

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

2010-2011 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, 2010 through
December 31, 2011**



Vision and Mission Statement of The Appraisal Foundation

VISION STATEMENT

The Appraisal Foundation will be the organization that is the ultimate source of appraisal standards, appraiser qualifications and standards of ethical conduct in all valuation disciplines to assure public trust in the valuation profession.

MISSION STATEMENT

The Appraisal Foundation, a not-for-profit organization dedicated to the advancement of professional valuation, was established by the appraisal profession in the United States in 1987. Since its inception, the Foundation has worked to foster professionalism in appraising by:

- establishing, improving, and promoting the *Uniform Standards of Professional Appraisal Practice* (USPAP);
- establishing educational experience and examination qualification criteria for the licensing, certification and recertification of real property appraisers;
- establishing educational and experience qualification criteria for other valuation disciplines;
- disseminating information on USPAP and the Appraiser Qualification Criteria to the appraisal profession, state and federal government agencies, users of appraisal services, related industries and industry groups, and the general public and;
- sponsoring appropriate activities relating to standards, qualifications and issues of importance to appraisers and users of appraisal services.

-Extracted from *The Strategic Goals of The Appraisal Foundation*
Adopted 110108

APPRAISAL STANDARDS BOARD



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

FOREWORD

The Appraisal Standards Board (ASB) of The Appraisal Foundation develops, interprets, and amends the *Uniform Standards of Professional Appraisal Practice* (USPAP) on behalf of appraisers and users of appraisal services. **The 2010-2011 Edition of USPAP (2010-2011 USPAP) is effective January 1, 2010 through December 31, 2011.**

USPAP has five sections: DEFINITIONS, PREAMBLE, Rules, Standards and Standards Rules, and Statements on Appraisal Standards. For convenience of reference, USPAP is published with this Foreword and a Table of Contents. These reference materials are forms of “Other Communications” provided by the ASB for guidance only and are not part of USPAP.

It is important that individuals understand and adhere to changes that are adopted in each edition of USPAP. State and federal regulatory authorities enforce the content of the current or applicable edition of USPAP.

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. The effective date of the original Uniform Standards was April 27, 1987. 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 Appraisal Standards Board unanimously approved and adopted the original USPAP as the initial appraisal standards promulgated by the ASB. Portions of USPAP may be amended, interpreted, supplemented, or retired by the ASB after exposure to the appraisal profession, users of appraisal services, and the public in accordance with established rules of procedure.

Changes to USPAP

Over the years, USPAP has evolved in response to changes in appraisal practice. The ASB has developed a process for developing both Standards and guidance based, in part, on written comments submitted in response to exposure drafts and oral testimony presented at public meetings.

Guidance

The ASB issues guidance in the form of Advisory Opinions, *USPAP Frequently Asked Questions* (FAQ) and monthly questions and responses “USPAP Q&A.” These communications do not establish new Standards or interpret existing Standards and are not part of USPAP. They illustrate the applicability of Standards in specific situations and offer advice from the ASB for the resolution of specific appraisal issues and problems.

The USPAP Q&A is published monthly and available on The Appraisal Foundation website. These questions and responses are compiled and published in the *USPAP Frequently Asked Questions*.

Contacting the Appraisal Standards Board

The ASB invites questions about USPAP, commentary on USPAP and proposed changes to USPAP from all interested parties, including appraisers, state enforcement agencies, users of appraisal services, and the public.

FOREWORD

If you have any comments, questions, or suggestions regarding USPAP, please contact the ASB.

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APPRAISAL STANDARDS BOARD



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J. Carl Schultz, Jr. – Vice Chair

Richard L. Borges II

Jay E. Fishman

Richard Knitter

Barry J. Shea

(The 2010-2011 USPAP was adopted by the 2009 Appraisal Standards Board on April 3, 2009.)

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FOREWORD

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REVISIONS TO USPAP AND USPAP ADVISORY OPINIONS

Background

On April 3, 2009, the Appraisal Standards Board (ASB) approved and adopted modifications to the 2008-09 edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP). This action was the culmination of a 15-month joint ASB/AQB campaign that asked appraisers, users of appraisal services, regulators, educators, and others how well USPAP was serving their needs. This was accomplished with a series of public documents and public meetings. Written comments from almost 2,000 individuals, as well as oral comments offered at public meetings, were also received. The ASB considered every comment, developed a work plan to address the issues brought forward, and asked for and received public comment on a proposed work plan. This work plan included changes for the 2010-11 edition of USPAP, as well as additional changes (such as those involving the issue of reporting) for the 2012-13 edition of USPAP.

2010-2011 Changes

The changes to USPAP that were adopted by the ASB were the result of three exposure drafts, issued on October 3, 2008, December 10, 2008, and February 10, 2009. These changes have been incorporated into this 2010-2011 edition of USPAP and associated guidance material. The exposure drafts proposed changes to the following areas of USPAP:

- Definition of “Signature”
- Definition of “Jurisdictional Exception”
- Definition of “Assignment”
- The ETHICS RULE
- The COMPETENCY RULE
- The JURISDICTIONAL EXCEPTION RULE
- STANDARD 3, *Appraisal Review, Development and Reporting*

The Board received written comments from interested parties on all three exposure drafts and heard oral comments at public meetings held on November 18, 2008, February 23, 2009, and April 3, 2009.

The goal of the *Uniform Standards of Professional Appraisal Practice* is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. All potential changes and additions to USPAP are evaluated in light of this goal. The adopted changes are intended to improve the clarity, understanding and enforcement of USPAP, thereby furthering the goal of promoting and maintaining public trust in appraisal practice.

In reviewing comment letters received on the exposure drafts, the ASB’s primary focus is the reasoning and insight presented in the letters, rather than the source or authorship. While a numerical count of comment letters may be taken, the ASB does not weigh the numerical count as a determining factor in its final decisions. The ASB is guided by the quality, relevancy, and accuracy of the points made, and not their frequency.

With the exception of minor administrative edits, the Board adopted the proposed revisions to USPAP as contained in the Third Exposure Draft.

Most of the changes to the 2010-2011 USPAP were done for clarity and do not alter the intent or general requirements. The changes that do impact requirements include the following:

FOREWORD

The ETHICS RULE

Conduct Section

Prior to accepting an assignment, and if discovered at any time during the assignment, an appraiser must disclose to the client and in the report certification:

- any services regarding the subject property performed by the appraiser within the prior three years, as an appraiser or in any other capacity.

This disclosure requirement will allow a prospective client to know, at the time of the assignment, whether the appraiser is performing, or has performed, other services with regard to the property, such as property management, leasing, brokerage, auction, or investment advisory services, etc., thus allowing the client to determine potential conflicts, if any.

Whether for potential or perceived conflicts of interest, disclosure prior to accepting an assignment is important to preserving public trust. The client should have an opportunity to evaluate this information *before* the appraiser is engaged, or if such potential or perceived conflict of interest is discovered by the appraiser during the assignment. The appraiser must avoid bias – a preference or inclination that may preclude his or her impartiality, independence, or objectivity in the assignment. The perception of possible bias is also potentially damaging to public trust in the appraisal profession. Therefore, appraisers should have an obligation to disclose an interest and potential conflict to the client prior to being engaged in an assignment, or if it is discovered by the appraiser during the assignment.

Record Keeping Section

The Board deleted an appraiser's obligation to allow the client access to the workfile for a Restricted Use Appraisal Report. The requirement that all appraisal reports contain sufficient information to enable the intended users of the appraisal to understand the report properly made this ETHICS RULE statement unnecessary. Conforming edits to SR 2-2(c)(viii), SR 8-2(c)(viii) and SR 10-2(b)(ix) were also made.

STANDARD 3, *Appraisal Review, Development and Reporting*

STANDARD 3 has been rewritten significantly. The ASB's intent was to update and clarify the requirements for appraisal review, not to introduce changes to current appraisal review practice or create new appraisal review requirements.

An examination of the requirements for appraisal review revealed that although the Standard addresses the requirements for both development and reporting, the requirements are often not distinct or fully elaborated. Therefore, revisions were made to expand and distinguish the development and reporting requirements. STANDARD 3 was divided into two sections: one addressing development, and one addressing reporting. The revised language mirrors the form and content of the other STANDARDS.

A review of the other Standards revealed that they all include a basic format of general requirements followed by specific requirements. For example, Standards Rule 1-1 provides for the basic requirements of appraisal development, followed by the requirements of problem identification in Standards Rule 1-2. The remaining Standards Rules present more specific requirements. However, STANDARD 3 did not follow this format, which complicated understanding, application, education, and enforcement. Therefore, revisions were made to create a more logical and comprehensive structure.

The requirements of Standards Rules 3-1(d) through (g) present the requirements related to the process of appraisal review. The considerations previously required (completeness, adequacy, relevance, appropriateness, and reasonableness) failed to reflect the true nature of current practice and were somewhat repetitive. The

reviewer's scope of work can include much less than and much more than these considerations. Further, there was no distinction of the difference between reviewing an analysis (development) and reviewing a report. The revisions made are intended to better guide a review process that is in practice quite broad and flexible.

A common area of misunderstanding in STANDARD 3 related to the requirements that apply to reviewers who are providing their own opinion(s) related to the subject of an appraisal, an appraisal review, or an appraisal consulting problem addressed in the work under review. In the review of an appraisal assignment, the reviewer can provide an opinion of value for the property that is the subject of the appraisal review assignment. In the review of an appraisal review assignment, the reviewer can provide an opinion of quality for the work that is the subject of the appraisal review assignment. In the review of an appraisal consulting assignment, the reviewer can provide an analysis, recommendation, or opinion for the consulting problem that is the subject of the appraisal consulting assignment. Revisions were made to organize and clarify the requirements that apply to a reviewer providing their own opinion of value, review opinion, or consulting conclusion related to the work that is the subject of the appraisal review assignment.

Administrative edits were also made to USPAP and all guidance material, including the *USPAP Advisory Opinions* and *USPAP Frequently Asked Questions*, for conformity and consistency.

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Statements on Appraisal Standards

Statements on Appraisal Standards (SMT) 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.

Each Statement is labeled as to its applicability to the various appraisal disciplines. The abbreviations are:

- Real Property – RP
- Personal Property – PP
- Intangible Property – IP (includes business interests)
- All disciplines – ALL

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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:

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.

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.

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

DEFINITIONS

36 Comment: Such expectation occurs when individuals, either by choice or by requirement
37 placed upon them or upon the service they provide by law, regulation, or agreement with the
38 client or intended users, represent that they comply.¹

39 **APPRAISER'S PEERS:** other appraisers who have expertise and competency in a similar type of assignment.

40 **ASSIGNMENT:** 1) An agreement between an appraiser and a client to provide a valuation service; 2) the
41 valuation service that is provided as a consequence of such an agreement.

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

43 Comment: Assignment results include an appraiser's:

- 44 ■ opinions or conclusions developed in an appraisal assignment, such as value;
- 45 ■ opinions of adequacy, relevancy, or reasonableness developed in an appraisal review assignment;
- 46 or
- 47 ■ opinions, conclusions, or recommendations developed in an appraisal consulting assignment.

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

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

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

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

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

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

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

- 61 ■ identified by the client as confidential when providing it to an appraiser and that is not available
- 62 from any other source; or
- 63 ■ classified as confidential or private by applicable law or regulation*.

64 *NOTICE: For example, pursuant to the passage of the Gramm-Leach-Bliley Act in November 1999, some
65 public agencies have adopted privacy regulations that affect appraisers. As a result, the Federal Trade
66 Commission issued a rule focused on the protection of "non-public personal information" provided by
67 consumers to those involved in financial activities "found to be closely related to banking or usual in connection
68 with the transaction of banking." These activities have been deemed to include "appraising real or personal
69 property." (Quotations are from the Federal Trade Commission, Privacy of Consumer Financial Information;
70 Final Rule, 16 CFR Part 313.)

¹ See PREAMBLE and Advisory Opinion 21, *USPAP Compliance*.

71 **COST:** the amount required to create, produce, or obtain a property.

72 Comment: *Cost* is either a fact or an estimate of fact.

73 **CREDIBLE:** worthy of belief.

74 Comment: Credible assignment results require support, by relevant evidence and logic, to the
75 degree necessary for the intended use.

76 **EXTRAORDINARY ASSUMPTION:** an assumption, directly related to a specific assignment, which, if
77 found to be false, could alter the appraiser's opinions or conclusions.

78 Comment: Extraordinary assumptions presume as fact otherwise uncertain information about
79 physical, legal, or economic characteristics of the subject property; or about conditions
80 external to the property, such as market conditions or trends; or about the integrity of data
81 used in an analysis.

82 **FEASIBILITY ANALYSIS:** a study of the cost-benefit relationship of an economic endeavor.

83 **HYPOTHETICAL CONDITION:** that which is contrary to what exists but is supposed for the purpose of
84 analysis.

85 Comment: Hypothetical conditions assume conditions contrary to known facts about physical,
86 legal, or economic characteristics of the subject property; or about conditions external to the
87 property, such as market conditions or trends; or about the integrity of data used in an
88 analysis.

89 **INTANGIBLE PROPERTY (INTANGIBLE ASSETS):** nonphysical assets, including but not limited to
90 franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from
91 physical assets such as facilities and equipment.

92 **INTENDED USE:** the use or uses of an appraiser's reported appraisal, appraisal review, or appraisal consulting
93 assignment opinions and conclusions, as identified by the appraiser based on communication with the client at
94 the time of the assignment.

95 **INTENDED USER:** the client and any other party as identified, by name or type, as users of the appraisal,
96 appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at
97 the time of the assignment.

98 **JURISDICTIONAL EXCEPTION:** an assignment condition established by applicable law or regulation,
99 which precludes an appraiser from complying with a part of USPAP.

100 **MARKET VALUE:** a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right
101 of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition
102 of the term identified by the appraiser as applicable in an appraisal.

103 Comment: Forming an opinion of market value is the purpose of many real property appraisal
104 assignments, particularly when the client's intended use includes more than one intended user.
105 The conditions included in market value definitions establish market perspectives for
106 development of the opinion. These conditions may vary from definition to definition but
107 generally fall into three categories:

- 108 1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
- 109 2. the terms of sale (e.g., cash, cash equivalent, or other terms); and

DEFINITIONS

110 3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time
111 prior to sale).

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

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

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

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

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

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

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

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

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

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

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

137 **SCOPE OF WORK:** the type and extent of research and analyses in an assignment.

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

140 **VALUATION SERVICES:** services pertaining to aspects of property value.

141 Comment: Valuation services pertain to all aspects of property value and include services
142 performed both by appraisers and by others.

143 **VALUE:** the monetary relationship between properties and those who buy, sell, or use those properties.

144 Comment: *Value* expresses an economic concept. As such, it is never a fact but always an
145 opinion of the worth of a property at a given time in accordance with a specific definition of

146 value. In appraisal practice, value must always be qualified - for example, market value,
147 liquidation value, or investment value.

148 **WORKFILE:** documentation necessary to support an appraiser's analyses, opinions, and conclusions.

PREAMBLE

149 **PREAMBLE**

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

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

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

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

- 164 • The DEFINITIONS establish the application of certain terminology in USPAP.
- 165 • The ETHICS RULE sets forth the requirements for integrity, impartiality, objectivity,
166 independent judgment, and ethical conduct.
- 167 • The COMPETENCY RULE presents pre-assignment and assignment conditions for
168 knowledge and experience.
- 169 • The SCOPE OF WORK RULE presents obligations related to problem identification,
170 research and analyses.
- 171 • The JURISDICTIONAL EXCEPTION RULE preserves the balance of USPAP if law or
172 regulation of a jurisdiction precludes compliance with any part of USPAP.
- 173 • The ten Standards establish the requirements for appraisal, appraisal review, and appraisal
174 consulting service and the manner in which each is communicated.
 - 175 - STANDARDS 1 and 2 establish requirements for the development and
176 communication of a real property appraisal.
 - 177 - STANDARD 3 establishes requirements for the development and communication of
178 an appraisal review.
 - 179 - STANDARDS 4 and 5 establish requirements for the development and
180 communication of a real property appraisal consulting assignment.
 - 181 - STANDARD 6 establishes requirements for the development and communication of
182 a mass appraisal.
 - 183 - STANDARDS 7 and 8 establish requirements for the development and
184 communication of a personal property appraisal.
 - 185 - STANDARDS 9 and 10 establish requirements for the development and
186 communication of a business or intangible asset appraisal.
- 187 • Statements on Appraisal Standards clarify, interpret, explain, or elaborate on a Rule or
188 Standards Rule.
- 189 • Comments are an integral part of USPAP and have the same weight as the component
190 they address. These extensions of the DEFINITIONS, Rules, and Standards Rules
191 provide interpretation and establish the context and conditions for application.

192 ETHICS RULE

193 **An appraiser must promote and preserve the public trust inherent in appraisal practice by observing**
194 **the highest standards of professional ethics.**

195 **An appraiser must comply with USPAP when obligated by law or regulation, or by agreement with**
196 **the client or intended users. In addition to these requirements, an individual should comply any time**
197 **that individual represents that he or she is performing the service as an appraiser.**

198 Comment: This Rule specifies the personal obligations and responsibilities of the individual
199 appraiser. An individual appraiser employed by a group or organization that conducts itself in a
200 manner that does not conform to USPAP should take steps that are appropriate under the
201 circumstances to ensure compliance with USPAP.

202 This ETHICS RULE is divided into four sections: Conduct, Management, Confidentiality, and
203 Record Keeping. The Conduct, Management, and Confidentiality sections apply to all appraisal
204 practice. The Record Keeping section applies to appraisal practice performed under
205 STANDARDS 1 through 10.

206 **Conduct:**

207 **An appraiser must perform assignments with impartiality, objectivity, and independence, and**
208 **without accommodation of personal interests.**

209 **An appraiser:**

- 210 • **must not perform an assignment with bias;**
- 211 • **must not advocate the cause or interest of any party or issue;**
- 212 • **must not accept an assignment that includes the reporting of predetermined opinions and**
213 **conclusions;**
- 214 • **must not misrepresent his or her role when providing valuation services that are outside of**
215 **appraisal practice;**
- 216 • **must not communicate assignment results with the intent to mislead or to defraud;**
- 217 • **must not use or communicate a report that is known by the appraiser to be misleading or**
218 **fraudulent;**
- 219 • **must not knowingly permit an employee or other person to communicate a misleading or**
220 **fraudulent report;**
- 221 • **must not use or rely on unsupported conclusions relating to characteristics such as race,**
222 **color, religion, national origin, gender, marital status, familial status, age, receipt of public**
223 **assistance income, handicap, or an unsupported conclusion that homogeneity of such**
224 **characteristics is necessary to maximize value;**
- 225 • **must not engage in criminal conduct; and**
- 226 • **must not perform an assignment in a grossly negligent manner.**

227 Comment: Development standards (1-1, 3-1, 4-1, 6-1, 7-1 and 9-1) address the requirement that
228 “an appraiser must not render appraisal services in a careless or negligent manner.” The above
229 requirement deals with an appraiser being grossly negligent in performing an assignment which
230 would be a violation of the Conduct section of the ETHICS RULE.

ETHICS RULE

231 **If known prior to accepting an assignment, and/or if discovered at any time during the assignment,**
232 **an appraiser must disclose to the client, and in the subsequent report certification:**

- 233 • **any current or prospective interest in the subject property or parties involved; and**
234 • **any services regarding the subject property performed by the appraiser within the three**
235 **year period immediately preceding acceptance of the assignment, as an appraiser or in any**
236 **other capacity.**

237 Comment: Disclosing the fact that the appraiser has previously appraised the property is permitted
238 except in the case when an appraiser has agreed with the client to keep the mere occurrence of a
239 prior assignment confidential. If an appraiser has agreed with a client not to disclose that he or she
240 has appraised a property, the appraiser must decline all subsequent assignments that fall within the
241 three year period.

242 **Management:**

243 **An appraiser must disclose that he or she paid a fee or commission, or gave a thing of value in**
244 **connection with the procurement of an assignment.**

245 Comment: The disclosure must appear in the certification and in any transmittal letter in which
246 conclusions are stated; however, disclosure of the amount paid is not required. In groups or
247 organizations engaged in appraisal practice, intra-company payments to employees for business
248 development do not require disclosure.

249 **An appraiser must not accept an assignment, or have a compensation arrangement for an**
250 **assignment, that is contingent on any of the following:**

- 251 1. **the reporting of a predetermined result (e.g., opinion of value);**
252 2. **a direction in assignment results that favors the cause of the client;**
253 3. **the amount of a value opinion;**
254 4. **the attainment of a stipulated result (e.g., that the loan closes, or taxes are reduced); or**
255 5. **the occurrence of a subsequent event directly related to the appraiser's opinions and specific**
256 **to the assignment's purpose.**

257 **An appraiser must not advertise for or solicit assignments in a manner that is false, misleading, or**
258 **exaggerated.**

259 **An appraiser must affix, or authorize the use of, his or her signature to certify recognition and**
260 **acceptance of his or her USPAP responsibilities in an appraisal, appraisal review, or appraisal**
261 **consulting assignment (see Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3, and 10-3). An appraiser may**
262 **authorize the use of his or her signature only on an assignment-by-assignment basis.**

263 **An appraiser must not affix the signature of another appraiser without his or her consent.**

264 Comment: An appraiser must exercise due care to prevent unauthorized use of his or her signature.
265 An appraiser exercising such care is not responsible for unauthorized use of his or her signature.

266 **Confidentiality:**

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

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

270 **An appraiser must be aware of, and comply with, all confidentiality and privacy laws and regulations**
271 **applicable in an assignment.²**

272 **An appraiser must not disclose: (1) confidential information; or (2) assignment results to anyone**
273 **other than:**

- 274 • **the client;**
- 275 • **persons specifically authorized by the client;**
- 276 • **state appraiser regulatory agencies;**
- 277 • **third parties as may be authorized by due process of law; or**
- 278 • **a duly authorized professional peer review committee except when such disclosure to a**
279 **committee would violate applicable law or regulation.**

280 **A member of a duly authorized professional peer review committee must not disclose confidential**
281 **information presented to the committee.**

282 Comment: When all confidential elements of confidential information and assignment results are
283 removed through redaction or the process of aggregation, client authorization is not required for
284 the disclosure of the remaining information, as modified.

285 **Record Keeping:**

286 **An appraiser must prepare a workfile for each appraisal, appraisal review, or appraisal consulting**
287 **assignment. A workfile must be in existence prior to the issuance of a written or oral report. A**
288 **written summary of an oral report must be added to the workfile within a reasonable time after the**
289 **issuance of the oral report.**

290 **The workfile must include:**

- 291 • **the name of the client and the identity, by name or type, of any other intended users;**
- 292 • **true copies of any written reports, documented on any type of media (A true copy is a replica**
293 **of the report transmitted to the client. A photocopy or an electronic copy of the entire signed**
294 **report transmitted to the client satisfies the requirement of a true copy.);**
- 295 • **summaries of any oral reports or testimony, or a transcript of testimony, including the**
296 **appraiser's signed and dated certification; and**
- 297 • **all other data, information, and documentation necessary to support the appraiser's**
298 **opinions and conclusions and to show compliance with USPAP, or references to the**
299 **location(s) of such other documentation.**

² Pursuant to the passage of the Gramm-Leach-Bliley Act in 1999, numerous agencies have adopted 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.)

ETHICS RULE

300 **An appraiser must retain the workfile for a period of at least five years after preparation or at least**
301 **two years after final disposition of any judicial proceeding in which the appraiser provided testimony**
302 **related to the assignment, whichever period expires last.**

303 **An appraiser must have custody of his or her workfile, or make appropriate workfile retention,**
304 **access, and retrieval arrangements with the party having custody of the workfile.**

305 **An appraiser having custody of a workfile must allow other appraisers with workfile obligations**
306 **related to an assignment appropriate access and retrieval for the purpose of:**

- 307 • **submission to state appraiser regulatory agencies;**
- 308 • **compliance with due process of law;**
- 309 • **submission to a duly authorized professional peer review committee; or**
- 310 • **compliance with retrieval arrangements.**

311 Comment: Care should be exercised in the selection of the form, style, and type of medium for
312 records to ensure that they are retrievable by the appraiser throughout the prescribed record
313 retention period.

314 A workfile must be made available by the appraiser when required by a state appraiser regulatory
315 agency or due process of law.

316 A workfile in support of a Restricted Use Appraisal Report must be sufficient for the appraiser to
317 produce a Summary Appraisal Report (for assignments under STANDARDS 2 and 8) or an
318 Appraisal Report (for assignments under STANDARD 10).

319 **COMPETENCY RULE**

320 **An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to**
 321 **perform the assignment; or (3) decline or withdraw from the assignment.**

322 **Being Competent**

323 **The appraiser must determine, prior to accepting an assignment, that he or she can perform the**
 324 **assignment competently. Competency requires:**

- 325 **1. the ability to properly identify the problem to be addressed; and**
- 326 **2. the knowledge and experience to complete the assignment competently; and**
- 327 **3. recognition of, and compliance with, laws and regulations that apply to the appraiser or to the**
 328 **assignment.**

329 Comment: Competency may apply to factors such as, but not limited to, an appraiser's
 330 familiarity with a specific type of property or asset, a market, a geographic area, an intended
 331 use, specific laws and regulations, or an analytical method. If such a factor is necessary for an
 332 appraiser to develop credible assignment results, the appraiser is responsible for having the
 333 competency to address that factor or for following the steps outlined below to satisfy this
 334 COMPETENCY RULE.

335 For assignments with retrospective opinions and conclusions, the appraiser must meet the
 336 requirements of this COMPETENCY RULE at the time of the assignment, rather than the
 337 effective date.

338 **Acquiring Competency**

339 **If an appraiser determines he or she is not competent prior to accepting an assignment, the appraiser**
 340 **must:**

- 341 **1. disclose the lack of knowledge and/or experience to the client before accepting the assignment;**
- 342 **2. take all steps necessary or appropriate to complete the assignment competently; and**
- 343 **3. describe, in the report, the lack of knowledge and/or experience and the steps taken to complete**
 344 **the assignment competently.**

345 Comment: Competency can be acquired in various ways, including, but not limited to,
 346 personal study by the appraiser, association with an appraiser reasonably believed to have the
 347 necessary knowledge and/or experience, or retention of others who possess the necessary
 348 knowledge and/or experience.

349 In an assignment where geographic competency is necessary, an appraiser who is not familiar
 350 with the relevant market characteristics must acquire an understanding necessary to produce
 351 credible assignment results for the specific property type and market involved.

352 **When facts or conditions are discovered during the course of an assignment that cause an appraiser to**
 353 **determine, at that time, that he or she lacks the required knowledge and experience to complete the**
 354 **assignment competently, the appraiser must:**

- 355 **1. notify the client, and**
- 356 **2. take all steps necessary or appropriate to complete the assignment competently, and**

COMPETENCY RULE

357 **3. describe, in the report, the lack of knowledge and/or experience and the steps taken to complete**
358 **the assignment competently.**

359 **Lack of Competency**

360 If the assignment cannot be completed competently the appraiser must decline or withdraw from the
361 assignment.

362 **SCOPE OF WORK RULE³**363 **For each appraisal, appraisal review, and appraisal consulting assignment, an appraiser must:**

- 364 **1. identify the problem to be solved;**
 365 **2. determine and perform the scope of work necessary to develop credible assignment results; and**
 366 **3. disclose the scope of work in the report.**

367 **An appraiser must properly identify the problem to be solved in order to determine the appropriate**
 368 **scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to**
 369 **produce credible assignment results.**

370 Comment: Scope of work includes, but is not limited to:

- 371 • the extent to which the property is identified;
 372 • the extent to which tangible property is inspected;
 373 • the type and extent of data researched; and
 374 • the type and extent of analyses applied to arrive at opinions or conclusions.

375 Appraisers have broad flexibility and significant responsibility in determining the appropriate
 376 scope of work for an appraisal, appraisal review, and appraisal consulting assignment.

377 Credible assignment results require support by relevant evidence and logic. The credibility of
 378 assignment results is always measured in the context of the intended use.

379 **Problem Identification**

380 **An appraiser must gather and analyze information about those assignment elements that are necessary to**
 381 **properly identify the appraisal, appraisal review or appraisal consulting problem to be solved.**

382 Comment: The assignment elements necessary for problem identification are addressed in the
 383 applicable Standards Rules (i.e., SR 1-2, SR 3-1, SR 4-2, SR 6-2, SR 7-2 and SR 9-2). In an
 384 appraisal assignment, for example, identification of the problem to be solved requires the
 385 appraiser to identify the following assignment elements:

- 386 • client and any other intended users;
 387 • intended use of the appraiser's opinions and conclusions;
 388 • type and definition of value;
 389 • effective date of the appraiser's opinions and conclusions;
 390 • subject of the assignment and its relevant characteristics; and
 391 • assignment conditions.

392 This information provides the appraiser with the basis for determining the type and extent of
 393 research and analyses to include in the development of an appraisal. Similar information is
 394 necessary for problem identification in appraisal review and appraisal consulting assignments.

395 Communication with the client is required to establish most of the information necessary for
 396 problem identification. However, the identification of relevant characteristics is a judgment
 397 made by the appraiser that requires competency in that type of assignment.

³ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

SCOPE OF WORK RULE2F

398 Assignment conditions include assumptions, extraordinary assumptions, hypothetical
399 conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the
400 scope of work. Laws include constitutions, legislative and court-made law, administrative
401 rules, and ordinances. Regulations include rules or orders, having legal force, issued by an
402 administrative agency.

403 **Scope of Work Acceptability**⁴

404 **The scope of work must include the research and analyses that are necessary to develop credible**
405 **assignment results.**

406 Comment: The scope of work is acceptable when it meets or exceeds:

- 407 • the expectations of parties who are regularly intended users for similar assignments; and
- 408 • what an appraiser's peers' actions would be in performing the same or a similar
409 assignment.

410 Determining the scope of work is an ongoing process in an assignment. Information or
411 conditions discovered during the course of an assignment might cause the appraiser to
412 reconsider the scope of work.

413 An appraiser must be prepared to support the decision to exclude any investigation,
414 information, method, or technique that would appear relevant to the client, another intended
415 user, or the appraiser's peers.

416 **An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the**
417 **assignment results are not credible in the context of the intended use.**

418 Comment: If relevant information is not available because of assignment conditions that limit
419 research opportunities (such as conditions that place limitations on inspection or information
420 gathering), an appraiser must withdraw from the assignment unless the appraiser can:

- 421 • modify the assignment conditions to expand the scope of work to include gathering the
422 information; or
- 423 • use an extraordinary assumption about such information, if credible assignment results
424 can still be developed.

425 **An appraiser must not allow the intended use of an assignment or a client's objectives to cause the**
426 **assignment results to be biased.**

427 **Disclosure Obligations**

428 **The report must contain sufficient information to allow intended users to understand the scope of work**
429 **performed.**

430 Comment: Proper disclosure is required because clients and other intended users rely on the
431 assignment results. Sufficient information includes disclosure of research and analyses
432 performed and might also include disclosure of research and analyses not performed.

⁴ See Advisory Opinion 29, *An Acceptable Scope of Work*.

433 **JURISDICTIONAL EXCEPTION RULE**

434 **If any applicable law or regulation precludes compliance with any part of USPAP, only that part of**
435 **USPAP becomes void for that assignment.**

436 Comment: When compliance with USPAP is required by federal law or regulation, no part of
437 USPAP can be voided by a law or regulation of a state or local jurisdiction.

438 **In an assignment involving a jurisdictional exception, an appraiser must:**

- 439 **1. identify the law or regulation that precludes compliance with USPAP;**
- 440 **2. comply with that law or regulation;**
- 441 **3. clearly and conspicuously disclose in the report the part of USPAP that is voided by that law**
442 **or regulation; and**
- 443 **4. cite in the report the law or regulation requiring this exception to USPAP compliance.**

444 Comment: The JURISDICTIONAL EXCEPTION RULE provides a saving or severability
445 clause intended to preserve the balance of USPAP if compliance with one or more of its parts
446 is precluded by the law or regulation of a jurisdiction. When an appraiser properly follows
447 this Rule in disregarding a part of USPAP, there is no violation of USPAP.

448 Law includes constitutions, legislative and court-made law, and administrative rules and
449 ordinances. Regulations include rules or orders having legal force, issued by an
450 administrative agency. Instructions from a client or attorney do not establish a jurisdictional
451 exception.

STANDARD 1

452 STANDARD 1: REAL PROPERTY APPRAISAL, DEVELOPMENT

453 **In developing a real property appraisal, an appraiser must identify the problem to be solved, determine**
454 **the scope of work necessary to solve the problem, and correctly complete research and analyses necessary**
455 **to produce a credible appraisal.**

456 Comment: STANDARD 1 is directed toward the substantive aspects of developing a credible
457 appraisal of real property. The requirements set forth in STANDARD 1 follow the appraisal
458 development process in the order of topics addressed and can be used by appraisers and the
459 users of appraisal services as a convenient checklist.

460 **Standards Rule 1-1**

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

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

464 Comment: This Standards Rule recognizes that the principle of change continues to affect the
465 manner in which appraisers perform appraisal services. Changes and developments in the real
466 estate field have a substantial impact on the appraisal profession. Important changes in the
467 cost and manner of constructing and marketing commercial, industrial, and residential real
468 estate as well as changes in the legal framework in which real property rights and interests are
469 created, conveyed, and mortgaged have resulted in corresponding changes in appraisal theory
470 and practice. Social change has also had an effect on appraisal theory and practice. To keep
471 abreast of these changes and developments, the appraisal profession is constantly reviewing
472 and revising appraisal methods and techniques and devising new methods and techniques to
473 meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain
474 the skills and the knowledge they possess when they become appraisers. Each appraiser must
475 continuously improve his or her skills to remain proficient in real property appraisal.

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

478 Comment: An appraiser must use sufficient care to avoid errors that would significantly affect
479 his or her opinions and conclusions. Diligence is required to identify and analyze the factors,
480 conditions, data, and other information that would have a significant effect on the credibility
481 of the assignment results.

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

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

488 **Standards Rule 1-2**

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

- 490 (a) **identify the client and other intended users;**⁵
- 491 (b) **identify the intended use of the appraiser's opinions and conclusions;**⁶
- 492 Comment: An appraiser must not allow the intended use of an assignment or a client's
493 objectives to cause the assignment results to be biased.⁷
- 494 (c) **identify the type and definition of value, and, if the value opinion to be developed is market**
495 **value, ascertain whether the value is to be the most probable price:**
- 496 (i) **in terms of cash; or**
- 497 (ii) **in terms of financial arrangements equivalent to cash; or**
- 498 (iii) **in other precisely defined terms; and**
- 499 (iv) **if the opinion of value is to be based on non-market financing or financing with unusual**
500 **conditions or incentives, the terms of such financing must be clearly identified and the**
501 **appraiser's opinion of their contributions to or negative influence on value must be**
502 **developed by analysis of relevant market data;**
- 503 Comment: When developing an opinion of market value, the appraiser must also
504 develop an opinion of reasonable exposure time linked to the value opinion.⁸
- 505 (d) **identify the effective date of the appraiser's opinions and conclusions;**⁹
- 506 (e) **identify the characteristics of the property that are relevant to the type and definition of value**
507 **and intended use of the appraisal,**¹⁰ **including:**
- 508 (i) **its location and physical, legal, and economic attributes;**
- 509 (ii) **the real property interest to be valued;**
- 510 (iii) **any personal property, trade fixtures, or intangible items that are not real property but**
511 **are included in the appraisal;**
- 512 (iv) **any known easements, restrictions, encumbrances, leases, reservations, covenants,**
513 **contracts, declarations, special assessments, ordinances, or other items of a similar**
514 **nature; and**
- 515 (v) **whether the subject property is a fractional interest, physical segment, or partial**
516 **holding;**

⁵ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁶ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁷ See Advisory Opinion 19, *Unacceptable Assignment Conditions in Real Property Appraisal Assignments*.

⁸ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*.
See also Advisory Opinion 7, *Marketing Time Opinions*, and Advisory Opinion 22, *Scope of Work in Market Value Appraisal Assignments, Real Property*.

⁹ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

¹⁰ See Advisory Opinion 2, *Inspection of Subject Property*, and Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*.

STANDARD 1

517 Comment on (i)–(v): The information used by an appraiser to identify the property
518 characteristics must be from sources the appraiser reasonably believes are reliable.

519 An appraiser may use any combination of a property inspection and documents, such as a
520 physical legal description, address, map reference, copy of a survey or map, property sketch,
521 or photographs, to identify the relevant characteristics of the subject property.

522 When appraising proposed improvements, an appraiser must examine and have available for
523 future examination, plans, specifications, or other documentation sufficient to identify the
524 extent and character of the proposed improvements.¹¹

525 Identification of the real property interest appraised can be based on a review of copies or
526 summaries of title descriptions or other documents that set forth any known encumbrances.

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

529 **(f) identify any extraordinary assumptions necessary in the assignment;**

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

- 531 • it is required to properly develop credible opinions and conclusions;
- 532 • the appraiser has a reasonable basis for the extraordinary assumption;
- 533 • use of the extraordinary assumption results in a credible analysis; and
- 534 • the appraiser complies with the disclosure requirements set forth in USPAP for
535 extraordinary assumptions.

536 **(g) identify any hypothetical conditions necessary in the assignment; and**

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

- 538 • use of the hypothetical condition is clearly required for legal purposes, for purposes of
539 reasonable analysis, or for purposes of comparison;
- 540 • use of the hypothetical condition results in a credible analysis; and
- 541 • the appraiser complies with the disclosure requirements set forth in USPAP for
542 hypothetical conditions.

543 **(h) determine the scope of work necessary to produce credible assignment results in accordance with
544 the SCOPE OF WORK RULE.¹²**

545 Standards Rule 1-3

546 **When necessary for credible assignment results in developing a market value opinion, an appraiser must:**

547 **(a) identify and analyze the effect on use and value of existing land use regulations, reasonably
548 probable modifications of such land use regulations, economic supply and demand, the physical
549 adaptability of the real estate, and market area trends; and**

¹¹ See Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*.

¹² See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

550 Comment: An appraiser must avoid making an unsupported assumption or premise about
551 market area trends, effective age, and remaining life.

552 **(b) develop an opinion of the highest and best use of the real estate.**

553 Comment: An appraiser must analyze the relevant legal, physical, and economic factors to the
554 extent necessary to support the appraiser's highest and best use conclusion(s).

555 **Standards Rule 1-4**

556 **In developing a real property appraisal, an appraiser must collect, verify, and analyze all information**
557 **necessary for credible assignment results.**

558 **(a) When a sales comparison approach is necessary for credible assignment results, an appraiser**
559 **must analyze such comparable sales data as are available to indicate a value conclusion.**

560 **(b) When a cost approach is necessary for credible assignment results, an appraiser must:**

561 **(i) develop an opinion of site value by an appropriate appraisal method or technique;**

562 **(ii) analyze such comparable cost data as are available to estimate the cost new of the**
563 **improvements (if any); and**

564 **(iii) analyze such comparable data as are available to estimate the difference between the**
565 **cost new and the present worth of the improvements (accrued depreciation).**

566 **(c) When an income approach is necessary for credible assignment results, an appraiser must:**

567 **(i) analyze such comparable rental data as are available and/or the potential earnings**
568 **capacity of the property to estimate the gross income potential of the property;**

569 **(ii) analyze such comparable operating expense data as are available to estimate the**
570 **operating expenses of the property;**

571 **(iii) analyze such comparable data as are available to estimate rates of capitalization and/or**
572 **rates of discount; and**

573 **(iv) base projections of future rent and/or income potential and expenses on reasonably clear**
574 **and appropriate evidence.¹³**

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

579 **(d) When developing an opinion of the value of a leased fee estate or a leasehold estate, an appraiser**
580 **must analyze the effect on value, if any, of the terms and conditions of the lease(s).**

¹³ See Statement on Appraisal Standards No. 2, *Discounted Cash Flow Analysis*.

STANDARD 1

581 (e) **When analyzing the assemblage of the various estates or component parts of a property, an**
582 **appraiser must analyze the effect on value, if any, of the assemblage. An appraiser must refrain**
583 **from valuing the whole solely by adding together the individual values of the various estates or**
584 **component parts.**

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

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

592 (f) **When analyzing anticipated public or private improvements, located on or off the site, an**
593 **appraiser must analyze the effect on value, if any, of such anticipated improvements to the extent**
594 **they are reflected in market actions.**

595 (g) **When personal property, trade fixtures, or intangible items are included in the appraisal, the**
596 **appraiser must analyze the effect on value of such non-real property items.**

597 Comment: When the scope of work includes an appraisal of personal property, trade fixtures
598 or intangible items, competency in personal property appraisal (see STANDARD 7) or
599 business appraisal (see STANDARD 9) is required.

600 Standards Rule 1-5

601 **When the value opinion to be developed is market value, an appraiser must, if such information is**
602 **available to the appraiser in the normal course of business:¹⁴**

603 (a) **analyze all agreements of sale, options, and listings of the subject property current as of the**
604 **effective date of the appraisal; and**

605 (b) **analyze all sales of the subject property that occurred within the three (3) years prior to the**
606 **effective date of the appraisal.¹⁵**

607 Comment: See the Comments to Standards Rules 2-2(a)(viii), 2-2(b)(viii), and 2-2(c)(viii) for
608 corresponding reporting requirements relating to the availability and relevance of information.

609 Standards Rule 1-6

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

611 (a) **reconcile the quality and quantity of data available and analyzed within the approaches used;**
612 **and**

613 (b) **reconcile the applicability and relevance of the approaches, methods and techniques used to**
614 **arrive at the value conclusion(s).**

¹⁴ See Advisory Opinion 24, *Normal Course of Business*.

¹⁵ See Advisory Opinion 1, *Sales History*.

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

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

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

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

623 **Standards Rule 2-1**

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

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

630 **Standards Rule 2-2**

631 **Each written real property appraisal report must be prepared under one of the following three options**
 632 **and prominently state which option is used: Self-Contained Appraisal Report, Summary Appraisal**
 633 **Report, or Restricted Use Appraisal Report.¹⁶**

634 Comment: When the intended users include parties other than the client, either a Self-
 635 Contained Appraisal Report or a Summary Appraisal Report must be provided. When the
 636 intended users do not include parties other than the client, a Restricted Use Appraisal Report
 637 may be provided.

638 The essential difference among these three options is in the content and level of information
 639 provided. The appropriate reporting option and the level of information necessary in the
 640 report are dependent on the intended use and the intended users.

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

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

¹⁶ See Advisory Opinion 11, *Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2*, and Advisory Opinion 12, *Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2*.

STANDARD 2

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

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

655 **(i) state the identity of the client and any intended users, by name or type;¹⁷**

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

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

663 **(ii) state the intended use of the appraisal;¹⁸**

664 **(iii) describe information sufficient to identify the real estate involved in the appraisal,**
665 **including the physical and economic property characteristics relevant to the**
666 **assignment;¹⁹**

667 Comment: The real estate involved in the appraisal can be specified, for example, by
668 a legal description, address, map reference, copy of a survey or map, property sketch
669 and/or photographs or the like. The information can include a property sketch and
670 photographs in addition to written comments about the legal, physical, and economic
671 attributes of the real estate relevant to the type and definition of value and intended
672 use of the appraisal.

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

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

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

678 Comment: Stating the definition of value also requires any comments needed to
679 clearly indicate to intended users how the definition is being applied.²⁰

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

¹⁷ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁸ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁹ See Advisory Opinion 2, *Inspection of Subject Property*, and Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*.

²⁰ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*, and Advisory Opinion 22, *Scope of Work in Market Value Appraisal Assignments, Real Property*.

- 681 • in terms of cash or of financing terms equivalent to cash, or
 682 • based on non-market financing or financing with unusual conditions or
 683 incentives.

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

687 **(vi) state the effective date of the appraisal and the date of the report;**²¹

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

692 **(vii) describe the scope of work used to develop the appraisal;**²²

693 Comment: Because intended users' reliance on an appraisal may be affected by the
 694 scope of work, the report must enable them to be properly informed and not misled.
 695 Sufficient information includes disclosure of research and analyses performed and
 696 might also include disclosure of research and analyses not performed.

697 When any portion of the work involves significant real property appraisal assistance,
 698 the appraiser must describe the extent of that assistance. The signing appraiser must
 699 also state the name(s) of those providing the significant real property appraisal
 700 assistance in the certification, in accordance with Standards Rule 2-3.²³

701 **(viii) describe the information analyzed, the appraisal methods and techniques employed, and
 702 the reasoning that supports the analyses, opinions, and conclusions; exclusion of the
 703 sales comparison approach, cost approach, or income approach must be explained;**

704 Comment: A Self-Contained Appraisal Report must include sufficient information to
 705 indicate that the appraiser complied with the requirements of STANDARD 1. The
 706 amount of detail required will vary with the significance of the information to the
 707 appraisal.

708 The appraiser must provide sufficient information to enable the client and intended
 709 users to understand the rationale for the opinions and conclusions, including
 710 reconciliation of the data and approaches, in accordance with Standards Rule 1-6.

711 When reporting an opinion of market value, a summary of the results of analyzing
 712 the subject sales, options, and listings in accordance with Standards Rule 1-5 is
 713 required.²⁴ If such information is unobtainable, a statement on the efforts undertaken
 714 by the appraiser to obtain the information is required. If such information is
 715 irrelevant, a statement acknowledging the existence of the information and citing its
 716 lack of relevance is required.

²¹ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

²² See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

²³ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

²⁴ See Advisory Opinion 1, *Sales History*.

STANDARD 2

- 717 (ix) state the use of the real estate existing as of the date of value and the use of the real
718 estate reflected in the appraisal; and, when an opinion of highest and best use was
719 developed by the appraiser, describe the support and rationale for that opinion;
- 720 (x) clearly and conspicuously:
- 721 • state all extraordinary assumptions and hypothetical conditions; and
 - 722 • state that their use might have affected the assignment results; and
- 723 (xi) include a signed certification in accordance with Standards Rule 2-3.
- 724 (b) The content of a Summary Appraisal Report must be consistent with the intended use of the
725 appraisal and, at a minimum:
- 726 Comment: The essential difference between the Self-Contained Appraisal Report and the
727 Summary Appraisal Report is the level of detail of presentation.
- 728 (i) state the identity of the client and any intended users, by name or type;²⁵
- 729 Comment: An appraiser must use care when identifying the client to ensure a clear
730 understanding and to avoid violations of the Confidentiality section of the ETHICS
731 RULE. In those rare instances when the client wishes to remain anonymous, an
732 appraiser must still document the identity of the client in the workfile but may omit
733 the client's identity in the report.
- 734 Intended users of the report might include parties such as lenders, employees of
735 government agencies, partners of a client, and a client's attorney and accountant.
- 736 (ii) state the intended use of the appraisal;²⁶
- 737 (iii) summarize information sufficient to identify the real estate involved in the appraisal,
738 including the physical and economic property characteristics relevant to the
739 assignment;²⁷
- 740 Comment: The real estate involved in the appraisal can be specified, for example, by
741 a legal description, address, map reference, copy of a survey or map, property sketch,
742 and/or photographs or the like. The summarized information can include a property
743 sketch and photographs in addition to written comments about the legal, physical,
744 and economic attributes of the real estate relevant to the type and definition of value
745 and intended use of the appraisal.
- 746 (iv) state the real property interest appraised;
- 747 Comment: The statement of the real property rights being appraised must be
748 substantiated, as needed, by copies or summaries of title descriptions or other
749 documents that set forth any known encumbrances.
- 750 (v) state the type and definition of value and cite the source of the definition;

²⁵ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

²⁶ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

²⁷ See Advisory Opinion 2, *Inspection of Subject Property*, and Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*.

751 Comment: Stating the definition of value also requires any comments needed to
752 clearly indicate to the intended users how the definition is being applied.²⁸

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

- 754 • in terms of cash or of financing terms equivalent to cash, or
- 755 • based on non-market financing or financing with unusual conditions or
- 756 incentives.

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

760 **(vi) state the effective date of the appraisal and the date of the report;**²⁹

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

765 **(vii) summarize the scope of work used to develop the appraisal;**³⁰

766 Comment: Because intended users' reliance on an appraisal may be affected by the
767 scope of work, the report must enable them to be properly informed and not misled.
768 Sufficient information includes disclosure of research and analyses performed and
769 might also include disclosure of research and analyses not performed.

770 When any portion of the work involves significant real property appraisal assistance,
771 the appraiser must summarize the extent of that assistance. The signing appraiser
772 must also state the name(s) of those providing the significant real property appraisal
773 assistance in the certification, in accordance with Standards Rule 2-3.³¹

774 **(viii) summarize the information analyzed, the appraisal methods and techniques employed,
775 and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the
776 sales comparison approach, cost approach, or income approach must be explained;**

777 Comment: A Summary Appraisal Report must include sufficient information to
778 indicate that the appraiser complied with the requirements of STANDARD 1. The
779 amount of detail required will vary with the significance of the information to the
780 appraisal.

781 The appraiser must provide sufficient information to enable the client and intended
782 users to understand the rationale for the opinions and conclusions, including
783 reconciliation of the data and approaches, in accordance with Standards Rule 1-6.

²⁸ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*, and Advisory Opinion 22, *Scope of Work in Market Value Appraisal Assignments, Real Property*.

²⁹ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

³⁰ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

³¹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STANDARD 2

784 When reporting an opinion of market value, a summary of the results of analyzing
785 the subject sales, options, and listings in accordance with Standards Rule 1-5 is
786 required.³² If such information is unobtainable, a statement on the efforts undertaken
787 by the appraiser to obtain the information is required. If such information is
788 irrelevant, a statement acknowledging the existence of the information and citing its
789 lack of relevance is required.

790 **(ix) state the use of the real estate existing as of the date of value and the use of the real**
791 **estate reflected in the appraisal; and, when an opinion of highest and best use was**
792 **developed by the appraiser, summarize the support and rationale for that opinion;**

793 **(x) clearly and conspicuously:**

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

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

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

799 **(i) state the identity of the client, by name or type;³³ and state a prominent use restriction**
800 **that limits use of the report to the client and warns that the appraiser's opinions and**
801 **conclusions set forth in the report may not be understood properly without additional**
802 **information in the appraiser's workfile;**

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

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

812 **(ii) state the intended use of the appraisal;³⁴**

813 Comment: The intended use of the appraisal must be consistent with the limitation
814 on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e.,
815 client use only).

816 **(iii) state information sufficient to identify the real estate involved in the appraisal;³⁵**

³² See Advisory Opinion 1, *Sales History*

³³ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

³⁴ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

³⁵ See Advisory Opinion 2, *Inspection of Subject Property*. References to Advisory Opinions are for guidance only and do not incorporate Advisory Opinions into USPAP.

817 Comment: The real estate involved in the appraisal can be specified, for example, by
 818 a legal description, address, map reference, copy of a survey or map, property sketch,
 819 and/or photographs or the like.

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

821 **(v) state the type of value, and cite the source of its definition;³⁶**

822 **(vi) state the effective date of the appraisal and the date of the report;³⁷**

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

827 **(vii) state the scope of work used to develop the appraisal;³⁸**

828 Comment: Because the client's reliance on an appraisal may be affected by the scope
 829 of work, the report must enable them to be properly informed and not misled.
 830 Sufficient information includes disclosure of research and analyses performed and
 831 might also include disclosure of research and analyses not performed.

832 When any portion of the work involves significant real property appraisal assistance,
 833 the appraiser must state the extent of that assistance. The signing appraiser must also
 834 state the name(s) of those providing the significant real property appraisal assistance
 835 in the certification, in accordance with Standards Rule 2-3.³⁹

836 **(viii) state the appraisal methods and techniques employed, state the value opinion(s) and
 837 conclusion(s) reached, and reference the workfile; exclusion of the sales comparison
 838 approach, cost approach, or income approach must be explained;**

839 Comment: An appraiser must maintain a specific, coherent workfile in support of a
 840 Restricted Use Appraisal Report. The contents of the workfile must include sufficient
 841 information to indicate that the appraiser complied with the requirements of
 842 STANDARD 1 and for the appraiser to produce a Summary Appraisal Report.

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

³⁶ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*, and Advisory Opinion 22, *Scope of Work in Market Value Appraisal Assignments, Real Property*.

³⁷ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

³⁸ See Advisory Opinions 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

³⁹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STANDARD 2

- 849 (ix) state the use of the real estate existing as of the date of value and the use of the real
850 estate reflected in the appraisal; and, when an opinion of highest and best use was
851 developed by the appraiser, state that opinion;
- 852 (x) clearly and conspicuously:
- 853 • state all extraordinary assumptions and hypothetical conditions; and
 - 854 • state that their use might have affected the assignment results; and
- 855 (xi) include a signed certification in accordance with Standards Rule 2-3.

856 Standards Rule 2-3

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

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

- 860 — the statements of fact contained in this report are true and correct.
- 861 — the reported analyses, opinions, and conclusions are limited only by the reported
862 assumptions and limiting conditions and are my personal, impartial, and unbiased
863 professional analyses, opinions, and conclusions.
- 864 — I have no (or the specified) present or prospective interest in the property that is the
865 subject of this report and no (or the specified) personal interest with respect to the
866 parties involved.
- 867 — I have no bias with respect to the property that is the subject of this report or to the
868 parties involved with this assignment.
- 869 — my engagement in this assignment was not contingent upon developing or reporting
870 predetermined results.
- 871 — my compensation for completing this assignment is not contingent upon the
872 development or reporting of a predetermined value or direction in value that favors
873 the cause of the client, the amount of the value opinion, the attainment of a stipulated
874 result, or the occurrence of a subsequent event directly related to the intended use of
875 this appraisal.
- 876 — my analyses, opinions, and conclusions were developed, and this report has been
877 prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 878 — I have (or have not) made a personal inspection of the property that is the subject of
879 this report. (If more than one person signs this certification, the certification must
880 clearly specify which individuals did and which individuals did not make a personal
881 inspection of the appraised property.)⁴⁰
- 882 — no one provided significant real property appraisal assistance to the person signing
883 this certification. (If there are exceptions, the name of each individual providing
884 significant real property appraisal assistance must be stated.)

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

888 In an assignment that includes only assignment results developed by the real property
889 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all
890 elements of the certification, for the assignment results, and for the contents of the appraisal

⁴⁰ See Advisory Opinion 2, *Inspection of Subject Property*.

891 report. In an assignment that includes personal property, business or intangible asset
892 assignment results not developed by the real property appraiser(s), any real property
893 appraiser(s) who signs a certification accepts full responsibility for the real property elements
894 of the certification, for the real property assignment results, and for the real property contents
895 of the appraisal report.

896 When a signing appraiser(s) has relied on work done by appraisers and others who do not sign
897 the certification, the signing appraiser is responsible for the decision to rely on their work.
898 The signing appraiser(s) is required to have a reasonable basis for believing that those
899 individuals performing the work are competent. The signing appraiser(s) also must have no
900 reason to doubt that the work of those individuals is credible.

901 The names of individuals providing significant real property appraisal assistance who do not
902 sign a certification must be stated in the certification. It is not required that the description of
903 their assistance be contained in the certification, but disclosure of their assistance is required
904 in accordance with Standards Rule 2-2(a), (b), or (c)(vii), as applicable.⁴¹

905 **Standards Rule 2-4**

906 **To the extent that it is both possible and appropriate, an oral real property appraisal report must address**
907 **the substantive matters set forth in Standards Rule 2-2(b).**

908 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
909 requirements.

⁴¹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STANDARD 3

910 STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT AND REPORTING

911 **In developing an appraisal review assignment, an appraiser acting as a reviewer must identify the**
912 **problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete**
913 **research and analyses necessary to produce a credible appraisal review. In reporting the results of an**
914 **appraisal review assignment, an appraiser acting as a reviewer must communicate each analysis, opinion,**
915 **and conclusion in a manner that is not misleading.**

916 Comment: STANDARD 3 is directed toward the substantive aspects of developing a credible
917 opinion of the quality of another appraiser's work that was performed as part of an appraisal,
918 appraisal review, or real property appraisal consulting assignment.

919 STANDARD 3 also addresses the content and level of information required in a report that
920 communicates the results of an appraisal review assignment. STANDARD 3 does not dictate
921 the form, format, or style of Appraisal Review Reports. The substantive content of a report
922 determines its compliance.

923 In this Standard, the term "reviewer" is used to refer to an appraiser performing an appraisal
924 review.

925 **Standards Rule 3-1**

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

927 **(a) be aware of, understand, and correctly employ those methods and techniques that are necessary**
928 **to produce a credible appraisal review;**

929 Comment: Changes and developments in economics, finance, law, technology, and society
930 can have a substantial impact on the appraisal profession. To keep abreast of these changes
931 and developments, the appraisal profession is constantly reviewing and revising appraisal
932 methods and techniques and devising new methods and techniques to meet new
933 circumstances. Each appraiser must continuously improve his or her skills to remain
934 proficient in appraisal review.

935 The reviewer must have the knowledge and experience needed to identify and perform the
936 scope of work necessary to produce credible assignment results. Aspects of competency for
937 an appraisal review, depending on the review assignment's scope of work, may include,
938 without limitation, familiarity with the specific type of property or asset, market, geographic
939 area, analytic method, and applicable laws, regulations and guidelines.

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

942 Comment: A reviewer must use sufficient care to avoid errors that would significantly affect
943 his or her opinions and conclusions. Diligence is required to identify and analyze the factors,
944 conditions, data, and other information that would have a significant effect on the credibility
945 of the assignment results.

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

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

952 **Standards Rule 3-2**

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

954 **(a) identify the client and other intended users;**

955 **(b) identify the intended use of the reviewer's opinions and conclusions;**

956 Comment: A reviewer must not allow the intended use of an assignment or a client's
 957 objectives to cause the assignment results to be biased. A reviewer must not advocate for a
 958 client's objectives.

959 The intended use refers to the use of the reviewer's opinions and conclusions by the client and
 960 other intended users; examples include, without limitation, quality control, audit,
 961 qualification, or confirmation.

962 **(c) identify the purpose of the appraisal review, including whether the assignment includes the
 963 development of the reviewer's own opinion of value, review opinion or real property appraisal
 964 consulting conclusion related to the work under review;**

965 Comment: The purpose of an appraisal review assignment relates to the reviewer's objective;
 966 examples include, without limitation, to determine if the results of the work under review are
 967 credible for the intended user's intended use, or to evaluate compliance with relevant USPAP
 968 requirements, client requirements, or applicable regulations.

969 In the review of an appraisal assignment, the reviewer may provide an opinion of value for the
 970 property that is the subject of the work under review.

971 In the review of an appraisal review assignment, the reviewer may provide an opinion of
 972 quality for the work that is the subject of the appraisal review assignment.

973 In the review of an appraisal consulting assignment, the reviewer may provide an analysis,
 974 recommendation, or opinion for the consulting problem that is the subject of the real property
 975 appraisal consulting assignment.

976 **(d) identify the work under review and the characteristics of that work which are relevant to the
 977 intended use and purpose of the appraisal review, including:**

978 **(i) any ownership interest in the property that is the subject of the work under review;**

979 **(ii) the date of the work under review and the effective date of the opinions or conclusions in
 980 the work under review;**

981 **(iii) the appraiser(s) who completed the work under review, unless the identity is withheld by
 982 the client; and**

983 **(iv) the physical, legal, and economic characteristics of the property, properties, property
 984 type(s), or market area in the work under review.**

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

STANDARD 3

988 (e) **identify the effective date of the reviewer's opinions and conclusions;**

989 (f) **identify any extraordinary assumptions necessary in the review assignment;**

990 Comment: An extraordinary assumption may be used in a review assignment only if:

- 991 • it is required to properly develop credible opinions and conclusions;
- 992 • the reviewer has a reasonable basis for the extraordinary assumption;
- 993 • use of the extraordinary assumption results in a credible analysis; and
- 994 • the reviewer complies with the disclosure requirements set forth in USPAP for
- 995 extraordinary assumptions.

996 (g) **identify any hypothetical conditions necessary in the review assignment; and**

997 Comment: A hypothetical condition may be used in a review assignment only if:

- 998 • use of the hypothetical condition is clearly required for legal purposes, for purposes of
- 999 reasonable analysis, or for purposes of comparison;
- 1000 • use of the hypothetical condition results in a credible analysis; and
- 1001 • the reviewer complies with the disclosure requirements set forth in USPAP for
- 1002 hypothetical conditions

1003 (h) **determine the scope of work necessary to produce credible assignment results in accordance**
1004 **with the SCOPE OF WORK RULE.**

1005 Comment: Reviewers have broad flexibility and significant responsibility in determining the
1006 appropriate scope of work in an appraisal review assignment.

1007 Information that should have been considered by the original appraiser can be used by the
1008 reviewer in developing an opinion as to the quality of the work under review.

1009 Information that was not available to the original appraiser in the normal course of business
1010 may also be used by the reviewer; however, the reviewer must not use such information in the
1011 reviewer's development of an opinion as to the quality of the work under review.

1012 Standards Rule 3-3

1013 **In developing an appraisal review, a reviewer must apply the appraisal review methods and techniques**
1014 **that are necessary for credible assignment results.**

1015 (a) **When necessary for credible assignment results in the review of analyses, opinions, and**
1016 **conclusions, the reviewer must:**

1017 (i) **develop an opinion as to whether the analyses are appropriate within the context of the**
1018 **requirements applicable to that work;**

1019 (ii) **develop an opinion as to whether the opinions and conclusions are credible within the**
1020 **context of the requirements applicable to that work; and**

1021 (iii) **develop the reasons for any disagreement.**

1022 Comment: Consistent with the reviewer's scope of work, the reviewer is required to develop
1023 an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the
1024 analysis in the work under review, given law, regulations, or intended user requirements
1025 applicable to the work under review.
1026

- 1027 (b) **When necessary for credible assignment results in the review of a report, the reviewer must:**
- 1028 (i) **develop an opinion as to whether the report is appropriate and not misleading within the**
- 1029 **context of the requirements applicable to that work; and**
- 1030 (ii) **develop the reasons for any disagreement.**

1031 Comment: Consistent with the reviewer's scope of work, the reviewer is required to develop

1032 an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the

1033 report, given law, regulations, or intended user requirements applicable to that work.

- 1034
- 1035 (c) **When the scope of work includes the reviewer developing his or her own opinion of value, review**
- 1036 **opinion, or real property appraisal consulting conclusion, the reviewer must comply with the**
- 1037 **Standard applicable to the development of that opinion.**

- 1038 (i) **The requirements of STANDARDS 1, 6, 7, and/or 9 apply to the reviewer's opinion of**
- 1039 **value for the property that is the subject of the appraisal review assignment.**
- 1040 (ii) **The requirements of STANDARD 3 apply to the reviewer's opinion of quality for the**
- 1041 **work that is the subject of the appraisal review assignment.**
- 1042 (iii) **The requirements of STANDARD 4 apply to the reviewer's analysis, recommendation,**
- 1043 **or opinion for the consulting problem that is the subject of the appraisal consulting**
- 1044 **assignment.**

1045 Comment: These requirements apply to:

- 1046 • The reviewer's own opinion of value when the subject of the review is the product of an
- 1047 appraisal assignment;
- 1048 • The reviewer's own opinion regarding the work reviewed by another when the subject of
- 1049 the review is the product of an appraisal review assignment; or
- 1050 • The reviewer's own appraisal consulting conclusion when the subject of the review is the
- 1051 product of an appraisal consulting assignment.

1052 These requirements apply whether the reviewer's own opinion:

- 1053 • concurs with the opinions and conclusions in the work under review; or
- 1054 • differs from the opinion and conclusions in the work under review.

1055 When the appraisal review scope of work includes the reviewer developing his or her own

1056 opinion of value, review opinion or real property appraisal consulting conclusion, the

1057 following apply:

- 1058 • The reviewer's scope of work in developing his or her own opinion of value, review
- 1059 opinion, or real property appraisal consulting conclusion may be different from that of the
- 1060 work under review.
- 1061 • The effective date of the appraisal, appraisal review, or appraisal consulting opinions and
- 1062 conclusions may be the same or different from the effective date of the work under
- 1063 review.
- 1064 • The reviewer is not required to replicate the steps completed by the original appraiser..
- 1065 Those items in the work under review that the reviewer concludes are credible can be
- 1066 extended to the reviewer's development process on the basis of an extraordinary
- 1067 assumption. Those items not deemed to be credible must be replaced with information or
- 1068 analysis developed in conformance with STANDARD 1, 3, 4, 6, 7, or 9, as applicable, to
- 1069 produce credible assignment results.

STANDARD 3

1070 Standards Rule 3-4

1071 **Each written or oral Appraisal Review Report must be separate from the work under review and must:**

- 1072 (a) **clearly and accurately set forth the appraisal review in a manner that will not be misleading;**
1073 (b) **contain sufficient information to enable the intended users of the appraisal review to understand**
1074 **the report properly; and**
1075 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**
1076 **conditions, and limiting conditions used in the assignment.**

1077 Comment: An Appraisal Review Report communicates the results of an appraisal review,
1078 which can have as its subject another appraiser's work in an appraisal, appraisal review, or
1079 appraisal consulting assignment.

1080 The report content and level of information in the Appraisal Review Report is specific to the
1081 needs of the client, other intended users, the intended use, and requirements applicable to the
1082 assignment. The reporting requirements set forth in this Standard are the minimum for an
1083 Appraisal Review Report.

1084 Standards Rule 3-5

1085 **The content of an Appraisal Review Report must be consistent with the intended use of the appraisal**
1086 **review and, at a minimum:**

- 1087 (a) **state the identity of the client and any intended users, by name or type;**
1088 (b) **state the intended use of the appraisal review;**
1089 (c) **state the purpose of the appraisal review;**
1090 (d) **state information sufficient to identify:**
1091 (i) **the work under review, including any ownership interest in the property that is the**
1092 **subject of the work under review;**
1093 (ii) **the date of the work under review;**
1094 (iii) **the effective date of the opinions or conclusions in the work under review; and**
1095 (iv) **the appraiser(s) who completed the work under review, unless the identity is withheld by**
1096 **the client.**

1097 Comment: If the identity of the appraiser(s) in the work under review is withheld by the
1098 client, that fact must be stated in the appraisal review report.

- 1099 (e) **state the effective date of the appraisal review;**
1100 (f) **clearly and conspicuously:**
1101 • **state all extraordinary assumptions and hypothetical conditions; and**
1102 • **state that their use might have affected the assignment results.**
1103 (g) **state the scope of work used to develop the appraisal review;**

1104 Comment: Because intended users' reliance on an appraisal review may be affected by the
1105 scope of work, the appraisal review report must enable them to be properly informed and not

1106 misled. Sufficient information includes disclosure of research and analyses performed and
1107 might also include disclosure of research and analyses not performed.

1108 When any portion of the work involves significant appraisal, appraisal review, or appraisal
1109 consulting assistance, the reviewer must state the extent of that assistance. The signing
1110 reviewer must also state the name(s) of those providing the significant assistance in the
1111 certification, in accordance with Standards Rule 3-6.

1112 **(h) state the reviewer's opinions and conclusions about the work under review, including the reasons**
1113 **for any disagreement;**

1114 Comment: The report must provide sufficient information to enable the client and intended users to
1115 understand the rationale for the reviewer's opinions and conclusions.

1116 **(i) when the scope of work includes the reviewer's development of an opinion of value, review**
1117 **opinion, or real property appraisal consulting conclusion related to the work under review, the**
1118 **reviewer must:**

1119 **(i) state which information, analyses, opinions, and conclusions in the work under review**
1120 **that the reviewer accepted as credible and used in developing the reviewer's opinion and**
1121 **conclusions;**

1122 **(ii) at a minimum, summarize any additional information relied on and the reasoning for**
1123 **the reviewer's opinion of value, review opinion, or real property appraisal consulting**
1124 **conclusion related to the work under review;**

1125 **(iii) clearly and conspicuously:**

1126 • **state all extraordinary assumptions and hypothetical conditions connected with the**
1127 **reviewer's opinion of value, review opinion, or real property appraisal consulting**
1128 **conclusion related to the work under review; and**

1129 • **state that their use might have affected the assignment results.**

1130 Comment: The reviewer may include his or her own opinion of value, review opinion, or
1131 appraisal consulting conclusion related to the work under review within the appraisal review
1132 report itself without preparing a separate report. However, data and analyses provided by the
1133 reviewer to support a different opinion or conclusion must match, at a minimum, except for
1134 the certification requirements, the reporting requirements for a:

- 1135 • Summary Appraisal Report for a real property appraisal (Standards Rule 2-2(b));
- 1136 • Summary Appraisal Report for a personal property appraisal (Standards Rule 8-2(b));
- 1137 • Appraisal Review Report for an appraisal review (Standards Rule 3-5);
- 1138 • Appraisal Consulting Report for real property appraisal consulting (Standards Rule
1139 5-2);
- 1140 • Mass Appraisal Report for mass appraisal (Standards Rule 6-8); and
- 1141 • Appraisal Report for business appraisal (Standards Rule 10-2(a)).

1142 **Standards Rule 3-6**

1143 **Each written Appraisal Review Report must contain a signed certification that is similar in content to the**
1144 **following form:**

1145 **I certify that, to the best of my knowledge and belief:**

1146 — **the statements of fact contained in this report are true and correct.**

STANDARD 3

- 1147 — the reported analyses, opinions, and conclusions are limited only by the reported
1148 assumptions and limiting conditions and are my personal, impartial, and unbiased
1149 professional analyses, opinions, and conclusions.
- 1150 — I have no (or the specified) present or prospective interest in the property that is the
1151 subject of the work under review and no (or the specified) personal interest with
1152 respect to the parties involved.
- 1153 — I have no bias with respect to the property that is the subject of the work under review
1154 or to the parties involved with this assignment.
- 1155 — my engagement in this assignment was not contingent upon developing or reporting
1156 predetermined results.
- 1157 — my compensation is not contingent on an action or event resulting from the analyses,
1158 opinions, or conclusions in this review or from its use.
- 1159 — my compensation for completing this assignment is not contingent upon the
1160 development or reporting of predetermined assignment results or assignment results
1161 that favors the cause of the client, the attainment of a stipulated result, or the
1162 occurrence of a subsequent event directly related to the intended use of this appraisal
1163 review.
- 1164 — my analyses, opinions, and conclusions were developed and this review report was
1165 prepared in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 1166 — I have (or have not) made a personal inspection of the subject of the work under
1167 review. (If more than one person signs this certification, the certification must clearly
1168 specify which individuals did and which individuals did not make a personal
1169 inspection of the subject of the work under review.) (For reviews of a business or
1170 intangible asset appraisal assignment, the inspection portion of the certification is not
1171 applicable.)
- 1172 — no one provided significant appraisal, appraisal review, or appraisal consulting
1173 assistance to the person signing this certification. (If there are exceptions, the name of
1174 each individual(s) providing appraisal, appraisal review, or appraisal consulting
1175 assistance must be stated.)

1176 Comment: A signed certification is an integral part of the Appraisal Review Report. A
1177 reviewer who signs any part of the appraisal review report, including a letter of transmittal,
1178 must also sign the certification.

1179 Any reviewer who signs a certification accepts responsibility for all elements of the
1180 certification, for the assignment results, and for the contents of the Appraisal Review Report.

1181 Appraisal review is distinctly different from the cosigning activity addressed in Standards
1182 Rules 2-3, 5-3, 6-9, 8-3, and 10-3. To avoid confusion between these activities, a reviewer
1183 performing an appraisal review must not sign the work under review unless he or she intends
1184 to accept responsibility as a cosigner of that work.

1185 When a signing appraiser has relied on work done by appraisers and others who do not sign
1186 the certification, the signing appraiser is responsible for the decision to rely on their work.
1187 The signing appraiser is required to have a reasonable basis for believing that those
1188 individuals performing the work are competent. The signing appraiser also must have no
1189 reason to doubt that the work of those individuals is credible.

1190 The names of individuals providing significant appraisal, appraisal review, or appraisal
1191 consulting assistance who do not sign a certification must be stated in the certification. It is
1192 not required that the description of their assistance be contained in the certification, but
1193 disclosure of their assistance is required in accordance with Standards Rule 3-5(g).

1194 **Standards Rule 3-7**

1195 **To the extent that it is both possible and appropriate, an oral Appraisal Review Report must address the**
1196 **substantive matters set forth in Standards Rule 3-5.**

1197 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
1198 requirements.

STANDARD 4

1199 STANDARD 4: REAL PROPERTY APPRAISAL CONSULTING, DEVELOPMENT

1200 **In developing a real property appraisal consulting assignment, an appraiser must identify the problem to**
1201 **be solved, determine the scope of work necessary to solve the problem, and correctly complete the**
1202 **research and analyses necessary to produce credible results.**

1203 Comment: Real property appraisal consulting assignments encompass a wide variety of
1204 problems to be solved. However, the purpose of an assignment under this Standard is always
1205 to develop, without advocacy, an analysis, recommendation, or opinion where at least one
1206 opinion of value is a component of the analysis leading to the assignment results.

1207 In some assignments, the opinion of value may originate from a source other than the
1208 consulting appraiser. In other assignments, the consulting appraiser may have to develop the
1209 opinion of value as a step in the analyses leading to the assignment results.

1210 An opinion of value or an opinion as to the quality of another appraiser's work cannot be the
1211 purpose of an appraisal consulting assignment. Developing an assignment for those purposes
1212 is an appraisal or an appraisal review assignment, respectively. Misrepresenting the purpose
1213 of an assignment performed under this Standard is a violation of the ETHICS RULE.

1214 The ETHICS and COMPETENCY RULES apply to the appraiser performing an appraisal
1215 consulting assignment. Appraisers practicing under this Standard must perform the
1216 assignment with impartiality, objectivity, independence, and without accommodation of
1217 personal interests.

1218 Except when required by law, regulation, agreement, or choice, this appraisal consulting
1219 STANDARD does not apply to services provided by an appraiser acting under the standards
1220 of other professions or business activities. For example, when an appraiser who is also an
1221 investment consultant provides a service that does not require an opinion of value, that
1222 appraiser, acting as an investment consultant, is not performing an assignment addressed by
1223 this Standard.

1224 **Standards Rule 4-1**

1225 **In performing a real property appraisal consulting assignment, an appraiser must:**

- 1226 (a) **be aware of, understand, and correctly employ those recognized methods and techniques that are**
1227 **necessary to produce credible results;**
- 1228 (b) **not commit a substantial error of omission or commission that significantly affects the results of**
1229 **an appraisal consulting assignment; and**
- 1230 (c) **not render appraisal consulting services in a careless or negligent manner, such as by making a**
1231 **series of errors that, although individually might not significantly affect the results, in the**
1232 **aggregate affect the credibility of those results.**

1233 **Standards Rule 4-2**1234 **In developing real property appraisal consulting assignment results, an appraiser must:**

- 1235 (a) **identify the client and other intended users;**⁴²
- 1236 (b) **identify the intended use of the appraisal consulting assignment results;**⁴³
- 1237 (c) **identify:**
- 1238 (i) **the analysis, recommendation or opinion to be developed; and**
- 1239 (ii) **the type and definition of value developed in the appraisal(s) that is a necessary**
- 1240 **component of an analysis supporting the appraisal consulting assignment results;**
- 1241 Comment: If the applicable type and definition of value is market value, ascertain
- 1242 whether that value is to be the most probable price:
- 1243 • in terms of cash; or
 - 1244 • in terms of financial arrangements equivalent to cash; or
 - 1245 • in other precisely defined terms; and
 - 1246 • if the opinion of value is to be based on non-market financing or financing with
 - 1247 unusual conditions or incentives, the terms of such financing must be clearly
 - 1248 identified and the appraiser's opinion of their contributions to or negative
 - 1249 influence on value must be developed by analysis of relevant market data.
- 1250 (d) **identify the effective date of the appraisal consulting assignment results;**⁴⁴
- 1251 (e) **identify the physical, legal, and economic characteristics of the property, properties, property**
- 1252 **type(s), or market area that are relevant**⁴⁵ **to:**
- 1253 (i) **the analysis, recommendation or opinion to be developed in the appraisal consulting**
- 1254 **assignment; and**
- 1255 (ii) **an opinion of value that is a necessary component of an analysis supporting the**
- 1256 **appraisal consulting assignment results;**
- 1257 (f) **identify any extraordinary assumptions necessary in the appraisal consulting assignment and in**
- 1258 **developing the opinion(s) of value necessary to support the appraisal consulting assignment**
- 1259 **results;**

1260 Comment: An extraordinary assumption may be used in an assignment only if:

- 1261 • it is required to properly develop credible opinions and conclusions;
- 1262 • the appraiser has a reasonable basis for the extraordinary assumption;
- 1263 • use of the extraordinary assumption results in a credible analysis; and

⁴² See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁴³ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁴⁴ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions* and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

⁴⁵ See Advisory Opinion 2, *Inspection of Subject Property*, and Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*.

STANDARD 4

- 1264 • the appraiser complies with the disclosure requirements set forth in USPAP for
1265 extraordinary assumptions.

1266 **(g) identify any hypothetical conditions necessary in the appraisal consulting assignment and in**
1267 **developing the opinion(s) of value necessary to support the appraisal consulting assignment**
1268 **results; and**

1269 Comment: A hypothetical condition may be used in an assignment only if:

- 1270 • use of the hypothetical condition is clearly required for legal purposes, for purposes
1271 of reasonable analysis, or for purposes of comparison;
1272 • use of the hypothetical condition results in a credible analysis; and
1273 • the appraiser complies with the disclosure requirements set forth in USPAP for
1274 hypothetical conditions.

1275 **(h) determine the scope of work necessary to produce credible assignment results in accordance with**
1276 **the SCOPE OF WORK RULE⁴⁶, including:**

1277 **(i) the appraisal consulting methods and techniques to be employed, and**

1278 **(ii) the research and analysis required to:**

- 1279 • **ascertain the relevance and credibility of an opinion of value obtained from**
1280 **a source other than the appraiser performing the appraisal consulting**
1281 **assignment, or**
1282 • **develop an opinion of value that is a necessary component of an analysis**
1283 **supporting the appraisal consulting assignment results;**

1284 Comment: An appraiser must ensure that any opinion of value used in an appraisal consulting
1285 assignment was developed in compliance with STANDARD 1.

1286 If an opinion of value used in a real property appraisal consulting assignment is from a source
1287 other than the consulting appraiser, the assignment may include a review, prepared in
1288 compliance with STANDARD 3, of that appraisal. Alternatively, the appraiser may accept an
1289 appraisal from another source using an extraordinary assumption in the appraisal consulting
1290 assignment, provided that all conditions necessary to use such an extraordinary assumption
1291 are fulfilled.

1292 If the opinion of value is from an appraisal developed by the appraiser performing the real
1293 property appraisal consulting assignment, the appraiser must complete the steps set forth in
1294 STANDARD 1.

⁴⁶ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

1295 **STANDARD 5: REAL PROPERTY APPRAISAL CONSULTING, REPORTING**

1296 **In reporting the results of a real property appraisal consulting assignment, an appraiser must**
 1297 **communicate each analysis, opinion, and conclusion in a manner that is not misleading.**

1298 Comment: STANDARD 5 addresses the content and level of information required in a report
 1299 that communicates the results of a real property appraisal consulting assignment.

1300 An appraiser must explain logically and convincingly the reasoning that leads to his or her
 1301 conclusions. The flow of information must be orderly and progressive. The level of
 1302 information necessary in the report is dependent on the intended use and intended users. The
 1303 level of information detail in the report must be sufficient to enable the client and intended
 1304 users of the report to understand the appraisal consulting assignment results and not be
 1305 misled.

1306 STANDARD 5 does not dictate the form, format, or style of real property appraisal consulting
 1307 reports. The form, format, and style of a report are functions of the needs of intended users
 1308 and appraisers. The substantive content of a report determines its compliance.

1309 **Standards Rule 5-1**

1310 **Each written or oral real property appraisal consulting report must:**

- 1311 (a) **clearly and accurately set forth the appraisal consulting assignment results in a manner that will**
 1312 **not be misleading;**
- 1313 (b) **contain sufficient information to enable the intended users of the appraisal consulting**
 1314 **assignment results to understand the report properly; and**
- 1315 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**
 1316 **conditions, and limiting conditions used in the assignment.**

1317 Comment: The content of a real property appraisal consulting report must be sufficiently
 1318 comprehensive so that an intended user can understand the problem addressed and the
 1319 analyses, and follow the reasoning through each step of the analytical process. It is essential
 1320 that throughout the report the data, analyses, assumptions and conclusions are logical and
 1321 adequately supported.

1322 **Standards Rule 5-2**

1323 **The content of each written real property appraisal consulting report must be consistent with the**
 1324 **intended use of the appraisal consulting assignment results and, at a minimum:**

- 1325 (a) **state the identity of the client and any intended users, by name or type;**⁴⁷

1326 Comment: An appraiser must use care when identifying the client to ensure a clear
 1327 understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In
 1328 those rare instances where the client wishes to remain anonymous, an appraiser must still
 1329 document the identity of the client in the workfile, but may omit the client's identity in the
 1330 report.

⁴⁷ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

STANDARD 5

1331 Intended users of the report might include parties such as lenders, employees of government
1332 agencies, partners of a client, and a client's attorney and accountant.

1333 **(b) state the analysis, recommendation or opinion developed;**

1334 **(c) state the intended use of the appraisal consulting assignment;⁴⁸**

1335 **(d) state information sufficient to identify the real property pertinent to the appraisal consulting**
1336 **assignment, and state the physical, legal, and economic characteristics of the property,**
1337 **properties, property types, or market area pertinent to the assignment;⁴⁹**

1338 **(e) state the effective date of the appraisal consulting assignment results, the date of appraisal**
1339 **pertinent to each opinion of value used in an analysis in support of the appraisal consulting**
1340 **results, and the date of the appraisal consulting report;⁵⁰**

1341 **(f) state the scope of work used to develop the assignment results;⁵¹**

1342 Comment: Because intended users' reliance on assignment results may be affected by the
1343 scope of work, the report must enable them to be properly informed and not misled. Sufficient
1344 information includes disclosure of research and analyses performed and might also include
1345 disclosure of research and analyses not performed.

1346 When any portion of the work involves significant real property appraisal or appraisal
1347 consulting assistance, the appraisal consultant must describe the extent of that assistance. The
1348 signing consulting appraiser must also state the name(s) of those providing significant real
1349 property appraisal or appraisal consulting assistance in the certification, in accordance with
1350 Standards Rule 5-3.⁵²

1351 **(g) summarize the information used in the appraisal consulting analyses, the appraisal consulting**
1352 **methods and techniques employed, and the reasoning that supports the analyses, opinions, and**
1353 **conclusions;**

1354 Comment: If the value opinion used in the appraisal consulting assignment was not performed
1355 by the consulting appraiser, the appraisal consulting report must include:

- 1356
- the information required in Standards Rule 3-5, or
 - 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
 - a statement supporting the use of that appraisal as an extraordinary assumption in the appraisal consulting assignment.
- 1357
1358
1359
1360
1361

1362 If an opinion of value was developed by the consulting appraiser, the appraisal consulting
1363 report must include the information required to comply with Standards Rule 2-2(a) or (b)(ii)
1364 through (x). Standards Rule 2-2(c)(ii) through (x) is also permitted if the client is the only
1365 intended user of the assignment results.

⁴⁸ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁴⁹ See Advisory Opinion 2, *Inspection of Subject Property*.

⁵⁰ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

⁵¹ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and 29, *An Acceptable Scope of Work*.

⁵² See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

- 1366 (h) state the appraiser's appraisal consulting recommendations (if any), and conclusions or opinions;
 1367 (i) clearly and conspicuously:
- 1368 • state all extraordinary assumptions and hypothetical conditions; and
 - 1369 • state that their use might have affected the assignment results; and
- 1370 (j) include a signed certification in accordance with Standards Rule 5-3.

1371 **Standards Rule 5-3**

1372 Each written real property appraisal consulting report must contain a signed certification that is similar
 1373 in content to the following form:

1374 I certify that, to the best of my knowledge and belief:

- 1375 — the statements of fact contained in this report are true and correct.
- 1376 — the reported analyses, opinions, and conclusions are limited only by the reported
 1377 assumptions and limiting conditions, and are my personal, impartial, and unbiased
 1378 professional analyses, opinions, conclusions, and recommendations.
- 1379 — I have no (or the specified) present or prospective interest in the property that is the
 1380 subject of this report, and I have no (or the specified) personal interest with respect to
 1381 the parties involved.
- 1382 — I have no bias with respect to any property that is the subject of this report or to the
 1383 parties involved with this assignment.
- 1384 — my engagement in this assignment was not contingent upon developing or reporting
 1385 predetermined results.
- 1386 — my compensation for completing this assignment is not contingent upon the
 1387 development or reporting of a predetermined value or direction in value that favors
 1388 the cause of the client, the amount of the value opinion, the attainment of a stipulated
 1389 result, or the occurrence of a subsequent event directly related to the intended use of
 1390 this appraisal consulting assignment.
- 1391 — my analyses, opinions, and conclusions were developed, and this report has been
 1392 prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 1393 — I have (or have not) made a personal inspection of the property that is the subject of
 1394 this report. (If more than one person signs this certification, the certification must
 1395 clearly specify which individuals did and which individuals did not make a personal
 1396 inspection of the property).⁵³
- 1397 — no one provided significant real property appraisal or appraisal consulting assistance
 1398 to the person signing this certification. (If there are exceptions, the name of each
 1399 individual providing significant real property appraisal or appraisal consulting
 1400 assistance must be stated.)

1401 Comment: A signed certification is an integral part of the appraisal consulting report. An
 1402 appraiser who signs any part of the appraisal consulting report, including a letter of
 1403 transmittal, must also sign the certification.

1404 In an assignment that includes only assignment results developed by the real property
 1405 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all
 1406 elements of the certification, for the assignment results, and for the contents of the appraisal
 1407 consulting report. In an assignment that includes personal property, business or intangible

⁵³ See Advisory Opinion 2, *Inspection of Subject Property*.

STANDARD 5

1408 asset assignment results not developed by the real property appraiser(s), any real property
1409 appraiser(s) who signs a certification accepts full responsibility for the real property elements
1410 of the certification, for the real property assignment results, and for the real property contents
1411 of the appraisal consulting report.

1412 If the signing consulting appraiser(s) has relied on work done by appraisers and others who do
1413 not sign the certification, then the signing consulting appraiser(s) is responsible for the
1414 decision to rely on such work. The signing consulting appraiser is required to have a
1415 reasonable basis for believing that those individuals performing the work are competent. The
1416 signing appraiser(s) also must have no reason to doubt that the work of those individuals is
1417 credible.

1418 The names of individuals providing significant real property appraisal or appraisal consulting
1419 assistance who do not sign the certification must be stated in the certification. It is not
1420 required that the description of their assistance be contained in the certification, but disclosure
1421 of their assistance is required in accordance with Standards Rule 5-2(f).⁵⁴

1422 **Standards Rule 5-4**

1423 **To the extent that it is both possible and appropriate, an oral real property appraisal consulting report**
1424 **must address the substantive matters set forth in Standards Rule 5-2.**

1425 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
1426 requirements.

⁵⁴ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

1427 **STANDARD 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING**

1428 **In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ those**
 1429 **recognized methods and techniques necessary to produce and communicate credible mass appraisals.**

1430 Comment: STANDARD 6 applies to all mass appraisals of real or personal property
 1431 regardless of the purpose or use of such appraisals.⁵⁵ STANDARD 6 is directed toward the
 1432 substantive aspects of developing and communicating credible analyses, opinions, and
 1433 conclusions in the mass appraisal of properties. Mass appraisals can be prepared with or
 1434 without computer assistance. The reporting and jurisdictional exceptions applicable to public
 1435 mass appraisals prepared for ad valorem taxation do not apply to mass appraisals prepared for
 1436 other purposes.

1437 A mass appraisal includes:

- 1438 1) identifying properties to be appraised;
- 1439 2) defining market area of consistent behavior that applies to properties;
- 1440 3) identifying characteristics (supply and demand) that affect the creation of value in
 1441 that market area;
- 1442 4) developing a model structure that reflects the relationship among the characteristics
 1443 affecting value in the market area;
- 1444 5) calibrating the model structure to determine the contribution of the individual
 1445 characteristics affecting value;
- 1446 6) applying the conclusions reflected in the model to the characteristics of the
 1447 property(ies) being appraised; and
- 1448 7) reviewing the mass appraisal results.

1449 The JURISDICTIONAL EXCEPTION RULE may apply to several sections of STANDARD
 1450 6 because ad valorem tax administration is subject to various state, county, and municipal
 1451 laws.

1452 **Standards Rule 6-1**

1453 **In developing a mass appraisal, an appraiser must:**

- 1454 **(a) be aware of, understand, and correctly employ those recognized methods and techniques**
 1455 **necessary to produce a credible mass appraisal;**

1456 Comment: Mass appraisal provides for a systematic approach and uniform application of
 1457 appraisal methods and techniques to obtain estimates of value that allow for statistical review
 1458 and analysis of results.

1459 This requirement recognizes that the principle of change continues to affect the manner in
 1460 which appraisers perform mass appraisals. Changes and developments in the real property and
 1461 personal property fields have a substantial impact on the appraisal profession.

1462 To keep abreast of these changes and developments, the appraisal profession is constantly
 1463 reviewing and revising appraisal methods and techniques and devising new methods and
 1464 techniques to meet new circumstances. For this reason it is not sufficient for appraisers to
 1465 simply maintain the skills and the knowledge they possess when they become appraisers.

⁵⁵ See Advisory Opinion 31, *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*.

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1466 Each appraiser must continuously improve his or her skills to remain proficient in mass
1467 appraisal.

1468 **(b) not commit a substantial error of omission or commission that significantly affects a mass**
1469 **appraisal; and**

1470 Comment: An appraiser must use sufficient care to avoid errors that would significantly affect
1471 his or her opinions and conclusions. Diligence is required to identify and analyze the factors,
1472 conditions, data, and other information that would have a significant effect on the credibility
1473 of the assignment results.

1474 **(c) not render a mass appraisal in a careless or negligent manner.**

1475 Comment: Perfection is impossible to attain, and competence does not require perfection.
1476 However, an appraiser must not render appraisal services in a careless or negligent manner.
1477 This Standards Rule requires an appraiser to use due diligence and due care.

1478 **Standards Rule 6-2**

1479 **In developing a mass appraisal, an appraiser must:**

1480 **(a) identify the client and other intended users;⁵⁶**

1481 **(b) identify the intended use of the appraisal;⁵⁷**

1482 Comment: An appraiser must not allow the intended use of an assignment or a client's objectives to
1483 cause the assignment results to be biased.

1484 **(c) identify the type and definition of value, and, if the value opinion to be developed is market**
1485 **value, ascertain whether the value is to be the most probable price:**

1486 **(i) in terms of cash; or**

1487 **(ii) in terms of financial arrangements equivalent to cash; or**

1488 **(iii) in such other terms as may be precisely defined; and**

1489 **(iv) if the opinion of value is based on non-market financing or financing with unusual**
1490 **conditions or incentives, the terms of such financing must be clearly identified and the**
1491 **appraiser's opinion of their contributions to or negative influence on value must be**
1492 **developed by analysis of relevant market data;**

1493 Comment: For certain types of appraisal assignments in which a legal definition of market
1494 value has been established and takes precedence, the JURISDICTIONAL EXCEPTION
1495 RULE may apply.

1496 **(d) identify the effective date of the appraisal;⁵⁸**

⁵⁶ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁵⁷ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁵⁸ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

- 1497 (e) **identify the characteristics of the properties that are relevant to the type and definition of value**
 1498 **and intended use⁵⁹, including:**
- 1499 (i) **the group with which a property is identified according to similar market influence;**
- 1500 (ii) **the appropriate market area and time frame relative to the property being valued; and**
- 1501 (iii) **their location and physical, legal, and economic characteristics;**
- 1502 Comment: The properties must be identified in general terms, and each individual property in
 1503 the universe must be identified, with the information on its identity stored or referenced in its
 1504 property record.
- 1505 When appraising proposed improvements, an appraiser must examine and have available for
 1506 future examination, plans, specifications, or other documentation sufficient to identify the
 1507 extent and character of the proposed improvements.⁶⁰
- 1508 Ordinarily, proposed improvements are not appraised for ad valorem tax purposes. Appraisers,
 1509 however, are sometimes asked to provide opinions of value of proposed improvements so that
 1510 developers can estimate future property tax burdens. Sometimes units in condominiums and
 1511 planned unit developments are sold with an interest in unbuilt community property, the pro
 1512 rata value of which, if any, must be considered in the analysis of sales data.
- 1513 (f) **identify the characteristics of the market that are relevant to the purpose and intended use of the**
 1514 **mass appraisal including:**
- 1515 (i) **location of the market area;**
- 1516 (ii) **physical, legal, and economic attributes;**
- 1517 (iii) **time frame of market activity; and**
- 1518 (iv) **property interests reflected in the market;**
- 1519 (g) **in appraising real property or personal property:**
- 1520 (i) **identify the appropriate market area and time frame relative to the property being**
 1521 **valued;**
- 1522 (ii) **when the subject is real property, identify and consider any personal property, trade**
 1523 **fixtures, or intangibles that are not real property but are included in the appraisal;**
- 1524 (iii) **when the subject is personal property, identify and consider any real property or**
 1525 **intangibles that are not personal property but are included in the appraisal;**
- 1526 (iv) **identify known easements, restrictions, encumbrances, leases, reservations, covenants,**
 1527 **contracts, declarations, special assessments, ordinances, or other items of similar nature;**
 1528 **and**

⁵⁹ See Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*, if applicable.

⁶⁰ See Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*, if applicable.

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- 1529 (v) **identify and analyze whether an appraised fractional interest, physical segment or**
1530 **partial holding contributes pro rata to the value of the whole;**

1531 Comment: The above requirements do not obligate the appraiser to value the whole
1532 when the subject of the appraisal is a fractional interest, physical segment, or a
1533 partial holding. However, if the value of the whole is not identified, the appraisal
1534 must clearly reflect that the value of the property being appraised cannot be used to
1535 develop the value opinion of the whole by mathematical extension.

- 1536 (h) **analyze the relevant economic conditions at the time of the valuation, including market**
1537 **acceptability of the property and supply, demand, scarcity, or rarity;**

- 1538 (i) **identify any extraordinary assumptions and any hypothetical conditions necessary in the**
1539 **assignment; and**

1540 Comment: An extraordinary assumption may be used in an assignment only if:

- 1541 • it is required to properly develop credible opinions and conclusions;
1542 • the appraiser has a reasonable basis for the extraordinary assumption;
1543 • use of the extraordinary assumption results in a credible analysis; and
1544 • the appraiser complies with the disclosure requirements set forth in USPAP for
1545 extraordinary assumptions.

1546 A hypothetical condition may be used in an assignment only if:

- 1547 • use of the hypothetical condition is clearly required for legal purposes, for purposes
1548 of reasonable analysis, or for purposes of comparison;
1549 • use of the hypothetical condition results in a credible analysis; and
1550 • the appraiser complies with the disclosure requirements set forth in USPAP for
1551 hypothetical conditions.

- 1552 (j) **determine the scope of work necessary to produce credible assignment results in accordance with**
1553 **the SCOPE OF WORK RULE.⁶¹**

1554 Standards Rule 6-3

1555 **When necessary for credible assignment results, an appraiser must:**

- 1556 (a) **in appraising real property, identify and analyze the effect on use and value of the following**
1557 **factors: existing land use regulations, reasonably probable modifications of such regulations,**
1558 **economic supply and demand, the physical adaptability of the real estate, neighborhood trends,**
1559 **and highest and best use of the real estate; and**

1560 Comment: This requirement sets forth a list of factors that affect use and value. In considering
1561 neighborhood trends, an appraiser must avoid stereotyped or biased assumptions relating to
1562 race, age, color, gender, or national origin or an assumption that race, ethnic, or religious
1563 homogeneity is necessary to maximize value in a neighborhood. Further, an appraiser must
1564 avoid making an unsupported assumption or premise about neighborhood decline, effective
1565 age, and remaining life. In considering highest and best use, an appraiser must develop the
1566 concept to the extent required for a proper solution to the appraisal problem.

⁶¹ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

1567 (b) **in appraising personal property: identify and analyze the effects on use and value of industry**
 1568 **trends, value-in-use, and trade level of personal property. Where applicable, analyze the current**
 1569 **use and alternative uses to encompass what is profitable, legal, and physically possible, as**
 1570 **relevant to the type and definition of value and intended use of the appraisal. Personal property**
 1571 **has several measurable marketplaces; therefore, the appraiser must define and analyze the**
 1572 **appropriate market consistent with the type and definition of value.**

1573 Comment: The appraiser must recognize that there are distinct levels of trade and each may
 1574 generate its own data. For example, a property may have a different value at a wholesale level
 1575 of trade, a retail level of trade, or under various auction conditions. Therefore, the appraiser
 1576 must analyze the subject property within the correct market context.

1577 **Standards Rule 6-4**

1578 **In developing a mass appraisal, an appraiser must:**

1579 (a) **identify the appropriate procedures and market information required to perform the appraisal,**
 1580 **including all physical, functional, and external market factors as they may affect the appraisal;**

1581 Comment: Such efforts customarily include the development of standardized data collection
 1582 forms, procedures, and training materials that are used uniformly on the universe of properties
 1583 under consideration.

1584 (b) **employ recognized techniques for specifying property valuation models; and**

1585 Comment: The formal development of a model in a statement or equation is called model
 1586 specification. Mass appraisers must develop mathematical models that, with reasonable
 1587 accuracy, represent the relationship between property value and supply and demand factors, as
 1588 represented by quantitative and qualitative property characteristics. The models may be
 1589 specified using the cost, sales comparison, or income approaches to value. The specification
 1590 format may be tabular, mathematical, linear, nonlinear, or any other structure suitable for
 1591 representing the observable property characteristics. Appropriate approaches must be used in
 1592 appraising a class of properties. The concept of recognized techniques applies to both real and
 1593 personal property valuation models.

1594 (c) **employ recognized techniques for calibrating mass appraisal models.**

1595 Comment: Calibration refers to the process of analyzing sets of property and market data to
 1596 determine the specific parameters of a model. The table entries in a cost manual are examples
 1597 of calibrated parameters, as well as the coefficients in a linear or nonlinear model. Models
 1598 must be calibrated using recognized techniques, including, but not limited to, multiple linear
 1599 regression, nonlinear regression, and adaptive estimation.

1600 **Standards Rule 6-5**

1601 **In developing a mass appraisal, when necessary for credible assignment results, an appraiser must:**

1602 (a) **collect, verify, and analyze such data as are necessary and appropriate to develop:**

1603 (i) **the cost new of the improvements;**

1604 (ii) **accrued depreciation;**

1605 (iii) **value of the land by sales of comparable properties;**

STANDARD 6

- 1606 (iv) value of the property by sales of comparable properties;
- 1607 (v) value by capitalization of income or potential earnings—i.e., rentals, expenses, interest
- 1608 rates, capitalization rates, and vacancy data;

1609 Comment: This Standards Rule requires appraisers engaged in mass appraisal to take

1610 reasonable steps to ensure that the quantity and quality of the factual data that are collected

1611 are sufficient to produce credible appraisals. For example, in real property, where applicable

1612 and feasible, systems for routinely collecting and maintaining ownership, geographic, sales,

1613 income and expense, cost, and property characteristics data must be established. Geographic

1614 data must be contained in as complete a set of cadastral maps as possible, compiled according

1615 to current standards of detail and accuracy. Sales data must be collected, confirmed, screened,

1616 adjusted, and filed according to current standards of practice. The sales file must contain, for

1617 each sale, property characteristics data that are contemporaneous with the date of sale.

1618 Property characteristics data must be appropriate and relevant to the mass appraisal models

1619 being used. The property characteristics data file must contain data contemporaneous with

1620 the date of appraisal including historical data on sales, where appropriate and available. The

1621 data collection program must incorporate a quality control program, including checks and

1622 audits of the data to ensure current and consistent records.

- 1623 (b) base estimates of capitalization rates and projections of future rental rates and/or potential
- 1624 earnings capacity, expenses, interest rates, and vacancy rates on reasonable and appropriate
- 1625 evidence;⁶²

1626 Comment: This requirement calls for an appraiser, in developing income and expense

1627 statements and cash flow projections, to weigh historical information and trends, current

1628 market factors affecting such trends, and reasonably anticipated events, such as competition

1629 from developments either planned or under construction.

- 1630 (c) identify and, as applicable, analyze terms and conditions of any available leases; and

- 1631 (d) identify the need for and extent of any physical inspection.⁶³

1632 Standards Rule 6-6

1633 **When necessary for credible assignment results in applying a calibrated mass appraisal model an**

1634 **appraiser must:**

- 1635 (a) value improved parcels by recognized methods or techniques based on the cost approach, the
- 1636 sales comparison approach, and income approach;

- 1637 (b) value sites by recognized methods or techniques; such techniques include but are not limited to
- 1638 the sales comparison approach, allocation method, abstraction method, capitalization of ground
- 1639 rent, and land residual technique;

- 1640 (c) when developing the value of a leased fee estate or a leasehold estate, analyze the effect on value,
- 1641 if any, of the terms and conditions of the lease;

1642 Comment: In ad valorem taxation the appraiser may be required by rules or law to appraise

1643 the property as if in fee simple, as though unencumbered by existing leases. In such cases,

⁶² See Statement on Appraisal Standards No. 2, *Discounted Cash Flow Analysis*.

⁶³ See Advisory Opinion 2, *Inspection of Subject Property*.

1644 market rent would be used in the appraisal, ignoring the effect of the individual, actual
1645 contract rents.

1646 **(d) analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or**
1647 **component parts of a property; the value of the whole must not be developed by adding together**
1648 **the individual values of the various parcels, divided interests, or component parts; and**

1649 Comment: When the value of the whole has been established and the appraiser seeks to value
1650 a part, the value of any such part must be tested by reference to appropriate market data and
1651 supported by an appropriate analysis of such data.

1652 **(e) when analyzing anticipated public or private improvements, located on or off the site, analyze**
1653 **the effect on value, if any, of such anticipated improvements to the extent they are reflected in**
1654 **market actions.**

1655 **Standards Rule 6-7**

1656 **In reconciling a mass appraisal an appraiser must:**

1657 **(a) reconcile the quality and quantity of data available and analyzed within the approaches used and**
1658 **the applicability and relevance of the approaches, methods and techniques used; and**

1659 **(b) employ recognized mass appraisal testing procedures and techniques to ensure that standards of**
1660 **accuracy are maintained.**

1661 Comment: It is implicit in mass appraisal that, even when properly specified and calibrated
1662 mass appraisal models are used, some individual value conclusions will not meet standards of
1663 reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal
1664 have a professional responsibility to ensure that, on an overall basis, models produce value
1665 conclusions that meet attainable standards of accuracy. This responsibility requires appraisers
1666 to evaluate the performance of models, using techniques that may include but are not limited
1667 to, goodness-of-fit statistics, and model performance statistics such as appraisal-to-sale ratio
1668 studies, evaluation of hold-out samples, or analysis of residuals.

1669 **Standards Rule 6-8**

1670 **A written report of a mass appraisal must clearly communicate the elements, results, opinions, and value**
1671 **conclusions of the appraisal.**

1672 **Each written report of a mass appraisal must:**

1673 **(a) clearly and accurately set forth the appraisal in a manner that will not be misleading;**

1674 **(b) contain sufficient information to enable the intended users of the appraisal to understand the**
1675 **report properly;**

1676 Comment: Documentation for a mass appraisal for ad valorem taxation may be in the form of
1677 (1) property records, (2) sales ratios and other statistical studies, (3) appraisal manuals and
1678 documentation, (4) market studies, (5) model building documentation, (6) regulations, (7)
1679 statutes, and (8) other acceptable forms.

1680 **(c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**
1681 **conditions, and limiting conditions used in the assignment;**

STANDARD 6

1682 Comment: The report must clearly and conspicuously:

- 1683 • state all extraordinary assumptions and hypothetical conditions; and
- 1684 • state that their use might have affected the assignment results.

1685 **(d) state the identity of the client and any intended users, by name or type;**⁶⁴

1686 **(e) state the intended use of the appraisal;**⁶⁵

1687 **(f) disclose any assumptions or limiting conditions that result in deviation from recognized methods**
1688 **and techniques or that affect analyses, opinions, and conclusions;**

1689 **(g) set forth the effective date of the appraisal and the date of the report;**

1690 Comment: In ad valorem taxation the effective date of the appraisal may be prescribed by law.
1691 If no effective date is prescribed by law, the effective date of the appraisal, if not stated, is
1692 presumed to be contemporaneous with the data and appraisal conclusions.

1693 The effective date of the appraisal establishes the context for the value opinion, while the date
1694 of the report indicates whether the perspective of the appraiser on the market and property as
1695 of the effective date of the appraisal was prospective, current, or retrospective.⁶⁶

1696 **(h) state the type and definition of value and cite the source of the definition;**

1697 Comment: Stating the type and definition of value also requires any comments needed to
1698 clearly indicate to intended users how the definition is being applied.⁶⁷

1699 When reporting an opinion of market value, state whether the opinion of value is:

- 1700 • In terms of cash or of financing terms equivalent to cash; or
- 1701 • Based on non-market financing with unusual conditions or incentives.

1702 When an opinion of market value is not in terms of cash or based on financing terms
1703 equivalent to cash, summarize the terms of such financing and explain their contributions to
1704 or negative influence on value.

1705 **(i) identify the properties appraised including the property rights;**

1706 Comment: The report documents the sources for location, describing and listing the property.
1707 When applicable, include references to legal descriptions, addresses, parcel identifiers,
1708 photos, and building sketches. In mass appraisal this information is often included in property
1709 records. When the property rights to be appraised are specified in a statute or court ruling, the
1710 law must be referenced.

⁶⁴ See Statement on Appraisal Standards No. 9, *Identification of the Intended Use and Intended Users*.

⁶⁵ See Statement on Appraisal Standards No. 9, *Identification of the Intended Use and Intended Users*.

⁶⁶ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

⁶⁷ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*.

1711 (j) **describe the scope of work used to develop the appraisal;⁶⁸ exclusion of the sales comparison**
 1712 **approach, cost approach, or income approach must be explained;**

1713 Comment: Because intended users' reliance on an appraisal may be affected by the scope of
 1714 work, the report must enable them to be properly informed and not misled. Sufficient
 1715 information includes disclosure of research and analyses performed and might also include
 1716 disclosure of research and analyses not performed.

1717 When any portion of the work involves significant mass appraisal assistance, the appraiser
 1718 must describe the extent of that assistance. The signing appraiser must also state the name(s)
 1719 of those providing the significant mass appraisal assistance in the certification, in accordance
 1720 with Standards Rule 6-9.⁶⁹

1721 (k) **describe and justify the model specification(s) considered, data requirements, and the model(s)**
 1722 **chosen;**

1723 Comment: The appraiser must provide sufficient information to enable the client and
 1724 intended users to have confidence that the process and procedures used conform to accepted
 1725 methods and result in credible value conclusions. In the case of mass appraisal for ad valorem
 1726 taxation, stability and accuracy are important to the credibility of value opinions. The report
 1727 must include a discussion of the rationale for each model, the calibration techniques to be
 1728 used, and the performance measures to be used.

1729 (l) **describe the procedure for collecting, validating, and reporting data;**

1730 Comment: The report must describe the sources of data and the data collection and validation
 1731 processes. Reference to detailed data collection manuals must be made, as appropriate,
 1732 including where they may be found for inspection.

1733 (m) **describe calibration methods considered and chosen, including the mathematical form of the**
 1734 **final model(s); describe how value conclusions were reviewed; and, if necessary, describe the**
 1735 **availability of individual value conclusions;**

1736 (n) **when an opinion of highest and best use, or the appropriate market or market level was**
 1737 **developed, discuss how that opinion was determined;**

1738 Comment: The mass appraisal report must reference case law, statute, or public policy that
 1739 describes highest and best use requirements. When actual use is the requirement, the report
 1740 must discuss how use-value opinions were developed. The appraiser's reasoning in support of
 1741 the highest and best use opinion must be provided in the depth and detail required by its
 1742 significance to the appraisal.

1743 (o) **identify the appraisal performance tests used and set forth the performance measures attained;**

1744 (p) **describe the reconciliation performed, in accordance with Standards Rule 6-7; and**

1745 (q) **include a signed certification in accordance with Standards Rule 6-9.**

⁶⁸ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

⁶⁹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STANDARD 6

1746 Standards Rule 6-9

1747 **Each written mass appraisal report must contain a signed certification that is similar in content to the**
1748 **following form:**

1749 **I certify that, to the best of my knowledge and belief:**

- 1750 — **the statements of fact contained in this report are true and correct.**
- 1751 — **the reported analyses, opinions, and conclusions are limited only by the reported**
1752 **assumptions and limiting conditions, and are my personal, impartial, and unbiased**
1753 **professional analyses, opinions, and conclusions.**
- 1754 — **I have no (or the specified) present or prospective interest in the property that is the**
1755 **subject of this report, and I have no (or the specified) personal interest with respect to**
1756 **the parties involved.**
- 1757 — **I have no bias with respect to any property that is the subject of this report or to the**
1758 **parties involved with this assignment.**
- 1759 — **my engagement in this assignment was not contingent upon developing or reporting**
1760 **predetermined results.**
- 1761 — **my compensation for completing this assignment is not contingent upon the reporting**
1762 **of a predetermined value or direction in value that favors the cause of the client, the**
1763 **amount of the value opinion, the attainment of a stipulated result, or the occurrence of**
1764 **a subsequent event directly related to the intended use of this appraisal.**
- 1765 — **my analyses, opinions, and conclusions were developed, and this report has been**
1766 **prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.**
- 1767 — **I have (or have not) made a personal inspection of the properties that are the subject**
1768 **of this report. (If more than one person signs the report, this certification must clearly**
1769 **specify which individuals did and which individuals did not make a personal**
1770 **inspection of the appraised property.)⁷⁰**
- 1771 — **no one provided significant mass appraisal assistance to the person signing this**
1772 **certification. (If there are exceptions, the name of each individual providing**
1773 **significant mass appraisal assistance must be stated.)**

1774 **Comment:** The above certification is not intended to disturb an elected or appointed assessor's
1775 work plans or oaths of office. A signed certification is an integral part of the appraisal report.
1776 An appraiser, who signs any part of the mass appraisal report, including a letter of transmittal,
1777 must also sign this certification.

1778 In an assignment that includes only assignment results developed by the real property
1779 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all
1780 elements of the certification, for the assignment results, and for the contents of the appraisal
1781 report. In an assignment that includes personal property assignment results not developed by
1782 the real property appraiser(s), any real property appraiser(s) who signs a certification accepts
1783 full responsibility for the real property elements of the certification, for the real property
1784 assignment results, and for the real property contents of the appraisal report.

1785 In an assignment that includes only assignment results developed by the personal property
1786 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all
1787 elements of the certification, for the assignment results, and for the contents of the appraisal
1788 report. In an assignment that includes real property assignment results not developed by the
1789 personal property appraiser(s), any personal property appraiser(s) who signs a certification
1790 accepts full responsibility for the personal property elements of the certification, for the

⁷⁰ See Advisory Opinion 2, *Inspection of Subject Property*.

1791 personal property assignment results, and for the personal property contents of the appraisal
1792 report.

1793 When a signing appraiser(s) has relied on work done by appraisers and others who do not sign
1794 the certification, the signing appraiser is responsible for the decision to rely on their work.
1795 The signing appraiser(s) is required to have a reasonable basis for believing that those
1796 individuals performing the work are competent. The signing appraiser(s) also must have no
1797 reason to doubt that the work of those individuals is credible.

1798 The names of individuals providing significant mass appraisal assistance who do not sign a
1799 certification must be stated in the certification. It is not required that the description of their
1800 assistance be contained in the certification, but disclosure of their assistance is required in
1801 accordance with Standards Rule 6-8(j).⁷¹

⁷¹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STANDARD 7

1802 STANDARD 7: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT

1803 **In developing a personal property appraisal, an appraiser must identify the problem to be solved,**
1804 **determine the scope of work necessary to solve the problem, and correctly complete research and**
1805 **analyses necessary to produce a credible appraisal.**

1806 Comment: STANDARD 7 is directed toward the substantive aspects of developing a credible
1807 appraisal of personal property. The requirements set forth in STANDARD 7 follow the
1808 appraisal development process in the order of topics addressed and can be used by appraisers
1809 and the users of appraisal services as a convenient checklist.

1810 **Standards Rule 7-1**

1811 **In developing a personal property appraisal, an appraiser must:**

1812 **(a) be aware of, understand, and correctly employ those recognized methods and techniques that are**
1813 **necessary to produce a credible appraisal;**

1814 Comment: This Standards Rule recognizes that the principle of change continues to affect the
1815 manner in which appraisers perform appraisal services. Changes and developments in
1816 personal property practice have a substantial impact on the appraisal profession. Important
1817 changes in the cost and manner of acquiring, producing, and marketing personal property and
1818 changes in the legal framework in which property rights and interests are created, marketed,
1819 conveyed, and financed have resulted in corresponding changes in appraisal theory and
1820 practice. Social change has also had an effect on appraisal theory and practice. To keep
1821 abreast of these changes and developments, the appraisal profession reviews and revises
1822 appraisal methods and techniques and develops methods and techniques to meet new
1823 circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills
1824 and the knowledge they possess when they become appraisers. Each appraiser must
1825 continuously improve his or her skills to remain proficient in personal property appraisal.

1826 **(b) not commit a substantial error of omission or commission that significantly affects an appraisal;**
1827 **and**

1828 Comment: An appraiser must use sufficient care to avoid errors that would significantly affect
1829 his or her opinions and conclusions. Diligence is required to identify and analyze the factors,
1830 conditions, data, and other information that would have a significant effect on the credibility
1831 of the assignment results.

1832 **(c) not render appraisal services in a careless or negligent manner, such as by making a series of**
1833 **errors that, although individually might not significantly affect the results of an appraisal, in the**
1834 **aggregate affect the credibility of those results.**

1835 Comment: Perfection is impossible to attain, and competence does not require perfection.
1836 However, an appraiser must not render appraisal services in a careless or negligent manner.
1837 This Standards Rule requires an appraiser to use due diligence and due care.

1838 **Standards Rule 7-2**

1839 **In developing a personal property appraisal, an appraiser must:**

- 1840 (a) **identify the client and other intended users;**⁷²
- 1841 (b) **identify the intended use of the appraiser’s opinions and conclusions;**⁷³
- 1842 Comment: An appraiser must not allow the intended use of an assignment or a client’s
1843 objectives to cause the assignment results to be biased.
- 1844 (c) **identify the type and definition of value, and, if the value opinion to be developed is market**
1845 **value, ascertain whether the value is to be the most probable price:**
- 1846 (i) **in terms of cash; or**
- 1847 (ii) **in terms of financial arrangements equivalent to cash; or**
- 1848 (iii) **in other precisely defined terms; and**
- 1849 (iv) **if the opinion of value is to be based on non-market financing or financing with unusual**
1850 **conditions or incentives, the terms of such financing must be clearly identified and the**
1851 **appraiser’s opinion of their contributions to or negative influence on value must be**
1852 **developed by analysis of relevant market data;**
- 1853 Comment: When developing an opinion of value in a specified market or at a specified market
1854 level based on the potential sale of the property, the appraiser must also develop an opinion of
1855 reasonable exposure time linked to the value opinion.
- 1856 (d) **identify the effective date of the appraiser’s opinions and conclusions;**⁷⁴
- 1857 (e) **identify the characteristics of the property that are relevant to the type and definition of value**
1858 **and intended use of the appraisal,**⁷⁵ **including:**
- 1859 (i) **sufficient characteristics to establish the identity of the item including the method of**
1860 **identification;**
- 1861 (ii) **sufficient characteristics to establish the relative quality of the item (and its component**
1862 **parts, where applicable) within its type;**
- 1863 (iii) **all other physical and economic attributes with a material effect on value;**
- 1864 Comment: Some examples of physical and economic characteristics include condition, style,
1865 size, quality, manufacturer, author, materials, origin, age, provenance, alterations, restorations,
1866 and obsolescence. The type of property, the type and definition of value, and intended use of
1867 the appraisal determine which characteristics have a material effect on value.
- 1868 (iv) **the ownership interest to be valued;**
- 1869 (v) **any known restrictions, encumbrances, leases, covenants, contracts, declarations, special**
1870 **assessments, ordinances, or other items of a similar nature; and**

⁷² See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁷³ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁷⁴ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

⁷⁵ See Advisory Opinion 2, *Inspection of Subject Property*.

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1871 (vi) any real property or intangible items that are not personal property but which are
1872 included in the appraisal;

1873 Comment on (i)–(vi): The information used by an appraiser to identify the property
1874 characteristics must be from sources the appraiser reasonably believes are reliable.

1875 An appraiser may use any combination of a property inspection and documents or other
1876 resources to identify the relevant characteristics of the subject property.

1877 When appraising proposed modifications, an appraiser must examine and have available for
1878 future examination, plans, specifications, or other documentation sufficient to identify the
1879 extent and character of the proposed modifications.

1880 An appraiser may not be required to value the whole when the subject of the appraisal is a
1881 fractional interest, a physical segment, or a partial holding.

1882 (f) identify any extraordinary assumptions necessary in the assignment;

1883 Comment: An extraordinary assumption may be used in an assignment only if:

- 1884 • it is required to properly develop credible opinions and conclusions;
- 1885 • the appraiser has a reasonable basis for the extraordinary assumption;
- 1886 • use of the extraordinary assumption results in a credible analysis; and
- 1887 • the appraiser complies with the disclosure requirements set forth in USPAP for
1888 extraordinary assumptions.

1889 (g) identify any hypothetical conditions necessary in the assignment; and

1890 Comment: A hypothetical condition may be used in an assignment only if:

- 1891 • use of the hypothetical condition is clearly required for legal purposes, for purposes
1892 of reasonable analysis, or for purposes of comparison;
- 1893 • use of the hypothetical condition results in a credible analysis; and
- 1894 • the appraiser complies with the disclosure requirements set forth in USPAP for
1895 hypothetical conditions.

1896 (h) determine the scope of work necessary to produce credible assignment results in accordance
1897 with the SCOPE OF WORK RULE.⁷⁶

1898 Standards Rule 7-3

1899 In developing a personal property appraisal, when necessary for credible assignment results, an
1900 appraiser must:

1901 (a) analyze the current use and alternative uses to encompass what is profitable, legal, and
1902 physically possible, as relevant to the type and definition of value and intended use of the
1903 appraisal;

1904 Comment: In the context of personal property, highest and best use may equate to the choice
1905 of the appropriate market or market level for the type of item, the type and definition of value,
1906 and intended use of the appraisal.

⁷⁶ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

1907 (b) **define and analyze the appropriate market consistent with the type and definition of value; and**

1908 Comment: The appraiser must recognize that there are distinct levels of trade (measurable
1909 marketplaces) and each may generate its own data. For example, a property may have a
1910 different value at a wholesale level of trade, a retail level of trade, or under various auction
1911 conditions. Therefore, the appraiser must analyze the subject property within the correct
1912 market context.

1913 (c) **analyze the relevant economic conditions at the time of the valuation, including market**
1914 **acceptability of the property and supply, demand, scarcity, or rarity.**

1915 **Standards Rule 7-4**

1916 **In developing a personal property appraisal, an appraiser must collect, verify, and analyze all**
1917 **information necessary for credible assignment results.**

1918 (a) **When a sales comparison approach is necessary for credible assignment results, an appraiser**
1919 **must analyze such comparable sales data as are available to indicate a value conclusion.**

1920 (b) **When a cost approach is necessary for credible assignment results, an appraiser must:**

1921 (i) **analyze such comparable cost data as are available to estimate the cost new of the**
1922 **property; and**

1923 (ii) **analyze such comparable data as are available to estimate the difference between cost**
1924 **new and the present worth of the property (accrued depreciation).**

1925 (c) **When an income approach is necessary for credible assignment results, an appraiser must:**

1926 (i) **analyze such comparable data as are available to estimate the market income of the**
1927 **property;**

1928 (ii) **analyze such comparable operating expense data as are available to estimate the**
1929 **operating expenses of the property;**

1930 (iii) **analyze such comparable data as are available to estimate rates of capitalization and/or**
1931 **rates of discount; and**

1932 (iv) **base projections of future income and expenses on reasonably clear and appropriate**
1933 **evidence.**

1934 Comment: An appraiser must, in developing income and expense statements and cash flow
1935 projections, weigh historical information and trends, current supply and demand factors
1936 affecting such trends, and competition.

1937 (d) **When developing an opinion of the value of a lease or leased property, an appraiser must analyze**
1938 **the effect on value, if any, of the terms and conditions of the lease(s).**

1939 (e) **When analyzing the assemblage of the various component parts of a property, an appraiser must**
1940 **analyze the effect on value, if any, of the assemblage. An appraiser must refrain from valuing**
1941 **the whole solely by adding together the individual values of the various component parts.**

1942 Comment: Although the value of the whole may be equal to the sum of the separate parts, it
1943 also may be greater than or less than the sum of such parts. Therefore, the value of the whole

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1944 must be tested by reference to appropriate data and supported by an appropriate analysis of
1945 such data.

1946 A similar procedure must be followed when the value of the whole has been established and
1947 the appraiser seeks to value a part. The value of any such part must be tested by reference to
1948 appropriate data and supported by an appropriate analysis of such data.

1949 **(f) When analyzing anticipated modifications to the subject property, an appraiser must analyze the**
1950 **effect on value, if any, of such modifications to the extent they are reflected in market actions.**

1951 **(g) When real property or intangible items are included in the appraisal, the appraiser must analyze**
1952 **the effect on value of such non-personal property items.**

1953 Comment: When the scope of work includes an appraisal of real property or intangible items,
1954 competency in real property appraisal (see STANDARD 1) or business appraisal (see
1955 STANDARD 9) is required. In addition, competency in other types of personal property
1956 outside of the appraiser's specialty area may be necessary (see STANDARD 7 and the
1957 COMPETENCY RULE).

1958 **Standards Rule 7-5**

1959 **When the value opinion to be developed is market value, an appraiser must, if such information is**
1960 **available to the appraiser in the normal course of business:⁷⁷**

1961 **(a) analyze all agreements of sale, validated offers or third-party offers to sell, options, and listings**
1962 **of the subject property current as of the effective date of the appraisal; and**

1963 **(b) analyze all prior sales of the subject property that occurred within a reasonable and applicable**
1964 **time period, given the intended use and the type of property involved.**

1965 Comment: The data needed for the required analyses in Standards Rule 7-5(a) and 7-5(b)
1966 may not be available or relevant in all assignments. See the Comments to Standards Rules 8-
1967 2(a)(viii), 8-2(b)(viii), and 8-2(c)(viii) for corresponding reporting requirements.

1968 **Standards Rule 7-6**

1969 **In developing a personal property appraisal, an appraiser must:**

1970 **(a) reconcile the quality and quantity of data available and analyzed within the approaches used;**
1971 **and**

1972 **(b) reconcile the applicability and relevance of the approaches, methods and techniques used to**
1973 **arrive at the value conclusion(s).**

⁷⁷ See Advisory Opinion 24, *Normal Course of Business*.

1974 **STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING**

1975 **In reporting the results of a personal property appraisal, an appraiser must communicate each analysis,**
 1976 **opinion, and conclusion in a manner that is not misleading.**

1977 Comment: STANDARD 8 addresses the content and level of information required in a report
 1978 that communicates the results of a personal property appraisal.

1979 STANDARD 8 does not dictate the form, format, or style of personal property appraisal
 1980 reports, which are functions of the needs of intended users and appraisers. The substantive
 1981 content of a report determines its compliance.

1982 **Standards Rule 8-1**

1983 **Each written or oral personal property appraisal report must:**

- 1984 (a) **clearly and accurately set forth the appraisal in a manner that will not be misleading;**
 1985 (b) **contain sufficient information to enable the intended users of the appraisal to understand the**
 1986 **report properly; and**
 1987 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**
 1988 **conditions, and limiting conditions used in the assignment.**

1989 **Standards Rule 8-2**

1990 **Each written personal property appraisal report must be prepared under one of the following three**
 1991 **options and prominently state which option is used: Self-Contained Appraisal Report, Summary**
 1992 **Appraisal Report, or Restricted Use Appraisal Report.**⁷⁸

1993 Comment: When the intended users include parties other than the client, either a Self-
 1994 Contained Appraisal Report or a Summary Appraisal Report must be provided. When the
 1995 intended users do not include parties other than the client, a Restricted Use Appraisal Report
 1996 may be provided.

1997 The essential difference among these three options is in the content and level of information
 1998 provided. The appropriate reporting option and the level of information necessary in the
 1999 report are dependent on the intended use and intended users.

2000 An appraiser must use care when characterizing the type of report and level of information
 2001 communicated upon completion of an assignment. An appraiser may use any other label in
 2002 addition to, but not in place of, the label set forth in this Standard for the type of report
 2003 provided.

2004 The report content and level of information requirements set forth in this Standard are
 2005 minimums for each type of report. An appraiser must supplement a report form, when
 2006 necessary, to ensure that any intended user of the appraisal is not misled and that the report
 2007 complies with the applicable content requirements set forth in this Standards Rule.

⁷⁸ See Advisory Opinion 11, *Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2*, and Advisory Opinion 12, *Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2*.

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- 2008 A party receiving a copy of a Self-Contained Appraisal Report, Summary Appraisal Report, or
2009 Restricted Use Appraisal Report in order to satisfy disclosure requirements does not become
2010 an intended user of the appraisal unless the appraiser identifies such party as an intended user
2011 as part of the assignment.
- 2012 **(a) The content of a Self-Contained Appraisal Report must be consistent with the intended use of the**
2013 **appraisal and, at a minimum:**
- 2014 **(i) state the identity of the client and any intended users, by name or type;**⁷⁹
- 2015 Comment: An appraiser must use care when identifying the client to ensure a clear
2016 understanding and to avoid violations of the Confidentiality section of the ETHICS
2017 RULE. In those rare instances where the client wishes to remain anonymous, an
2018 appraiser must still document the identity of the client in the workfile but may omit
2019 the client's identity in the report.
- 2020 **(ii) state the intended use of the appraisal;**⁸⁰
- 2021 **(iii) describe information sufficient to identify the property involved in the appraisal,**
2022 **including the physical and economic property characteristics relevant to the assignment;**
- 2023 **(iv) state the property interest appraised;**
- 2024 **(v) state the type and definition of value and cite the source of the definition;**
- 2025 Comment: Stating the definition of value also requires any comments needed to
2026 clearly indicate to the intended users how the definition is being applied.⁸¹
- 2027 When reporting an opinion of market value, state whether the opinion of value is:
- 2028 • in terms of cash or of financing terms equivalent to cash, or
2029 • based on non-market financing or financing with unusual conditions or
2030 incentives.
- 2031 When an opinion of market value is not in terms of cash or based on financing terms
2032 equivalent to cash, summarize the terms of such financing and explain their
2033 contributions to or negative influence on value.
- 2034 **(vi) state the effective date of the appraisal and the date of the report;**⁸²
- 2035 Comment: The effective date of the appraisal establishes the context for the value
2036 opinion, while the date of the report indicates whether the perspective of the
2037 appraiser on the market and property as of the effective date of the appraisal was
2038 prospective, current, or retrospective.

⁷⁹ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁸⁰ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁸¹ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*.

⁸² See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*

- 2039 **(vii) describe the scope of work used to develop the appraisal;**⁸³
- 2040 Comment: Because intended users' reliance on an appraisal may be affected by the
2041 scope of work, the report must enable them to be properly informed and not misled.
2042 Sufficient information includes disclosure of research and analyses performed and
2043 might also include disclosure of research and analyses not performed.
- 2044 When any portion of the work involves significant personal property appraisal
2045 assistance, the appraiser must describe the extent of that assistance. The signing
2046 appraiser must also state the name(s) of those providing the significant personal
2047 property appraisal assistance in the certification, in accordance with Standards Rule
2048 8-3.⁸⁴
- 2049 **(viii) describe the information analyzed, the appraisal methods and techniques employed, and**
2050 **the reasoning that supports the analyses, opinions, and conclusions; exclusion of the**
2051 **sales comparison approach, cost approach, or income approach must be explained;**⁸⁵
- 2052 Comment: A Self-Contained Appraisal Report must include sufficient information to
2053 indicate that the appraiser complied with the requirements of STANDARD 7. The
2054 amount of detail required will vary with the significance of the information to the
2055 appraisal.
- 2056 The appraiser must provide sufficient information to enable the client and intended
2057 users to understand the rationale for the opinions and conclusions, including
2058 reconciliation of the data and approaches, in accordance with Standards Rule 7-6.
- 2059 When reporting an opinion of market value, a summary of the results of analyzing
2060 the subject sales, offers, options, and listings in accordance with Standards Rule 7-5
2061 is required. If such information was unobtainable, a statement on the efforts
2062 undertaken by the appraiser to obtain the information is required. If such information
2063 is irrelevant, a statement acknowledging the existence of the information and citing
2064 its lack of relevance is required.
- 2065 **(ix) state, as appropriate to the class of personal property involved, the use of the property**
2066 **existing as of the date of value and the use of the property reflected in the appraisal;**
2067 **and, when an opinion of the appropriate market or market level was developed by the**
2068 **appraiser, describe the support and rationale for that opinion;**
- 2069 Comment: In the context of personal property, highest and best use may equate to the
2070 choice of the appropriate market or market level for the type of item, the type and
2071 definition of value, and intended use of the report.
- 2072 **(x) clearly and conspicuously:**
- 2073 • state all extraordinary assumptions and hypothetical conditions; and
2074 • state that their use might have affected the assignment results; and
- 2075 **(xi) include a signed certification in accordance with Standards Rule 8-3.**

⁸³ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

⁸⁴ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

⁸⁵ See Advisory Opinion 2, *Inspection of Subject Property*.

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2076 (b) **The content of a Summary Appraisal Report must be consistent with the intended use of the**
2077 **appraisal and, at a minimum:**

2078 Comment: The essential difference between the Self-Contained Appraisal Report and the
2079 Summary Appraisal Report is the level of detail of presentation.

2080 (i) **state the identity of the client and any intended users, by name or type;**⁸⁶

2081 Comment: An appraiser must use care when identifying the client to ensure a clear
2082 understanding and to avoid violations of the Confidentiality section of the ETHICS
2083 RULE. In those rare instances where the client wishes to remain anonymous, an
2084 appraiser must still document the identity of the client in the workfile but may omit
2085 the client's identity in the report.

2086 (ii) **state the intended use of the appraisal;**⁸⁷

2087 (iii) **summarize information sufficient to identify the property involved in the appraisal,**
2088 **including the physical and economic property characteristics relevant to the assignment;**

2089 (iv) **state the property interest appraised;**

2090 (v) **state the type and definition of value and cite the source of the definition;**

2091 Comment: Stating the definition of value also requires any comments needed to
2092 clearly indicate to the intended users how the definition is being applied.⁸⁸

2093 When reporting an opinion of market value, state whether the opinion of value is:

- 2094 • in terms of cash or of financing terms equivalent to cash, or
2095 • based on non-market financing or financing with unusual conditions or
2096 incentives.

2097 When an opinion of market value is not in terms of cash or based on financing terms
2098 equivalent to cash, summarize the terms of such financing and explain their
2099 contributions to or negative influence on value.

2100 (vi) **state the effective date of the appraisal and the date of the report;**⁸⁹

2101 Comment: The effective date of the appraisal establishes the context for the value
2102 opinion, while the date of the report indicates whether the perspective of the
2103 appraiser on the market and property as of the effective date of the appraisal was
2104 prospective, current, or retrospective.

⁸⁶ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁸⁷ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁸⁸ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*.

⁸⁹ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

- 2105 **(vii) summarize the scope of work used to develop the appraisal;**⁹⁰
- 2106 Comment: Because intended users' reliance on an appraisal may be affected by the
2107 scope of work, the report must enable them to be properly informed and not misled.
2108 Sufficient information includes disclosure of research and analyses performed and
2109 might also include disclosure of research and analyses not performed.
- 2110 When any portion of the work involves significant personal property appraisal
2111 assistance, the appraiser must summarize the extent of that assistance. The signing
2112 appraiser must also state the name(s) of those providing the significant personal
2113 property appraisal assistance in the certification, in accordance with Standards Rule
2114 8-3.⁹¹
- 2115 **(viii) summarize the information analyzed, the appraisal methods and techniques employed,
2116 and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the
2117 sales comparison approach, cost approach, or income approach must be explained;**⁹²
- 2118 Comment: A Summary Appraisal Report must include sufficient information to
2119 indicate that the appraiser complied with the requirements of STANDARD 7. The
2120 amount of detail required will vary with the significance of the information to the
2121 appraisal.
- 2122 The appraiser must provide sufficient information to enable the client and intended
2123 users to understand the rationale for the opinion and conclusions, including
2124 reconciliation of the data and approaches, in accordance with Standards Rule 7-6.
- 2125 When reporting an opinion of market value, a summary of the results of the analysis
2126 of the subject sales, offers, options, and listings in accordance with Standards Rule 7-
2127 5 is necessary. If such information was unobtainable, a statement on the efforts
2128 undertaken by the appraiser to obtain the information is required. If such information
2129 is irrelevant, a statement acknowledging the existence of the information and citing
2130 its lack of relevance is required.
- 2131 **(ix) state, as appropriate to the class of personal property involved, the use of the property
2132 existing as of the date of value and the use of the property reflected in the appraisal;
2133 and, when an opinion of the appropriate market or market level was developed by the
2134 appraiser, summarize the support and rationale for that opinion;**
- 2135 Comment: In the context of personal property, highest and best use may equate to
2136 the choice of the appropriate market or market level for the type of item, the type and
2137 definition of value, and intended use of the report.
- 2138 **(x) clearly and conspicuously:**
- 2139 • state all extraordinary assumptions and hypothetical conditions; and
2140 • state that their use might have affected the assignment results; and
- 2141 **(xi) include a signed certification in accordance with Standards Rule 8-3.**

⁹⁰ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

⁹¹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

⁹² See Advisory Opinion 2, *Inspection of Subject Property*.

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2142 (c) **The content of a Restricted Use Appraisal Report must be consistent with the intended use of the**
2143 **appraisal and, at a minimum:**

2144 (i) **state the identity of the client, by name or type;⁹³ and state a prominent use restriction**
2145 **that limits use of the report to the client and warns that the appraiser's opinions and**
2146 **conclusions set forth in the report may not be understood properly without additional**
2147 **information in the appraiser's workfile;**

2148 Comment: An appraiser must use care when identifying the client to ensure a clear
2149 understanding and to avoid violations of the Confidentiality section of the ETHICS
2150 RULE. In those rare instances when the client wishes to remain anonymous, an
2151 appraiser must still document the identity of the client in the workfile but may omit
2152 the client's identity in the report.

2153 The Restricted Use Appraisal Report is for client use only. Before entering into an
2154 agreement, the appraiser should establish with the client the situations where this
2155 type of report is to be used and should ensure that the client understands the
2156 restricted utility of the Restricted Use Appraisal Report.

2157 (ii) **state the intended use of the appraisal;⁹⁴**

2158 Comment: The intended use of the appraisal must be consistent with the limitation
2159 on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e.,
2160 client use only).

2161 (iii) **state information sufficient to identify the property involved in the appraisal;**

2162 (iv) **state the property interest appraised;**

2163 (v) **state the type of value, and cite the source of its definition;⁹⁵**

2164 (vi) **state the effective date of the appraisal and the date of the report;⁹⁶**

2165 Comment: The effective date of the appraisal establishes the context for the value
2166 opinion, while the date of the report indicates whether the perspective of the
2167 appraiser on the market and property as of the effective date of the appraisal was
2168 prospective, current, or retrospective.

2169 (vii) **state the scope of work used to develop the appraisal;⁹⁷**

2170 Comment: Because the client's reliance on an appraisal may be affected by the scope
2171 of work, the report must enable them to be properly informed and not misled.
2172 Sufficient information includes disclosure of research and analyses performed and
2173 might also include disclosure of research and analyses not performed.

⁹³ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁹⁴ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁹⁵ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*.

⁹⁶ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

⁹⁷ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

2174 When any portion of the work involves significant personal property appraisal
 2175 assistance, the appraiser must state the extent of that assistance. The signing
 2176 appraiser must also state the name(s) of those providing the significant personal
 2177 property appraisal assistance in the certification, in accordance with Standards Rule
 2178 8-3.⁹⁸

2179 **(viii) state the appraisal methods and techniques employed, state the value opinion(s) and**
 2180 **conclusion(s) reached, and reference the workfile; exclusion of the sales comparison**
 2181 **approach, cost approach, or income approach must be explained;**⁹⁹

2182 Comment: An appraiser must maintain a specific, coherent workfile in support of a
 2183 Restricted Use Appraisal Report. The contents of the workfile must include sufficient
 2184 information to indicate that the appraiser complied with the requirements of
 2185 STANDARD 7 and for the appraiser to produce a Summary Appraisal Report.

2186 When reporting an opinion of market value, information analyzed in compliance
 2187 with Standards Rule 7-5 is significant information that must be disclosed in a
 2188 Restricted Use Appraisal Report. If such information was unobtainable, a statement
 2189 on the efforts undertaken by the appraiser to obtain the information is required. If
 2190 such information is irrelevant, a statement acknowledging the existence of the
 2191 information and citing its lack of relevance is required.

2192 **(ix) state, as appropriate to the class of personal property involved, the use of the property**
 2193 **existing as of the date of value and the use of the property reflected in the appraisal;**
 2194 **and, when an opinion of the appropriate market or market level was developed by the**
 2195 **appraiser, state that opinion;**

2196 Comment: In the context of personal property, highest and best use may equate to
 2197 the choice of the appropriate market or market level for the type of item, the type and
 2198 definition of value, and intended use of the report.

2199 **(x) clearly and conspicuously:**

- 2200 • state all extraordinary assumptions and hypothetical conditions; and
- 2201 • state that their use might have affected the assignment results; and

2202 **(xi) include a signed certification in accordance with Standards Rule 8-3.**

2203 **Standards Rule 8-3**

2204 **Each written personal property appraisal report must contain a signed certification that is similar in**
 2205 **content to the following form:**

2206 **I certify that, to the best of my knowledge and belief:**

- 2207 — **the statements of fact contained in this report are true and correct.**
- 2208 — **the reported analyses, opinions, and conclusions are limited only by the reported**
 2209 **assumptions and limiting conditions and are my personal, impartial, and unbiased**
 2210 **professional analyses, opinions, and conclusions.**

⁹⁸ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

⁹⁹ See Advisory Opinion 2, *Inspection of Subject Property*.

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- 2211 — **I have no (or the specified) present or prospective interest in the property that is the**
2212 **subject of this report and no (or the specified) personal interest with respect to the**
2213 **parties involved.**
- 2214 — **I have no bias with respect to the property that is the subject of this report or to the**
2215 **parties involved with this assignment.**
- 2216 — **my engagement in this assignment was not contingent upon developing or reporting**
2217 **predetermined results.**
- 2218 — **my compensation for completing this assignment is not contingent upon the**
2219 **development or reporting of a predetermined value or direction in value that favors**
2220 **the cause of the client, the amount of the value opinion, the attainment of a stipulated**
2221 **result, or the occurrence of a subsequent event directly related to the intended use of**
2222 **this appraisal.**
- 2223 — **my analyses, opinions, and conclusions were developed, and this report has been**
2224 **prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.**
- 2225 — **I have (or have not) made a personal inspection of the property that is the subject of**
2226 **this report. (If more than one person signs this certification, the certification must**
2227 **clearly specify which individuals did and which individuals did not make a personal**
2228 **inspection of the appraised property.)¹⁰⁰**
- 2229 — **no one provided significant personal property appraisal assistance to the person**
2230 **signing this certification. (If there are exceptions, the name of each individual**
2231 **providing significant personal property appraisal assistance must be stated.)**

2232 Comment: A signed certification is an integral part of the appraisal report. An appraiser who
2233 signs any part of the appraisal report, including a letter of transmittal, must also sign this
2234 certification.

2235 In an assignment that includes only assignment results developed by the personal property
2236 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all
2237 elements of the certification, for the assignment results, and for the contents of the appraisal
2238 report. In an assignment that includes real property, business or intangible asset assignment
2239 results not developed by the personal property appraiser(s), any personal property appraiser(s)
2240 who signs a certification accepts full responsibility for the personal property elements of the
2241 certification, for the personal property assignment results, and for the personal property
2242 contents of the appraisal report.

2243 When a signing appraiser(s) has relied on work done by appraisers and others who do not sign
2244 the certification, the signing appraiser is responsible for the decision to rely on their work.
2245 The signing appraiser(s) is required to have a reasonable basis for believing that those
2246 individuals performing the work are competent. The signing appraiser(s) also must have no
2247 reason to doubt that the work of those individuals is credible.¹⁰¹

2248 The names of individuals providing significant personal property appraisal assistance who do
2249 not sign a certification must be stated in the certification. It is not required that the description
2250 of their assistance be contained in the certification, but disclosure of their assistance is
2251 required in accordance with Standards Rule 8-2(a), (b), or (c)(vii), as applicable.¹⁰²

¹⁰⁰ See Advisory Opinion 2, *Inspection of Subject Property*.

¹⁰¹ See Advisory Opinion 5, *Assistance in the Preparation of an Appraisal*.

¹⁰² See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

2252 **Standards Rule 8-4**

2253 **To the extent that it is both possible and appropriate, an oral personal property appraisal report must**
2254 **address the substantive matters set forth in Standards Rule 8-2(b).**

2255 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
2256 requirements.

STANDARD 9

2257 STANDARD 9: BUSINESS APPRAISAL, DEVELOPMENT

2258 **In developing an appraisal of an interest in a business enterprise or intangible asset, an appraiser must**
2259 **identify the problem to be solved, determine the scope of work necessary to solve the problem, and**
2260 **correctly complete the research and analyses necessary to produce a credible appraisal.**

2261 Comment: STANDARD 9 is directed toward the substantive aspects of developing a credible
2262 appraisal of an interest in a business enterprise or intangible asset.

2263 **Standards Rule 9-1**

2264 **In developing an appraisal of an interest in a business enterprise or intangible asset, an appraiser must:**

2265 **(a) be aware of, understand, and correctly employ those recognized approaches, methods and**
2266 **procedures that are necessary to produce a credible appraisal;**

2267 Comment: Changes and developments in the economy and in investment theory have a
2268 substantial impact on the business and intangible asset appraisal profession. Important
2269 changes in the financial arena, securities regulation, financial reporting requirements, and law
2270 may result in corresponding changes in appraisal theory and practice.

2271 **(b) not commit a substantial error of omission or commission that significantly affects an appraisal;**
2272 **and**

2273 Comment: An appraiser must use sufficient care to avoid errors that would significantly affect
2274 his or her opinions and conclusions. Diligence is required to identify and analyze the factors,
2275 conditions, data, and other information that would have a significant effect on the credibility
2276 of the assignment results.

2277 **(c) not render appraisal services in a careless or negligent manner, such as by making a series of**
2278 **errors that, although individually might not significantly affect the results of an appraisal, in the**
2279 **aggregate affect the credibility of those results.**

2280 Comment: Perfection is impossible to attain, and competence does not require perfection.
2281 However, an appraiser must not render appraisal services in a careless or negligent manner.
2282 This Standards Rule requires an appraiser to use due diligence and due care.

2283 **Standards Rule 9-2**

2284 **In developing an appraisal of an interest in a business enterprise or intangible asset, an appraiser must:**

2285 **(a) identify the client and other intended users;¹⁰³**

2286 **(b) identify the intended use of the appraiser's opinions and conclusions;¹⁰⁴**

2287 Comment: An appraiser must not allow the intended use of an assignment or a client's
2288 objectives to cause the assignment results to be biased.

2289 **(c) identify the standard (type) and definition of value and the premise of value;**

¹⁰³ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁰⁴ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

- 2290 (d) **identify the effective date of the appraisal;**
- 2291 (e) **identify the characteristics of the subject property that are relevant to the standard (type) and**
2292 **definition of value and intended use of the appraisal, including:**
- 2293 (i) **the subject business enterprise or intangible asset, if applicable;**
- 2294 (ii) **the interest in the business enterprise, equity, asset, or liability to be valued;**
- 2295 Comment: The interest to be valued may represent all ownership rights or a subset
2296 of those rights, such as a specific right to use the asset.
- 2297 (iii) **all buy-sell and option agreements, investment letter stock restrictions, restrictive**
2298 **corporate charter or partnership agreement clauses, and similar features or factors that**
2299 **may have an influence on value;**
- 2300 (iv) **the extent to which the interest contains elements of ownership control; and**
- 2301 Comment: The elements of control in a given situation may be affected by law,
2302 distribution of ownership interests, contractual relationships, and many other factors.
- 2303 (v) **the extent to which the interest is marketable and/or liquid;**
- 2304 Comment on (i)-(v): An appraiser must identify the attributes of the interest being appraised,
2305 including the rights and benefits of ownership.
- 2306 The information used by an appraiser to identify the property characteristics must be from
2307 sources the appraiser reasonably believes are reliable.
- 2308 (f) **identify any extraordinary assumptions necessary in the assignment;**
- 2309 Comment: An extraordinary assumption may be used in an assignment only if:
- 2310 • it is required to properly develop credible opinions and conclusions;
- 2311 • the appraiser has a reasonable basis for the extraordinary assumption;
- 2312 • use of the extraordinary assumption results in a credible analysis; and
- 2313 • the appraiser complies with the disclosure requirements set forth in USPAP for
2314 extraordinary assumptions.
- 2315 (g) **identify any hypothetical conditions necessary in the assignment; and**
- 2316 Comment: A hypothetical condition may be used in an assignment only if:
- 2317 • use of the hypothetical condition is clearly required for legal purposes, for purposes
2318 of reasonable analysis, or for purposes of comparison;
- 2319 • use of the hypothetical condition results in a credible analysis; and
- 2320 • the appraiser complies with the disclosure requirements set forth in USPAP for
2321 hypothetical conditions.

STANDARD 9

- 2322 (h) determine the scope of work necessary to produce credible assignment results in accordance with
2323 the SCOPE OF WORK RULE.¹⁰⁵

2324 Standards Rule 9-3

2325 **In developing an appraisal of an equity interest in a business enterprise with the ability to cause**
2326 **liquidation, an appraiser must investigate the possibility that the business enterprise may have a higher**
2327 **value by liquidation of all or part of the enterprise than by continued operation as is. If liquidation of all**
2328 **or part of the enterprise is the indicated premise of value, an appraisal of any real property or personal**
2329 **property to be liquidated may be appropriate.**

2330 Comment: This Standards Rule requires the appraiser to recognize that continued operation of
2331 a business is not always the best premise of value because liquidation of all or part of the
2332 enterprise may result in a higher value. However, this typically applies only when the business
2333 equity being appraised is in a position to cause liquidation. If liquidation of all or part of the
2334 enterprise is the appropriate premise of value, the scope of work may include an appraisal of
2335 real property or tangible personal property. If so, competency in real property appraisal
2336 (STANDARD 1) or tangible personal property appraisal (STANDARD 7) is required.

2337 Standards Rule 9-4

2338 **In developing an appraisal of an interest in a business enterprise or intangible asset, an appraiser must**
2339 **collect and analyze all information necessary for credible assignment results.**

2340 (a) **An appraiser must develop value opinion(s) and conclusion(s) by use of one or more approaches**
2341 **that are necessary for credible assignment results.**

2342 (b) **An appraiser must, when necessary for credible assignment results, analyze the effect on value, if**
2343 **any, of:**

2344 (i) **the nature and history of the business enterprise or intangible asset;**

2345 (ii) **financial and economic conditions affecting the business enterprise or intangible asset,**
2346 **its industry, and the general economy;**

2347 (iii) **past results, current operations, and future prospects of the business enterprise;**

2348 (iv) **past sales of capital stock or other ownership interests in the business enterprise or**
2349 **intangible asset being appraised;**

2350 (v) **sales of capital stock or other ownership interests in similar business enterprises;**

2351 (vi) **prices, terms, and conditions affecting past sales of similar ownership interests in the**
2352 **asset being appraised or a similar asset; and**

2353 (vii) **economic benefit of tangible and intangible assets.**

2354 Comment on (i)-(vii): This Standards Rule directs the appraiser to study the prospective and
2355 retrospective aspects of the business enterprise and to study it in terms of the economic and
2356 industry environment within which it operates.

¹⁰⁵ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

2357 (c) **An appraiser must, when necessary for credible assignment results, analyze the effect on value, if**
2358 **any, of buy-sell and option agreements, investment letter stock restrictions, restrictive corporate**
2359 **charter or partnership agreement clauses, and similar features or factors that may influence**
2360 **value.**

2361 (d) **An appraiser must, when necessary for credible assignment results, analyze the effect on value, if**
2362 **any, of the extent to which the interest appraised contains elements of ownership control and is**
2363 **marketable and/or liquid.**

2364 Comment: An appraiser must analyze factors such as holding period, interim benefits, and the
2365 difficulty and cost of marketing the subject interest.

2366 Equity interests in a business enterprise are not necessarily worth the pro rata share of the
2367 business enterprise interest value as a whole. Also, the value of the business enterprise is not
2368 necessarily a direct mathematical extension of the value of the fractional interests. The degree
2369 of control, marketability and/or liquidity or lack thereof depends on a broad variety of facts
2370 and circumstances that must be analyzed when applicable.

2371 **Standards Rule 9-5**

2372 **In developing an appraisal of an interest in a business enterprise or intangible asset, an appraiser must:**

2373 (a) **reconcile the quality and quantity of data available and analyzed within the approaches,**
2374 **methods, and procedures used; and**

2375 (b) **reconcile the applicability and relevance of the approaches, methods and procedures used to**
2376 **arrive at the value conclusion(s).**

2377 Comment: The value conclusion is the result of the appraiser's judgment and not necessarily
2378 the result of a mathematical process.

STANDARD 10

2379 STANDARD 10: BUSINESS APPRAISAL, REPORTING

2380 **In reporting the results of an appraisal of an interest in a business enterprise or intangible asset, an**
2381 **appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.**

2382 Comment: STANDARD 10 addresses the content and level of information required in a report that
2383 communicates the results of an appraisal of an interest in a business enterprise or intangible asset
2384 developed under STANDARD 9.

2385 STANDARD 10 does not dictate the form, format, or style of business or intangible asset
2386 appraisal reports, which are functions of the needs of intended users and appraisers. The
2387 substantive content of a report determines its compliance.

2388 **Standards Rule 10-1**

2389 **Each written or oral appraisal report for an interest in a business enterprise or intangible asset must:**

- 2390 (a) **clearly and accurately set forth the appraisal in a manner that will not be misleading;**
2391 (b) **contain sufficient information to enable the intended user(s) to understand the report; and**
2392 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**
2393 **conditions, and limiting conditions used in the assignment.**

2394 **Standards Rule 10-2**

2395 **Each written appraisal report for an interest in a business enterprise or intangible asset must be**
2396 **prepared in accordance with one of the following options and prominently state which option is used:**
2397 **Appraisal Report or Restricted Use Appraisal Report.**

2398 Comment: When the intended users include parties other than the client, an Appraisal Report
2399 must be provided. When the intended users do not include parties other than the client, a
2400 Restricted Use Appraisal Report may be provided.

2401 The essential difference between these options is in the content and level of information
2402 provided. The appropriate reporting option and the level of information necessary in the
2403 report are dependent on the intended use and intended users.

2404 An appraiser must use care when characterizing the type of report and level of information
2405 communicated upon completion of an assignment. An appraiser may use any other label in
2406 addition to, but not in place of, the label set forth in this Standard for the type of report
2407 provided.

2408 The report content and level of information requirements set forth in this Standard are
2409 minimums for both types of report.

2410 A party receiving a copy of an Appraisal Report or Restricted Use Appraisal Report does not
2411 become an intended user of the appraisal unless the appraiser identifies such party as an
2412 intended user as part of the assignment.

- 2413 (a) **The content of an Appraisal Report must be consistent with the intended use of the appraisal**
2414 **and, at a minimum:**

- 2415 (i) **state the identity of the client and any other intended users, by name or type;**¹⁰⁶
- 2416 Comment: An appraiser must use care when identifying the client to ensure a clear
2417 understanding and to avoid violations of the Confidentiality section of the ETHICS
2418 RULE. In those rare instances when the client wishes to remain anonymous, an
2419 appraiser must still document the identity of the client in the workfile but may omit
2420 the client's identity in the report.
- 2421 (ii) **state the intended use of the appraisal;**¹⁰⁷
- 2422 (iii) **summarize information sufficient to identify the business or intangible asset and the**
2423 **interest appraised;**
- 2424 Comment: The identification information must include property characteristics
2425 relevant to the type and definition of value and intended use of the appraisal.
- 2426 (iv) **state the extent to which the interest appraised contains elements of ownership control,**
2427 **including the basis for that determination;**
- 2428 (v) **state the extent to which the interest appraised lacks elements of marketability and/or**
2429 **liquidity, including the basis for that determination;**
- 2430 (vi) **state the standard (type) and definition of value and the premise of value and cite the**
2431 **source of the definition;**
- 2432 Comment: Stating the definition of value also requires any comments needed to
2433 clearly indicate to the intended users how the definition is being applied.
- 2434 (vii) **state the effective date of the appraisal and the date of the report;**
- 2435 Comment: The effective date of the appraisal establishes the context for the value
2436 opinion, while the date of the report indicates whether the perspective of the
2437 appraiser on the market or property as of the effective date of the appraisal was
2438 prospective, current, or retrospective.
- 2439 (viii) **summarize the scope of work used to develop the appraisal;**¹⁰⁸
- 2440 Comment: Because intended users' reliance on an appraisal may be affected by the
2441 scope of work, the report must enable them to be properly informed and not misled.
2442 Sufficient information includes disclosure of research and analyses performed and
2443 might also include disclosure of research and analyses not performed.
- 2444 When any portion of the work involves significant business and/or intangible asset
2445 appraisal assistance, the appraiser must summarize the extent of that assistance. The
2446 signing appraiser must also state the name(s) of those providing the significant

¹⁰⁶ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁰⁷ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁰⁸ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

STANDARD 10

2447 business and/or intangible asset appraisal assistance in the certification, in
2448 accordance with Standards Rule 10-3.¹⁰⁹

2449 (ix) **summarize the information analyzed, the appraisal procedures followed, and the**
2450 **reasoning that supports the analyses, opinions, and conclusions; exclusion of the market**
2451 **approach, asset-based (cost) approach, or income approach must be explained;**

2452 Comment: An Appraisal Report must include sufficient information to indicate that
2453 the appraiser complied with the requirements of STANDARD 9. The amount of
2454 detail required will vary with the significance of the information to the appraisal.

2455 The appraiser must provide sufficient information to enable the client and intended
2456 users to understand the rationale for the opinions and conclusions, including
2457 reconciliation in accordance with Standards Rule 9-5.

2458 (x) **clearly and conspicuously:**

- 2459 • **state all extraordinary assumptions and hypothetical conditions; and**
- 2460 • **state that their use might have affected the assignment results; and**

2461 (xi) **include a signed certification in accordance with Standards Rule 10-3.**

2462 (b) **The content of a Restricted Use Appraisal Report must be consistent with the intended use of the**
2463 **appraisal and, at a minimum:**

2464 (i) **state the identity of the client, by name or type;¹¹⁰ and state a prominent use restriction**
2465 **that limits use of the report to the client and warns that the appraiser's opinions and**
2466 **conclusions set forth in the report may not be understood properly without additional**
2467 **information in the appraiser's workfile;**

2468 Comment: An appraiser must use care when identifying the client to ensure a clear
2469 understanding and to avoid violations of the Confidentiality section of the ETHICS
2470 RULE. In those rare instances when the client wishes to remain anonymous, an
2471 appraiser must still document the identity of the client in the workfile but may omit
2472 the client's identity in the report.

2473 The Restricted Use Appraisal Report is for client use only. Before entering into an
2474 agreement, the appraiser should establish with the client the situations where this
2475 type of report is to be used and should ensure that the client understands the
2476 restricted utility of the Restricted Use Appraisal Report.

2477 (ii) **state the intended use of the appraisal;¹¹¹**

2478 Comment: The intended use of the appraisal must be consistent with the limitation
2479 on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e.
2480 client use only).

2481 (iii) **state information sufficient to identify the business or intangible asset and the interest**
2482 **appraised;**

¹⁰⁹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

¹¹⁰ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹¹¹ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

- 2483 Comment: The identification information must include property characteristics
2484 relevant to the type and definition of value and intended use of the appraisal.
- 2485 (iv) **state the extent to which the interest appraised contains elements of ownership control,**
2486 **including the basis for that determination;**
- 2487 (v) **state the extent to which the interest appraised lacks elements of marketability and/or**
2488 **liquidity, including the basis for that determination;**
- 2489 (vi) **state the standard (type) of value and the premise of value, and cite the source of its**
2490 **definition;**
- 2491 (vii) **state the effective date of the appraisal and the date of the report;**
- 2492 Comment: The effective date of the appraisal establishes the context for the value
2493 opinion, while the date of the report indicates whether the perspective of the
2494 appraiser on the market or property as of the effective date of the appraisal was
2495 prospective, current, or retrospective.
- 2496 (viii) **state the scope of work used to develop the appraisal;**¹¹²
- 2497 Comment: Because the client’s reliance on an appraisal may be affected by the scope
2498 of work, the report must enable them to be properly informed and not misled.
2499 Sufficient information includes disclosure of research and analyses performed and
2500 might also include disclosure of research and analyses not performed.
- 2501 When any portion of the work involves significant business and/or intangible asset
2502 appraisal assistance, the appraiser must state the extent of that assistance. The
2503 signing appraiser must also state the name(s) of those providing the significant
2504 business and/or intangible asset appraisal assistance in the certification, in
2505 accordance with Standards Rule 10-3.¹¹³
- 2506 (ix) **state the appraisal procedures followed, state the value opinion(s) and conclusion(s)**
2507 **reached, and reference the workfile; exclusion of the market approach, asset-based**
2508 **(cost) approach, or income approach must be explained;**
- 2509 Comment: An appraiser must maintain a specific, coherent workfile in support of a
2510 Restricted Use Appraisal Report. The contents of the workfile must include sufficient
2511 information to indicate that the appraiser complied with the requirements of
2512 STANDARD 9 and for the appraiser to produce an Appraisal Report.
- 2513 (x) **clearly and conspicuously:**
- 2514 • **state all extraordinary assumptions and hypothetical conditions; and**
2515 • **state that their use might have affected the assignment results; and**
- 2516 (xi) **include a signed certification in accordance with Standards Rule 10-3.**

¹¹² See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

¹¹³ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STANDARD 10

2517 Standards Rule 10-3

2518 **Each written appraisal report for an interest in a business enterprise or intangible asset must contain a**
2519 **signed certification that is similar in content to the following form:**

2520 **I certify that, to the best of my knowledge and belief:**

- 2521 — **the statements of fact contained in this report are true and correct.**
- 2522 — **the reported analyses, opinions, and conclusions are limited only by the reported**
- 2523 **assumptions and limiting conditions and are my personal, impartial, and unbiased**
- 2524 **professional analyses, opinions, and conclusions.**
- 2525 — **I have no (or the specified) present or prospective interest in the property that is the**
- 2526 **subject of this report, and I have no (or the specified) personal interest with respect to**
- 2527 **the parties involved.**
- 2528 — **I have no bias with respect to the property that is the subject of this report or to the**
- 2529 **parties involved with this assignment.**
- 2530 — **my engagement in this assignment was not contingent upon developing or reporting**
- 2531 **predetermined results.**
- 2532 — **my compensation for completing this assignment is not contingent upon the**
- 2533 **development or reporting of a predetermined value or direction in value that favors**
- 2534 **the cause of the client, the amount of the value opinion, the attainment of a stipulated**
- 2535 **result, or the occurrence of a subsequent event directly related to the intended use of**
- 2536 **this appraisal.**
- 2537 — **my analyses, opinions, and conclusions were developed, and this report has been**
- 2538 **prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.**
- 2539 — **no one provided significant business and/or intangible asset appraisal assistance to the**
- 2540 **person signing this certification. (If there are exceptions, the name of each individual**
- 2541 **providing significant business and/or intangible asset appraisal assistance must be**
- 2542 **stated.)**

2543 Comment: A signed certification is an integral part of the appraisal report. An appraiser who
2544 signs any part of the appraisal report, including a letter of transmittal, must also sign this
2545 certification.

2546 In an assignment that includes only assignment results developed by the business and/or
2547 intangible asset appraiser(s), any appraiser(s) who signs a certification accepts full
2548 responsibility for all elements of the certification, for the assignment results, and for the
2549 contents of the appraisal report. In an assignment that includes real property or personal
2550 property assignment results not developed by the business and/or intangible asset appraiser(s),
2551 any business and/or intangible asset appraiser(s) who signs a certification accepts full
2552 responsibility for the business and/or intangible asset elements of the certification, for the
2553 business and/or intangible asset assignment results, and for the business and/or intangible
2554 asset contents of the appraisal report.

2555 When a signing appraiser(s) has relied on work done by appraisers and others who do not sign
2556 the certification, the signing appraiser is responsible for the decision to rely on their work.
2557 The signing appraiser(s) is required to have a reasonable basis for believing that those
2558 individuals performing the work are competent. The signing appraiser(s) also must have no
2559 reason to doubt that the work of those individuals is credible. ¹¹⁴

¹¹⁴ See Advisory Opinion 5, *Assistance in the Preparation of an Appraisal*.

2560 The names of individuals providing significant business and/or intangible asset appraisal
2561 assistance who do not sign a certification must be stated in the certification. It is not required
2562 that the description of their assistance be contained in the certification but disclosure of their
2563 assistance is required in accordance with Standards Rule 10-2(a) or (b)(vii), as applicable.¹¹⁵

2564 **Standards Rule 10-4**

2565 **To the extent that it is both possible and appropriate, an oral appraisal report for an interest in a**
2566 **business enterprise or intangible asset must address the substantive matters set forth in Standards Rule**
2567 **10-2(a).**

2568 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
2569 requirements.

¹¹⁵ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STATEMENT 1

2570 **STATEMENT ON APPRAISAL STANDARDS NO. 1 (SMT-1)**

2571 **SUBJECT: Appraisal Review—Clarification of Comment on Standards Rule 3-1(g)**

2572 This Statement has been retired by action of the Appraisal Standards Board.

2573 **STATEMENT ON APPRAISAL STANDARDS NO. 2 (SMT-2)**2574 **SUBJECT: Discounted Cash Flow Analysis**2575 **APPLICATION: Real Property**2576 **THE ISSUE:**

2577 Discounted cash flow (DCF) analysis is an accepted analytical tool and method of valuation within the income
2578 capitalization approach to value. DCF is not a new method, but it did not enjoy widespread use until modern
2579 computer technology enabled appraisers to automate the process. Because DCF analysis is profit oriented and
2580 dependent on the analysis of uncertain future events, it is vulnerable to misuse. What steps can the appraiser
2581 take to avoid misuse of DCF analysis?

2582 **THE STATEMENT:**

2583 The acceptance of DCF analysis as a method of valuation began in the institutional real estate market and has
2584 spread to investment real estate in the general real estate market. DCF techniques may be applied in the
2585 valuation or analysis of proposed construction, land development, condominium development or conversion,
2586 rehabilitation development, and income-producing real estate of various types. DCF analysis is becoming a
2587 requirement of advisors, asset managers, fiduciaries, portfolio managers, syndicators, underwriters, and others
2588 dealing in investment-grade real estate. These users of appraisal services favor the inclusion of DCF analysis as
2589 a management tool in projecting cash flow and return expectations, capital requirements, refinancing
2590 opportunities, and timing of future property dispositions. DCF analysis is regarded as one of the best methods of
2591 replicating steps taken to reach investor buy/sell/hold decisions and is often a part of the exercise of due
2592 diligence in the evaluation of an investment.

2593 DCF methodology is based on the principle of anticipation—i.e., value is created by the anticipation of future
2594 benefits. DCF analysis reflects investment criteria and requires the appraiser to make empirical and subjective
2595 assumptions. DCF analysis can be used for investment value and market value appraisals, as well as for other
2596 purposes such as sensitivity tests.

2597 DCF analysis is an additional tool available to the appraiser and is best applied in developing value opinions in
2598 the context of one or more other approaches. This statement focuses on the criteria for proper DCF analysis and
2599 does not imply that DCF analysis is or should be the only method employed.

2600 To avoid misuse or misunderstanding when DCF analysis is used in an appraisal assignment to develop an
2601 opinion of market value, it is the responsibility of the appraiser to ensure that the controlling input is consistent
2602 with market evidence and prevailing market attitudes. Market value DCF analyses should be supported by
2603 market derived data, and the assumptions should be both market and property specific. Market value DCF
2604 analyses, along with available factual data, are intended to reflect the expectations and perceptions of market
2605 participants. They should be judged on the support for the forecasts that existed when made, not on whether
2606 specific items in the forecasts are realized at a later date. An appraisal report that includes the results of DCF
2607 analysis must clearly state the assumptions on which the analysis is based and must set forth the relevant data
2608 used in the analysis.

2609 Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or commission
2610 that significantly affects an appraisal. Standards Rule 1-1(c) states that the appraiser must not render appraisal
2611 services in a careless or negligent manner, such as making a series of errors that, although individually might
2612 not significantly affect the results of an appraisal, in the aggregate would affect the credibility of those results.
2613 These two Standards Rules are significant for DCF analysis because of the potential for the compounding effect
2614 of errors in the input, unrealistic assumptions, and programming errors.

STATEMENT 2

2615 Computer printouts showing the results of DCF analysis may be generated by commercial software or by
2616 software prepared by the appraiser. Either way, the appraiser is responsible for the entire analysis including the
2617 controlling input, the calculations, and the resulting output. If using commercial software the appraiser should
2618 cite the name and version of the software and provide a brief description of the methods and assumptions
2619 inherent in the software. Standards Rule 1-4(c)(iv) requires that projections of anticipated future rent and/or
2620 income potential and expenses be based on reasonably clear and appropriate evidence. The Comment to this
2621 Standards Rule makes specific reference to cash flow projections, the essence of DCF analysis.

2622 DCF accounts for and reflects those items and forces that affect the revenue, expenses, and ultimate earning
2623 capacity of real estate and represents a forecast of events that would be considered likely within a specific
2624 market. For example, in the appraisal of a multi-tenant property, a lease-by-lease analysis addresses contract
2625 and market rents, specific escalations, operating expenses, pass-through provisions, market-derived or specific
2626 concessions, capital expenditures, and any other measurable specific provisions applicable. Revenue growth
2627 rate or decline rate assumptions are premised on analysis of supply/demand factors and other economic
2628 conditions and trends within the market area of the subject. Operating expense change rates should reflect both
2629 overall expense trends and the specific trend of significant expense items.

2630 Discount rates applied to cash flows and estimates of reversion should be derived from data and information in
2631 the real estate and capital markets. Surveys of investor opinion and yield indices are also useful in the rate
2632 selection process, but only when the type of and market for the real estate being appraised is consistent with the
2633 type of and market for the real estate typically acquired by the investors interviewed in the survey.
2634 Considerations used in the selection of rates are risk, inflation, and real rates of return.

2635 When reversion capitalization rates are used, they should reflect investor expectations considering the real
2636 estate type, age and condition, cash flow characteristics, and related factors. The projection period is a variable
2637 and should be set on the basis of the facts and circumstances of each analysis.

2638 The results of DCF analysis should be tested and checked for errors and reasonableness. Because of the
2639 compounding effects in the projection of income and expenses, even slight input errors can be magnified and
2640 can produce unreasonable results. For example, it is good practice to test whether cash flows are changing at
2641 reasonable rates and to compare the reversion capitalization rate with the inferred entrance capitalization rate to
2642 see if the relationship between these rates is reasonable and explainable.

2643 STANDARD 2 requires the appraiser to communicate each analysis, opinion, and conclusion in a manner that is
2644 not misleading. Appraisals using the DCF method in the income capitalization approach may contain
2645 computerized projections of itemized future cash flow supported by exhaustive printouts that can be misleading.
2646 The seeming precision of computer-generated projections may give the appearance of certainty to projections
2647 that are actually variable within a wide range. In DCF analysis, all of the assumptions (growth rates, decline
2648 rates, rental rates, discount rates, financing terms, expense trends, capitalization rates, etc.) directly affect the
2649 conclusion and must be clearly and accurately disclosed in the appraisal report.

2650 CONCLUSIONS:

- 2651 • DCF analysis is an additional tool available to the appraiser and is best applied in
2652 developing value opinions in the context of one or more other approaches.
- 2653 • It is the responsibility of the appraiser to ensure that the controlling input is
2654 consistent with market evidence and prevailing market attitudes.
- 2655 • Market value DCF analyses should be supported by market-derived data, and the
2656 assumptions should be both market- and property-specific.
- 2657 • If using commercial software the appraiser should cite the name and version of the
2658 software and provide a brief description of the methods and assumptions inherent in
2659 the software.

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- 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.
- The results of DCF analysis should be tested and checked for errors and reasonableness.
- Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or commission that significantly affects an appraisal.

STATEMENT 3

2667 **STATEMENT ON APPRAISAL STANDARDS NO. 3 (SMT-3)**

2668 **SUBJECT: Retrospective Value Opinions**

2669 **APPLICATION: Real Property, Personal Property**

2670 **THE ISSUE:**

2671 Two dates are essential to an appraisal report. Standards Rules 2-2(a)(vi), (b)(vi), and (c)(vi), and 8-2(a)(vi),
2672 (b)(vi), and (c)(vi) require that each appraisal report specify the effective date of the appraisal and the date of
2673 the report. The date of the report indicates the perspective from which the appraiser is examining the market.
2674 The effective date of the appraisal establishes the context for the value opinion. Three categories of effective
2675 dates - retrospective, current, or prospective - may be used, according to the intended use of the appraisal
2676 assignment.

2677 When a retrospective effective date is used, how can the appraisal be prepared and presented in a manner that is
2678 not misleading?

2679 **THE STATEMENT:**

2680 Retrospective appraisals (effective date of the appraisal prior to the date of the report) may be required for
2681 property tax matters, estate or inheritance tax matters, condemnation proceedings, suits to recover damages, and
2682 similar situations.

2683 Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the report.
2684 Since most appraisals require current value opinions, the importance of specifying both the date of the report
2685 and the effective date of the analysis is sometimes lost.

2686 Prospective appraisals (effective date of the appraisal subsequent to the date of the report) may be required for
2687 valuations of property interests related to proposed developments, as the basis for value at the end of a cash
2688 flow projection, and for other reasons. (See SMT-4 on *Prospective Value Opinions*.)

2689 The use of clear and concise language and appropriate terminology in appraisal reports helps to eliminate
2690 misleading reports. To avoid confusion, the appraiser must clearly establish the date to which the value opinion
2691 applies. In retrospective value opinions, use of a modifier for the term “market value” and past verb tenses
2692 increases clarity (e.g., “. . . the retrospective market value was . . .” instead of “. . . the market value is . . .”).

2693 A retrospective appraisal is complicated by the fact that the appraiser already knows what occurred in the
2694 market after the effective date of the appraisal. Data subsequent to the effective date may be considered in
2695 developing a retrospective value as a confirmation of trends that would reasonably be considered by a buyer or
2696 seller as of that date. The appraiser should determine a logical cut-off because at some point distant from the
2697 effective date, the subsequent data will not reflect the relevant market. This is a difficult determination to make.
2698 Studying the market conditions as of the date of the appraisal assists the appraiser in judging where he or she
2699 should make this cut-off. In the absence of evidence in the market that data subsequent to the effective date
2700 were consistent with and confirmed market expectations as of the effective date, the effective date should be
2701 used as the cut-off date for data considered by the appraiser.

2702 Use of direct excerpts from then-current appraisal reports prepared at the time of the retrospective effective date
2703 helps the appraiser and the reader understand market conditions as of the retrospective effective date.

2704 **CONCLUSIONS:**

- 2705 • A retrospective appraisal is complicated by the fact that the appraiser already knows
- 2706 what occurred in the market after the effective date of the appraisal.
- 2707 • Data subsequent to the effective date may be considered in developing a
- 2708 retrospective value as a confirmation of trends.
- 2709 • The appraiser should determine a logical cut-off.
- 2710 • Use of direct excerpts from then-current appraisal reports prepared at the time of the
- 2711 retrospective effective date helps the appraiser and the reader understand market
- 2712 conditions as of the retrospective effective date.
- 2713 • In the absence of evidence in the market that data subsequent to the effective date
- 2714 were consistent with and confirmed market expectations as of the effective date, the
- 2715 effective date should be used as the cut-off date.

STATEMENT 4

2716 **STATEMENT ON APPRAISAL STANDARDS NO. 4 (SMT-4)**

2717 **SUBJECT: Prospective Value Opinions**

2718 **APPLICATION: Real Property, Personal Property**

2719 **THE ISSUE:**

2720 Two dates are essential to an appraisal report. Standards Rules 2-2(a)(vi), (b)(vi), and (c)(vi), and 8-2(a)(vi),
2721 (b)(vi), and (c)(vi) require that each appraisal report specify the effective date of the appraisal and the date of
2722 the report. The date of the report indicates the perspective from which the appraiser is examining the market.
2723 The effective date of the appraisal establishes the context for the value opinion. Three categories of effective
2724 dates - retrospective, current, or prospective - may be used, according to the intended use of the appraisal
2725 assignment.

2726 When a prospective effective date is used, how can the appraisal be prepared and presented in a manner that is
2727 not misleading?

2728 **THE STATEMENT:**

2729 Retrospective appraisals (effective date of the appraisal prior to the date of the report) may be required for
2730 property tax matters, estate or inheritance tax matters, condemnation proceedings, suits to recover damages, and
2731 similar situations. (See SMT-3 on *Retrospective Value Opinions*.)

2732 Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the report.
2733 Since most appraisals require current value opinions, the importance of specifying both the date of the report
2734 and the effective date of the analysis is sometimes lost.

2735 Prospective appraisals (effective date of the appraisal subsequent to the date of the report) may be required for
2736 valuations of property interests related to proposed developments, as the basis for value at the end of a cash
2737 flow projection, and for other reasons.

2738 The use of clear and concise language and appropriate terminology in appraisal reports helps to eliminate
2739 misleading reports. To avoid confusion, the appraiser must clearly establish the date to which the value opinion
2740 applies. In prospective value opinions, use of the term “market value” without a modifier such as “forecasted”
2741 or “prospective” and without future verb tenses is improper (i.e., “...the prospective market value is expected to
2742 be...” and not “...the market value is...”).

2743 Prospective value opinions, along with available factual data, are intended to reflect the current expectations
2744 and perceptions of market participants. They should be judged on the support for the forecasts that existed when
2745 made, not on whether specific items in the forecasts are realized at a later date.

2746 When prospective value opinions are required with regard to proposed improvements to real property, the
2747 Comment to Standards Rule 1-2(e) regarding identification of the extent and character of the proposed
2748 improvements and Standards Rule 1-4(c)(iv) regarding the basis for anticipated future rent and expenses are
2749 relevant. Evidence that proposed improvements can be completed by the effective date of the appraisal is
2750 important. Support for projected income and expenses at the time of completion of proposed improvements and
2751 during the rent-up or sell-out period requires the incorporation of sufficient market research in the appraisal and
2752 the consideration of existing and future competition. It is appropriate to study comparable projects for evidence
2753 of construction periods, development costs, income and expense levels, and absorption. Items such as rental
2754 concessions, commissions, tenant finish allowances, add-on factors, and expense pass-throughs must be studied
2755 to develop realistic income expectancy. The same issues are relevant when appraising personal property with
2756 proposed modifications, as set forth in Standards Rules 7-2(e) and 7-4(c)(iv).

2757 With regard to proposed developments of real property, two prospective value opinions may be required: one as
2758 of the time the development is to be completed and one as of the time the development is projected to achieve
2759 stabilized occupancy. These prospective values form a basis for investment decisions and loan underwriting.

2760 In a prospective appraisal, the appraiser analyzes market trends to provide support for forecasted income and
2761 expense or sell-out opinions, absorption periods, capitalization rates, and discount rates as of the effective date
2762 of the appraisal. Economic trends such as growth in population, employment, and future competition are also
2763 analyzed. The overall economic climate and variations in the business cycle should be considered and weighed
2764 in the performance of the appraisal process. All value conclusions should include reference to the time frame
2765 when the analysis was prepared to clearly delineate the market conditions and the point of reference from which
2766 the appraiser developed the prospective value opinion. It is essential to include a limiting condition citing the
2767 market conditions from which the prospective value opinion was made and indicating that the appraiser cannot
2768 be held responsible for unforeseeable events that alter market conditions prior to the effective date of the
2769 appraisal.

2770 **CONCLUSIONS:**

- 2771 • Prospective value opinions, along with available factual data, are intended to reflect
2772 the current expectations and perceptions of market participants. They should be
2773 judged on the market support for the forecasts when made, not on whether specific
2774 items in the forecasts are realized.
- 2775 • It is appropriate to study comparable projects for evidence of construction periods,
2776 development costs, income and expense levels, and absorption.
- 2777 • Items such as rental concessions, commissions, tenant finish allowances, add-on
2778 factors, and expense pass-throughs must be studied to develop realistic income
2779 expectancy.
- 2780 • All value conclusions should include reference to the time frame when the analysis
2781 was prepared to clearly delineate the market conditions and the point of reference
2782 from which the appraiser developed the prospective value opinion.
- 2783 • It is essential to include a limiting condition citing the market conditions from which
2784 the prospective value opinion was made and indicating that the appraiser cannot be
2785 held responsible for unforeseeable events that alter market conditions prior to the
2786 effective date of the appraisal.

STATEMENT 5

2787 **STATEMENT ON APPRAISAL STANDARDS NO. 5 (SMT-5)**

2788 **SUBJECT: Confidentiality Section of the ETHICS RULE**

2789 This Statement has been retired by action of the Appraisal Standards Board.

2790 **STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6)**2791 **SUBJECT: Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions**2792 **APPLICATION: Real Property, Personal Property**2793 **THE ISSUE:**2794 In USPAP, the Comment to Standards Rules 1-2(c) states (Standards Rule 7-2(c) also includes a similar
2795 Comment):2796 *When developing an opinion of market value, the appraiser must also develop an opinion of*
2797 *reasonable exposure time linked to the value opinion.*2798 The Comment to Standards Rules 2-2(a)(v), 2-2(b)(v), 8-2(a)(v), and 8-2(b)(v) states:2799 *Stating the definition of value also requires any comments needed to clearly indicate to*
2800 *intended users how the definition is being applied.*2801 How is the opinion of reasonable exposure time developed? Is it presumed to occur prior to or starting from the
2802 effective date of the appraisal?2803 **THE STATEMENT:**2804 Reasonable exposure time is one of a series of conditions in most market value definitions. Exposure time is
2805 always presumed to precede the effective date of the appraisal.2806 Exposure time may be defined as: the estimated length of time the property interest being appraised would have
2807 been offered on the market prior to the hypothetical consummation of a sale at market value on the effective
2808 date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and
2809 open market.2810 Exposure time is different for various types of property and under various market conditions. It is noted that the
2811 overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time but also
2812 adequate, sufficient, and reasonable effort. This statement focuses on the time component.2813 The fact that exposure time is always presumed to occur prior to the effective date of the appraisal is
2814 substantiated by related facts in the appraisal process: supply/demand conditions as of the effective date of the
2815 appraisal; the use of current cost information; the analysis of historical sales information (sold after exposure
2816 and after completion of negotiations between the seller and buyer); and the analysis of future income
2817 expectancy projected from the effective date of the appraisal.2818 **Rationale and Method for Developing an Opinion of Reasonable Exposure Time**2819 The opinion of the time period for reasonable exposure is not intended to be a prediction of a date of sale or a
2820 one line statement. Instead, it is an integral part of the analyses conducted during the appraisal assignment. The
2821 opinion may be expressed as a range and can be based on one or more of the following.

- 2822
- statistical information about days on market;
 - 2823 • information gathered through sales verification; and
 - 2824 • interviews of market participants.

2825 Related information garnered through this process may include the identification of typical buyers and sellers
2826 for the type of property involved and typical equity investment levels and/or financing terms.

STATEMENT 6

2827 The reasonable exposure period is a function of price, time, and use, not an isolated opinion of time alone. As
2828 an example, an office building, an important artwork, a fine gemstone, a process facility, or an aircraft could
2829 have been on the market for two years at a price of \$2,000,000, which informed market participants considered
2830 unreasonable. Then the owner lowered the price to \$1,600,000 and started to receive offers, culminating in a
2831 transaction at \$1,400,000 six months later. Although the actual exposure time was 2.5 years, the reasonable
2832 exposure time at a value range of \$1,400,000 to \$1,600,000 would be six months. The answer to the question
2833 “what is reasonable exposure time?” should always incorporate the answers to the question “for what kind of
2834 property at what value range?” rather than appear as a statement of an isolated time period.

2835 **Applications to Client Uses of an Appraisal**

2836 When an appraisal is commissioned as the result of a mortgage application after a potential seller and buyer
2837 enter into a Contract for Sale, no conflict exists between the presumption in the appraisal process that exposure
2838 time occurs prior to the effective date of the appraisal and the intended use of the appraisal.

2839 When an appraisal is commissioned for employee relocation, asset evaluation, foreclosure, or asset management
2840 purposes, the presumption in the appraisal process that exposure time occurs prior to the effective date of the
2841 appraisal may conflict with the intended use of the appraisal. Problems arise when clients attempt to make
2842 business decisions or account for assets without understanding the difference between reasonable exposure time
2843 and marketing time (see related Advisory Opinion 7, *Marketing Time Opinions*).

2844 **CONCLUSIONS:**

- 2845 • The reasonable exposure time inherent in the market value concept is always
- 2846 presumed to precede the effective date of the appraisal.
- 2847 • Exposure time is different for various types of property and under various market
- 2848 conditions.
- 2849 • The answer to the question “what is reasonable exposure time?” should always
- 2850 incorporate the answers to the question “for what kind of property at what value
- 2851 range?” rather than appear as a statement of an isolated time period.

2852 **STATEMENT ON APPRAISAL STANDARDS NO. 7 (SMT-7)**

2853 **SUBJECT: Permitted Departure from Specific Requirements in Real Property and Personal Property**
2854 **Appraisal Assignments**

2855 This Statement has been retired by action of the Appraisal Standards Board.

STATEMENT 8

2856 **STATEMENT ON APPRAISAL STANDARDS NO. 8 (SMT-8)**

2857 **SUBJECT: Electronic Transmission of Reports**

2858 This Statement has been retired by action of the Appraisal Standards Board.

2859 **STATEMENT ON APPRAISAL STANDARDS NO. 9 (SMT- 9)**2860 **SUBJECT: Identification of Intended Use and Intended Users**2861 **APPLICATION: Real Property, Personal Property, Intangible Property**2862 **THE ISSUE:**

2863 An appraiser must identify and consider the intended use and intended users of the appraiser's reported opinions
 2864 and conclusions in order to identify the problem to be solved and to understand his or her development and
 2865 reporting responsibilities in an appraisal, appraisal review, or appraisal consulting assignment. An appraiser
 2866 must state the intended use and intended users of the opinions and conclusions in a report.

2867 What kind of information must an appraiser identify and consider regarding the intended use and intended users
 2868 in the course of accepting and completing an assignment, and how much of that information must an appraiser
 2869 include in the report?

2870 **THE STATEMENT:**2871 **Relevant USPAP References**

2872 The term "Client" is defined in the DEFINITIONS section of USPAP as

2873 *the party or parties who engage an appraiser (by employment or contract) in a specific*
 2874 *assignment.*

2875 The term "Intended Use" is defined as

2876 *the use or uses of an appraiser's reported appraisal, appraisal review, or appraisal consulting*
 2877 *assignment opinions and conclusions, as identified by the appraiser based on communication*
 2878 *with the client at the time of the assignment.*

2879 The term "Intended User" is defined as

2880 *the client and any other party as identified, by name or type, as users of the appraisal,*
 2881 *appraisal review, or appraisal consulting report by the appraiser on the basis of*
 2882 *communication with the client at the time of the assignment.*

2883 **General**

2884 The SCOPE OF WORK RULE requires an appraiser to identify the intended use and intended users as part of
 2885 problem identification. Identifying the intended use and intended users is required to determine the scope of
 2886 work necessary to develop credible assignment results. The credibility of assignment results is always measured
 2887 in the context of their intended use.

2888 STANDARDS 1, 3, 4, 6, 7, and 9 require an appraiser to identify the intended use and intended users in the
 2889 course of developing his or her opinions and conclusions in the assignment. In the context of a real property
 2890 appraisal, Standards Rules 1-2(a) and (b) (for example) state:

2891 *In developing a real property appraisal, an appraiser must:*2892 *(a) identify the client and other intended users;*2893 *(b) identify the intended use of the appraiser's opinions and conclusions...*

STATEMENT 9

2894 STANDARDS 2, 3, 5, 6, 8, and 10 require an appraiser to state the intended use in the report. In the context of a
2895 written real property appraisal report, Standards Rule 2-2(a) (for example) states, *The content of a Self-*
2896 *Contained Appraisal Report must be consistent with the **intended use** of the appraisal...* (bold added for
2897 emphasis).

2898 In the context of a real property appraisal report (for example), Standards Rules 2-2(a)(i) and (ii) require the
2899 appraiser to:

2900 (i) state the identity of the client and any intended users, by name or type;

2901 (ii) state the intended use of the appraisal...

2902 An appraiser identifies the intended use by communicating with the client before accepting an appraisal,
2903 appraisal review, or appraisal consulting assignment. The intended use may encompass requirements of
2904 intended users other than the client. An appraiser cannot reasonably identify the intended use without having
2905 identified the client and communicating with the client or the client's agent.

2906 Although an appraiser must identify and consider the intended use of the appraiser's opinions and conclusions,
2907 an appraiser must not allow the objectives of the client or other intended users of the report to affect the
2908 appraiser's independence and objectivity. An appraiser must not allow the objectives of a client or other
2909 intended users to cause the analysis or report to be biased.

2910 **Identification of the Client and Other Intended Users in an Assignment**

2911 In order to properly define the problem under study and to understand his or her responsibilities in an
2912 assignment, an appraiser must identify the client and other intended users. This is accomplished by
2913 communication with the client prior to accepting the assignment.

2914 An appraiser should use care when identifying the client to avoid violations of the Confidentiality section of the
2915 ETHICS RULE. The client may be identified as a person or entity, or as an agent of an intended user. In
2916 instances where the client wishes to remain anonymous, the appraiser must still document the identity of the
2917 client in the workfile but may omit the client's identity in the appraisal, appraisal review, or appraisal consulting
2918 report.

2919 Neither the client nor the appraiser is obligated to identify an intended user by name. If identification by name is
2920 not appropriate or practical, an appraiser's client and the appraiser may identify an intended user by type.

2921 An appraiser's obligations to the client are established in the course of considering and accepting an
2922 assignment. If an appraiser becomes aware of a change in the intended use of the report, the appraiser must
2923 consider whether the extent of the development process and type of report initially identified are still
2924 appropriate. If they are not, the appraiser must communicate with the client to establish an appropriate basis
2925 upon which to proceed.

2926 If the appraiser is contacted regarding an assignment or report by a party other than the appraiser's client, before
2927 responding the appraiser must review his or her obligations to that client. An appraiser may need to review the
2928 Confidentiality section of the ETHICS RULE and Advisory Opinions 25, 26, and 27 for guidance.

2929 An appraiser's obligations to other intended users may impose additional development and reporting
2930 requirements in the assignment. It is essential that an appraiser establish with the client a clear and mutual
2931 understanding of the needs of all intended users prior to accepting an assignment. An appraiser's obligation to
2932 intended users other than the client is limited to addressing their requirements as identified by the appraiser at
2933 the time the appraiser accepts the assignment.

2934 A party receiving a report copy from the client does not, as a consequence, become a party to the appraiser-
2935 client relationship.

2936 Parties who receive a copy of an appraisal, appraisal review, or appraisal consulting report as a consequence of
2937 disclosure requirements applicable to an appraiser's client do not become intended users of the report unless
2938 they were specifically identified by the appraiser at the time of the assignment.

2939 **Disclosure of Client and Other Intended User(s) in an Appraisal, Appraisal Review, or Appraisal**
2940 **Consulting Report**

2941 Except when specifically requested not to do so as part of the agreement with the client, an appraiser must
2942 disclose the identity of the client and any other intended users in an appraisal, appraisal review, or appraisal
2943 consulting report. The purpose of this reporting requirement is to (1) ensure that the client and any other
2944 intended users can recognize their relationship to the assignment and report, and (2) ensure that unintended
2945 users will not be misled by notifying them that they are neither the client nor an intended user. For example, a
2946 statement similar to the following may be appropriate:

2947 This report is intended for use only by (identify the client) and (identify any other intended
2948 users by name or type). Use of this report by others is not intended by the appraiser.

2949 If the client's identity is omitted from an appraisal report, the appraiser must (1) identify the client in the
2950 workfile, and (2) provide a notice in the appraisal report that the identity of the client has been omitted in
2951 accordance with the client's request and that the report is intended for use only by the client and any other
2952 intended users.

2953 **Identification of the Intended Use in an Appraisal, Appraisal Review, or Appraisal Consulting**
2954 **Assignment**

2955 Identification of the intended use is one of the assignment elements necessary to properly identify the appraisal,
2956 appraisal review, or appraisal consulting problem. Identification of the intended use helps the appraiser and the
2957 client make two important decisions about the assignment:

- 2958 • the appropriate scope of work for the appraisal, appraisal review, or appraisal
2959 consulting development process; and
- 2960 • the level of detail to provide in the appraisal, appraisal review, or appraisal
2961 consulting report.

2962 **Disclosure of the Intended Use in an Appraisal, Appraisal Review, or Appraisal Consulting Report**

2963 An appraiser can avoid misleading parties in possession of an appraisal, appraisal review, or appraisal
2964 consulting report by clearly identifying the intended use in the report and stating that other uses are not
2965 intended. For example, a statement similar to the following may be appropriate:

2966 This report is intended only for use in (describe the use). This report is not intended for any other
2967 use.

2968 The intended use description provided in the statement must be specific to the assignment.

2969 **CONCLUSIONS:**

- 2970 • An appraiser must identify the client and other intended users as part of the process
2971 of identifying the client's intended use of an appraisal, appraisal review, or appraisal
2972 consulting report, by communication with the client prior to accepting the
2973 assignment.

STATEMENT 9

- 2974 • Identification of the intended use and intended users are necessary steps in
2975 determining the appropriate scope of work.
- 2976 • Whether or not assignment results are credible is measured in the context of the
2977 intended use of the opinions and conclusions.
- 2978 • An appraiser should use care when identifying the client to ensure a clear
2979 understanding and to avoid violations of the Confidentiality section of the ETHICS
2980 RULE.
- 2981 • The appraiser's obligations to the client are established in the course of considering
2982 and accepting an assignment.
- 2983 • The appraiser's obligation to intended users other than the client is limited to
2984 addressing their requirements as identified by the appraiser at the time the appraiser
2985 accepts the assignment.
- 2986 • Identification of the intended use and intended users of the report is one of the
2987 essential steps in order to identify the problem to be solved.
- 2988 • An appraiser identifies the intended use and any intended users of an appraisal,
2989 appraisal review, or appraisal consulting report by communicating with the client
2990 before accepting an assignment.
- 2991 • Appraisers can avoid misleading parties in possession of a report by clearly
2992 identifying the intended use and any intended users in the report and stating that
2993 other uses and/or users are not intended by the appraiser.
- 2994 • Except when specifically requested not to do so as part of the agreement with the
2995 client, an appraiser must disclose the identity of the client and any other intended
2996 users of an appraisal report in the report.
- 2997 • If the client's identity is omitted from an appraisal report, the appraiser must (1)
2998 document the identity of the client in the workfile, and (2) provide a notice in the
2999 appraisal report that the identity of the client has been omitted in accordance with the
3000 client's request and that the report is intended for use only by the client and any other
3001 intended users.

3002 **STATEMENT ON APPRAISAL STANDARDS NO. 10 (SMT-10)**

3003 **SUBJECT: Assignments for Use by a Federally Insured Depository Institution in a Federally Related**
3004 **Transaction**

3005 This Statement has been retired by action of the Appraisal Standards Board.