL STANDARDS RULE or the JURISDICTIONAL EXCEPTION RULE may apply in assignments when a value opinion based on a hypothetical condition is required by applicable law or public policy.	87 88 89
<b><u>Assignment Considerations</u></b>	90
An appraiser asked to complete an assignment involving proposed improvements to real property should consider and discuss with the client:	91 92
<ul style="list-style-type: none"> <li>▪ the intended use of the appraisal report;</li> <li>▪ the effective date of the appraisal and the date when the proposed improvements are expected to be complete;</li> <li>▪ the physical and economic changes to the existing property and changes in the market for the property that may result from completion of the proposed improvement; and</li> <li>▪ the possible change in market competition from other properties over the time frame of the improvement project.</li> </ul>	93 94 95 96 97 98 99
It is important for an appraiser to ensure that the client knows that the differences in the information considered in the two types of analyses can result in significant differences between a current and a prospective value opinion concerning the same subject property.	100 101 102
Taken together, these factors and the client’s needs determine whether it is most appropriate to develop:	103
<ul style="list-style-type: none"> <li>▪ a current value opinion on the basis of a hypothetical condition that the proposed improvements already have been completed, or</li> <li>▪ a prospective value opinion on the basis of an extraordinary assumption that the property will be improved as of a future date, as proposed.</li> </ul>	104 105 106 107
If a prospective value opinion is the most appropriate, the appraiser must ensure that the requirements set forth in Statement on Appraisal Standards No. 4 (SMT-4) are properly met in the course of completing the assignment.	108 109 110
As stated in “General Comments” above, an appraisal of a property subject to completion of proposed improvements with a current date of value always involves use of at least one hypothetical condition (i.e., the proposed improvements have been completed as of the date of value), and this always requires reporting that the proposed improvements are appraised as if completed as described in the report, as of the date of value.	111 112 113 114 115
In an appraisal with a prospective date of value, the extraordinary assumption that the proposed improvements are complete as of that future date must be disclosed clearly and conspicuously. The appraiser also should report that the extraordinary assumption might have affected the assignment results.	116 117 118
An appraiser should carefully review Standards Rule 1-4(h) and determine whether the information available for analysis is sufficient to identify the scope and character of the proposed improvements. If sufficient information is not available, an appraiser may have to invoke the DEPARTURE RULE and, for purposes of reasonable analysis, use an extraordinary assumption about the scope and character of the proposed improvements. In an appraisal with a prospective date of value, the extraordinary assumption about the scope and character of the improvements is in addition to the extraordinary assumption about those improvements being completed on the future date of value.	119 120 121 122 123 124 125

126 A current value opinion assignment does not require an appraiser to provide a prospective value opinion.  
127 However, so as to not be misleading, the appraisal report should clearly indicate the fact that the value of  
128 the property that actually exists as of the date of the report would be different from the value concluded for  
129 the property with the proposed improvements completed as described in the hypothetical condition(s) used  
130 in the appraisal.

131 **Illustrations:**

132 1. A client is considering financing the construction of a single-family residence. Construction is  
133 expected to be complete in six to eight months from the date of the appraisal report. No significant  
134 changes in market conditions are foreseeable during the construction period. The client requests a  
135 current value opinion based on the hypothetical condition that the improvements are complete as  
136 of the current date. Can such an appraisal be provided in compliance with USPAP?

137 Yes, provided sufficient information about the scope and character of the proposed improvements  
138 is available or can be reasonably assumed under a hypothetical condition used for purposes of  
139 reasonable analysis in this case. Given the client's intended use of the appraisal (construction  
140 financing) and the lack of significant change in the market conditions during the construction  
141 period, in this case, a current value appraisal would not be misleading solely on the basis of the  
142 hypothetical condition that the improvements are complete as of a current date.

143 2. A client requests an appraisal to assist in establishing contract rent in a build-to-suit agreement.  
144 The agreement stipulates that contract rent will be based on a stated percentage of the market  
145 value of the property as if it were completed as of a current date. The client requests a current  
146 value opinion based on the hypothetical condition that the improvements are complete as of the  
147 current date. Can such an appraisal be provided in compliance with USPAP?

148 Yes. Given the client's intended use of the appraisal, the use of the hypothetical condition is  
149 necessary for purposes of reasonable analysis and would not in itself result in a misleading  
150 appraisal.

151 3. A client is considering financing a proposed office tower with a loan commitment based on the  
152 value of the property as though the improvements were complete and occupancy is at stabilized  
153 market level. Because of the amount of vacant office space available in the subject's market area,  
154 it is anticipated that the subject property will take five years to reach stabilized occupancy. The  
155 client requests a current value opinion that assumes the property is complete and at stabilized  
156 occupancy. Can such an appraisal be provided in compliance with USPAP?

157 No. Because of the combination of the intended use of the appraisal and the market conditions that  
158 are expected to affect the subject property, the resulting appraisal would most likely be  
159 misleading. A prospective value opinion could be provided, with an effective date of appraisal as  
160 of the date when stabilized occupancy is expected to be achieved. This would more realistically  
161 reflect the market conditions affecting the subject, when completed.

162 4. A client is considering construction of a large apartment complex. The client expects construction  
163 to be complete in about two years. Currently, demand for similar apartment units is strong, but  
164 because of the amount of new construction under way or planned in the near future, vacancy levels  
165 are expected to rise from the current level (below 1 percent) to about 20 percent in two years.

166 A. The client requests an appraisal with a current value opinion for use in obtaining financing  
167 from a non-regulated financial institution, based on the hypothetical condition that the  
168 apartment complex is complete and at stabilized occupancy. Can such an appraisal be  
169 provided in compliance with USPAP?

No, because given the intended use and the foreseeable changes in market competition during the course of construction, a current value opinion for the property, as if complete, would most likely be misleading. A prospective value opinion, with an effective value date as of the expected completion date, would more realistically reflect market conditions affecting the subject property as proposed.	170 171 172 173 174
 B. The client requests an appraisal with a current value opinion for use in testing project feasibility or investment alternatives, based on the hypothetical condition that the apartment complex is complete and at stabilized occupancy. Can such an appraisal be provided in compliance with USPAP?	 175 176 177 178
Yes, because the intended use of the appraisal and the hypothesis, in this type of assignment, is for purposes of reasonable analysis and comparison. However, so as not to be misleading, the appraisal analyses should reflect the market risk resulting from the foreseeable trend in vacancy and its probable impact on cash flow and market competition, and the appraisal report must clearly indicate the intended use of the appraisal.	179 180 181 182 183 184
 An appraiser should not provide, a current or prospective value opinion concerning proposed improvements under either of the following conditions:	 185 186
1. the resulting value opinion would be misleading; or	187
2. the actions or events required to meet the extraordinary assumptions would be illegal.	188
 <i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	 189 190 191
 Approved July 26, 1996	 192
Revised September 16, 1998	193

1 **ADVISORY OPINION 18 (AO-18)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Use of an Automated Valuation Model (AVM)**

6 **APPLICATION: Real Property, Personal Property, Intangible Property**

7 **THE ISSUE:**

8 What steps should an appraiser take when using an AVM as a tool in the development of appraisal,  
9 appraisal review, or appraisal consulting opinions and conclusions concerning an individual property?

10 In addition, what steps should an appraiser take when he or she is using an AVM only to process  
11 information and communicate the AVM's output but is not performing an appraisal, appraisal review, or  
12 appraisal consulting assignment?

13 **BACKGROUND:**

14 This Advisory Opinion addresses how an appraiser may use an AVM.

15 An AVM is a computer software program that analyzes data using an automated process. For example,  
16 AVMs may use regression, adaptive estimation, neural network, expert reasoning, and artificial intelligence  
17 programs.

18 The output of an AVM is not, by itself, an appraisal. An AVM's output may become a basis for appraisal,  
19 appraisal review, or appraisal consulting opinions and conclusions if the appraiser believes the output to be  
20 credible and reliable for use in a specific assignment.

21 An appraiser can use an AVM as a tool in the development of appraisal, appraisal review, or appraisal  
22 consulting opinions and conclusions. However, the appropriate use of an AVM is, like any tool, dependent  
23 upon the skill of the user and the tool's suitability to the task at hand.

24 This Advisory Opinion applies when an appraiser uses an AVM in connection with an individual property.  
25 This Advisory Opinion does not apply to mass appraising.

26 An appraiser needs to know, before using an AVM, whether it is to be used:

- 27 1. to perform an appraisal, appraisal review, or appraisal consulting service, or  
28 2. solely to provide the client with AVM output.

29 When an appraiser uses an AVM to develop his or her own opinions or conclusions in an appraisal,  
30 appraisal review, or appraisal consulting assignment, all of the USPAP rules governing that assignment  
31 apply and all of this Advisory Opinion is relevant.

32 An appraiser is not performing an appraisal, appraisal review, or appraisal consulting assignment when he  
33 or she simply runs an AVM by using information provided by the client and:

- 34 1. does not alter the input or affect the output of the AVM, and  
35 2. does not communicate his or her own appraisal, appraisal review, or appraisal consulting  
36 opinions or conclusions regarding the AVM's output.



If the appraiser uses an AVM only to provide the client with the AVM output, only the references to the Conduct section of the ETHICS RULE and the “Communicating the AVM Output” section in this Advisory Opinion are relevant. 37  
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39

**ADVICE FROM THE ASB ON THE ISSUE:** 40

**Relevant USPAP & Advisory References** 41

- Conduct section of the ETHICS RULE: “An appraiser must perform assignments ethically and competently, in accordance with USPAP and any supplemental standards applicable to the assignment. An appraiser must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.” Further, “An appraiser must not communicate assignment results in a misleading or fraudulent manner. An appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report.” 42  
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- COMPETENCY RULE: “Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently.” 51  
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- DEPARTURE RULE: “An appraiser may enter into an agreement to perform an assignment in which the scope of work is less than, or different from, the work that would otherwise be required by the specific requirements....” 55  
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- Standards Rule 1-1(a): An appraiser must “be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.” 58  
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- Standards Rule 1-1(b): An appraiser must “not commit a substantial error of omission or commission that significantly affects an appraisal.” 61  
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- Standards Rule 1-1(c): An appraiser must “not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.” 63  
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- Standards Rule 1-6: An appraiser must “reconcile the indications of value resulting from the various approaches utilized to arrive at the value conclusion(s).” 67  
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- STANDARD 2: “In reporting the results of a real property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.” 69  
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71
- STANDARD 3: “In performing an appraisal review assignment, an appraiser acting as a reviewer must develop and report a credible opinion as to the quality of another appraiser’s work and must clearly disclose the scope of work performed.” 72  
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74
- Statement on Appraisal Standards No. 7 (SMT-7), quoting from the DEPARTURE RULE: “The burden of proof is on the appraiser to decide that the scope of work applied in an assignment is adequate and leads to results that are credible.” 75  
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77
- Statement on Appraisal Standards No. 9 (SMT-9): “Although an appraiser bound by the Uniform Standards of Professional Appraisal Practice must identify and consider the client’s intended use of the appraiser’s reported appraisal, appraisal review, or appraisal consulting opinions and conclusions, an appraiser must not allow a client’s intended use or the requirements of any intended user of the report to affect the appraiser’s independence and objectivity in performing an assignment. An appraiser must not allow a client’s objectives to cause the analysis or report to be biased.” 78  
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86 **Competency**

87 When an appraiser is asked to use an AVM in an assignment, the appraiser must ensure that he or she can  
88 comply with the requirements of the COMPETENCY RULE both prior to accepting the assignment and in  
89 the course of performing it.

90 In an appraisal assignment, an appraiser must have a basic understanding of how the AVM works in order  
91 to reasonably determine that:

- 92 1. use of the AVM is appropriate for the assignment;  
93 2. the output of the AVM is credible for use in the assignment; and  
94 3. the AVM does not exclude relevant market measures or factual information necessary for a  
95 credible calculation.

96 A client may suggest or request the use of an AVM in an appraisal, appraisal review, or appraisal  
97 consulting assignment, but ultimately the appraiser is responsible for the decision to use or not use the  
98 AVM and its output. The appraiser must be able to reasonably conclude that the AVM's output is credible  
99 before deciding to use the AVM or rely on its output. For example, in an appraisal assignment, the  
100 credibility of the AVM output may be established by comparison to the subject market. If the appraiser  
101 concludes that using the AVM output in an assignment would be misleading, the appraiser should either  
102 use other tools to perform the analysis or decline the assignment.

103 If use of the AVM involves invoking departure, the DEPARTURE RULE requires the appraiser to advise  
104 the client of the appraisal's limitations and to disclose those limitations in the report, provided the client has  
105 agreed that the limited service is appropriate.

106 **Under What Conditions May AVMs Be Used?**

107 There are five critical questions to which the appraiser should answer "yes" before deciding to use an AVM  
108 in an appraisal, appraisal review, or appraisal consulting assignment:

- 109 1. Does the appraiser have a basic understanding of how the AVM works?  
110 2. Can the appraiser use the AVM properly?  
111 3. Are the AVM and the data it uses appropriate given the intended use of assignment results?  
112 4. Is the AVM output credible?  
113 5. Is the AVM output sufficiently reliable for use in the assignment?

114 The answers to these questions may be affected by the degree to which the appraiser can interact with the  
115 AVM. The decision to use an AVM may also be affected by support information supplied by the AVM's  
116 developer, the appraiser's previous experience in using the AVM, or other available information.

117 **Database**

118 Credibility of the AVM output depends on the quality of its database and how well the AVM is designed to  
119 analyze that database. When using an AVM in an appraisal, appraisal review, or appraisal consulting  
120 assignment, the appraiser must have reason to believe the AVM appropriately uses data that are relevant.

**Understanding and Control of the AVM** 121

When using an AVM in an appraisal, appraisal review, or appraisal consulting assignment, an appraiser should have a basic understanding of how the AVM analyzes data to determine whether the AVM measures and reflects market activity for the subject property. The appraiser does not need to know, or be able to explain, the AVM’s algorithm or intricacies of its statistical or mathematical formulae. However, the appraiser should be able to describe the AVM’s overall process and verify that the AVM is consistent in producing results that accurately reflect prevailing market behavior for the subject property.

AVMs differ in the number and type of data characteristics as well as in the volume of data analyzed. The appraiser should know which characteristics (e.g., size, location, quality) are analyzed and how the analysis is tested for accuracy and reasonableness. The appraiser should ascertain that the characteristics analyzed are those to which the market responds.

Some AVMs allow the appraiser to select the data analyzed on the basis of, for example, distance from subject, size, or age of the improvements. An appraiser’s ability to change the AVM’s selection parameters may affect the appraiser’s decision to use or rely on the AVM output.

The appraiser should be aware that the AVM may not perform consistently given the same input criteria. The appraiser should be confident of the AVM’s credibility when applied to a specific property. The appraiser decides whether to rely on the AVM output, regardless of the AVM’s overall test performance. In some cases, the appraiser may accept the AVM’s output, while in other cases that same AVM’s output would not be acceptable.

**Communicating the AVM Output** 140

An appraiser must ensure that his or her communication of an AVM’s output is not misleading.

An AVM’s output is not, by itself, an appraisal, and communication of an AVM’s output is not, in itself, an appraisal report. When an AVM is used in an appraisal, appraisal review, or appraisal consulting assignment, information furnished about an AVM in the appraiser’s report must satisfy the reporting requirements applicable to the type of report provided (e.g., in the case of a real property appraisal, a Self-Contained, Summary, or Restricted Use Appraisal Report). The appraiser should cite the name and version of the AVM software and provide a brief description of its methods, assumptions, and level of allowed user intervention. The report should, to the extent possible, identify the database (e.g., Multiple Listing Services) and the data analyzed.

An appraiser bound by USPAP may be asked to run an AVM and communicate its output without performing an appraisal, appraisal review, or appraisal consulting assignment. For example, an appraiser may be asked to simply enter property characteristics provided by the client but not alter the input or affect the AVM’s output. In this specific instance, the appraiser is not acting in the capacity of an appraiser but rather is functioning only as an AVM operator. In such a situation, an appraiser must carefully avoid any action that could be considered misleading or fraudulent. The appraiser should take steps to ensure that communication of the AVM’s output is not misconstrued as an appraisal, appraisal review, or appraisal consulting report. For example, the appraiser should:

1. not communicate his or her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;
2. not provide an appraiser’s certification or statement of limiting conditions in connection with the AVM’s output; and
3. ensure that his or her role as only an AVM operator is clearly indicated if his or her signature or other identification marks appear on document(s) used to communicate the AVM’s output.

165 **Analyzing an AVM's Effectiveness**

166 An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked to analyze  
167 and comment on the effectiveness of an AVM for a stated intended use. Such a request involves an aspect  
168 of value and thereby this would be an appraisal practice service, but one for which USPAP has no specific  
169 performance standards. In order to accept such an assignment, an appraiser bound to comply with USPAP  
170 must ensure compliance with the Conduct, Management and Confidentiality sections of the ETHICS  
171 RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE, and the  
172 SUPPLEMENTAL STANDARDS RULE. To meet the COMPETENCY RULE, at a minimum, the  
173 appraiser should also have a basic understanding of how the AVM works.

174 **Review of the Output of an AVM**

175 An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked if the output  
176 of an AVM is reliable for a specific property, given the intended use of the AVM's output. Such a request  
177 involves an aspect of value and thereby making this determination is an appraisal practice service, but one  
178 for which USPAP has no specific performance standards. The appraiser must ensure compliance with the  
179 Conduct, Management and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, the  
180 JURISDICTIONAL EXCEPTION RULE, and the SUPPLEMENTAL STANDARDS RULE.

181 **Review of an Appraisal Report Containing Output of an AVM**

182 An appraiser may be asked to review an appraisal report that includes an opinion of value based on the  
183 output of an AVM. This is an appraisal review assignment under USPAP which must follow the  
184 requirements of STANDARD 3. This kind of appraisal review assignment may be accepted if the appraiser  
185 performing the review understands how the AVM works and can form an opinion as to the adequacy and  
186 relevancy of the data and the appropriateness of the analysis, based on the information provided in the  
187 report under review.

188 **Use of an AVM in an Appraisal Review Assignment**

189 An AVM may be used in the process of reviewing a real property appraisal report. The appraisal reviewer  
190 may use the AVM to test the reasonableness of the value conclusion in the report under review if the  
191 appraisal reviewer has a basic understanding of how the AVM works, can use the AVM properly,  
192 determines that use of the AVM is appropriate for the appraisal review assignment, and believes the AVM  
193 output is credible and sufficient for the appraisal review assignment.

194 **Illustrations:**

195 1(a). Staff Appraiser D, who has access to market databases, is asked to use an AVM to process  
196 information. When Appraiser D runs the AVM, she has done no other appraisal research.  
197 Appraiser D does not apply any of her appraisal knowledge or judgment in operating the AVM.  
198 Appraiser D has entered only property characteristics provided by the client and does not know  
199 how the AVM analyzes the data. Is the AVM output an appraisal?

200 No. The AVM output by itself is not an appraisal. Appraiser D did not apply her appraisal  
201 knowledge, judgment, or expertise, nor did she represent that the output was her own opinion of  
202 value.

203 Appraiser D must be very careful in communicating the AVM output to ensure that there is no  
204 misunderstanding as to her role in operating the AVM or communicating its output. For example,  
205 Appraiser D should:

1.	not communicate her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM's output;	206 207
2.	not provide an appraiser's certification or statement of limiting conditions in connection with the AVM's output; and	208 209
3.	ensure that her role as only an AVM operator is clearly indicated if her signature or other identification mark appears on documents used to communicate the AVM's output.	210 211
1(b).	Staff Appraiser D receives AVM output from a coworker who is not an appraiser. Appraiser D is requested to determine if the AVM output is reliable, given the intended use. What can Appraiser D do?	212 213 214
	Appraiser D should not express an opinion regarding value. However, the request involves an aspect of value and, therefore, Appraiser D can indicate if the AVM output is reliable. USPAP includes no specific performance standards for this kind of service. However, however, because performing the service requires an appraiser to consider an aspect of property value, it is part of appraisal practice. Appraiser D must, therefore, ensure compliance with the <u>Conduct</u> , <u>Management</u> and <u>Confidentiality</u> sections of the ETHICS RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE, and the SUPPLEMENTAL STANDARDS RULE.	215 216 217 218 219 220 221
1(c).	After staff Appraiser D has received the AVM output, can she incorporate the information into the appraisal process?	222 223
	Yes. However, Appraiser D must be able to understand how the AVM works and determine that the information analyzed is credible and reliable.	224 225
2.	Appraiser V provides residential appraisals to Client A, whose intended use is to document security for equity lines of credit. Appraiser V has determined that Orange Box AVM is sufficiently reliable to use as a tool in these appraisals. Orange Box AVM was recently used by Appraiser V on a house in a suburban single-family residential subdivision.	226 227 228 229
	Client B requests Appraiser V to use Orange Box AVM, alone, for a relocation appraisal assignment on an identical house in the same subdivision. Can Appraiser V use Orange Box AVM alone in this relocation appraisal assignment?	230 231 232
	AVM itself and the AVM output for Client A's needs may not be appropriate for Client B's needs.	233
	Client A's intended use of the appraisal is to document security for an equity line of credit. Typically, Client A's lending decision is based primarily on the homeowner's capacity to pay the debt and only secondarily on the value of the house. The reliability expectation of the value opinion needed by Client A is relatively low.	234 235 236 237
	The intended use of the relocation appraisal for Client B is to develop an opinion of a sale price of the house under very specific conditions. Typically, the reliability expectation of the opinion needed by Client B is relatively high because his or her intended use involves a near-term transfer of the house, with immediate financial implications. Appraiser V must determine if Orange Box AVM's output is sufficiently reliable to meet Client B's expectations.	238 239 240 241 242
3(a).	Appraiser A developed a regression analysis model that suggests a relationship between the size of a residence and the price per square foot of similar residences in a specific market. This relationship has been confirmed by market behavior, and the database used is believed to be reliable. Can the appraiser use the regression analysis model in other appraisal assignments of similar properties in the same market?	243 244 245 246 247

248 Yes, because the appraiser knows how the regression analysis model works, has independently  
249 tested the conclusions it provides, and believes the database is reliable. However, the appraiser  
250 must consider whether the AVM output is credible and reliable for each assignment on a case-by-  
251 case basis.

252 3(b). Appraiser A's friend, Appraiser B, works in a different market area. Appraiser B is impressed  
253 with Appraiser A's model and wants to use the model in Appraiser B's market area. Can  
254 Appraiser B use Appraiser A's model?

255 Yes, if Appraiser B understands how Appraiser A's model works and verifies by independent  
256 testing that the model produces reliable results in Appraiser B's market area and that the database  
257 used by Appraiser B reflects behavior in Appraiser B's market area. However, the appraiser must  
258 consider whether the AVM output is credible and reliable for each assignment on a case-by-case  
259 basis.

260 4(a). A client of Appraiser A requests that Appraiser A use Blue Box AVM. The client says, "Since we  
261 are only doing residential appraisals, you can skip the cost and income approach. To lower the  
262 cost of the appraisal just use the Blue Box AVM results as the basis for your value conclusion."  
263 The client also says, "Blue Box AVM makes thirteen adjustments, and that is all that the appraiser  
264 needs to be concerned with." The Blue Box AVM developer feels that appraisers cannot  
265 understand this new technology and that appraisers do not need to know how the thirteen  
266 adjustments are made. What should Appraiser A do?

267 Appraiser A should:

- 268 1. learn how the Blue Box AVM works;
- 269 2. determine if he can use the AVM properly;
- 270 3. given the intended use, determine if the output of Blue Box AVM is credible and sufficiently  
271 reliable for use in the assignment; and
- 272 4. review the DEPARTURE RULE to determine whether not performing the cost and income  
273 approaches would result in a Limited Appraisal assignment.

274 If Appraiser A cannot understand how the Blue Box AVM works or concludes that the results are  
275 unreliable, given the intended use, Appraiser A should discuss the issue with the client. This  
276 discussion may result in a modified assignment or in the appraiser declining the assignment.  
277

278 4(b). Another client requests that Appraiser A consider Green Box AVM. The client indicates that  
279 Appraiser A can modify six of the thirteen items analyzed in Green Box AVM, such as the  
280 distance within which the comparables are selected and the size range (square footage) of the  
281 comparables. The developer of Green Box AVM will also describe how the AVM works and  
282 provide the results of test data, which indicate that the model is reliable. What should Appraiser A  
283 do?

284 Appraiser A needs to follow the same steps described in 4(a).

285 5. Appraiser C's client has licensed the Red Box AVM. The client requests that Appraiser C use the  
286 Red Box AVM as a tool in an appraisal consulting assignment. The client knows that Appraiser C  
287 has a reliable internal residential database. The client also knows that Appraiser C has tested Red  
288 Box AVM and has found it to be reliable. Further, the software developer of Red Box AVM has  
289 given Appraiser C information about how Red Box AVM works and test data showing its results.  
290 Can Appraiser C apply the Red Box AVM in the appraisal consulting assignment?

Yes, if the Red Box AVM is used for that part of the process for which it has been determined to be credible and reliable. However, the appraiser must consider whether the AVM output is credible and reliable for each assignment.	291 292 293
<i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	294 295 296
Approved July 9, 1997	297
Revised September 16, 1998	298

1 **ADVISORY OPINION 19 (AO-19)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Unacceptable Assignment Conditions in Real Property Appraisal Assignments**

6 **APPLICATION: Real Property**

7 **ISSUE:**

8 All real property appraisal assignments involve conditions that affect the appraiser’s scope of work and the  
 9 type of report. What types of conditions are unacceptable?

10 **BACKGROUND:**

11 Many residential property appraisers report requests for service where the caller includes statements or  
 12 information in the request similar to the following:

- 13 1. We need comps for (property description) that will support a loan of \$\_\_\_\_\_; can you  
 14 provide them?  
 15 2. Sales Price: \_\_\_\_\_.  
 16 3. Approximate (or Minimum) value needed: \_\_\_\_\_.  
 17 4. Amount needed: \_\_\_\_\_.  
 18 5. Owner’s estimate of value: \_\_\_\_\_.  
 19 6. If this property will not appraise for at least \_\_\_\_\_, stop and call us immediately.  
 20 7. Please call and notify if it is NOT possible to support a value at or above \_\_\_\_\_,  
 21 **BEFORE YOU PROCEED!!!!**

22 Appraisers report that the caller usually makes it clear that they do not want the appraiser to do any  
 23 fieldwork. Some callers refer to the service requested as a “comp check” while others refer to it as a  
 24 “preliminary appraisal” or use some terms other than appraisal (such as preliminary evaluation, study,  
 25 analysis, etc.). Some callers indicate that if the numbers will not work, the appraiser can send a bill for  
 26 research services or a “preliminary” inspection. Other callers promise future assignments if the appraiser  
 27 can make the present deal work.

28 Appraisers ask, “Can I respond to such requests without violating USPAP and, if so, how?”

29 **ADVICE FROM THE ASB ON THE ISSUE:**

30 **Relevant USPAP & Advisory References**

31 Appraisers receiving requests for services that include the kind of information and situations described in  
 32 the Background section of this Advisory Opinion should carefully review:

- 33     ▪ the Conduct and Management sections of the ETHICS RULE, particularly in regard to  
 34 assignments offered under condition of “predetermined opinions or conclusions” or  
 35 compensation conditioned on the reporting of a predetermined value result, a direction in  
 36 assignment results that favors the cause of the client, the amount of a value opinion, the  
 37 attainment of a stipulated result, or the occurrence of a subsequent event directly related to the  
 38 appraiser’s opinions and specific to the assignment’s purpose.  
 39     ▪ The definitions of “Appraisal,” “Appraisal Practice,” “Assignment” and “Scope of Work” in  
 40 the DEFINITIONS section of USPAP.



<ul style="list-style-type: none"> <li>▪ Standards Rule 1-1(b), particularly as it relates to diligence in the level of research and analysis necessary to develop credible opinions and conclusions.</li> <li>▪ Standards Rules 1-2(f), (g), and (h), regarding identification of the scope of work necessary to complete an assignment and any extraordinary assumptions or hypothetical conditions necessary in an assignment.</li> <li>▪ Standards Rules 1-5(a) and (b), regarding the analysis of current or historical market activity regarding the property appraised.</li> <li>▪ The DEPARTURE RULE, with particular attention to the appraiser’s burden of proof in connection with the appraiser’s scope of work decision and burden of disclosure in connection with any departures from specific requirements.</li> <li>▪ Statement on Appraisal Standards No. 7 (SMT-7), particularly the Scope of Work section.</li> <li>▪ As guidance, Advisory Opinions AO-11, 12, 13, and 15.</li> </ul>	<p>41 42 43 44 45 46 47 48 49 50 51 52</p>
<b><u>Unacceptable Conditions</u></b>	53
Certain types of conditions are unacceptable in any assignment because performing an assignment under such conditions violates USPAP. Specifically, an assignment condition is unacceptable when it:	54 55
<ul style="list-style-type: none"> <li>▪ precludes an appraiser’s impartiality. Because such a condition destroys the objectivity and independence required for the development and communication of credible results;</li> <li>▪ limits the scope of work to such a degree that the assignment results are not credible, given the intended use of the assignment; or</li> <li>▪ limits the content of a report in a way that results in the report being misleading.</li> </ul>	<p>56 57 58 59 60</p>
<b><u>Accepting Assignment Conditions</u></b>	61
The intended use of the assignment results affect whether assignment conditions are acceptable. Some assignment conditions may be acceptable in one type of assignment but not in another. An appraiser should carefully consider the information provided by the client in a prospective assignment before accepting or declining the assignment. (See Statement on Appraisal Standards No. 9 (SMT-9).)	62 63 64 65
In the highly competitive financial services market, cost versus benefit is always an issue. Residential appraisers, particularly, have seen an increase in the use of sophisticated loan application screening tools by their lender-clients. Many lenders believe an appraiser can enhance their screening efforts by doing “preliminary work” that they do not view as an “appraisal.”	66 67 68 69
Other client groups also ask appraisers to provide services under conditions that limit the appraiser’s scope of work. Investors, trust administrators, and portfolio account managers often require opinions and data from appraisers in order to make decisions. Attorneys often rely on appraisers in counseling their clients and in preparing for litigation.	70 71 72 73
When considering a request for service, appraisers should ascertain:	74
<ul style="list-style-type: none"> <li>▪ whether the service involves an appraisal,</li> <li>▪ what levels of risk are associated with the service, and</li> <li>▪ whether there are any unacceptable conditions attached to the assignment.</li> </ul>	<p>75 76 77</p>
Appraisers should take care to communicate with prospective clients to reach a common understanding about assignment conditions. Further, the appraiser and client need to recognize that:	78 79
<ol style="list-style-type: none"> <li>1) <b>the type of assignment in each request described in the Background section of this Advisory Opinion is an appraisal.</b></li> </ol>	<p>80 81</p>

82 If an appraiser is asked whether a specific property has a value (a point, a range, or a relationship to some  
83 benchmark), that request is for an opinion of value (an appraisal). Appraisers, obligated to comply with  
84 USPAP, must develop a real property appraisal in accordance with STANDARD 1. Communicating that  
85 value opinion must be accomplished in accordance with STANDARD 2.

86 Appraisers, like other professionals, must ensure that those who use their services recognize the amount of  
87 work required—and the expertise needed—to develop a credible value conclusion about a property.

88 However, this does not mean that the appraiser cannot provide an economic and competitive service.  
89 Indeed, the *Uniform Standards of Professional Appraisal Practice* recognizes the need for different kinds  
90 of appraisals. A competent appraiser can vary the scope of work in an assignment, in accordance with the  
91 type and definition of value and intended use of the appraiser’s opinions and conclusions in the assignment,  
92 and remain in compliance with USPAP. (See Statement 7 (SMT-7), particularly the scope of work section,  
93 and Advisory Opinion AO-15, specifically The Appraisal Assignment and Using the DEPARTURE RULE  
94 sections.)

95 **2) assignment limitations affect the level of risk accepted by each party in an assignment;**

96 Appraisers and users of appraisals should recognize that assignment limitations affect the reliability of an  
97 appraiser’s opinions and conclusions. In some assignments, an appraiser can reasonably apply  
98 extraordinary assumptions or the DEPARTURE RULE to compensate for assignment limitations. In other  
99 situations, the use of the same assumptions or departure may not be acceptable.

100 When the client’s intended use is to screen a potential business for feasibility, a higher reliance on  
101 assumptions or extraordinary assumptions is more appropriate than when the client’s intended use is for  
102 loan documentation or loan settlement. While the client can accept a higher level of risk in different  
103 situations, an appraiser should take reasonable care to inform the client of the risks involved with the  
104 assignment limitations.

105 **3) assignment conditions that compromise an appraiser’s impartiality and objectivity in an**  
106 **assignment are unacceptable.**

107 While a client may feel that offering preference in current or future assignments on the basis of “making  
108 the numbers work” in a specific assignment is appropriate, attaching such a condition to an assignment  
109 compromises an appraiser’s impartiality and destroys the appraiser’s credibility.

110 The *Uniform Standards of Professional Appraisal Practice* is explicit about such matters. Accepting an  
111 appraisal assignment under such a condition violates the Conduct section of the ETHICS RULE in USPAP,  
112 which states:

113 *An appraiser must perform assignments ethically and competently, in accordance with USPAP*  
114 *and any supplemental standards applicable to the assignment. An appraiser must not engage in*  
115 *criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and*  
116 *independence, and without accommodation of personal interests.*

117 *An appraiser must not accept an assignment that includes the reporting of predetermined opinions*  
118 *and conclusions.*

119 Furthermore, accepting compensation for completing an appraisal assignment under such a condition  
120 violates the Management section of the ETHICS RULE in USPAP, which states:

121 *It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement for an*  
122 *assignment, that is contingent on any of the following:*

1. *the reporting of a predetermined result (e.g., opinion of value);* 123
2. *a direction in assignment results that favors the cause of the client;* 124
3. *the amount of a value opinion;* 125
4. *the attainment of a stipulated result; or* 126
5. *the occurrence of a subsequent event directly related to the appraiser's opinions **and** specific to the assignment's purpose. (Bold added for emphasis)* 127-128

**Illustrations:** 129

Some of the requests shown in the Background section of this Advisory Opinion share common characteristics. Possible responses to each common group of requests could be: 130-131

1. *We need comps for (a specific property) that will support a loan of \_\_\_\_\_; can you provide them?* 132-133

“Maybe, but I’ll need to research the market to know whether the ‘comps’ will support a value range relative to the loan amount. In doing this, I will be deciding which sales are ‘comps’ and what those ‘comps’ mean. Those decisions will result in a range of value for your prospective borrower’s property, which is an appraisal.” 134-137

You also need to recognize that there are risks in this kind of assignment. If I do what you ask, it will probably be a limited appraisal. You should realize that my value conclusion could change if I subsequently perform an appraisal. Under the research and analysis limitations you suggest, I would not have verified some of the data and would have to use extraordinary assumptions about the market data and your borrower’s property information. I would not have performed some of the analyses steps I might complete in an appraisal assignment without those limitations. If all of that is agreeable to you, we can proceed.” 138-144

2. *Sales Price: \_\_\_\_\_.* 145

“As long as the amount is only to inform me of the pending contract [or of the sale price] and is not a condition for your placement of this assignment with me, we can proceed. However, if that amount is a condition of this assignment, accepting an assignment under that condition violates professional ethics.” 146-149

Note: A sale price (in a pending or a settled transaction) is part of the information an appraiser is required to ascertain in accordance with Standards Rules 1-5(a) and (b). Receiving this information with a request for service is appropriate, but accepting an assignment with the price in an agreement of sale, option, or listing or a sale price in a settled transaction as a predetermined value in the assignment violates USPAP. 150-154

3. *Approximate (or Minimum) value needed: \_\_\_\_\_.* 155

4. *Amount needed: \_\_\_\_\_.* 156

5. *Owner's estimate of value: \_\_\_\_\_.* 157

“As long as the amount is only to inform me of your objectives or someone else’s opinion and is not a condition for your placement of this assignment with me, we can proceed. However, if that amount is a condition of this assignment, accepting an assignment under that condition violates professional ethics.” 158-161

6. *If this property will not appraise for at least \_\_\_\_\_, stop and call us immediately.* 162

163 7. *Please call and notify if it is NOT possible to support a value at or above \_\_\_\_\_, BEFORE*  
 164 *YOU PROCEED!!!!*

165 “Your request is acknowledged, but it is important for you to be aware that I must develop an  
 166 appraisal before I can tell you whether the property will support the value indicated. It is also  
 167 important for you to be aware that your statement of that amount with this request for service does  
 168 not, in my view, establish a ‘condition’ for my performing the appraisal. If you intend it to be a  
 169 condition for performing the assignment, I cannot accept the assignment because it violates  
 170 professional ethics.”

171 **Research Illustration:**

172 The foregoing illustrations all include an appraisal assignment. In some situations, a client will request a  
 173 service that is not an appraisal, appraisal review or appraisal consulting assignment as defined in USPAP.  
 174 The service to be performed by the appraiser in the following illustration is:

- 175 ▪ not an appraisal assignment (the appraiser does not develop a value opinion);
- 176 ▪ not a real property appraisal consulting assignment (a value opinion is not a component of the  
 177 analysis); and
- 178 ▪ not a real property appraisal review (there is no appraisal to review).

179 The caller in this illustration is usually in the process of making a business decision and needs impartial and  
 180 objective information but has not yet decided whether to pursue the matter at hand. The caller knows there  
 181 is the potential for needing an appraisal, depending, in part, on what the sales data shows. The caller also  
 182 believes that, if the data indicates that an appraisal is worthwhile, having that work completed by the  
 183 appraiser in that subsequent assignment will lessen the time required to perform an appraisal. The  
 184 prospective client may ask:

185 “We want you to check your data resources to see if there are sales within the past six months that  
 186 are within one mile of [address]. If you find some, we may order an appraisal from you.”

187 One possible response would be:

188 “If what you want is only the sales of properties shown in the databases available to me with the  
 189 criteria you specified, I can do that research and send you the result. Then you can decide what  
 190 you think your client’s property is worth. If I do only that, it is just research and is not an  
 191 appraisal.

192 However, you need to recognize that there are risks if you decide to have the research done that  
 193 way. If you decide to limit my work to just gathering the sales data using the research criteria you  
 194 set, you are taking the risk that those criteria are both adequate and appropriate to find all of the  
 195 market data relevant to your client’s property. You also take the risk that any appraiser’s analysis  
 196 of that data would result in a value conclusion within the price range suggested by the sales data  
 197 assembled using your criteria. There is no assurance that such would be the case.”

198 **Staff or Multi-Appraiser Firm Context**

199 The foregoing illustrations reflect communications between a client and an appraiser in the context of the  
 200 appraiser as an independent contractor (fee appraiser).

201 In a staff context, such as where the appraisal function is established as a business or agency unit, the part  
 202 of the entity that uses the appraiser’s opinions and conclusions represents the “client” (intended user) and  
 203 the part that completes the assignment represents the “appraiser.”

In that context, the “assignment” originates from the “intended user” part of the entity. The appraisal unit’s response to an “intended user” in situations like those in the foregoing illustrations reasonably could be similar because imposing assignment conditions that compromise an appraiser’s impartiality and objectivity is unacceptable, whatever the setting. 204  
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However, the example responses in the illustrations do not apply to the customary interaction and dialogue that occurs between appraisers within organizations or peers in multi-appraiser firms. Such interaction and dialogue within the unit or group that develops the opinions and conclusions in an assignment is not the same as communicating opinions and conclusions to an intended user. 208  
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*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.* 212  
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Approved September 15, 1999 215

1 **ADVISORY OPINION 20 (AO-20)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: An Appraisal Review Assignment That Includes the Reviewer’s Own Opinion of Value**

6 **APPLICATION: Real Property, Personal Property, Intangible Property**

7 **THE ISSUE:**

8 A client may want an appraiser, functioning as a reviewer, to develop and report his or her own opinion of  
 9 value (i.e., an appraisal) within an appraisal review assignment. This leads to two questions:

10 How does the reviewer’s scope of work change when the purpose of an appraisal review  
 11 assignment requires the reviewer to develop and report his or her own opinion of value?

12 What language in appraisal review reports indicates when the reviewer did or did not develop his  
 13 or her own opinion of value?

14 **BACKGROUND:**

15 Appraisal review is a specialized area of appraisal practice. Appraisal reviews are used in a variety of  
 16 business, governmental, and legal situations and also have an important role in the enforcement of  
 17 professional standards.

18 STANDARD 3 allows the reviewer to address all or part of the work under review (also referred to in this  
 19 Advisory Opinion as the “original work”). In every appraisal review assignment, the reviewer is required to  
 20 “... *develop and communicate an opinion or conclusion about the quality of another appraiser’s work.*”  
 21 The reviewer’s opinion about the quality of the work under review includes addressing its completeness,  
 22 relevance, appropriateness, and reasonableness, all in the context of the requirements applicable to that  
 23 work.

24 However, a client may also want the reviewer to develop and report his or her own opinion of value (an  
 25 appraisal) within an appraisal review assignment. In this instance, the appraisal review assignment is  
 26 actually a two-stage assignment an appraisal review *plus* a value opinion by the reviewer.

27 The purpose and intended use, together, of an appraisal review assignment, affect the scope of work in an  
 28 assignment. Therefore, it is essential that reviewers clearly identify the purpose and intended use of the  
 29 appraisal review and establish a well-defined scope of work with their client to ensure a clear  
 30 understanding of what steps are and are not necessary in an assignment.

31 This Advisory Opinion provides guidance to help appraisers, clients, and other users or readers of an  
 32 appraisal review report:

- 33 A. recognize how terminology and nomenclature used in STANDARD 3 and in this Advisory Opinion  
 34 prevents confusion as to the function the reviewer is fulfilling in an appraisal review assignment;  
 35 B. understand how the purpose of the appraisal review and the intended use of the appraisal review  
 36 results affect the scope of work in an appraisal review assignment;  
 37 C. recognize how the scope of work changes when an appraisal review assignment includes a  
 38 requirement for the reviewer to develop and report his or her own opinion of value concerning the  
 39 subject property of the work under review; and

D. understand how the language in an appraisal review report can be used to indicate whether a value opinion was or was not developed by the reviewer. 40  
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**ADVICE FROM THE ASB ON THE ISSUE:** 42

**Relevant USPAP & Advisory References** 43

- DEFINITIONS section, specifically the definition of “Appraisal,” “Appraisal Review,” and “Assignment” 44  
45
- Standards Rule 3-1, particularly SR 3-1(a) and SR 3-1(c), including the Comment in both Rules 46  
47
- Standards Rule 3-2, particularly SR 3-2(a) and SR 3-2(d), including the Comment in the latter 48

Portions of the referenced material are cited in this Advisory Opinion. An appraiser performing an appraisal review assignment should carefully study the complete text to ensure a proper understanding of the requirements and the text in STANDARDS 1, 4, 6, 7, or 9, as applicable. 49  
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**A. TERMINOLOGY AND NOMENCLATURE** 52

When reading the references cited above, appraisers performing appraisal review assignments (referred to as “reviewers” in USPAP) should note that the terminology and nomenclature used in STANDARD 3 have very specific meanings. 53  
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The term “Appraisal Review” is used in USPAP to identify the activity of a reviewer in an appraisal review assignment. Appraisers sometimes use such terms as “Desk Review,” “Field Review,” “Complete Review,” “Limited Review,” “Technical Review,” and “Administrative Review.” However, without appropriate explanation, these terms and phrases can result in misunderstanding about the function being performed by a reviewer. While such terms may be convenient labels for use in a business setting, they do not necessarily impart the same meaning in every situation. 56  
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Rather than simply using labels, reviewers should also accurately define the scope of work — in fact, the Comment to Standards Rule 3-1(c) requires the reviewer to “... *identify the precise extent of the review process to be completed in an assignment...*” and Standards Rule 3-2(c) requires the reviewer to “*state the nature, extent, and detail of the review process undertaken...*” These requirements are designed to ensure that an intended user of appraisal review results is not misled as to the reviewer’s scope of work and the basis for his or her opinions and conclusions. 62  
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The terms “Review Appraisal” and “Review Appraiser” are also sometimes used in practice, primarily to refer to the marketing of services or to an appraiser’s functional status in employment. These phrases are not used in STANDARD 3, in part to avoid giving confusing implications, such as, for example, the impression that an appraisal is always part of a review. 68  
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**B. HOW PURPOSE AND INTENDED USE AFFECT SCOPE OF WORK** 72

A reviewer’s scope of work in an appraisal review assignment is determined by the purpose(s) of the assignment and the client’s intended use of the assignment results. Standards Rule 3-1(a) requires, in part, that the reviewer “*identify ... the intended use of the reviewer’s opinions and conclusions and the purpose of the assignment.*” 73  
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Examples of intended use include (without limitation) quality control, audit, qualification, or confirmation. Each type of intended use affects the scope of work that may be appropriate for a particular appraisal review assignment. 77  
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80 As examples, a client may want the reviewer to develop and report an opinion as to the quality of another  
81 appraiser's work, *and*:

- 82 1. only state the corrective action to be taken by the appraiser with regard to curing any deficiency,  
83 leaving the client to decide whether to interact with the appraiser to accomplish the correction; or
- 84 2. act on behalf of the client to interact with the appraiser that prepared the original work to ensure  
85 any deficiency is appropriately corrected by that appraiser; or
- 86 3. make corrections to cure an error, such as a mathematical miscalculation, by showing what the  
87 calculation would have been if correct but without expressing the result as the reviewer's own  
88 opinion of value; or
- 89 4. make corrections to cure a deficiency, expressing the result as the reviewer's own opinion of  
90 value, which is to be developed within the same scope of work as was applicable in the  
91 assignment that generated the original work; or
- 92 5. make corrections to cure a deficiency, expressing the result as the reviewer's own opinion of  
93 value, which is to be developed using a different scope of work than was applicable in the  
94 assignment that generated the original work; or
- 95 6. regardless of the appraisal review result, develop his or her own opinion of value using the same  
96 scope of work as was applicable in the assignment that generated the original work; or
- 97 7. regardless of the appraisal review result, develop his or her own opinion of value using a different  
98 scope of work than was applicable in the assignment that generated the original work.

99 In Examples 1, 2, and 3 the reviewer has not taken any steps to offer his or her own opinion of value and  
100 therefore, has not bridged over into the appraisal stage.

101 In Examples 4, 5, 6, and 7, the appraisal review assignment is actually a two-stage assignment—an  
102 appraisal review *plus* a value opinion by the reviewer. It is also important to note that this second stage  
103 occurs even if the reviewer concurs with the value opinion in the original work. This is because a  
104 reviewer's concurrence in a value opinion developed by another appraiser converts it to the reviewer's *own*  
105 opinion of value—in effect, the reviewer is taking ownership of that value by concurring with it. As such, it  
106 constitutes a value opinion (i.e., appraisal) by the reviewer.

107 In Examples 6 and 7, the client might, alternatively, engage the reviewer (as an appraiser) in a separate  
108 assignment to perform an appraisal outside the context of the appraisal review assignment.

109 In any case, the reviewer must carefully develop the scope of work as required by SR 3-1(c) and clearly  
110 describe the precise nature and extent of that scope in the report as required by SR 3-2(c). The concluding  
111 language used (see illustrations to follow) should also be consistent with the scope of work decision.

## 112 **C. SCOPE OF WORK AND THE REVIEWER'S OPINION OF VALUE**

113 An appraisal review assignment that has, as a second purpose, a requirement for the reviewer to develop his  
114 or her own opinion of value imposes on the reviewer an expanded scope of work. This additional scope of  
115 work requirement is set forth in the Comment to SR 3-1(c), which states, in part:

116 *When the scope of work of the assignment includes a requirement for the reviewer to develop his or*  
117 *her own opinion of value, the following apply:*

- 118 • *The reviewer's scope of work in developing his or her own opinion of value may be different*  
119 *from that of the work under review.*



- *The effective date of the reviewer’s opinion of value may be the same or different from the date of the work under review.* 120  
121
- *The reviewer is not required to replicate the steps completed by the original appraiser. Those items in the work under review that the reviewer concludes are credible and in compliance with the applicable development standard (STANDARD 1, 4, 6, 7, or 9) can be extended to the reviewer’s value opinion development process on the basis of an extraordinary assumption by the reviewer. Those items not deemed to be credible or in compliance must be replaced with information or analysis by the reviewer, developed in conformance with STANDARD 1, 4, 6, 7, or 9, as applicable, to produce a credible value opinion.* 122  
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- *The reviewer may use additional information available to him or her that was not available to the original appraiser in the development of his or her value opinion, however, the reviewer must not use such information as the basis to discredit the original appraiser’s opinion of value.* 129  
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**Compliance with STANDARD 1, 4, 6, 7, or 9 through the Use of Extraordinary Assumption(s)**— The development of the reviewer’s opinion of value requires compliance with STANDARD 1, 4, 6, 7, or 9 as applicable. The reviewer’s use of those items from the work under review that the reviewer concludes are credible and in compliance with the applicable development standard is based on an extraordinary assumption. This is because, unless the reviewer actually replicates the steps necessary to develop those items, the reviewer is assuming the integrity of that work without personal verification. If those assumptions were found to be false, the reviewer’s appraisal-related opinions and conclusions would be affected. As such, this situation constitutes an extraordinary assumption (refer to requirements for proper application in SR 1-2(g), 4-2(g), 6-2(d), 7-2(g), or 9-2(f) as applicable). Those items not deemed to be credible or in compliance must be replaced with information or analysis by the reviewer, developed in conformance with STANDARD 1, 4, 6, 7, or 9, as applicable, to produce a credible value opinion. 133  
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**Altering the Scope of Work in Developing the Reviewer’s Opinion of Value**—In some appraisal review assignments, the client needs a reviewer’s opinion of value to be developed under a different scope of work than in the original appraisal. 144  
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If the reviewer’s assignment has a different scope of work than does the original work, or if the reviewer relies on different information not available to, or not used by, the original appraiser, then it is possible that the two appraisal results could also differ. This does not mean that either set of results is “wrong” per se; in any event, the reviewer should not use this as the basis to discredit the original appraiser’s opinion of value. 147  
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If there is a difference between the appraiser’s opinion of value and the reviewer’s opinion of value, the reviewer should use care to ensure correct identification of the cause of that difference in the appraisal review process. The reviewer should also use care to not mislead an intended user when providing support for the reviewer’s conclusions in the appraisal review report. This is critical from an enforcement perspective as well as in a business setting. Incorrectly characterizing the cause of a deficiency can erode the credibility of appraisal review conclusions and of the reviewer’s value opinion. 151  
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**D. APPRAISAL REVIEW REPORT CONTENT** 157

The reviewer’s opinions and conclusions stated in compliance with SR 3-2(d) can vary significantly, depending on the purpose and intended use of the appraisal review. A reviewer should carefully compose the particular language stating his or her opinions and conclusions to avoid misleading the user of the appraisal review report as to the scope of work completed in the assignment and the meaning of the reviewer’s stated opinions and conclusions. Note that any additional information relied upon and the reasoning and basis for the reviewer’s opinion of value must be summarized, in contrast to the other requirements in this section that must only be stated. Additionally, changes to the report content by the reviewer to support a 158  
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165 different value conclusion must match, at a minimum, the reporting requirements for a Summary Appraisal  
166 Report.

167 **An Appraisal Review Assignment WITHOUT an Opinion of Value**—When the purpose of the appraisal  
168 review is only to develop an opinion as to the quality of another appraiser’s work, the appraisal review  
169 report content must include:

- 170 1. the information set forth in Standards Rules 3-2(a)–(f); and
- 171 2. the reviewer’s certification shown in Standards Rule 3-3.

172 When the appraisal review is only for the purpose of ascertaining quality, the reviewer should use extreme  
173 care to ensure the appraisal review report does not include language that implies the reviewer developed an  
174 opinion of value concerning the subject property of the original work. When the reviewer uses language to  
175 signify concurrence with the value or a different value opinion, the reviewer has additional appraisal  
176 development and reporting obligations.

### 177 **Illustrations of the Language in an Appraisal Review Report WITHOUT an Opinion of Value**

178 The following are examples of language that might be used in an appraisal review report that does not  
179 express an opinion of value and thus does not constitute evidence of an appraisal by the reviewer:

- 180 ▪ “the value opinion stated in the appraisal report is (or is not) adequately supported”
- 181 “the value conclusion is (or is not) appropriate and reasonable given the data and analyses  
182 presented”
- 183 ▪ “the value opinion stated in the report under review was (or was not) developed in  
184 compliance with applicable standards and requirements”
- 185 ▪ “the content, analyses, and conclusions stated in the report under review are (or are not) in  
186 compliance with applicable standards and requirements”
- 187 ▪ “I reject the value conclusion as being unreliable due to the errors and/or inconsistencies  
188 found”
- 189 ▪ “the value conclusion is not appropriate due to (for example) a significant math error in the  
190 Sales Comparison Approach—if calculated properly, the value conclusion would change to  
191 \$XXX; however, the reader is cautioned that this solely represents a recalculation and not a  
192 different opinion of value by the reviewer”
- 193 ▪ “I accept (or approve) the appraisal report for use by XYZ bank (or agency).”

194 Such language, or language that conveys similar meanings to the intended users of the appraisal review  
195 report, relates to the quality of the work under review, including the opinion of value stated in that work,  
196 but does not suggest either concurrence or a different opinion of value by the reviewer. It is also important  
197 that this language be consistent with the scope of work described in the appraisal review report.

198 **An Appraisal Review Assignment WITH an Opinion of Value** - When the purpose of the appraisal  
199 review is to develop an opinion as to the quality of another appraiser’s work PLUS develop his or her own  
200 opinion of value, the appraisal review report content must include:

- 201 1. the information set forth in Standards Rules 3-2(a)–(f); and
- 202 2. the reviewer’s certification shown in Standards Rule 3-3.

203 The appraisal-related content of the appraisal review report, in combination with the content of the original  
204 work under review that the reviewer concludes is in compliance with the Standards applicable to that work,  
205 must at least match the report content required for a Summary Appraisal Report.

The reviewer is not required to replicate or duplicate in the appraisal review report the material in the work under review that the reviewer concludes is in compliance with the Standards applicable to that work. The reviewer can incorporate by reference those portions of the work under review that he or she concludes are in compliance with the applicable Standards by use of an extraordinary assumption.

**Illustrations of the Language in an Appraisal Review Report WITH an Opinion of Value**

The following are examples of language that signify a value opinion (i.e., either by concurrence or by indication of a numeric point, a range, or a relationship to a numeric benchmark). These examples DO constitute evidence of a value opinion (i.e., appraisal) by the reviewer, thereby making the appraisal review one that includes an appraisal.

- “I concur (or do not concur) with the value”
- “I agree (or disagree) with the value”
- “in my opinion, the value is (the same)”
- “in my opinion, the value is incorrect and should be \$XXX”
- “in my opinion, the value is too high (or too low)”

Such language, or language that conveys similar meanings to the intended users of the report, represents that the reviewer has completed the steps required to develop his or her own value opinion. Such language indicates the reviewer has either concurred with the appraiser’s value opinion in the underlying work, and thus has adopted that value opinion as his or her own, or has developed a different opinion of value—hence, this (or similar) language constitutes an opinion of value (i.e., appraisal) by the reviewer. It is also important that this language be consistent with the scope of work described in the appraisal review report.

Note that if a reviewer rejects the value, he or she should use care in how that result is stated. If the language of such rejection is based on errors or inconsistencies in the original work and does not include any qualifiers that would relate to a direction in value, it does not imply an appraisal by the reviewer.

However, if such rejection is stated in relation to a value or value range, such as indicating a direction in value (i.e., more than, less than) or to an established benchmark, that language indicates the appraisal review has taken on the “opinion of value” characteristic of an appraisal. This is an important distinction that must be kept in mind by the reviewer when composing any language regarding the original appraiser’s opinions or conclusions. In addition, whichever category such language may fall under, it must also be consistent with the purpose, scope, and intended use of the appraisal review assignment results.

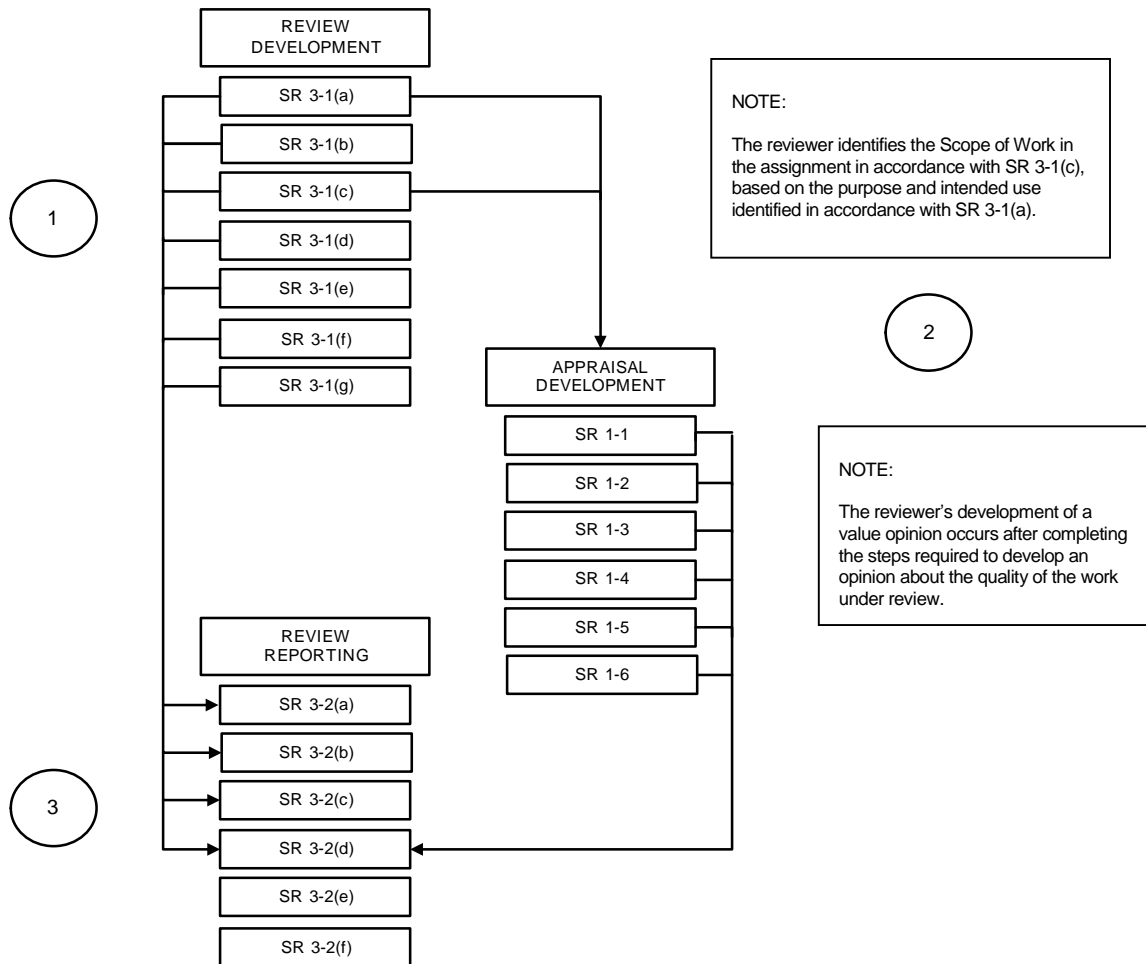
The following list summarizes the requirements in a real property appraisal review assignment with the reviewer’s opinion of value. The sequence of steps completed in this type of assignment is presented in order.

1. The reviewer develops **opinions and conclusions about the quality** of the work under review.
2. The reviewer develops **an opinion of value for the subject property** of the work under review.
3. The reviewer then **communicates the opinions and conclusions** developed in the first two steps in the report.

242 The sequence of steps is illustrated in the following table.

**APPRAISAL REVIEW THAT INCLUDES THE REVIEWER'S OPINION OF VALUE**

Using STANDARDS 1 and 2 as examples, the process flows as follows:



243 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
 244 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
 245 *the problems discussed or that it applies equally to seemingly similar situations.*

246 Approved July 10, 2000  
 247 Revised June 11, 2002

**ADVISORY OPINION 21 (AO-21)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: USPAP Compliance**

**APPLICATION: Real Property, Personal Property, Intangible Property**

**THE ISSUE:**

Individuals perform numerous roles within the broad realm of valuation services. Examples include appraisal, brokerage, auctioning, property management, advocate consulting, appraisal consulting and collecting market data. Some valuation services are part of appraisal practice and require compliance with USPAP. What are the USPAP compliance requirements for these various services? More specifically:

1. When should an individual comply with USPAP?
2. What is the relationship between Valuation Services and Appraisal Practice?
3. What does acting “as an appraiser” or performing a service “as an appraiser” mean?
4. Why does an expectation for an individual to act as an appraiser indicate an obligation to comply with USPAP?
5. What are the responsibilities of an appraiser regarding intended user expectations?
6. What are the USPAP obligations for appraisal practice outside of appraisal, appraisal review, and appraisal consulting?
7. What are the USPAP obligations for valuation services outside of appraisal practice?

**ADVICE FROM THE ASB ON THE ISSUE:**

**1. When should an individual comply with USPAP?**

The PREAMBLE states that *compliance with USPAP is required when either the service or the appraiser is obligated to comply by law or regulation, or by agreement with the client or intended users.* An obligation to comply with USPAP is created by law, regulation, or agreement with intended users.<sup>69</sup> In such cases an appraiser must follow USPAP. The PREAMBLE also states that *when not obligated, individuals may still choose to comply with USPAP.* The ETHICS RULE states that *an individual should comply any time that individual represents that he or she is performing the service as an appraiser.*<sup>70</sup> An ethical obligation to comply with USPAP is created by choice, that is, by choosing to represent one’s self as an appraiser.

Therefore;

- When required by law, regulation, or agreement, an individual must comply with USPAP.
- When choosing to represent one’s self as an appraiser, an individual should comply with USPAP.

**2. What is the relationship between Valuation Services and Appraisal Practice?**

A key to distinguishing an appraiser’s obligations is understanding the relationship between “valuation services” and “appraisal practice” in USPAP. Appraisal practice is a subset of valuation services.

<sup>69</sup> USPAP gains legal authority through adoption by the various state and federal jurisdictions. Consequently, the legal requirement to follow USPAP is rooted in federal and state laws or regulations.

<sup>70</sup> The PREAMBLE states that *the appraiser’s responsibility is to protect the overall public trust and it is the importance of the role of the appraiser that places ethical obligations on those who serve in this capacity.* However, the PREAMBLE also states that *USPAP does not establish who or which assignments must comply. Neither The Appraisal Foundation nor its Appraisal Standards Board is a government entity with the power to make, judge, or enforce law.*

36 “Valuation services” are *services pertaining to aspects of property value*. Appraisers and others for whom  
 37 value is an issue provide valuation services. Examples include appraisal, brokerage, auctioning, property  
 38 management, advocate consulting, appraisal consulting and collecting market data.

39 “Appraisal practice” is defined as *valuation services performed by an individual acting as an appraiser*.  
 40 Only appraisers may offer services that are considered appraisal practice. Examples include appraisal,  
 41 appraisal consulting, and collecting market data (acting as an appraiser).

42 Since USPAP obligations apply to those who are acting as appraisers, USPAP applies to appraisal practice.

### 43 **3. What does acting “as an appraiser” or performing a service “as an appraiser” mean?**

44 An “appraiser” is defined as *one who is expected to perform valuation services **competently** and in a*  
 45 *manner that is **independent, impartial, and objective** (bold added for emphasis)*. Therefore, an individual  
 46 “acting as an appraiser” is expected, in part, to be competent in the service being provided. Also, an  
 47 individual “acting as an appraiser” is expected to provide the service in a manner that is independent,  
 48 impartial, and objective. Performing a service in a manner that is independent, impartial, and objective is an  
 49 ethical requirement within USPAP.

50 “Acting as an appraiser” means representing oneself as an appraiser. Many individuals have other  
 51 professional roles in addition their appraiser role. For example, some appraisers are also brokers,  
 52 consultants, or leasing agents. Individuals who have appraiser roles as well as other professional roles must  
 53 be careful to explain their role in performing a given valuation service (see question #7 below).

54 Law, regulation, agreement, or representation (choice) each prescribes when a valuation service is to be  
 55 provided by an appraiser as part of appraisal practice. Emphasizing another portion of the definition of an  
 56 “appraiser” is *one who is **expected** to perform valuation services competently and in a manner that is*  
 57 *independent, impartial, and objective (bold added for emphasis)*. The **Comment** to the definition goes on to  
 58 state that the *expectation* [for ethical and competent performance] *occurs when individuals, either by choice*  
 59 *or by requirement... represent that they comply*. Expectation is the crucial element in determining when one  
 60 is acting as an appraiser.

### 61 **4. Why does an expectation for an individual to act as an appraiser indicate an obligation to comply** 62 **with USPAP?**

63 Public trust requires that when an individual is expected to perform with the ethics and competency of an  
 64 appraiser, he or she will do so. An individual who agrees to perform a valuation service as an appraiser has  
 65 a duty to comply with the ethics and competency that the public expects from an appraiser. This obligates  
 66 the individual to comply with USPAP in performing the service.

67 The definition of an appraiser in conjunction with the need for public trust establishes the “expectation” as  
 68 the basis for the obligation to comply with USPAP.

69 Intended user expectations for valuation services performed in compliance with USPAP are created when  
 70 an individual represents that he or she is acting as an appraiser in a service. For example, these expectations  
 71 can arise when an individual advertises or solicits as an appraiser (such as telephone listings, professional  
 72 directories, business cards, stationery, or office signage), holds appraiser accreditation from a licensing  
 73 agency, or maintains membership in a professional appraiser organization. An individual’s identification as  
 74 an appraiser in a given valuation service establishes a justifiable expectation that the valuation service will  
 75 be performed in compliance with USPAP.

76 In summary, expectation is the basis for determining when an individual providing a valuation service is  
 77 acting as an appraiser. Because of the need to preserve public trust and confidence in appraisal practice, the  
 78 expectations of the client and other intended users for ethical and competent performance create an  
 79 obligation to comply with USPAP.

**5. What are the responsibilities of an appraiser regarding intended user expectations?** 80

The appraiser has a professional responsibility to recognize the capacity in which he or she is performing. 81  
The responsibility includes inquiry about, and recognition of, the intended users' expectations. When an 82  
individual's appraisal expertise and reputation for providing services without bias induce the client or other 83  
intended users to select the individual to provide a valuation service, there is a justifiable expectation that 84  
the valuation service will be performed in compliance with USPAP. 85

When an individual who acts as an appraiser in some circumstances chooses to provide a valuation service 86  
in some other capacity (i.e., not as an appraiser and outside of appraisal practice), he or she must not 87  
represent himself or herself to be acting in the capacity of an appraiser. Since choice is an instrument to 88  
create USPAP obligations, it follows that when an individual has an opportunity to choose the capacity in 89  
which he or she will provide a valuation service, he or she is free to provide the valuation service as an 90  
appraiser or in some other capacity. However, an individual who is recognized as an appraiser must use 91  
great care not to violate the public trust. 92

**6. What are the USPAP compliance obligations for appraisal practice outside of appraisal, appraisal review, and appraisal consulting?** 93  
94

Within appraisal practice, there are some assignments that are addressed by Standards (i.e. STANDARDS 1 95  
through 10). The Standards describe the requirements for appraisal, appraisal review, or appraisal 96  
consulting assignments. 97

However, STANDARDS 1 through 10 do not apply in the performance of all appraisal practice services. 98  
Examples include assignments (performed as an appraiser) to teach appraisal courses, provide sales data, 99  
collect market data, analyze specific elements of value (e.g., reproduction cost or functional utility), and 100  
develop educational texts. (As defined in USPAP, assignments are performed by an individual acting as an 101  
appraiser. Therefore, all assignments fall within appraisal practice.) 102

Assignments to which STANDARDS 1 through 10 do not apply must still comply with the portions of 103  
USPAP that apply generally to appraisal practice. These include the DEFINITIONS, PREAMBLE, the 104  
Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, the 105  
JURISDICTIONAL EXCEPTION RULE and the SUPPLEMENTAL STANDARDS RULE. As a result, 106  
such assignments must be provided without bias or accommodation of personal interest by competent 107  
appraisers who recognize the jurisdictional requirements for their work as well as any applicable 108  
supplemental standards. 109

The Record Keeping section of the ETHICS RULE applies to appraisal, appraisal review, or appraisal 110  
consulting assignments (i.e. STANDARDS 1 through 10). For other assignments, there are no workfile or 111  
record keeping requirements in USPAP. 112

**7. What are the USPAP obligations for valuation services outside of appraisal practice?** 113

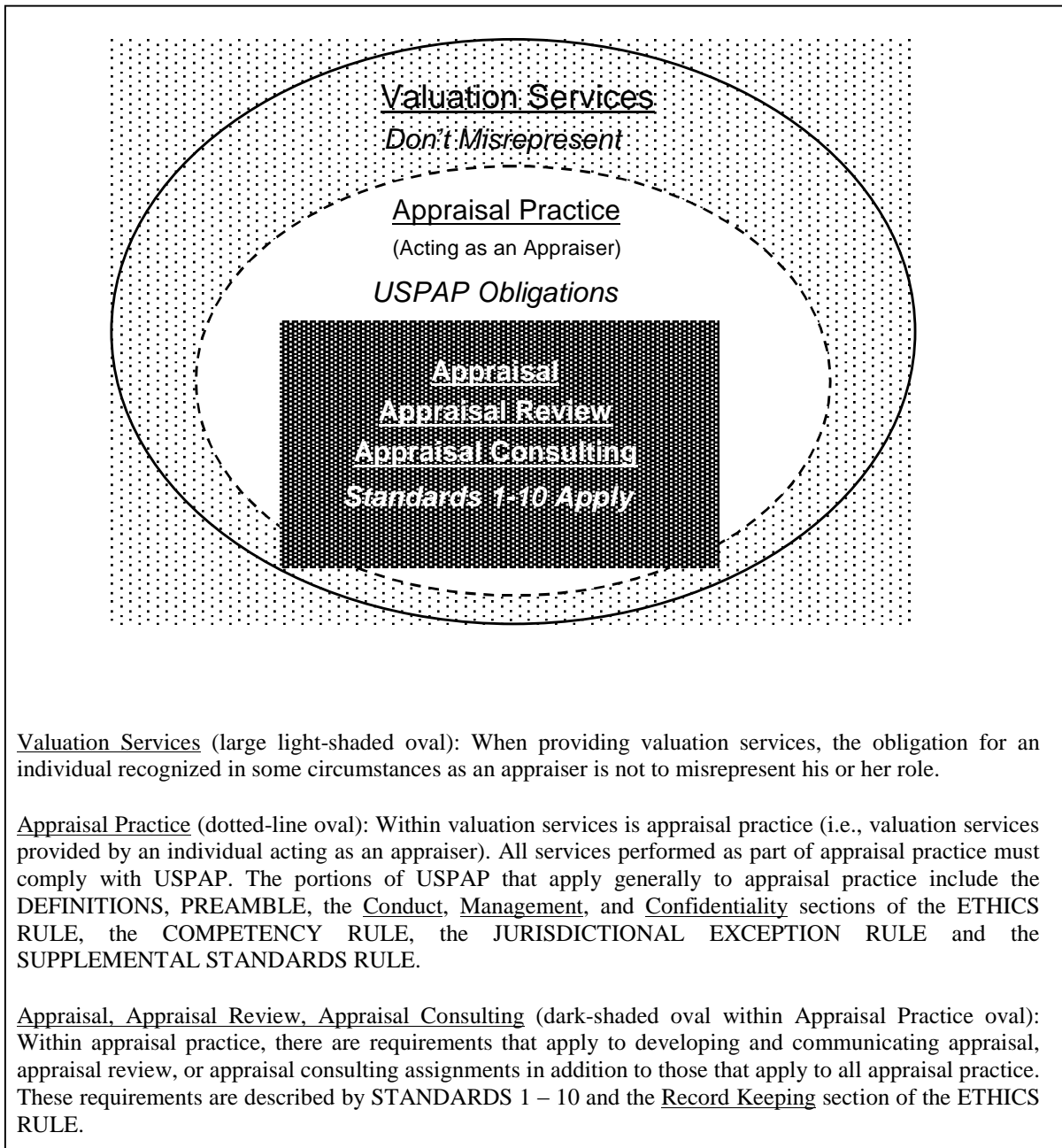
As previously stated, many individuals have other professional roles in addition to their appraiser role. For 114  
example, some appraisers are also attorneys, accountants, brokers, or consultants. USPAP also places an 115  
obligation on an individual who sometimes acts as an appraiser even when he or she provides a valuation 116  
service in some other capacity – that obligation being not to mislead the users of the valuation service about 117  
the capacity in which he or she is acting. The ETHICS RULE states that *an appraiser must not 118  
misrepresent his or her role when providing valuation services that are outside of appraisal practice.* 119

If a valuation service is premised on advocacy or compensation arrangements that are contrary to the 120  
ETHICS RULE, the valuation service is not consistent with the objectives of USPAP and cannot be 121  
performed by the individual acting as an appraiser. 122

123 An individual who sometimes provides services as an appraiser, but who is currently acting in another role,  
 124 must ensure that intended users are not misled as to the individual's role in providing that valuation service.  
 125 This can be accomplished through such means as disclosure, notification, or careful distinction when  
 126 providing the valuation service as to the individual's role. Additionally, clear representation of the valuation  
 127 services to be rendered in the engagement communication, scope of work description, or contract, as well as  
 128 in written and oral correspondence with the client should assist in ensuring intended users are not misled.

129 **Relationships and Application**

130 The relationship between valuation services and appraisal practice can be illustrated as follows:



131 Valuation Services (large light-shaded oval): When providing valuation services, the obligation for an  
 132 individual recognized in some circumstances as an appraiser is not to misrepresent his or her role.

133 Appraisal Practice (dotted-line oval): Within valuation services is appraisal practice (i.e., valuation services  
 134 provided by an individual acting as an appraiser). All services performed as part of appraisal practice must  
 135 comply with USPAP. The portions of USPAP that apply generally to appraisal practice include the  
 136 DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS  
 137 RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE and the  
 138 SUPPLEMENTAL STANDARDS RULE.

139 Appraisal, Appraisal Review, Appraisal Consulting (dark-shaded oval within Appraisal Practice oval):  
 140 Within appraisal practice, there are requirements that apply to developing and communicating appraisal,  
 141 appraisal review, or appraisal consulting assignments in addition to those that apply to all appraisal practice.  
 142 These requirements are described by STANDARDS 1 – 10 and the Record Keeping section of the ETHICS  
 143 RULE.



<b>VALUATION SERVICES</b>			
	<b>Other Roles</b> (e.g. brokerage, property management)	<b>Appraisal Practice</b>	
		Other Services	Appraisal, Appraisal Review & Appraisal Consulting
Pertains to aspects of value	√	√	√
Performed by individual acting as an appraiser		√	√
Obligation to comply with USPAP		√	√
Performance and reporting requirements (STANDARDS 1-10)			√
Record keeping and workfile requirements			√

### Summary

- An individual must comply with USPAP when required by law, regulation, or agreement. 144
- An individual should comply with USPAP when choosing to represent one’s self as an appraiser. 146
- Appraisal practice is a subset of valuation services. Since USPAP obligations apply to those who act as appraisers, USPAP applies to appraisal practice. 147  
148
- The definition of appraiser and need for public trust establish the factor of “expectation” as the basis for the obligation to comply with USPAP. 149  
150
- An individual’s public identification as an appraiser establishes a justifiable expectation that valuation services will be performed in compliance with USPAP. Because of the need to preserve public trust and confidence in appraisal practice, the expectations of the client and other intended users for ethical and competent performance create an obligation to comply with USPAP. 151  
152  
153  
154
- The appraiser has a professional responsibility to recognize the capacity in which he or she is performing. The responsibility includes inquiry about, and recognition of, the client’s expectations. 155  
156
- When an individual has an opportunity to choose the capacity in which he or she will provide a valuation service, he or she is free to provide the valuation service as an appraiser or in some other capacity. 157  
158  
159
- An individual who is recognized as an appraiser must use great care not to violate the public trust. An appraiser acting in another role must ensure that intended users are not misled as to the individual’s role in providing that valuation service. 160  
161  
162
- USPAP also places an obligation on an appraiser even when he or she provides a valuation service in some other capacity – that obligation being to not mislead the intended users of the valuation service about the capacity in which he or she is acting. 163  
164  
165
- If a valuation service is premised on advocacy, or compensation arrangements that are contrary to the ETHICS RULE, an individual acting as an appraiser cannot perform the valuation service. 166  
167
- Within appraisal practice, there are Standards that describe the requirements for developing and communicating appraisal, appraisal review, or appraisal consulting assignments. Appraisers who 168  
169

170 provide valuation services for which there are no Standards need to comply with the portions of  
171 USPAP that apply generally to appraisal practice.

- 172 • The Record Keeping section of the ETHICS RULE applies to appraisal, appraisal review, or appraisal  
173 consulting assignments. For other assignments, there are no USPAP record keeping or workfile  
174 requirements.

## 175 Illustrations

### 176 *Brokerage and Appraisal*

- 177 1. Liz Ross is an individual who provides both appraisal and brokerage services. When seeking a new  
178 brokerage client, Liz often prepares a market analysis to help establish an asking price for the client's  
179 property. What are Liz's obligations under USPAP?

180 Answer: Many states' brokerage and appraiser licensing laws have specific provisions for  
181 appraisers who are also brokers. In the absence of such laws, USPAP provides flexibility for  
182 brokers/appraisers and others who have multiple professional roles.

183 The critical element in determining whether Liz should comply with USPAP is the expectation of  
184 her brokerage client. If Liz includes her appraiser status in her brokerage marketing materials, such  
185 as advertisements, business cards, or letterhead, it is likely that her client expects her to bring to  
186 her brokerage practice the ethics and competence associated with an individual acting as an  
187 appraiser. By allowing her client to believe that her appraisal expertise adds credibility to her price  
188 estimate, Liz has created an obligation to comply with USPAP in the preparation of a price  
189 estimate for the client.

190 The extent of Liz's USPAP obligation depends on the intended use of the price estimate. The  
191 distinction between "price" and "value" is crucial here: within USPAP, "price" is a fact<sup>71</sup> while  
192 "value" is an opinion<sup>72</sup>. If Liz recommends an asking price for a specific property owner, under  
193 specific circumstances, she is analyzing *price* as defined by USPAP. STANDARDS 1, 7 and 9  
194 apply to the development of an appraisal, which is defined as an opinion of *value*. Therefore, the  
195 obligations of STANDARDS 1, 7 and 9 do not apply to estimates of *price*. However, as an  
196 individual acting as an appraiser, Liz is obligated to comply with the remainder of USPAP (i.e.,  
197 DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the  
198 ETHICS RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE and  
199 the SUPPLEMENTAL STANDARDS RULE). For example, her estimate of *price* must be  
200 ethically and competently prepared, as part of appraisal practice.

201 If Liz's recommendation represents the relationship between typical buyers and sellers, she is  
202 analyzing *value*. Her recommendation is an opinion of value and is by definition an appraisal. It  
203 must be ethically and competently prepared in accordance with STANDARDS 1, 7 or 9 and  
204 reported in compliance with STANDARDS 2, 8, or 10.

205 Alternatively, if Liz has been careful to separate her roles as broker and appraiser, she would be  
206 able to prepare *price* estimates as a valuation service, outside of appraisal practice. Liz should have  
207 sound reasons to believe that her brokerage client does not expect her to act as an appraiser.

<sup>71</sup> Price is defined as *the amount asked, offered, or paid for a property*. The Comment goes on *once stated, price is a fact, whether it is publicly disclosed or retained in private. Because of the financial capabilities, motivations, or special interests of a given buyer or seller, the price paid for a property may or may not have any relation to the value that might be ascribed to that property by others.*

<sup>72</sup> Value is defined as *the monetary relationship between properties and those who buy, sell, or use those properties*. The Comment goes on *to state, value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified for example, market value, liquidation value, or investment value.*

Further, she should not characterize her conclusions in any manner as representing a “value” or, an “opinion of value” of any kind.	208 209
<i>Appraisal Review</i>	210
2. Dan Williams is an appraiser. He was asked by a client to perform an “administrative screening review” of an appraisal report to determine if a more thorough review is warranted. The client would like Dan to check the math calculations and determine whether the appraisal report complies with the client’s basic content specifications. What are Dan’s obligations under USPAP?	211 212 213 214
<u>Answer:</u> The client has engaged Dan because of his identification as an appraiser; this clearly creates an expectation by the client that the service will be provided in compliance with USPAP. Therefore, this service is part of appraisal practice; <i>at a minimum</i> Dan <u>must</u> comply with the portions of USPAP that apply generally to appraisal practice (i.e. DEFINITIONS, PREAMBLE, the <u>Conduct</u> , <u>Management</u> , and <u>Confidentiality</u> sections of the ETHICS RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE and the SUPPLEMENTAL STANDARDS RULE.)	215 216 217 218 219 220 221
Dan must next decide if compliance with STANDARD 3 is required. To do this, Dan must consider the intended use, intended user, and type and definition of value for the assignment. These factors are the basis of Dan’s scope of work decision. If the appropriate scope of work includes <i>developing or communicating an opinion about the quality of another appraiser’s work that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment</i> , then that assignment is by definition an appraisal review.	222 223 224 225 226 227
The label placed on the service cannot support acting outside of STANDARD 3. The client may call the assignment an “administrative screening review,” but it is the extent of the service that defines it. <sup>73</sup> Dan must decide, based on the problem to be solved and scope of work, if the assignment is an <i>appraisal review</i> as defined by USPAP. If the assignment is an <i>appraisal review</i> , then Dan must comply with the development and reporting requirements of STANDARD 3.	228 229 230 231 232
There may be circumstances when Dan is not acting as an appraiser. If Dan acts in other roles, say as a mortgage underwriter, then Dan may be in position to provide the valuation service outside of appraisal practice. If Dan acts outside of appraisal practice, he must ensure that he does not misrepresent his role and that the client and any other intended users do not expect him to act as an appraiser.	233 234 235 236 237
<i>Rent Survey</i>	238
3. A client has asked Mike Black to perform a rent survey. The client owns the Acme Office Building and wants to know if he is charging enough rent. The client asked Mike to perform this work because he knows Mike is an appraiser; therefore, this valuation service is included in appraisal practice and USPAP applies. How can Mike provide this service in compliance with USPAP?	239 240 241 242
<u>Answer:</u> Mike should fully investigate the client’s expectations before determining the scope of work for this assignment. Does the client want only to know what rental rates are being charged for other office buildings in the area? If so, this is likely a service for which USPAP has no Standards (i.e., STANDARDS 1 and 2 when providing real property appraisals). Mike would then be obligated to comply with the portions of USPAP that apply generally to appraisal practice (i.e., DEFINITIONS, PREAMBLE, the <u>Conduct</u> , <u>Management</u> , and <u>Confidentiality</u> sections of the ETHICS RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE and	243 244 245 246 247 248 249

<sup>73</sup> The Comment to the definition of appraisal practice states that *the use of other nomenclature for an appraisal, appraisal review, or appraisal consulting assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the Uniform Standards of Professional Appraisal Practice.*

250 the SUPPLEMENTAL STANDARDS RULE). The development and reporting of the assignment  
251 results would be entirely at his discretion, and a workfile would not be required.

252 However, if the client expects Mike to collect rental rate and lease term information and to analyze  
253 them to conclude the market rental terms for the Acme Building, this is an appraisal. This  
254 assignment is an appraisal because it includes a specific subject property (i.e., the right to use  
255 space in the building) and the problem to be solved in the assignment is a value opinion (i.e., the  
256 market rental terms for that space). The appraisal assignment should then be completed in  
257 compliance with STANDARDS 1 and 2.

#### 258 *Appraisal and Market Information*

259 4. Steven Andrews is a residential appraiser. One day, when attending a backyard barbecue, Steven is  
260 approached by a neighbor, who says, “Hey, Steven, I know you’re an appraiser. What do you think my  
261 house is worth?” What should Steven say?

262 Answer: Steven should recognize immediately that his neighbor expects him to respond as an  
263 appraiser; therefore, Steven’s answer should comply with USPAP. Steven can, of course, always  
264 decline to answer.

265 Alternatively, Steven could provide data, such as, “I’ve been keeping track of the house sales in  
266 our subdivision, and they have been from \$100,000 to \$150,000 over the past couple of years.”  
267 Giving such information is a part of appraisal practice for which there are no Standards (i.e.,  
268 STANDARDS 1 and 2 when providing real property appraisals). Steven should be certain that he  
269 is acting ethically and competently in giving this kind of information, but he doesn’t need to  
270 prepare a workfile for it.

271 Steven should be careful, though, about applying any judgment in answering his neighbor’s  
272 question. If Steven says, “House sales in our subdivision in the last year have been from \$100,000  
273 to \$150,000. I know that you’ve done lots of interior improvements to your house and, besides, it’s  
274 the more desirable two-story model, so its value should be near the high side of the range,” he has  
275 just performed an appraisal. In this case, he should comply with STANDARDS 1 and 2 and  
276 prepare a workfile. If Steven only provides data, he is acting within appraisal practice, but if he  
277 relates that data to a specific property, he has provided an appraisal.

#### 278 *Litigation Services*

279 5. Marie Vaughn has a diverse appraisal practice with a specialization in litigation services. She  
280 commonly aids attorneys in developing cross-examination strategies for expert witness testimony from  
281 appraisers. How does USPAP apply to Marie’s “litigation services?”

282 Answer: In order to determine Marie’s obligation, it is necessary to understand the nature of her  
283 role. If she is acting as an appraiser, her litigation services are part of appraisal practice and the  
284 ethics and competency requirements of USPAP apply. Marie must comply, at a minimum, with the  
285 portions of USPAP that apply generally to appraisal practice. These include the DEFINITIONS,  
286 PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the  
287 COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE and the SUPPLEMENTAL  
288 STANDARDS RULE. As an appraiser, Marie cannot act as an advocate for any party or issue.

289 If Marie’s services include providing an opinion of value, she must comply with the appropriate  
290 appraisal standards (STANDARDS 1 and 2, 7 and 8, or 9 and 10). If Marie’s services include  
291 providing an opinion about the quality of another appraiser’s work, the appraisal review  
292 requirements of STANDARD 3 apply. If the service includes providing analysis, recommendation,  
293 or an opinion to solve a real property problem where an opinion of value is a component of the

analysis leading to the assignment results, then Marie must adhere to the appraisal consulting requirements of STANDARDS 4 and 5.	294 295
On the other hand, if Marie provides litigation services as an advocate, then she is providing a valuation service outside of appraisal practice. When performing services outside of appraisal practice, Marie can act as an advocate and accept contingent compensation. The only USPAP obligation is that she not misrepresent her role. She must use care to distinguish her role from other roles that would carry an expectation of being impartial, objective, and independent, i.e., acting as an appraiser.	296 297 298 299 300 301
Marie may provide litigation services by either acting as an appraiser <b>or</b> acting as an advocate for the client's cause; however, she must not perform both roles in the same case.	302 303
<i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	304 305 306
Approved July 10, 2000	307
Revised June 15, 2004	308

1 **ADVISORY OPINION 22 (AO-22)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Scope of Work in Market Value Appraisal Assignments, Real Property**

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

8 How does “market value” affect the scope of work in a real property appraisal assignment?

9 **ADVICE FROM THE ASB ON THE ISSUE**

10 **Relevant USPAP & Advisory References**

- 11       ▪ COMPETENCY RULE
- 12       ▪ DEFINITIONS section: *Appraisal, Intended Use, Market Value, and Scope of Work*
- 13       ▪ STANDARD 1
- 14       ▪ Statements on Appraisal Standards No. 6 (SMT-6), No. 7 (SMT-7), and No. 9 (SMT9)

15 **Scope of Work in a Market Value Appraisal**

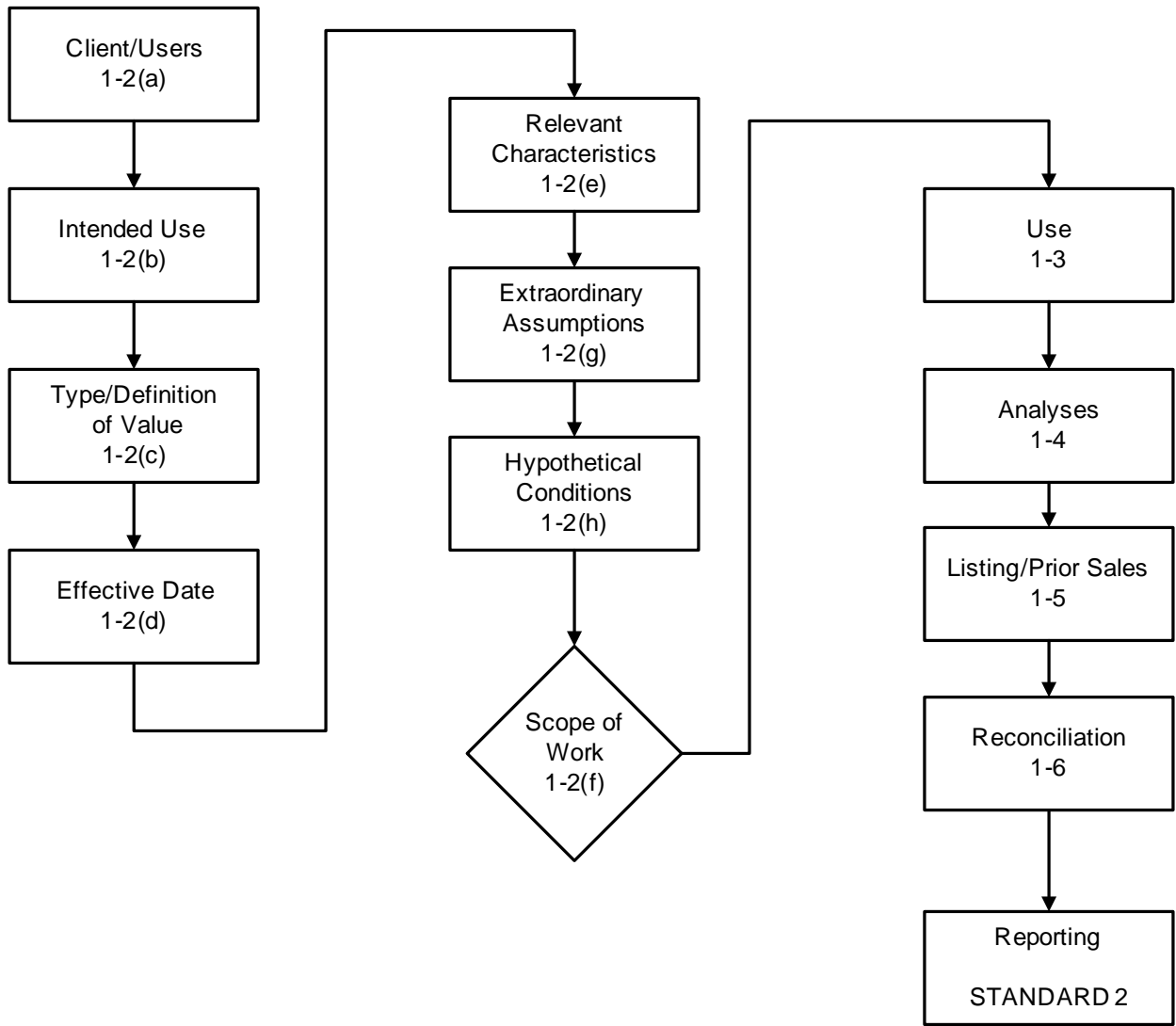
16 This Advisory Opinion provides guidance that appraisers, users of appraisals, and enforcement bodies can  
17 use when making decisions about the scope of work in market value appraisal assignments (called a  
18 “market value assignment” or a “market value appraisal” in this Advisory Opinion).

19 Competently identifying the scope of work is an essential step in all assignments performed under USPAP.  
20 In a real property appraisal assignment, Standards Rules 1-2(a)–(h) set forth identification actions or steps  
21 that an appraiser must understand and complete in performing any appraisal assignment. These eight  
22 identification steps are binding requirements, from which departure is not permitted. Completing the first  
23 seven action steps provides support for the eighth step, the appraiser’s scope-of-work decision.

**The Sequence and Relationship of Action Steps Required by SR 1-2 in a Real Property Appraisal—**

The following table illustrates the sequence and relationship of the action steps leading to the appraiser’s scope of work decision and the steps taken after that decision through to completion of the appraisal process.

24  
25  
26  
27



It is important to recognize that the action of identifying the client and intended users, the client’s intended use, the type and definition of value, and the effective date of value (SR 1-2(a)-(d)) affects the appraiser’s decisions as to the subject’s relevant characteristics, the scope of work, and extraordinary assumptions or hypothetical conditions (SR 1-2(e)–(h)). The appraiser’s decisions about the last four elements to be identified follow from, and must be consistent with, factual information identified in the first four elements shown in the table.

28  
29  
30  
31  
32  
33

The sequence illustrated in the table requires the appraiser to begin the decision-making process in the early stages of an assignment. It also means the appraiser has a burden of proof for conclusions about which property characteristics are relevant and which are not.

34  
35  
36

### Sequence and Relationship of Action Steps Required by SR 1-2 in a Real Property Appraisal

**Competency and the Scope of Work Decision** - Accomplishing the first four action steps (SR 1-2(a) and (d)) illustrated in the table provides the basis for deciding which of the property's characteristics are relevant in the assignment. This information, together with the appraiser's competency (knowledge and expertise) in appraising the specific type of property involved, permits the appraiser to determine whether any extraordinary assumptions or hypothetical conditions are necessary to complete the assignment and to make a reasonable and supportable scope-of-work decision.

It is important to note here that the appraiser's competency in performing similar assignments is a key factor in the scope of work decision. Without competency, the appraiser is not prepared to correctly interpret the information gathered in response to SR 1-2(a)–(e) or to make well-reasoned decisions based on that information in response to the requirements set forth in SR 1-2(f)–(h). Moreover, without competency, the appraiser is not aware of or capable of understanding how the information gathered in compliance with SR 1-2(a)–(e) and the conclusions formed in compliance with SR 1-2(g) and (h) affect the decision about which of the analyses steps set forth in Standards Rules 1-3 and 1-4 are necessary in an assignment.

Understanding which analyses methods and techniques are necessary and what data are necessary to correctly complete the analyses is an integral part of the scope-of-work decision. This decision cannot be made competently without understanding how the "conditions" in a market value definition work together with the other factors identified in compliance with Standards Rule 1-2 to determine what kind of data are relevant and which types of analyses are applicable and necessary in the assignment.

### General Comment on Market Value Definitions

Market value appraisals are distinct from appraisals completed for other purposes because market value appraisals are based on a market perspective and on a normal or typical premise. These criteria are illustrated in the following definition of *Market Value*\*, provided here only as an example.

*Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

1. *buyer and seller are typically motivated;*
2. *both parties are well informed or well advised and acting in what they consider their own best interests;*
3. *a reasonable time is allowed for exposure in the open market;*
4. *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
5. *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

\* This example definition is from regulations published by federal regulatory agencies pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between July 5, 1990, and August 24, 1990, by the Federal Reserve System (FRS), National Credit Union Administration (NCUA), Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Office of Comptroller of the Currency (OCC). This definition is also referenced in regulations jointly published by the OCC, OTS, FRS, and FDIC on June 7, 1994, and in the *Interagency Appraisal and Evaluation Guidelines*, dated October 27, 1994.

The market perspective replaces a user's (e.g., buyer, seller, lender, agent, etc.) perspective that might apply in other appraisals, such as for investment value or insurable value. This market perspective directly affects the scope of work necessary to develop credible opinions and conclusions in market value



appraisals. The public’s expectation that a market value appraisal reflects only the perspective of the marketplace, and is not affected by such other criteria as an intended user’s objectives, is important. Meeting this expectation serves to foster and promote public trust in professional appraisal practice, a fundamental purpose of the *Uniform Standards of Professional Appraisal Practice* and one that applies to all work performed under USPAP.

A market value appraisal is also based on whatever the “normal” or “typical” conditions are in the marketplace for the property appraised in a time frame that is consistent with the date of value in the appraisal. If the definition of value used in an appraisal contains criteria that are different from those that are “normal” or “typical,” the use of the term “Market Value,” alone, to characterize the assignment result is not appropriate. For example, a value opinion developed to reflect the most probable price in a sale under forced conditions is a forced-sale value and not consistent with the “normal” or “typical” premise to be reflected in a market value appraisal.

**Importance of Identifying the Specific Definition of Market Value**—The definition of the value to be developed in an appraisal establishes specific conditions. These conditions impose parameters on the appraisal assignment that are necessary to ensure that the results of the assignment are meaningful in the context of that definition of value.

There are many definitions of value, some of which are market value definitions. Other definitions of value appear to be related to market value but are not called market value. For example, it is common practice in appraisals for intended use in employee relocation assignments to use a value definition based on “anticipated sales price” rather than “market value.” The “anticipated sales price” definition contains very specific marketing, property condition, and terms of sale requirements that replace normal or typical market conditions. Thus, while the development process under the specific conditions may appear similar to market value assignments, the result is a value to the property user—the relocation company—under that client’s specific criteria and is not market value.

**Importance of Identifying the Source of a Market Value Definition**—Definitions of market value from different sources contain different conditions. Those differences can directly affect the scope of work that is necessary to develop credible assignment results. Each definition is unique, with authority only in a specific jurisdiction or to a specific client group. Therefore, identification of the source for the definition of value to be applied in an assignment is essential.

The source must be consistent with the jurisdiction having authority over the transaction in which the appraisal is to be used. For example, using a definition of market value other than the definition specified in regulations published pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) may invalidate that appraisal for use in a federally related transaction. Likewise, if an appraisal is prepared for use in litigation, using a definition of value other than the definition specified by the court having jurisdiction over the matter being litigated may disqualify that appraisal for use in that court.

**How the “Conditions” in a Market Value Definition Affect the Scope-of-Work Decision**

*Market Value* is defined in USPAP as a general concept. But in an appraisal assignment, *Market Value* is defined by a specific jurisdiction (e.g., a court, a regulatory body or public agency with legal authority), or by a client group (e.g., Fannie Mae or Freddie Mac).

In a market value appraisal, the appraiser’s conclusions about how best to analyze the market and what data are necessary for the development of credible results must be consistent with the conditions set forth in the specific definition of market value applicable in the assignment. The definition of *market value* included in this Advisory Opinion as an example illustrates the type of conditions that might be part of a specific market value definition used in an assignment.

129 Market value always presumes the transfer of a property as of a certain date, under specific conditions. The  
130 “Conditions” stated in market value definitions generally fall into three categories:

- 131 1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
- 132 2. the terms of sale (e.g., cash, cash equivalent, or other terms); and
- 133 3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).

134 Market value appraisals focus on understanding how buyers and sellers are most likely to respond to a  
135 subject property under the conditions stated in a specific value definition. Not all market value definitions  
136 contain the same conditions, though most contain a common subset of elements. Experienced appraisers  
137 understand the nuances in the various definitions and develop their assignments using data and analyses  
138 that match the conditions required by the specific definition used in an appraisal.

139 The “knowledge” referred to in a market value definition is knowledge about the property appraised, about  
140 the market for that property, and about alternatives available in the marketplace that the appraiser  
141 concludes are reasonable competition for the property appraised.<sup>61</sup>

142 An appraiser is expected to be at least as knowledgeable as the typical market participant is about the  
143 market for the type of property to be appraised. By completing research and verification steps while  
144 performing the assignment, the appraiser is expected to become as knowledgeable about the subject  
145 property and its comparables as the typical market participants.

146 **Knowledge of the Subject Property**—Of the three areas typical market participants are presumed to be  
147 knowledgeable about (subject, market, and competition), the first area that the appraiser must address is  
148 knowledge of the subject property, which is accomplished by gathering and verifying information about the  
149 subject property. This action step may or may not require a personal inspection.

150 In a market value assignment, the relevant characteristics (SR 1-2(e)) are those that have a significant  
151 impact on the property’s marketability. These features include legal, economic and physical characteristics.  
152 The decision as to which characteristics are relevant cannot be made without knowledge of the market in  
153 which the property is sold. This is why competency in appraising a specific type of property and knowledge  
154 of the subject property’s market are essential in an assignment.

155 Knowing the property’s relevant characteristics also provides the basis for deciding the applicability of an  
156 approach to value. Examples are provided in the DEPARTURE RULE and in Statement on Appraisal  
157 Standards No. 7 (SMT-7) to aid in making the decision as to which of the applicable approaches are  
158 necessary.

159 **Knowledge of the Market**—The scope of work necessary to ensure an adequate knowledge of the market  
160 for the subject property may range from very little (in addition to what the appraiser already knows) to  
161 extensive new research. If the subject property is of a type frequently appraised and in a locality where the  
162 appraiser regularly provides services, there may be little need for extensive market research beyond  
163 confirmation that the data available for analysis is current, adequate, relevant, and credible.

164 However, if the property involved is not of a type regularly appraised by the appraiser or if the market area  
165 is not familiar to the appraiser, the extent of research needs to be sufficient for the appraiser to acquire  
166 competency. As stated in the COMPETENCY RULE, this can be achieved in several ways (self-study,  
167 association with a locally knowledgeable and competent appraiser, etc.).

168 The critically important aspect of this factor in the scope-of-work decision is to recognize when additional  
169 research is necessary. A competent, professional appraiser will not assume knowledge merely for the sake  
170 of convenience. Even though the appraiser might be actively involved in appraising a particular type of

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<sup>61</sup> See Statement on Appraisal Standards No. 6 (SMT-6).

property in a given locality, self-imposed professional discipline will prompt that individual to ensure that the scope of work includes verification that the market data used in the analyses is credible, relevant, appropriate, adequate, and as current as possible.	171 172 173
This is consistent with the requirement stated in SR 1-1(b), which is designed to ensure that the scope of work completed in an appraisal is sufficient to produce credible opinions and conclusions, given the intended use of the appraisal.	174 175 176
<b>Knowledge of Alternatives</b> —An understanding of market behavior requires a scope of work that includes research and analyses that is sufficient to ensure competent knowledge of the supply and demand relationships that are relevant to the time frame and the type of property involved in the appraisal. In a market value appraisal, this means gathering, verifying, and evaluating data about sales, listings, and failed efforts to sell “competitive” property, as well as more generalized market data.	177 178 179 180 181
<b>Conditions of Sale</b> —A market value appraisal requires research and analysis of market data sufficient to develop a reasonable opinion of exposure time (see the <u>Comment</u> to SR 1-2(c)) and Statement on Appraisal Standards No. 6 (SMT-6) with the property marketed in whatever manner is typical for that type of property in its locality. An appraiser working in different market areas should guard against presuming that a marketing process common in one area is typical in all areas. For example, in some markets, property is customarily sold through an auction arrangement, while in others professional brokerage is the norm, and in still others so called “for sale by owner” is the typical process. Each process, in a given time period and locality for the type of property involved, can be “normal.” The identification of the marketing process and exposure time requires an understanding of the subject’s market.	182 183 184 185 186 187 188 189 190
Market value definitions imply a sale of the property wherein the buyer and seller are “typically motivated.” This condition requires that the level of research in a market value assignment is sufficient to understand the motivations of the buyers and sellers for the sales used in the approaches to value. The motivations that lead to a sale play a critical role in establishing the relevancy or irrelevancy of a sale as a comparable one in an assignment.	191 192 193 194 195
Analysis of sales data can yield numeric results, but the numbers lack real meaning without an understanding of the market conditions that generated the sales involved. Without an understanding of what the market conditions were at the time of a sale, as well as the conditions of a particular sale, an appraiser cannot reasonably conclude that the sale price, or any element of comparison based on that price, is a reliable indicator of market value.	196 197 198 199 200
<b><u>Subject’s Marketing and Sale History, and Reconciliation</u></b>	201
The appraiser’s scope of work decision in a market value appraisal needs to recognize the research and analyses steps that are necessary to comply with the requirements stated in SR 1-5 and SR 1-6. Those requirements have two objectives, both of which are especially important in a market value appraisal.	202 203 204
The first is to ensure that the appraiser makes the effort to obtain relevant information about current and recent market activity involving the subject property (SR 1-5(a) and (b)). This due diligence effort is consistent with the requirement stated in Standards Rule 1-1(b). It also serves as a safeguard against confusing the price in a contract (agreement of sale or option) or an offering with market value and as a safeguard against the appraiser being inadvertently involved in an effort to conceal the facts in regard to one or more recent sale transactions.	205 206 207 208 209 210
The second is to ensure that the appraiser reconciles the indications of value resulting from the various approaches utilized to arrive at the value conclusion (SR 1-6).	211 212

213 **SUMMARY**

214 The scope of work decision is a critical step in any appraisal. That decision must result in a match between  
215 the extent of the research and analyses completed in an assignment with the conditions specified in the  
216 definition of value used in that assignment.

217 In a market value appraisal, the appraiser's scope of work decision carries a burden of proof to support the  
218 appraiser's conclusion about how he or she addresses each "condition" in the market value definition used  
219 in the appraisal. The definition includes conditions that often require a high degree of knowledge,  
220 competency, and judgment, which are necessary to effectively develop the appraisal process. An appraiser  
221 cannot meet his or her obligations in a market value assignment without having competently identified and  
222 then completed a scope of work that enables development of credible opinions and conclusions.

223 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
224 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
225 *the problems discussed or that it applies equally to seemingly similar situations.*

226 Approved July 10, 2000

**ADVISORY OPINION 23 (AO-23)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment**

**APPLICATION: Real Property**

**THE ISSUE:**

How does an appraiser determine which characteristics of a real property are relevant to its appraisal?

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

DEFINITIONS, specifically the definitions of

*APPRAISAL: (noun) the act or process of developing an opinion of value; an opinion of value.*

...

*Comment: An appraisal must be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).*

*ASSIGNMENT: a valuation service provided as a consequence of an agreement between an appraiser and a client.*

*REAL ESTATE: an identified parcel or tract of land, including improvements if any.*

*REAL PROPERTY: the interests, benefits, and rights inherent in the ownership of real estate.*

*VALUE: the monetary relationship between properties and those who buy, sell, or use those properties.*

*Comment: Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified for example, market value, liquidation value, investment value.*

- Standards Rule 1-2(e): An appraiser must identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal, including:
  - (i) its location and physical, legal, and economic attributes;
  - (ii) the real property interest to be valued;
  - (iii) any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal;
  - (iv) any known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature; and
  - (v) whether the subject property is a fractional interest, physical segment, or partial holding.

40 **The Subject of a Real Property Appraisal Assignment**

41 The subject of a real property appraisal has both physical and legal characteristics. In combination, these  
42 characteristics define the subject property and, together with the type and definition of value and intended  
43 use of the assignment results, provide the basis for deciding what data and analyses should be included in  
44 the assignment analyses.

45 Appraisers and property owners often discuss a subject property in physical terms, such as *my home, the*  
46 *residence, my land, or the building*. However, a physical object, alone, is not what is being appraised.

47 Taken together, the definitions of *real property* and *real estate* provided in USPAP require that the subject  
48 of a real property appraisal is a specific ownership of a right (or rights) in identified real estate.

49 The right or rights might be owned in part, as a fractional interest, or in full. Further, real estate can take  
50 many forms, such as land, land and improvements, improvements without the underlying land, or an  
51 infinite variety that involve one or more of the physical aspects of real estate. Alternatively, a type of  
52 property, such as Class-A Office Space, does not signify specific ownership rights in identifiable real  
53 estate. Consequently, surveys or studies relating to a class of property do not constitute the “subject” of a  
54 real property appraisal under STANDARD 1. In such situations, the service provided by completing the  
55 survey or study is not an appraisal assignment because there is no “subject property.”

56 Understanding these different characteristics is essential for correct identification of the subject of a real  
57 property appraisal and for determining which characteristics of the property are relevant in the assignment.

58 **How the Characteristics of the Subject Affect the Scope of Work Decision**

59 As discussed above, real property can have many different characteristics, each of which can significantly  
60 affect the scope of work in an assignment. Consider the following illustrations:

61 1. The subject is the fee simple interest owned in a single-family residence situated on an improved site.  
62 These components (the land, the improvements, and the ownership) are, together, the subject property  
63 of the appraisal assignment. In this assignment the appraiser is developing and reporting a market  
64 value opinion.

65 The scope of work in this assignment should include gathering data about the characteristics of the  
66 subject that are significant in the market for this type of property under its highest and best use. Given  
67 the characteristics of the subject property, the analysis should include sales of other properties held in  
68 fee simple ownership situated in the subject’s market area that are similar to the subject in as many  
69 other respects as possible.

70 2. If all of the same characteristics of the property in Illustration No. 1 apply, except that the land is a  
71 leased site, the subject property becomes:

- 72     ▪ a leasehold interest, if the intended user needs to know the value of the rights in the real estate
- 73     owned by the lessee in the lease, or
- 74     ▪ a leased fee interest, if the intended user needs to know the value of the rights in the real
- 75     estate owned by the lessor in the lease.

76 Note that the subject real estate (physical asset) was the same, but the ownership interest of the subject  
77 changed. The impact of this change on the scope of work and on the relevant data in each assignment  
78 is significant. For example, in a market value appraisal:

- 79     ▪ If the subject property is the leasehold interest, the relevant analysis should include sales of
- 80     leasehold interest properties that are as similar to the subject as possible, both physically and
- 81     in terms of its lease (cash flow) characteristics.

<ul style="list-style-type: none"> <li>▪ If the subject is the leased fee interest, the relevant data should include sales of leased fee interest properties with similar physical and cash flow characteristics. The subject lease terms determine whether the improvements' characteristics are significant in this type of assignment. If the lease ends before the improvements reach the end of their economic life, the improvements' characteristics can be important to the appraisal problem. If the tenant must remove the improvements upon termination of the lease, the improvements' characteristics likely have little significance in the assignment.</li> </ul>	82 83 84 85 86 87 88
<p>3. Next, assume the same subject property characteristics as in Illustration No. 1 but change the ownership to an undivided one-third interest in the fee simple title. The scope of work in this Illustration is significantly different than that in either Illustration No. 1 or No. 2. (See the <u>Comment</u> to Standards Rule 1-4(e)).</p>	89 90 91 92
<p>If available, the most relevant analysis would be of sales of similar fractional interests in similar real estate. In the absence of such sales, the research might extend to secondary sources or other less direct analyses to develop, test, and support the fractional interest value conclusion.</p>	93 94 95
<p>4. A prospective client is considering a loan secured by a portfolio of properties owned in fee simple by a loan applicant. The real property offered as loan security is an ownership, held by one party, of several nearly identical properties in different locations.</p>	96 97 98
<p>In this situation, the appraiser must pay particular attention to the client's intended use of the assignment results and how that use affects the property configuration that will be relevant in the analyses. This is essential because assignment results must be meaningful to the client and analyses of the market for the subject must reflect the intended use.</p>	99 100 101 102
<p>If the client intends to use the appraisal to secure a single loan secured with all of the properties held by the client's loan applicant, the subject property is the entire holding (i.e., the portfolio). In this situation, the appraiser must include research and analyses to address the impact of all of the subject's individual parts appearing in the market at the same time, to be sold by one owner to one buyer. The client's intended use drives this configuration of the subject's characteristics.</p>	103 104 105 106 107
<p>Alternatively, if the same client intended to use the appraisal to secure one loan under loan conditions that would allow each property in the holding to be released (sold) on its own, the assignment is actually for several appraisals communicated in one report or possibly in several reports. In this configuration, each individual property is a subject property to be sold by one seller in the same time frame to (potentially) different buyers. The analyses must still address the potential impact, if any, of having all of the properties in the loan applicant's portfolio on the market at one time but without the necessity of selling to one buyer in one transaction.</p>	108 109 110 111 112 113 114
<p>The intended use of the assignment results alters the characteristics of the subject that are relevant to the appraisal and clearly alters the appropriate scope of work. In the first instance, the relevant data about the subject and about its market must reflect the subject's characteristics as a property portfolio rather than as an individual property within a community. In the latter case, the relevant data must address the relevant characteristics and market conditions for each individual property. Analyzing a portfolio of properties as if each property were a separate element or increment of value when the subject of the assignment is the portfolio fails to recognize distinct differences between the markets for individual properties and portfolios. Specifically, the value of the subject, as a portfolio, is not necessarily the sum of the values for each of the properties in that portfolio; it could be less or it could be more.</p>	115 116 117 118 119 120 121 122 123 124

125 5. A prospective client finances real estate development projects and requests an appraisal for use in a  
 126 single-family residential tract development financing package. The client needs an opinion of value for  
 127 the project and values for each of four individual floor plans as if each was a finished property on a  
 128 typical or so-called “base” lot within the development. The project involves acquisition of finished  
 129 sites and the construction and sale of finished homes in phases over a period of years. All of the values  
 130 are to be market value and the effective date of value is to be a current date, all for the intended use of  
 131 securing the development loan and the take-out loan commitment.

132 It is important to recognize that in this illustration the assignment actually involves five properties: the  
 133 entire project plus each of the four floor plans. In this case, the subject that is the project includes the  
 134 land and the entitlements that allow development of the residential tract on the land. Each of the four  
 135 floor plans becomes a subject under the hypothetical condition that the finished home on the typical or  
 136 base lot actually exists as a finished property as of a current date of value. The appraiser must then  
 137 develop and report five appraisals of five different subject properties.

138 For the development loan, the subject’s relevant characteristics are those of the project, not the homes,  
 139 and the scope of work to analyze the market for the project must address the entire project’s  
 140 characteristics.

141 For each take-out loan, the relevant subject property is an individual finished home, not the project,  
 142 and the summation of the value for those individual homes is not meaningful in terms of the value of  
 143 the project. Indeed, summation of the value of the individual homes to indicate the market value of the  
 144 project is incorrect development, and reporting such a summation as market value of the project is  
 145 misleading.

146 The scope of work necessary to analyze the market for an individual home as a subject property is  
 147 significantly different from that necessary to analyze the market for the project as a subject property.

#### 148 **SUMMARY**

149 Identifying the relevant subject property characteristics, together with the other information gathered in  
 150 response to Standards Rule 1-2, enables an appraiser to make a sound scope-of-work decision.

151 Accepting a prospective assignment on the basis of incomplete information can result in a significant  
 152 mismatch between the scope of work and the valuation problem to be solved in the appraisal assignment.  
 153 The lack of clear communication with the client before deciding to accept or forego an assignment can lead  
 154 to an excessive or deficient scope of work. When the scope of work is excessive, appraisers might  
 155 unnecessarily forego valuation service opportunities. When the scope of work is inadequate or the subject  
 156 property characteristics are not appropriately analyzed given the intended use of the assignment results, the  
 157 results are not likely to be credible or meaningful.

158 An appraiser should, by communicating with a prospective client, gather information about the type and  
 159 definition of value, the intended use, and the effective date of the appraisal, as well as characteristics of the  
 160 subject of a real property appraisal assignment, before deciding which characteristics are relevant and the  
 161 appropriate scope of work.

162 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
 163 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
 164 *the problems discussed or that it applies equally to seemingly similar situations.*

165 Approved July 10, 2000



**ADVISORY OPINION 24 (AO-24)**

*This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

**SUBJECT: Normal Course of Business**

**APPLICATION: Real Property, Personal Property**

**THE ISSUE:**

Standards Rules 1-5 and 7-5 require an appraiser to analyze certain information about the subject property if the information is “available to the appraiser in the normal course of business.” How does one determine the “normal course of business” for a given assignment?

**BACKGROUND:**

The analysis that is required in SR 1-5 and SR 7-5 promotes a certain degree of due diligence on the part of the appraiser. Appropriate due diligence increases public trust in the appraisal profession. The intent is to ensure that the research of past sales and current listings, options, or agreements of sale of the subject property is sufficient to promote public trust, without creating undue hardship on the appraiser.

The availability of the data necessary to comply with the requirements in SR 1-5 and SR 7-5 varies greatly. In some situations, this data is available from multiple sources. In other instances, sales and listing data is not readily available.

The “normal course of business” is controlled to a large degree by the scope of work in a specific assignment. Differences in intended use, intended users, the type and definition of value, or other factors can dramatically alter the scope of work. Therefore, the “normal course of business” for one assignment might not be the “normal course of business” for a seemingly similar assignment.

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

- The following USPAP references are applicable when ascertaining the “normal course of business” in an assignment:
  - Standards Rules 1-2(f) and 7-2(f)
  - Standards Rules 1-5 and 7-5
- For additional advice, refer to Advisory Opinion 1, *Sales History*

**General Comments**

The “normal course of business” is determined by the actions of an appraiser’s peers and by the expectations of market participants; it is not any one appraiser’s practices or any one appraisal firm’s policies.

To fully understand this concept one must examine the definitions of “Scope of Work” and “Appraiser’s Peers.”

“Scope of Work” is addressed in Standards Rules 1-2(f) and 7-2(f), and is defined in USPAP as:

37 *the amount and type of information researched and the analysis applied in an assignment. Scope of*  
 38 *work includes, but is not limited to the following.*

- 39 *▪ the degree to which the property is inspected or identified;*
- 40 *▪ the extent of research into physical or economic factors that could affect the property;*
- 41 *▪ the extent of data research; and*
- 42 *▪ the type and extent of analysis applied to arrive at opinions or conclusions.*

43 Researching the subject's sales history is an aspect of the scope of work. The Comments to Standards Rules  
 44 1-2(f) and 7-2(f) state:

45 *The scope of work is acceptable when it is consistent with:*

- 46 *▪ the expectations of participants in the market for the same or similar appraisal*  
 47 *services; and*
- 48 *▪ what the appraiser's peers' actions would be in performing the same or a similar*  
 49 *assignment in compliance with USPAP.*

50 Therefore, it is not the work habits of an individual appraiser that define the "normal course of business" in  
 51 an assignment. Rather, it is the requirements of the Standards Rules measured against the actions of the  
 52 appraiser's peers and the expectations of market participants.

53 "Appraisers Peers" is defined as:

54 *other appraisers who have expertise and competency in the same or a similar type of assignment.*

55 Statement on Appraisal Standards No. 7 identifies "market participants" as:

56 *those entities that are commonly clients of appraisers and who regularly use appraisals.*

57 In addition to the concept of "normal course of business" in an assignment, an appraiser has the obligation  
 58 to perform research and analysis appropriate to the intended use of the assignment. Standards Rules 1-1(b)  
 59 and 7-1(b) state:

60 *In developing a[n]...appraisal, an appraiser must:*

61 *not commit a substantial error of omission or commission that significantly affects an appraisal...*

62 The Comments to these Standards Rules state, in part:

63 *In performing appraisal services, an appraiser must be certain that the gathering of factual*  
 64 *information is conducted in a manner that is sufficiently diligent, given the scope of work*  
 65 *identified according to Standards Rule 1-2(f) [or 7-2(f)]...*

## 66 **Illustrations**

- 67 1. A reviewer noted that a real property appraisal report did not include an analysis of a sale of the  
 68 subject real property that had occurred six months prior to the effective date of the appraisal. The  
 69 sale was reported in the local Multiple Listing Service (MLS), which is available to appraisers in  
 70 the area and to which most area appraisers subscribe. When contacted about the matter, the  
 71 appraiser stated that he did not subscribe to the MLS, and checking that data source was not within  
 72 his normal course of business. Is this an appropriate response?

	<u>Answer:</u> No. The fact that the individual appraiser does not subscribe to this data source does not excuse the lack of analysis. Since most appraisers in the market area do subscribe, and informed market participants would be aware of this and expect this level of diligence, the appraiser's lack of research and analysis did not reflect the normal course of business in <i>this</i> market.	73 74 75 76 77
2.	A real property appraiser is engaged to appraise a property that is located in a rural area. Sales prices are a matter of public record, but the records are not computerized, and personal analysis of the public records requires a trip to the municipal building and a great deal of time searching records. Local officials will not provide this information over the telephone. Most appraisers in the area analyze sales data by using information provided by a local on-line data provider and quarterly sales reports that are mailed out by the local jurisdiction. In this situation, what action is necessary by the appraiser to comply with the requirement to analyze the subject's sales history?	78 79 80 81 82 83 84
	<u>Answer:</u> In this case, the normal course of business is to use the information from the local data provider and the quarterly sales reports. If a trip to the municipal building does not reflect the typical actions of most other appraisers in this market for this property type, or the expectations of clients for this specific type of assignment, then it is not required as part of the research and analysis in this assignment.	85 86 87 88 89
3.	A personal property appraiser is engaged to appraise a painting by a well-known artist for estate tax purposes. Neither the heirs nor the executor of the estate could locate the documentation for the purchase by the decedent, even though the painting had been bought less than six months before the appraisal was ordered. However, the sale was widely reported, both in newspapers and trade publications, since the painting had been purchased at public auction and at a price that set a new high for that artist's work. The appraiser used sales of other paintings by the same artist to support the final opinion of value, but not the recent sale of the subject property, stating in the report that the documentation was not available. Does this comply with the sales history requirements of Standards Rule 7-5?	90 91 92 93 94 95 96 97 98
	<u>Answer:</u> No. This would not comply with the requirements of Standards Rule 7-5. Competent fine art appraisers would research relevant sections of newspapers and trade magazines and likely keep files or create databases of significant transactions. Therefore, this appraiser should have known at least the details of the sale that had been made public in the press.	99 100 101 102 103
4.	During an appraisal assignment, the appraiser was informed by the owner that the subject property was listed for sale on a prominent Internet site. The appraiser did no additional research, and in the appraisal report indicated only that the property was listed for sale. Does this comply with the requirements of USPAP?	104 105 106 107
	<u>Answer:</u> No. The appraiser must analyze the current listing and report the findings within the appraisal report. Since the listing was placed on the Internet, where it would be available to the general public, it would be available to the appraiser in the normal course of business.	108 109 110 111
	<i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	112 113 114
	Approved June 27, 2003	115

1 **ADVISORY OPINION 25 (AO-25)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Clarification of the Client in a Federally Related Transaction**

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

8 The appraisal rules adopted by the Federal Financial Institutions Regulatory Agencies in August 1990 to  
 9 comply with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989  
 10 (FIRREA) impose a requirement on regulated institutions that “*if an appraisal is prepared by a fee*  
 11 *appraiser, the appraiser shall be directly engaged by the regulated institution or its agent....*”<sup>74</sup>

12 In some cases, however, a property owner might directly engage the services of an appraiser for one  
 13 intended use, but later desire to use the appraisal report in a federally related loan transaction. This and  
 14 other similar scenarios lead to the question: “*Does an appraiser have an obligation to ensure that his or her*  
 15 *services are directly engaged by a federally insured depository institution?*”

16 **ADVICE FROM THE ASB ON THE ISSUE:**

17 **Relevant USPAP & Advisory References**

- 18 ▪ DEFINITIONS, specifically those of “*client,*” “*intended user,*” and “*intended use.*”
- 19 ▪ The Confidentiality, Conduct, and Management sections of the ETHICS RULE.
- 20 ▪ SUPPLEMENTAL STANDARDS RULE, which requires an appraiser to ascertain whether  
 21 any supplemental standards apply to the assignment.
- 22 ▪ Standards Rules 1-2(a) and 1-2(b), which require an appraiser to identify the client, intended  
 23 user, and intended use.
- 24 ▪ Standards Rule 2-1(a), which requires an appraiser to clearly and accurately set forth the  
 25 appraisal in a manner that is not misleading.
- 26 ▪ Statement on Appraisal Standards No. 9 (SMT-9), which addresses intended use and intended  
 27 users in an assignment.
- 28 ▪ Statement on Appraisal Standards No. 10 (SMT-10), which describes the applicability of  
 29 USPAP in federally related transactions.
- 30 ▪ Advisory Opinion 26 (AO-26) which covers readdressing (transferring) a report to another  
 31 party.
- 32 ▪ Advisory Opinion 27 (AO-27) which addresses appraising the same property for a new client.

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<sup>74</sup> National Credit Union Administration – 2 CFR 722.5(b)  
 Federal Reserve System – 12 CFR 225.65(b)  
 Federal Deposit Insurance Corporation – 12 CFR 323.5(b)  
 Office of the Comptroller of the Currency – 12 CFR 34.45(b)  
 Office of Thrift Supervision – 12 CFR 564.5(b)

USPAP requires an appraiser to identify the intended use and intended users in an appraisal assignment. 33  
USPAP also requires that an appraiser not be misleading in the marketing of their services (see 34  
Management section of the ETHICS RULE). Statement on Appraisal Standards No. 10 (SMT-10) provides 35  
clarification, interpretation, explanation, and elaboration on the appraiser’s USPAP obligations when 36  
performing assignments for use by a federally insured depository institution in a federally related 37  
transaction. SMT-10 discusses supplemental standards issued by federal financial institution regulatory 38  
agencies for appraisers, as well as requirements imposed on lenders that the lender or their agents directly 39  
engage the appraiser in such assignments. 40

In order to not be misleading when contacted by a prospective client the appraiser’s obligation is one of 41  
proper disclosure. Before an appraiser accepts an assignment knowing the intended use of the appraisal is, 42  
or may be, for a federally related transaction by a federally insured depository institution, it is that 43  
appraiser’s responsibility to disclose to the prospective client that the lender or its agent is required to 44  
directly engage the appraiser. The appraiser should also disclose to the prospective client that it is unethical 45  
for the appraiser to later “readdress” or otherwise change the report to indicate a federally insured 46  
depository institution was the client when the appraisal was performed for another party (see AO-26 titled 47  
“Readdressing [Transferring] a Report to Another Party” and AO-27 titled “Appraising the Same Property 48  
for Another Client” for related advice on this issue). 49

If the client still wishes to proceed with the appraisal after the appraiser has properly fulfilled these 50  
disclosure obligations, the appraiser can accept the assignment. It would be prudent to recite disclosures in 51  
the engagement letter and in the report. (Also refer to SMT-9 for additional information relating to intended 52  
use and intended users). 53

**Illustrations:** 54

1. Homeowner Susan Daly contacts appraiser John Hunt to perform an appraisal of her residence. She is 55  
considering refinancing and wants to determine the amount of equity in the residence before 56  
completing a loan application. Assuming the refinancing would be a federally related transaction at a 57  
federally insured depository institution, what is John’s responsibility to this potential client? 58

Answer: Before John accepts this assignment, it is his responsibility to disclose to Susan that a 59  
lender or its agent is required to directly engage the services of an appraiser in a federally related 60  
transaction and should not accept his appraisal report. If Susan still wants to engage John, his 61  
disclosure allows him to accept the assignment. 62

2. A buyer of a commercial building contacts appraiser Jane Johnson about appraising the property for 63  
financing. The buyer explains that he will likely be providing the report to an insurance company that 64  
is interested in financing the property. The insurance company has no problem with the buyer being 65  
the client, as long as the insurance company is identified as an intended user in this assignment. 66  
However, the buyer says that he may also make application to his local bank, a federally insured 67  
depository institution. Can Jane accept this assignment? If so, does she have any disclosure 68  
obligations? 69

Answer: Jane has an obligation to disclose to the buyer that the federally insured depository 70  
institution should not accept her appraisal report because a lender or its agent is required to 71  
directly engage the services of an appraiser in a federally related transaction. If the buyer still 72  
wants to engage Jane, her disclosure allows her to accept the assignment. 73

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual 74  
circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to 75  
the problems discussed or that it applies equally to seemingly similar situations.* 76

Approved June 27, 2003 77

1 **ADVISORY OPINION 26 (AO-26)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Readdressing (Transferring) a Report to Another Party**

6 **APPLICATION: Real Property, Personal Property, and Intangible Property**

7 **THE ISSUE:**

8 After an assignment has been completed and the report has been delivered, an appraiser may be asked to  
 9 “readdress” (transfer) the report to another party. Does USPAP allow an appraiser to “readdress” (transfer)  
 10 a report by altering it to indicate a new recipient as the client or additional intended user when the original  
 11 report was completed for another party?

12 **ADVICE FROM THE ASB ON THE ISSUE:**

13 **Relevant USPAP & Advisory References**

- 14 ▪ The Confidentiality and Conduct sections of the ETHICS RULE.
- 15 ▪ Standards Rules such as 1-2(a) and 1-2(b); 7-2(a) and 7-2(b); and 9-2(a), which require an  
 16 appraiser to identify the client, intended users, and intended use.
- 17 ▪ Standards Rules such as 2-1(a), 8-1(a), 10-1(a), which require an appraiser to clearly and  
 18 accurately set forth the appraisal in a manner that is not misleading.
- 19 ▪ SUPPLEMENTAL STANDARDS RULE, which requires an appraiser to ascertain whether  
 20 supplemental standards apply to the assignment in addition to USPAP.
- 21 ▪ Statement on Appraisal Standards 9 (SMT-9), which requires the appraiser to identify and  
 22 disclose the client and intended users and the intended use in an appraisal, appraisal review, or  
 23 appraisal consulting assignment.
- 24 ▪ Statement on Appraisal Standards No. 10 (SMT-10), which describes applicability of USPAP  
 25 in federally related transactions.
- 26 ▪ Advisory Opinion 25 (AO-25), which covers clarification of the client in a federally related  
 27 transaction.
- 28 ▪ Advisory Opinion 27 (AO-27), which addresses appraising the same property for a new client.

29 No. Once a report has been prepared for a named client(s) and any other identified intended users and for  
 30 an identified intended use, the appraiser cannot “readdress” (transfer) the report to another party.

31 USPAP defines the Client as:

32 *The party or parties who engage an appraiser (by employment or contract) **in a specific***  
 33 ***assignment.*** (Bold added for emphasis)

34 Assignment is defined as:

35 *A valuation service provided as a **consequence of an agreement** between an appraiser and a*  
 36 ***client.*** (Bold added for emphasis)

37 Intended Use is defined as:

<i>the use or uses of an appraiser’s reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client <b>at the time of the assignment.</b> (Bold added for emphasis)</i>	38 39 40
Intended User is defined as:	41
<i>the client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client <b>at the time of the assignment.</b> (Bold added for emphasis)</i>	42 43 44
Identification of the client, any other intended users, and the intended use are key elements in all assignments. Because these identifications drive the appraiser’s scope of work decision, as well as other elements of the assignment, they must be determined <b>at the time of the assignment.</b> They cannot be modified after an assignment has been completed. See Statement on Appraisal Standards No. 9 (SMT-9) for further clarification.	45 46 47 48 49
<b><u>Illustrations:</u></b>	50
Question #1	51
An appraiser was engaged by Client A to appraise a property. The appraiser delivered the appraisal report to Client A. The client has decided not to pursue the transaction that generated the need for the appraisal report. The appraiser is contacted by Client B. Client B requests that the original report be readdressed (transferred) by replacing Client A’s name with Client B’s name in the report. Is this acceptable?	52 53 54 55
<u>Answer:</u> No. Simply changing the client name on the report cannot change or replace the original appraiser-client relationship that was established with Client A. Therefore, this action is misleading.	56 57
Question #2	58
How can this circumstance be handled according to Standards?	59
<u>Answer:</u> The appraiser can consider Client B’s request as a new assignment. In so doing, the appraiser may establish a new appraiser-client relationship with Client B and appraise the property for this new client. Important considerations, i.e., confidential information and other factors are further addressed in AO-27 – “Appraising the Same Property for a New Client”.	60 61 62 63
Question #3	64
Why might Client B want their name on the report that was completed for Client A?	65
<u>Answer:</u> Client B may want to establish an appraiser-client relationship because it provides all the rights, obligations, and liabilities such a relationship places on the appraiser.	66 67
A prudent method to establish an appraiser-client relationship is to have a written engagement letter or contract with any client at the time of the assignment.	68 69
<i>This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.</i>	70 71 72
Approved June 27, 2003	73

1 **ADVISORY OPINION 27 (AO-27)**

2 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret*  
 3 *existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in*  
 4 *specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.*

5 **SUBJECT: Appraising the Same Property for a New Client**

6 **APPLICATION: Real Property, Personal Property, and Intangible Property**

7 **THE ISSUE:**

8 Situations often arise in which appraisers who have previously appraised a property are asked by a different  
 9 party to appraise the same property. In some instances this request arises very soon after the first appraisal;  
 10 in others, it may be months or years later. Under what circumstances can an appraiser accept an assignment  
 11 to appraise a property for a prospective client when that appraiser has previously completed an appraisal of  
 12 the same property for another client?

13 **ADVICE FROM THE ASB ON THE ISSUE:**

14 **Relevant USPAP & Advisory References:**

- 15 ▪ Confidentiality section of the ETHICS RULE.
- 16 ▪ Statement on Appraisal Standards No. 9 (SMT-9), which addresses intended use and intended
- 17 users in an assignment.
- 18 ▪ Advisory Opinion 25 (AO-25) which covers clarification of the client in a federally related
- 19 transaction.
- 20 ▪ Advisory Opinion 26 (AO-26) which addresses reappraising/transferring a report to another
- 21 party.

22 Accepting the assignment from the second potential client is not prohibited by USPAP, assuming any  
 23 existing confidential information is handled properly.

24 Several parts of the Confidentiality section of the ETHICS RULE are pertinent to this matter.

25 *An appraiser must not disclose . . . assignment results prepared for a client to anyone other than the*  
 26 *client and persons specifically authorized by the client . . .*

27 An appraiser cannot disclose the results of a particular assignment, performed for a particular client, to  
 28 anyone other than those designated by that client. However, an understanding of the definitions of  
 29 *assignment*, *assignment results*, and *client* are key to a complete understanding of this requirement.

30 *Assignment – a valuation service provided as a consequence of an agreement between an appraiser*  
 31 *and a client*

32 *Client – the party or parties who engage an appraiser (by employment or contract) in a specific*  
 33 *assignment*

34 *Assignment Results – an appraiser’s opinions and conclusions developed specific to an assignment*



As can be seen in the definitions, both the client and the assignment results are specific to an assignment. 35  
If there is a new potential client, valuation services performed for that new client would constitute a new 36  
assignment and the assignment results would be specific to that new assignment. Therefore, acceptance 37  
and performance of the new assignment to appraise the same property would not be considered revealing 38  
the first client's assignment results to the second client, even if the value conclusions were the same. It 39  
should be noted that the value conclusion could easily be different if the effective date or the scope of work 40  
changed in any manner. It should also be noted that USPAP requires the appraiser to provide an unbiased 41  
opinion of value to each client. 42

**Obtaining a Release:** 43

As a matter of business practice, some appraisers request a release from a prior client before accepting an 44  
assignment to appraise the same property for a new client or to disclose the assignment for the second 45  
client to the first client. However, USPAP does not require this. Also, appraisers should be aware that, in 46  
some cases, informing a client about the existence of another client and the fact that the property was 47  
appraised for that other client may not be compliant with the portion of the Confidentiality section of the 48  
ETHICS RULE, which states: 49

*An appraiser must protect the confidential nature of the appraiser-client relationship.* 50

**Confidential Information:** 51

In all assignments the appraiser must comply with the Confidentiality section of the ETHICS RULE with 52  
respect to the handling of confidential information. Confidential information is defined in USPAP as: 53

*information that is either* 54

- *identified by the client as confidential when providing it to an appraiser and that is not* 55  
*available from any other source; or* 56
- *classified as confidential or private by applicable law or regulation* 57

The Confidentiality section of the ETHICS RULE states: 58

*An appraiser must be aware of, and comply with, all confidentiality and privacy laws and* 59  
*regulations applicable in an assignment.* 60

*An appraiser must not disclose confidential information . . . . to anyone other than the client and* 61  
*persons specifically authorized by the client . . .* 62

If a prior assignment included any confidential information, its disclosure to a different client or intended 63  
user would violate the ETHICS RULE if the information were still classified as confidential information. 64  
This includes the requirement to comply with all confidentiality and privacy laws and regulations. 65

**Client Expectations:** 66

At times, an appraiser's client may believe that his or her legitimate business intent could be harmed by that 67  
appraiser providing an appraisal of the subject property of that assignment to another client. In such cases, 68  
the client and the appraiser may stipulate in their service agreement the conditions under which the 69  
appraiser may or may not appraise the same subject property. A client involved in litigation may stipulate 70  
that the appraiser cannot appraise a subject property for the opposing party in that litigation. As another 71  
example, if an appraiser is providing the value of a property to a client who is planning to sell that property 72  
in an auction, the appraiser and client may agree that the appraiser will not appraise the same property for a 73  
party planning to participate in the bidding process. 74

75 **Illustrations:**

76 **Example A - Litigation**

77 An appraiser performs an appraisal for a client involved in litigation and then is requested to appraise the  
78 same property for the opposing party. Is accepting the assignment for the second client prohibited by  
79 USPAP?

80 No, assuming confidential information is handled correctly. However, there are common business  
81 practices in such circumstances. Often, the opposing parties each hire an appraiser to appraise the subject  
82 property. If the opposing parties do not plan to hire one appraiser jointly, each party could make it a part of  
83 the agreement between the appraiser and the client (the engagement letter or contract) that the appraiser is  
84 not to appraise the property for anyone representing the opposing side of the legal action.

85 In the absence of such an agreement between the client and the appraiser, the appraiser should consider the  
86 presence of confidential information. The knowledge of confidential information may prevent the  
87 appraiser from accepting the second assignment. The appraiser must decline the second assignment if:

- 88 1) the appraiser used confidential information in performing the first assignment;
- 89 2) that information would not be available from any other source; and
- 90 3) credible results cannot be derived without the use of this confidential information.

91 However, the appraiser may accept the second assignment, making sure to not disclose any confidential  
92 information from the original assignment to the second client, if

- 93 1) the information is available from another source (meaning it is not *confidential information*, as  
94 defined); or
- 95 2) the *confidential information* is not material to deriving credible assignment results.

96 However, the appraiser must ensure that confidential information is not disclosed, even if it has no impact  
97 on the assignment results (such as the litigation strategy of attorneys representing the first client).

98 **Example B – Competing Banks**

99 If an appraiser has appraised a property for Bank A and then is approached by Bank B to appraise the same  
100 property, does USPAP prohibit acceptance of the second assignment?

101 No, assuming confidential information is handled correctly. This constitutes a second assignment, a new  
102 client and a new agreement between a client and an appraiser.

103 *This Advisory Opinion is based on presumed conditions without investigation or verification of actual*  
104 *circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to*  
105 *the problems discussed or that it applies equally to seemingly similar situations.*

106 Approved June 27, 2003

## INDEX

The attached Index to words or phrases is not an integral part of the Uniform Standards of Professional Appraisal Practice (USPAP), but is a form of “other communications” the Appraisal Standards Board (ASB) is authorized to issue in accordance with the by-laws of The Appraisal Foundation.

The references are to the words or phrases as they appear in kind or as a topic in the 2005 Edition of USPAP.

Entries listed correspond to the 2005 edition of USPAP identified as follows:

PREAMBLE	PRE	DEFINITIONS	DEF
ETHICS RULE	ER	Standards	STD
COMPETENCY RULE	CR	Standards Rules	SR
DEPARTURE RULE	DR	Statements on Appraisal Standards	SMT
JURISDICTIONAL EXCEPTION RULE	JER	Advisory Opinions	AO
SUPPLEMENTAL STANDARDS RULE	SSR		

Advisory Opinions do not establish new standards or interpret existing standards. Advisory Opinions illustrate the applicability of appraisal standards in specific situations and offer advice from the ASB.

### A

Acting as an Appraiser	
Appraisal Practice, DEF .....	1
Obligations, AO-21 .....	200
Ad Valorem Tax	
<b>Documentation, SR 6-7(b)</b> .....	53
<b>Models, SR 6-7(k)</b> .....	54
STANDARD 6 Applies, STD 6 .....	46
Administrative Review	
Example, AO-21 .....	205
Terminology, AO-20 .....	193
<b>Advertising</b>	
Expectations, AO-21 .....	200
<b>Misleading, ER</b> .....	8
Advocacy	
Defined, DEF .....	1
In Services, AO-21 .....	201
Prohibited, ER .....	7
<b>Agreement of Sale</b>	
<b>Analyze, SR 1-5(a)</b> .....	21
<b>Analyze, SR 7-5(a)</b> .....	62
Failure to Analyze, SMT-10 .....	110
Sales History, AO-1 .....	125
<b>Anticipated Improvements</b>	

<b>SR 1-4(f)</b> .....	20
<b>SR 6-5(e)</b> .....	52
Applicable .....	<i>See Not Applicable</i>
Defined, DR .....	12
<b>vs. Necessary, SMT-7</b> .....	96
Applicable and Necessary, DR .....	12
Appraisal .....	<i>See Complete Appraisal, Limited Appraisal</i>
Appraisal Report .....	<i>See Report</i>
Benchmark, DEF .....	1
<b>Business Appraisal, STD 9</b> .....	73
<b>Credible</b> .....	<i>See Credible</i>
Defined, DEF .....	1
<b>Effective Date of</b> .....	<i>See Effective Date</i>
in Appraisal Practice, DEF .....	1
Intangible Asset, STD 9 .....	73
<b>Mass Appraisal, STD 6</b> .....	46
Numerically Expressed, DEF .....	1
<b>Personal Property Appraisal, STD 7</b> .....	57
Range of Value, DEF .....	1
<b>Real Property Appraisal, STD 1</b> .....	1
Update .....	<i>See Appraisal Update</i>
<b>Workfile</b> .....	9
Appraisal Consulting	
Defined, DEF .....	1
<b>Development, STD 4</b> .....	38
in Appraisal Practice, DEF .....	1

<b>Reporting, STD 5</b> .....	42	<b>Issues in Federally Related Transactions, SMT-10</b> .....	112
<b>Workfile, ER</b> .....	9	Appraiser's Peers	
Appraisal Consulting Report		Defined, DEF .....	2
Required Content, SR 5-2 .....	42	Normal Course of Business, AO-24 .....	220
Appraisal Practice		Typical Practice, DR .....	13
Defined, DEF .....	1	Appraiser-Client Relationship	
Relationship to Standards, AO-21 .....	201	Appraiser, DEF .....	2
Relationship to Valuation Services, AO-21200		Client, DEF .....	2
<b>Appraisal Procedures</b>		<b>Confidential Nature, ER</b> .....	8
<b>Describe Procedures Followed</b>		Illustration, AO-26 .....	225
SR 2-2(a)(ix) .....	24	Party Receiving Report, SMT-9 .....	107
SR 8-2(a)(ix) .....	65	<b>Appraising the Same Property for a New Client</b>	
<b>State Procedures Followed</b>		<b>AO-27</b> .....	226
SR 2-2(c)(ix) .....	30	<b>Approaches Excluded</b>	
SR 8-2(b)(ix) .....	80	<b>SR 10-2(a)(x)</b> .....	79
SR 8-2(c)(ix) .....	69	SR 10-2(b)(x) .....	80
<b>Summarize Procedures Followed</b>		<b>SR 2-2(a)(xi)</b> .....	25
SR 10-2(b)(ix) .....	79	<b>SR 2-2(b)(xi)</b> .....	28
SR 2-2(b)(ix) .....	27	<b>SR 2-2(c)(xi)</b> .....	30
SR 8-2(b)(ix) .....	67	<b>SR 8-2(a)(xi)</b> .....	66
<b>Appraisal Process</b>		<b>SR 8-2(b)(xi)</b> .....	68
<b>and Assistants, AO-5</b> .....	135	<b>SR 8-2(c)(xi)</b> .....	70
<b>and Standards Rules, SMT-7</b> .....	102	<b>Assemblage</b>	
Diagram, AO-22 .....	209	<b>SR 1-4(e)</b> .....	20
Appraisal Report .....	<i>Also See Report</i>	<b>SR 6-5(d)</b> .....	52
<b>in Business Appraisal</b>		<b>SR 7-4(e)</b> .....	61
Required Content, SR 10-2(a) .....	78	Assignment	
Appraisal Review		Defined, DEF .....	2
Defined, DEF .....	1	Assignment Conditions	
<b>Development and Reporting, STD 3</b> .....	33	Jurisdictional Exception, DEF .....	3
<b>Development, SR 3-1</b> .....	33	<b>Unacceptable, AO-19</b> .....	186
in Appraisal Consulting, SR 5-2(h) .....	43	Assignment Results	
in Appraisal Practice, DEF .....	1	Assignment Specific, AO-27 .....	227
<b>Issues in Federally Related Transaction, SMT-10</b> .....	110	<b>Confidential Nature, ER</b> .....	8
Illustration, AO-21 .....	205	Defined, DEF .....	2
Reporting Results, SR 3-2 .....	35	<b>Not Misleading, ER</b> .....	7
Reviewer's Own Opinion of Value		Assistance	
<b>AO-20</b> .....	192	Disclosure	
SR 3-1(c) .....	34	SR 10-2(a)(vii) .....	78
SR 3-2(d) .....	36	SR 10-2(b)(vii) .....	80
Separate Report, STD 3 .....	33	SR 2-2(a)(vii) .....	24
Subject of, SR 3-1(b) .....	34	SR 2-2(b)(vii) .....	27
<b>Use of an AVM, AO-18</b> .....	182	SR 2-2(c)(vii) .....	29
vs Cosigning, STD 3 .....	33	SR 3-2(c) .....	35
<b>Workfile, ER</b> .....	9	SR 5-2(f) .....	43
Appraisal Review Report		<b>SR 6-7(j)</b> .....	54
Report Content, AO-20 .....	195	SR 8-2(a)(vii) .....	65
Required Content, SR 3-2 .....	35	SR 8-2(b)(vii) .....	67
<b>Appraisal Update</b>		SR 8-2(c)(vii) .....	69
<b>Advisory Opinion, AO-3</b> .....	130	<b>in Certification</b>	
Appraisal, Complete .....	<i>See Complete Appraisal</i>	<b>SR 10-3</b> .....	81
Appraisal, Limited .....	<i>See Limited Appraisal</i>	<b>SR 2-3</b> .....	31
Appraiser		<b>SR 3-3</b> .....	37
Acting As, AO-21 .....	200	<b>SR 5-3</b> .....	44
Defined, DEF .....	2	<b>SR 6-8</b> .....	56
Ethical Obligations, PRE .....	6	<b>SR 8-3</b> .....	71
Expectations, Obligations, AO-21 .....	200	<b>in Preparation, AO-5</b> .....	134
Public Trust, PRE .....	6	Assumption(s)	
<b>Appraiser Independence</b>		Defined, DEF .....	2
		<b>Disclose All</b>	

10-1(c)	77
SR 2-1(c)	22
SR 5-1(c)	42
SR 6-7(c)	53
SR 8-1(c)	63
State All, SR 3-2(d)	36
Assumptions, Extraordinary	<i>See</i> Extraordinary Assumptions
<b>Automated Valuation Model (AVM)</b>	
Use of, AO-18	178
Avoiding Error	<i>See</i> Error Avoidance

## B

Bias	
Defined, DEF	2
<b>Unsupported Conclusions, ER</b>	7
Binding Requirement(s)	
Defined, DEF	2
<b>Departure, DR</b>	12
<b>Brokerage and Appraisal</b>	
<b>Illustration, AO-21</b>	204
Business Appraisal	
Development, STD 9	73
Reporting, STD-10	77
Business Enterprise	
Defined, DEF	2
Business Equity	
Defined, DEF	2
<b>Buy-Sell Agreement</b>	
Identify, SR 9-2(d)(i)	74

## C

<b>Carelessness (Avoiding)</b>	
SR 1-1(c)	16
SR 4-1(c)	38
SR 6-1(c)	47
SR 7-1(c)	57
SR 9-1(c)	73
Cash Equivalency	
in Market Value, DEF	3
<b>Certification</b>	
Appraisal Consulting Report, SR 5-3	44
Appraisal Review Report SR 3-3	36
<b>Business Appraisal Report, SR 10-3</b>	81
<b>Mass Appraisal Report, SR 6-8</b>	55
<b>Oral Report</b>	
Signed and Dated Certification, ER	9
<b>Personal Property Appraisal Report, SR 8-3</b>	71
<b>Real Property Appraisal Report, SR 2-3</b>	31
Signed Certification Required	
SR 10-3	81
SR 2-3	31
SR 3-3	36
SR 5-3	44
<b>SR 6-8</b>	55
<b>SR 8-3</b>	71
Clear and Accurate	<i>See</i> Report, Clear and Accurate

Client	<i>Also See</i> Appraiser-Client Relationship
Anonymous	
SMT-9	106
SR 10-2(a)(i)	78
SR 2-2(a)(i)	23
SR 2-2(b)(i)	26
SR 2-2(c)(i)	29
SR 5-2(a)	42
SR 8-2(a)(i)	64
SR 8-2(b)(i)	66
SR 8-2(c)(i)	69
Defined, DEF	2
<b>Expectations, AO-27</b>	227
<b>Identifying</b>	
SR 1-2(a)	17
SR 3-1(a)	33
SR 4-2(a)	39
SR 6-2(a)	47
SR 7-2(a)	58
SR 9-2(a)	73
<b>In a Federally Related Transaction, AO-25</b>	222
<b>Named in Workfile, ER</b>	9
State the Identity	
SR 10-2(a)(i)	78
SR 10-2(b)(i)	79
SR 2-2(a)(i)	23
SR 2-2(b)(i)	26
SR 2-2(c)(i)	28
SR 3-2(a)	35
SR 5-2(a)	42
SR 6-7(d)	53
SR 8-2(a)(i)	64
SR 8-2(b)(i)	66
SR 8-2(c)(i)	69
<b>Client-Appraiser Relationship</b>	<i>See</i> Appraiser-Client Relationship
<b>Relationship</b>	
<b>Comments</b>	
Integral Part of USPAP, PRE	6
Same Weight, PRE	6
Comp Check	
Service Requested, AO-19	186
<b>Compensation</b>	
<b>Contingent, ER</b>	8
<b>Competency</b>	
COMPETENCY RULE	11
<b>Disclose Lack of Knowledge/Experience, CR</b>	11
Geographic, ER	11
In a Federally Related Transaction, SMT-10	111
COMPETENCY RULE	11
Complete Appraisal	
Defined, DEF	1
Using the DEPARTURE RULE, AO-15	165
Workfile, ER	9
Complete Review	
Terminology, AO-20	193
<b>Compliance</b>	
Ethical Obligation, AO-21	199
Must Certify Compliance with USPAP, ER	7
<b>Required by Law, Regulation, Agreement</b>	
<b>Appraiser Obligated, ER</b>	7

<b>USPAP Does Not Establish, PRE</b> .....6
Required, SMT-10.....109
<b>USPAP Compliance, AO-21</b> .....199
Concurring with Value
Appraisal Review, SR 3-1(a).....33
Illustrations, AO-20.....197
<b>Conduct</b> section of ETHICS RULE.....7
Confidential Information
<b>Act in Good Faith in Use of, ER</b> .....8
Defined, DEF.....2
<b>Must Not Disclose, ER</b> .....8
Redaction, ER.....9
<b>Confidentiality section of ETHICS RULE</b> .....8
<b>Contamination. See Environmental Contamination</b>
Contingent Compensation..... <i>See</i> Compensation
Contrary to Law
<b>JURISDICTIONAL EXCEPTION RULE, JER</b> ..14
Jurisdictional Exception, DEF.....3
<b>Copy</b>
<b>Electronic Copy, ER</b> .....9
<b>Photocopy, ER</b> .....9
<b>True Copy, ER</b> .....9
Cost
Defined, DEF.....3
Remediation Cost, AO-9.....145
<b>Cost Approach</b>
<b>SR 1-4(b)</b> .....19
SR 6-5(a).....51
<b>SR 7-4(b)</b> .....60
<b>Credible</b>
<b>Appraisal, STD 1</b> .....16
<b>Appraisal, STD 7</b> .....57
<b>Appraisal, STD- 9</b> .....73
<b>Mass Appraisals, STD 6</b> .....46
<b>Opinion of Quality, STD 3</b> .....33
Results, STD 4.....38

<b>DEPARTURE RULE</b> ..... 12
<b>Disclose</b>
<b>SR 10-2(a)(x)</b> ..... 79
SR 10-2(b)(x).....80
<b>SR 2-2(a)(xi)</b> .....25
<b>SR 2-2(b)(xi)</b> .....28
<b>SR 2-2(c)(xi)</b> .....30
<b>SR 8-2(a)(xi)</b> .....66
<b>SR 8-2(b)(xi)</b> .....68
<b>SR 8-2(c)(xi)</b> .....70
Issues in Federally Related Transactions,
SMT-10..... 113
Misusing the DEPARTURE RULE, SMT-10... 120
<b>Must Advise Client, DR</b> ..... 12
<b>Permitted Departure, SMT-7</b> ..... 95
<b>Results Must Be Credible, DR</b> ..... 12
Specific Requirements, DEF..... 4
<b>Using the DEPARTURE RULE, AO-15</b> ..... 165
<b>DEPARTURE RULE</b> ..... 12
<b>Using, AO-15</b> ..... 165
<b>Describe</b>
<b>Example, AO-11</b> ..... 153
Desk Review..... <i>Also See</i> Appraisal Review
Terminology, AO-20..... 193
Diligence and Care, SR 9-1(c)..... 73
Diminution in Value (Property Value
Diminution)
Defined, AO-9..... 144
<b>Discounted Cash Flow Analysis, SMT-2</b> ..... 85
Discrimination
Fair Housing Laws, AO-16..... 170
Drive-By Inspections, AO-2..... 128
Due Diligence
SR 1-1(c)..... 16
<b>SR 6-1(c)</b> ..... 47
SR 7-1(c)..... 57

**D**

<b>Date of the Report</b>
State
<b>SR 10-2(a)(vi)</b> .....78
<b>SR 10-2(b)(vi)</b> .....79
<b>SR 2-2(a)(vi)</b> .....24
<b>SR 2-2(b)(vi)</b> .....27
<b>SR 2-2(c)(vi)</b> .....29
SR 5-2(e).....43
<b>SR 6-7(g)</b> .....53
<b>SR 8-2(a)(vi)</b> .....65
<b>SR 8-2(b)(vi)</b> .....67
<b>SR 8-2(c)(vi)</b> .....69
<b>Definition of Value</b> ..... <i>See</i> <b>Type and Definition of Value</b>
DEFINITIONS..... 1
Departure
Binding Requirement, No Departure, DEF.....2
<b>Burden of Disclosure, DR</b> .....12
<b>Client Must Agree, DR</b> .....12
Complete Appraisal, No Departure, DEF..... 1
Definition of Limited Appraisal, DEF.....1

**E**

<b>Effective Date</b>
Current Appraisal
SMT-3..... 88
SMT-4..... 90
Exposure Time, SMT-6..... 93
<b>Identify</b>
<b>SR 1-2(d)</b> ..... 17
<b>SR 3-1(b)(ii)</b> ..... 34
SR 4-2(d)..... 39
SR 6-2(e)..... 48
<b>SR 7-2(d)</b> ..... 58
<b>SR 9-2(c)</b> ..... 74
Marketing Time, AO-7..... 139
Prospective Appraisal
SMT-3..... 88
SMT-4..... 90
Prospective Value Opinions, SMT-4..... 90
Retrospective Appraisal
SMT-3..... 88
SMT-4..... 90
Retrospective Value Opinions, SMT-3..... 88

Same or Different (in Appraisal Review), SR 3-1(c).....	34
<b>Set Forth</b>	
<b>SR 6-7(g)</b> .....	53
<b>State</b>	
<b>SR 10-2(a)(vi)</b> .....	78
<b>SR 10-2(b)(vi)</b> .....	79
<b>SR 2-2(a)(vi)</b> .....	24
<b>SR 2-2(b)(vi)</b> .....	27
<b>SR 2-2(c)(vi)</b> .....	29
SR 5-2(e).....	43
<b>SR 8-2(a)(vi)</b> .....	65
<b>SR 8-2(b)(vi)</b> .....	67
<b>SR 8-2(c)(vi)</b> .....	69
<b>Electronic Copy</b>	
<b>True Copy, ER</b> .....	9
<b>Environmental Contamination</b>	
<b>Appraisal of</b>	
<b>Real Property Impacted by, AO-9</b> .....	143
Defined, AO-9.....	144
Environmental Risk	
Defined, AO-9.....	144
Environmental Stigma	
Defined, AO-9.....	145
<b>Error Avoidance</b>	
<b>SR 1-1(b)</b> .....	16
SR 4-1(b).....	38
<b>SR 6-1(b)</b> .....	47
<b>SR 7-1(b)</b> .....	57
<b>SR 9-1(b)</b> .....	73
STD 3.....	33
<b>Errors of Omission</b>	
<b>SR 1-1(b)</b> .....	16
SR 4-1(b).....	38
<b>SR 6-1(b)</b> .....	47
<b>SR 7-1(b)</b> .....	57
<b>SR 9-1(b)</b> .....	73
STD 3.....	33
<b>ETHICS RULE</b> .....	7
<u>Conduct</u> section.....	7
<u>Confidentiality</u> section.....	8
<u>Management</u> section.....	8
<u>Record Keeping</u> section.....	9
<b>Evaluations of Real Property Collateral, AO-13</b>	157
<b>Expectations</b>	
of an Appraiser, AO-21.....	200
<b>Exposure Time</b>	
Develop an Opinion of	
SR 1-2(c).....	17
SR 7-2(c).....	58
Prior to Effective Date, SMT-6.....	93
<b>Reasonable Exposure Time, SMT-6</b> .....	93
vs Marketing Time, AO-7.....	139
<b>Extraordinary Assumptions</b>	
Conditions of Use	
SR 1-2(g).....	18
SR 3-1(c).....	34
SR 4-2(g).....	40
SR 6-2(d).....	48
SR 7-2(g).....	59

SR 9-2(f).....	74
Defined, DEF.....	3
<b>Disclose All</b>	
<b>SR 10-1(c)</b> .....	77
<b>SR 2-1(c)</b> .....	22
SR 5-1(c).....	42
<b>SR 6-7(c)</b> .....	53
<b>SR 8-2(c)</b> .....	63
Examples of	
SR 2-1(c).....	22
<b>SR 6-7-(c)</b> .....	53
<b>Identify</b>	
SR 3-1(c).....	34
SR 4-2(g).....	40
SR 6-2(d).....	47
<b>SR 7-2(g)</b> .....	59
<b>SR 9-2(f)</b> .....	74
<b>SR-1-2(f)</b> .....	18
In Appraisal Review, AO-20.....	195
<b>State All</b>	
SR 10-2(a)(viii).....	78
SR 10-2(b)(viii).....	80
SR 2-2(a)(viii).....	24
SR 2-2(b)(viii).....	27
SR 2-2(c)(viii).....	29
SR 3-2(d).....	36
SR 5-2(g).....	43
<b>SR 6-7(c)</b> .....	53
SR 8-2(a)(viii).....	65
SR 8-2(b)(viii).....	67
SR 8-2(c)(viii).....	69

## F

<b>Fair Housing Laws, AO-16</b> .....	169
<b>Fair Value vs Market Value, AO-8</b> .....	141
Feasibility Analysis	
Defined, DEF.....	3
Federally Related Transaction	
Assignments for Use In, SMT-10.....	109
Field Review..... <i>Also See</i> Appraisal Review	
Terminology, AO-20.....	193

## H

Highest and Best Use	
<b>Analyze Effect, SR 6-2(j)</b> .....	49
<b>Describe Support</b>	
<b>SR 2-2(a)(x)</b> .....	25
<b>SR 8-2(a)(x)</b> .....	65
Develop an Opinion of, SR 1-3(b).....	19
<b>Discuss How Determined, SR 6-7(n)</b> .....	55
<b>Identify Effect of</b>	
<b>SR 6-2(k)</b> .....	49
<b>SR 7-3(a)</b> .....	60
<b>State</b>	
<b>SR 2-2(c)(x)</b> .....	30
<b>SR 8-2(c)(x)</b> .....	70
<b>Summarize Support</b>	

<b>SR 2-2(b)(x)</b> .....	28	<b>SR 2-3</b> .....	31
<b>SR 8-2(b)(x)</b> .....	68	<b>SR 3-3</b> .....	37
Hypothetical Conditions		<b>SR 5-3</b> .....	44
Conditions for Use		<b>SR 6-8</b> .....	56
<b>SR 4-2(h)</b> .....	41	<b>SR 8-3</b> .....	71
<b>SR 6-2(d)</b> .....	48	Intangible Asset Appraisal	
<b>SR 7-2(h)</b> .....	60	Development, STD 9.....	73
<b>SR 9-2(g)</b> .....	75	Reporting, STD 10.....	77
<b>SR1-2(h)</b> .....	19	Intangible Assets	
Defined, DEF.....	3	Defined, DEF.....	3
<b>Disclose All</b>		Intangible Property	
<b>SR 10-1(c)</b> .....	77	Defined, DEF.....	3
<b>SR 2-1(c)</b> .....	22	Intended Use	
<b>SR 5-1(c)</b> .....	42	Defined, DEF.....	3
<b>SR 6-7(c)</b> .....	53	Establishes Obligations, SMT 9.....	106
<b>SR 8-1(c)</b> .....	63	Identified by the Appraiser, DEF.....	3
Examples		<b>Identify</b>	
<b>SR 2-1(c)</b> .....	22	<b>SR 1-2(b)</b> .....	17
<b>SR 6 7(c)</b> .....	53	<b>SR 3-1(a)</b> .....	33
<b>Identify</b>		<b>SR 4-2(b)</b> .....	39
<b>SR 1-2(h)</b> .....	19	<b>SR 7-2(b)</b> .....	58
<b>SR 4-2(h)</b> .....	41	<b>SR 9-2(a)</b> .....	73
<b>SR 6-2(d)</b> .....	47	<b>Identifying, SMT-9</b> .....	105
<b>SR 7-2(h)</b> .....	60	<b>State</b>	
<b>SR 9-2(g)</b> .....	75	<b>SR 10-2(a)(ii)</b> .....	78
<b>Issues in Federally Related Transactions, SMT</b>		<b>SR 10-2(b)(ii)</b> .....	79
<b>10</b> .....	115	<b>SR 2-2(a)(ii)</b> .....	23
Proposed Improvements		<b>SR 2-2(b)(ii)</b> .....	26
<b>AO-17</b> .....	174	<b>SR 2-2(c)(ii)</b> .....	29
<b>SR 1-4(h)(iii)</b> .....	21	<b>SR 3-2(a)</b> .....	35
<b>SR 6-5(e)(iii)</b> .....	52	<b>SR 5-2(c)</b> .....	43
<b>SR 7-4(h)(iii)</b> .....	62	<b>SR 6-2(b)</b> .....	47
State All		<b>SR 6-7(e)</b> .....	53
<b>SR 10-2(a)(viii)</b> .....	78	<b>SR 8-2(a)(ii)</b> .....	64
<b>SR 10-2(b)(viii)</b> .....	80	<b>SR 8-2(b)(ii)</b> .....	66
<b>SR 2-2(a)(viii)</b> .....	24	<b>SR 8-2(c)(ii)</b> .....	69
<b>SR 2-2(b)(viii)</b> .....	27	Intended User(s)	
<b>SR 2-2(c)(viii)</b> .....	29	Appraiser Responsibilities, AO-21.....	201
<b>SR 3-2(d)</b> .....	36	Client, DEF.....	3
<b>SR 5-2(g)</b> .....	43	Defined, DEF.....	3
<b>SR 6-7(c)</b> .....	53	<b>Disclosure of, SMT-9</b> .....	107
<b>SR 8-2(a)(viii)</b> .....	65	Identified by the Appraiser, DEF.....	3
<b>SR 8-2(b)(viii)</b> .....	67	<b>Identify</b>	
<b>SR 8-2(c)(viii)</b> .....	69	<b>SR 1-2(a)</b> .....	17
		<b>SR 3-1(a)</b> .....	33
		<b>SR 4-2(a)</b> .....	39
		<b>SR 6-2(a)</b> .....	47
		<b>SR 7-2(a)</b> .....	58
		<b>SR 9-2(a)</b> .....	73
		Identify by Name or Type, DEF.....	3
		<b>Identify by Name or Type, ER</b> .....	9
		<b>Identifying, SMT-9</b> .....	106
		Obligations to, SMT-9.....	107
		<b>State the Identity</b>	
		<b>SR 10-2(a)(i)</b> .....	78
		<b>SR 2-2(a)(i)</b> .....	23
		<b>SR 2-2(b)(i)</b> .....	26
		<b>SR 3-2(a)</b> .....	35
		<b>SR 5-2(a)</b> .....	42
		<b>SR 6-7(d)</b> .....	53
		<b>SR 8-2(a)(i)</b> .....	64

I

Impaired Value	
Defined, AO-9.....	145
<b>Income Approach</b>	
<b>SR 1-4(c)</b> .....	19
<b>SR 6-5(a)</b> .....	51
<b>SR 7-4(c)</b> .....	61
Inspection	
Degree (Scope of Work), DEF.....	4
Exterior Inspection, AO-2.....	128
<b>Inspection of Subject, AO-2</b> .....	128
Not Possible, AO-2.....	128
<b>Personal Inspection</b>	
<b>Certification</b>	



SR 8-2(b)(i).....	66
-------------------	----

**J**

Jurisdictional Exception	
Defined, DEF.....	3
None in Agencies' Appraisal	
Regulations and Guidelines, SMT-10....	112
<b>JURISDICTIONAL EXCEPTION RULE</b> .....	14
in Ad Valorem Taxation, STD 6.....	46

**L**

<b>Lack of Knowledge/Experience</b>	
<b>Must Disclose, CR</b> .....	11
<b>Law</b>	
Defined, JER.....	14
<b>Fair Housing, AO-16</b> .....	169
<b>Privacy, ER</b> .....	8
Limited Appraisal	
Defined, DEF.....	1
<b>DEPARTURE RULE</b> .....	12
Permitted Departures, SMT-7.....	95
<b>Using the DEPARTURE RULE, AO-15</b> .....	165
Workfile, ER.....	9
<b>Limiting Conditions</b>	
<b>Disclose All</b>	
<b>SR 10-1(c)</b> .....	77
<b>SR 2-1(c)</b> .....	22
<b>SR 5-1(c)</b> .....	42
<b>SR 6-7(c)</b> .....	53
<b>SR 8-2(c)</b> .....	63
State All	
SR 3-2(d).....	36
<b>Listings (of Subject Property)</b> .....	125, 221
<b>SR 1-5(a)</b> .....	21
Litigation Services	
Illustration, AO-21.....	206

**M**

<u>Management</u> section of ETHICS RULE.....	8
<b>Market Value</b>	
Definition in FIRREA, AO-22.....	210
Described, DEF.....	3
<b>Exposure Time, SMT-6</b> .....	93
<b>Scope of Work in</b>	
<b>Market Value Assignments, AO-22</b> .....	208
<b>vs Anticipated Sales Price, AO-22</b> .....	211
<b>vs Fair Value, AO-8</b> .....	141
<b>Marketing Time Opinions, AO-7</b> .....	139
Mass Appraisal	
Defined, DEF.....	4
<b>Development and Reporting, STD 6</b> .....	46
Mass Appraisal Model	
Defined, DEF.....	4
<b>Mass Appraisal Report</b>	
<b>Required Content, SR 6-7</b> .....	53

<b>Methods.. See Recognized Methods and Techniques</b>	
Misleading Communications	
Must Avoid, PRE.....	6
<b>Unethical, ER</b> .....	7

**N**

Necessary	
No Departure, DR.....	12
<b>vs. Applicable, SMT-7</b> .....	96
<b>Negligence</b>	
<b>SR 1-1(c)</b> .....	16
SR 4-1(c).....	38
<b>SR 6-1(c)</b> .....	47
<b>SR 7-1(c)</b> .....	57
<b>SR 9-1(c)</b> .....	73
<b>Non-market Financing</b>	
<b>SR 1-2(c)(iv)</b> .....	17
SR 2-2(a)(v).....	24
SR 2-2(b)(v).....	26
SR 4-2(c)(ii).....	39
<b>SR 6-2(f)(iv)</b> .....	48
<b>SR 7-2(c)(iv)</b> .....	58
SR 8-2(a)(v).....	64
SR 8-2(b)(v).....	67
Non-source Sites	
Defined, AO-9.....	145
<b>Normal Course of Business</b>	
<b>Advisory Opinion, AO-24</b> .....	219
<b>If Available in the</b>	
<b>SR 1-5</b> .....	21
<b>SR 7-5</b> .....	62
Illustrations, AO-24.....	220
Sales History, AO-1.....	125
Not Applicable.....	<i>See Applicable</i>
Defined, DR.....	12
<b>Not Misleading</b> .....	<i>See Report, Not Misleading</i>
Numerical Benchmark	
Definition of Appraisal, DEF.....	1

**O**

<b>Obligations</b>	
Appraiser, Personal, ER.....	7
Established by Intended Use, SMT 9.....	106
Ethical, PRE.....	6
in Appraisal Practice, AO-21.....	199
Intended Use, Intended Users, SMT 9.....	106
Outside of Appraisal Practice, AO-21.....	199
Performance, PRE.....	6
<b>Offers to Sell</b>	
<b>Analyze, SR 7-5(a)</b> .....	62
<b>Options (to Purchase)</b>	
<b>Analyze</b>	
<b>SR 1-5(a)</b> .....	21
<b>SR 7-5(a)</b> .....	62
Sales History, AO-1.....	125
Oral Reports	
Report, DEF.....	4

<b>Requirements</b>	
<b>SR 10-4</b> .....	82
<b>SR 2-4</b> .....	32
<b>SR 3-4</b> .....	37
<b>SR 5-4</b> .....	45
<b>SR 8-4</b> .....	72
<b>Signed and Dated Certification in Workfile, ER</b> .....	9
Testimony	
<b>SR 2-4</b> .....	32
<b>SR 3-4</b> .....	37
<b>SR 5-4</b> .....	45
<b>SR 8-4</b> .....	72
Written Summary in Workfile, ER .....	10

**P**

<b>Peer Review Committee</b> .....	8
Peers, Appraiser's .....	<i>See</i> Appraiser's Peers
Personal Interest	
Without Accommodation of, ER .....	7
Personal Property	
Defined, DEF .....	4
<b>Personal Property Appraisal</b>	
<b>Development, STD 7</b> .....	57
<b>Reporting, STD 8</b> .....	63
Photocopy	
<b>True Copy, ER</b> .....	9
<b>Plans, Specifications</b>	
<b>SR 1-4(h)(i)</b> .....	20
<b>SR 6-5(e)(i)</b> .....	52
<b>SR 7-4(h)(i)</b> .....	62
<b>PREAMBLE</b> .....	6
<b>Predetermined Results</b>	
<b>Prohibited, ER</b> .....	7
Price	
Defined, DEF .....	4
vs. Value, Illustration, AO-21 .....	204
<b>Prior Sales</b> .....	<i>See</i> Sales History
<b>Proposed Improvements</b>	
<b>Appraisal of Real Property With, AO-17</b> .....	173
<b>Prospective Value Opinions</b>	
Proposed Improvements, AO-17 .....	173
<b>Statement on, SMT-4</b> .....	90
Proximate Sites	
Defined, AO-9 .....	145

**R**

Range of Value	
Definition of Appraisal, DEF .....	1
Readdressing (Transferring) a Report	
Altering Title Page,	
Transmittal Letter, SMT-10 .....	113
<b>Prohibited, AO-26</b> .....	224
Real Estate	
Defined, DEF .....	4
Real Property	
Defined, DEF .....	4

<b>Real Property Appraisal</b>	
<b>Development, STD 1</b> .....	16
<b>Reporting, STD 2</b> .....	22
Recertification of Value	
Term Explained, AO-3 .....	130
<b>Recognized Methods and Procedures</b>	
<b>SR 9-1(a)</b> .....	73
<b>Recognized Methods and Techniques</b>	
<b>SR 1-1(a)</b> .....	16
<b>SR 4-1(a)</b> .....	38
<b>SR 6-1(a)</b> .....	46
<b>SR 7-1(a)</b> .....	57
<b>Reconciliation</b>	
<b>SR 1-6</b> .....	21
<b>SR 6-6(a)</b> .....	52
<b>SR 7-6</b> .....	62
<b>SR 9-5</b> .....	76
<b>Record Keeping section of ETHICS RULE</b> .....	9
Release	
of an Appraisal Report, AO-27 .....	227
<b>Relevant Characteristics</b>	
Contaminated Property, AO-9 .....	145
<b>Describe</b>	
<b>SR 2-2(a)(iii)</b> .....	23
<b>SR 8-2(a)(iii)</b> .....	64
<b>Identify</b>	
<b>SR 1-2(e)</b> .....	17
<b>SR 4-2(f)</b> .....	39
<b>SR 6-2(g)</b> .....	48
<b>SR 7-2(e)</b> .....	58
of the Subject Property, AO-23 .....	215
<b>Summarize</b>	
<b>SR 2-2(b)(iii)</b> .....	26
<b>SR 8-2(b)(iii)</b> .....	66
Reliability	
Levels of, SMT-7 .....	95
Remediation Cost	
Defined, AO-9 .....	145
Remediation Lifecycle	
Defined, AO-9 .....	145
Rent Survey	
Illustration, AO-21 .....	205
Report	
Appraisal Consulting .....	<i>See</i> Appraisal Consulting Report
Appraisal Review .....	<i>See</i> Appraisal Review Report
<b>Clear and Accurate</b>	
<b>SR 10-1(a)</b> .....	77
<b>SR 2-1(a)</b> .....	22
<b>SR 5-1(a)</b> .....	42
<b>SR 6-7(a)</b> .....	53
<b>SR 8-2(a)</b> .....	63
Defined, DEF .....	4
Mass Appraisal .....	<i>See</i> Mass Appraisal Report
<b>Not Misleading</b>	
<b>SR 10-1(a)</b> .....	77
<b>SR 2-1(a)</b> .....	22
<b>SR 5-1(a)</b> .....	42
<b>SR 6-7(a)</b> .....	53
<b>SR 8-1(a)</b> .....	63
<b>STD 3</b> .....	33

Options .....	<i>See</i> Report Options	<b>Advisory Opinion, AO-1</b> .....	125
Oral .....	<i>See</i> Oral Report	<b>Analyze</b>	
Restricted Use Appraisal Report	<i>See</i> Restricted Use Appraisal Report	<b>SR 1-5(b)</b> .....	21
Self-Contained Appraisal Report .....	<i>See</i> Self-Contained Appraisal Report	<b>SR 7-5(b)</b> .....	62
<b>Sufficient Information</b>		Foreclosure Sales, AO-4 .....	133
<b>SR 10-1(b)</b> .....	77	<b>Normal Course of Business, AO-24</b> .....	219
<b>SR 2-1(b)</b> .....	22	Report	
SR 5-1(b) .....	42	SR 2-2(a)(ix) .....	25
<b>SR 6-7(b)</b> .....	53	SR 2-2(b)(ix) .....	28
<b>SR 8-1(b)</b> .....	63	SR 2-2(c)(ix) .....	30
Summary Appraisal Report .....	<i>See</i> Summary Appraisal Report	SR 8-2(a)(ix) .....	65
<b>True Copy in Workfile, ER</b> .....	9	SR 8-2(b)(ix) .....	68
<b>Report Date</b> .....	<i>See</i> Date of the Report	SR 8-2(c)(ix) .....	70
<b>Report Options</b>		Scope of Work	
<b>Business or Intangible Asset Appraisal</b>		Acceptable	
<b>SR 10-2</b> .....	77	SR 1-2(f) .....	18
Chart, AO-11 .....	152	SR 4-2(f)(ii) .....	40
<b>Content of Reports</b>		SR 6-2(c) .....	47
for Real and Personal Property, AO-11 .....	149	SR 7-2(f) .....	59
<b>Deciding Which to Use, AO-12</b> .....	156	SR 9-2(e) .....	74
<b>Personal Property, SR 8-2</b> .....	63	<b>and Departure, DR</b> .....	12
<b>Real Property, SR 2-2</b> .....	22	and Relevant Characteristics, AO-23 .....	216
<b>Statement of Report Option</b>		Defined, DEF .....	4
<b>AO-11</b> .....	149	Describe	
<b>SR 10-2</b> .....	77	SR 2-2(a)(vii) .....	24
<b>SR 2-2</b> .....	22	<b>SR 6-7(j)</b> .....	54
<b>SR 8-2</b> .....	63	Effect of Purpose, Intended Use	
<b>Reporting</b>		in Appraisal Review, AO-20 .....	193
<b>Appraisal Consulting, STD 5</b> .....	42	<b>Identify</b>	
Business Appraisal, STD 10 .....	77	<b>SR 1-2(f)</b> .....	18
Intangible Asset Appraisal, STD 10 .....	77	<b>SR 3-1(c)</b> .....	34
<b>Mass Appraisal, STD 6</b> .....	46	SR 4-2(f) .....	39
<b>Personal Property Appraisal, STD 8</b> .....	63	SR 6-2(c) .....	47
<b>Real Property Appraisal, STD 2</b> .....	22	<b>SR 7-2(f)</b> .....	59
Restricted Use Appraisal Report		<b>SR 9-2(e)</b> .....	74
<b>Content of, AO-11</b> .....	150	<b>in Market Value Assignments, AO-22</b> .....	208
<b>Required Content</b>		Includes Reviewer's Opinion	
<b>SR 10-2(b)</b> .....	79	of Value, SR 3-1(c) .....	34
<b>SR 2-2(c)</b> .....	28	Normal Course of Business, AO-24 .....	219
<b>SR 8-2(c)</b> .....	68	State	
Workfile Sufficient to Produce		SR 10-2(b)(vii) .....	80
Summary Appraisal Report		SR 2-2(c)(vii) .....	29
or Appraisal Report, ER .....	10	SR 3-2(c) .....	35
Workfile Inspection by Client, ER .....	10	SR 5-2(f) .....	43
<b>Retrospective Value Opinions, SMT-3</b> .....	88	SR 8-2(c)(vii) .....	69
Reviewer's Own Opinion of Value		Summarize	
<b>AO-20</b> .....	192	<b>SR 10-2(a)(vii)</b> .....	78
SR 3-1(c) .....	34	SR 2-2(b)(vii) .....	27
SR 3-2(d) .....	36	SR 8-2(b)(vii) .....	67
<b>S</b>			
<b>Sales Comparison Approach</b>		<b>Self-Contained Appraisal Report</b>	
<b>SR 1-4(a)</b> .....	19	<b>Content of, AO-11</b> .....	149
<b>SR 6-5(a)</b> .....	51	<b>Required Content</b>	
<b>SR 7-4(a)</b> .....	60	<b>SR 2-2(a)</b> .....	23
<b>Sales History</b> .....	119	<b>SR 8-2(a)</b> .....	64
		Signature	
		Defined, DEF .....	4
		Software Responsibility	
		AO-18 .....	178
		SMT-2 .....	86
		<b>Soliciting</b> .....	<i>See</i> Advertising

Source Sites	
Defined, AO-9 .....	145
Source, Non-source, Adjacent and Proximate Sites	
Defined, AO-9 .....	145
Specific Requirements	
Defined, DEF.....	4
<b>Departure, DR</b> .....	12
Examples of Applicability, SMT-7.....	97
<b>Specifications</b> .....	<i>See Plans, Specifications</i>
State	
Example, AO-11 .....	154
Subjective Phrases	
vs Factual Descriptions, AO-16.....	170
<b>Subsidized Housing</b>	
<b>Appraisal for, AO-14</b> .....	162
<b>Sufficient Information</b> .....	<i>See Report, Sufficient Information</i>
Summarize	
Example, AO-11 .....	154
<b>Summary Appraisal Report</b>	
<b>Content of, AO-11</b> .....	150
<b>Required Content</b>	
<b>SR 2-2(b)</b> .....	26
<b>SR 8-2(b)</b> .....	66
Supplemental Standards	
Defined, DEF .....	5
Who May Issue, SSR.....	15
<b>SUPPLEMENTAL STANDARDS RULE</b> .....	15

## T

Technical Review	
Terminology, AO-20.....	193
<b>Techniques</b> .....	<i>See Recognized Methods and Techniques</i>
Testimony .....	<i>See Oral Reports</i>
<b>The Appraisal Review, AO-6</b> .....	138
<b>Transferring a Report</b> .....	<i>See Readdressing (Transferring) a Report</i>
True Copy .....	<i>Also See Copy Required in Workfile, ER</i>
<b>Required in Workfile, ER</b> .....	9
Type and Definition of Value	
<b>Appropriate Market (Personal Property), SR 7-3(b)</b> .....	60
Identify	
SR 1-2(c) .....	17
SR 4-2(c)(ii).....	39
SR 6-2(f) .....	48
<b>SR 7-2(c)</b> .....	58
<b>SR 9-2(b)</b> .....	73
<b>State and Cite Source</b>	
<b>SR 10-2(a)(v)</b> .....	78

<b>SR 2-2(a)(v)</b> .....	23
<b>SR 2-2(b)(v)</b> .....	26
<b>SR 6-7(h)</b> .....	54
<b>SR 8-2(a)(v)</b> .....	64
<b>SR 8-2(b)(v)</b> .....	67
<b>State Type and Cite Source</b>	
<b>SR 10-2(b)(v)</b> .....	79
<b>SR 2-2(c)(v)</b> .....	29
<b>SR 8-2(c)(v)</b> .....	69
<b>Type of Value</b> .....	<i>See Type and Definition of Value</i>
Typical Practice	
How Measured, DR .....	13

## U

<b>Unacceptable Assignment Conditions, AO-19</b> ...	186
Undisclosed Fees	
Procurement of an Assignment, ER .....	8
Unimpaired Value	
Defined, AO-9.....	145
<b>Unsupported Conclusions</b>	
Fair Housing Laws, AO-16.....	169
<b>Must Not Rely On, ER</b> .....	7
<b>Update of an Appraisal</b> . <i>Also See Appraisal Update</i>	
<b>New Assignment, AO-3</b> .....	131
Requirements, AO-3 .....	131

## V

<b>Validated Offers</b>	
<b>Analyze, SR 7-5(a)</b> .....	62
Valuation Services	
Defined, DEF.....	5
Outside of Appraisal Practice, AO-21 .....	201
Relationship to Appraisal Practice, AO-21	200
Value	
Defined, DEF.....	5

## W

Workfile	
<b>Considerations, AO-15</b> .....	167
Defined, DEF .....	5
<b>Must Include, ER</b> .....	9
Prior to Issuance of Report, ER.....	10
Restricted Use Appraisal Report	
Inspection by Client, ER.....	10
<b>Retain at least five (5) years, ER</b> .....	9
<b>True Copy of Report, ER</b> .....	9
<b>When Required, ER</b> .....	9