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

Advisory Opinions are a form of guidance issued by the ASB to illustrate the applicability of USPAP in specific situations and offer advice from the ASB for the resolution of appraisal issues and problems. Advisory Opinions do not establish new standards or interpret existing standards. Advisory Opinions are not part of USPAP and can be approved by the ASB without public exposure and comment.

Advisory Opinions are based on presumed conditions without investigation or verification of actual circumstances. Guidance provided in the Advisory Opinions does not represent the only possible solution to the issues discussed and the advice provided may not be applied equally to seemingly similar situations.

The USPAP Advisory Opinions are a reference for appraisers, enforcement officials, users of appraisal services, and the public. The use of this edition of the USPAP Advisory Opinions is intended to be in conjunction with the 2010-2011 Edition of USPAP.

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.

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

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## USPAP ADVISORY OPINIONS

Each Advisory Opinion 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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ADVISORY OPINION 1 (AO-1)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Sales History

APPLICATION: Real Property

THE ISSUE:

The Uniform Standards of Professional Appraisal Practice (USPAP) contain sales history requirements that obligate appraisers of real property to analyze and report pending and recent agreements, options, listings, and sales involving the property being appraised. Because of differences in federal law and regulations, state laws and operating practices relating to the disclosure and confidentiality of real property sales data, the ways in which appraisers comply with sales history requirements vary according to the jurisdiction and the availability of information. This lack of consistency has raised questions regarding the applicability and relevance of the sales history requirements.

How can the appraiser best comply with the sales history provisions of the applicable appraisal standards in the face of obstacles that are beyond the control of the appraiser?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

• Advisory Opinion 24 which addresses the “normal course of business.”

Analysis and Reporting Requirements

This Advisory Opinion offers advice and guidance for compliance with the requirements to analyze and report sales history and related information in the appraisal of real property.

USPAP Standards Rules 1-5(a) and (b) require an appraiser, when the value opinion to be developed is market value, and if such information is available to the appraiser in the normal course of business, to analyze (1) all agreements of sale, options, or listings of the subject property current as of the effective date of the appraisal and (2) all sales of the subject property that occurred within three (3) years prior to the effective date of the appraisal. USPAP Standards Rules 2-2(a)(viii), (b)(viii), and (c)(viii) call for the written appraisal report to contain sufficient information to indicate compliance with the sales history requirement. Standards Rules 2-2(a)(viii), (b)(viii), and (c)(viii) further require that, if sales history information is unobtainable, the written appraisal report must include a commentary on the efforts taken by the appraiser to obtain the information.

Laws, regulations and guidelines issued by government agencies, or government sponsored enterprises, also contain requirements that require the appraiser to analyze and report sales history information, and these requirements vary according to jurisdiction.

The requirement for the appraiser to analyze and report sales history and related information is fundamental to the appraisal process. Just as the appraiser must analyze pending and recent sales of comparable properties, the appraiser must take into account all pending and recent sales of the subject property itself. This is not to say that the agreed price in a pending or recent sale of the subject property is necessarily representative of value as defined in the report, but the failure to analyze and report these facts may exclude important information from the sales comparison approach. Information pertaining to the current market status and the

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sales history of the subject property may also be useful information for the determination of highest and best use or the analysis of market trends.

**Sample Sales Histories**

The following sample sales histories are offered as examples of information that might be included in an appraisal report in compliance with the applicable standards.

For a property that is not under agreement or option, that is not offered for sale on the open market and that has not changed hands within the past three years, the sales history might be shown in the appraisal report as follows:

Research of the applicable public records, private data services and an interview of the current owner, revealed that the subject property is not under current agreement or option and is not offered for sale on the open market. Additionally, according to these sources, the subject property has not been transferred during the past three years.

For a property that is offered for sale on the open market and that was acquired by the current owner during the past three years, the sales history to be included in the appraisal report might appear as follows.

The subject property is currently offered for sale at a listing price of $XXXX,XXX. A copy of the listing agreement with Mary Smith, real estate broker, is included in the addendum to this report.

The subject property was sold by John Jones to the current owner on June 1, 20XX, for a reported price of $XXXX,XXX. The parties to the transaction have affirmed that the seller received all cash and that the reported price was unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. This sale is analyzed in the Sales Comparison Approach section of the appraisal report.

According to the public records, there have been no other transfers of the subject property within the past three years.

**Sample Comments**

The following sample comments are offered as examples of comments that might be included in an appraisal report in cases where pertinent information is not available to the appraiser in the normal course of business. The comments are fictitious and are offered only for purposes of illustration.

In cases where the property being appraised is known to be the subject of a pending transaction, but the appraiser is not privy to the terms of the pending transaction and the parties to the transaction have declined to disclose the terms of the transaction to the appraiser, the sales history to be included in the appraisal report might include a comment such as the one shown below.

The property being appraised is known to be the subject of a pending purchase and sale agreement, but the appraiser was unable to obtain the terms of the agreement. The current owner confirmed that the property is under agreement but declined to disclose the terms of the agreement or to discuss the nature of the agreement.

In jurisdictions where reliable price information cannot be found in the public records and where the appraiser is unable to obtain complete information in the normal course of business, it would be appropriate to include in the appraisal report a comment similar to the one shown below.
The subject property was sold by John Jones to the current owner on June 1, 20XX, for an unknown price. The appraiser attempted to obtain the purchase price and other terms of the transaction without success. The parties to the transaction declined to discuss the terms or conditions of the sale.

According to the public records, there have been no other transfers of the subject property within the past three years.
ADVISORY OPINION 2

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Inspection of Subject Property

APPLICATION: Real Property, Personal Property

THE ISSUE:

For real property and personal property appraisal assignments, USPAP requires the report to contain a certification indicating whether or not the subject property was personally inspected by the appraiser(s).

- What is the purpose of inspecting the subject property?
- Does USPAP mandate a minimum level of property inspection?
- What are the disclosure obligations relating to inspection?

ADVICE FROM THE ASB ON THE ISSUE

Purpose of an Inspection

The primary reason for inspection of a property is to gather information about the characteristics of the property that are relevant to its value. \(^1\)

While there are other ways to gather such information, in many cases the personal observations of the appraiser are the primary source of information regarding the subject property.

Minimum Level of Inspection

An inspection is not required by USPAP, but one is often conducted. While an inspection is not required, appraisal reports for real and personal property must contain a signed certification which clearly states whether the appraiser has or has not personally inspected the subject property. This is further discussed under the Disclosure Requirements section which follows.

The extent of the inspection process is an aspect of the scope of work, and may vary based on assignment conditions and the intended use of the assignment results. \(^2\) It is the appraiser’s responsibility to determine the appropriate scope of work, including the degree of inspection necessary to produce credible assignment results given the intended use.

Every assignment is subject to conditions that limit, in one way or another, the inspection of the subject property. Regardless of the detail one employs, it is always possible to perform an inspection that is more thorough. The appraiser’s inspection commonly is limited to those things readily observable without the use of special testing or equipment.

An appraiser may use a combination of property inspection, plans and specifications, asset records, photographs, property sketches, recorded media, etc., to gather information about the relevant characteristics of

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1 See Advisory Opinion 23, Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment.
2 See Advisory Opinion 28, Scope of Work Decision, Performance, and Disclosure.
the subject property. For some assignments, it may be necessary to rely on reports prepared by other professionals. In such cases the appraiser must comply with USPAP requirements related to reliance on work done by others.

There are many circumstances that influence the extent of the appraiser's property inspection. In some assignments, the client may request that the appraiser perform an exterior-only inspection from the street or perform no inspection of the subject property (i.e., a “desktop appraisal”). There are situations where inspection of the subject property is not possible; for example, if the improvements have been destroyed, removed, or not yet built. In other cases the appraiser is denied access to the property.

The appraiser must ensure that the degree of inspection is adequate to develop a credible appraisal. An appraiser cannot develop a credible appraisal if adequate information about the relevant characteristics of the subject property is not available. When adequate information about relevant characteristics is not available through a personal inspection or from sources the appraiser believes are reliable, an appraiser must withdraw from the assignment unless the appraiser can:

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

An inspection conducted by an appraiser is usually not equivalent to an inspection by an inspection professional (e.g., a structural engineer, a licensed home inspector, a Renaissance art expert). An appraiser’s observations must, at the minimum, be thorough enough to properly develop the appraisal and adequately report the relevant characteristics. Regardless of how the information is gathered, it must be sufficient for the development of relevant analyses, such as highest and best use, the application of the approaches, etc.

### Disclosure Requirements

Appraisal reports for real and personal property must contain a signature indicating whether the appraiser has or has not personally inspected the subject property. All appraisal reports must also contain sufficient information to enable the intended users to understand the inspection of the property was performed.

Because of the infinite variability of inspections, it is important that the appraisal report clearly communicates the degree of the inspection in order for the report to be meaningful.

### Illustrations

1. I have been asked to appraise a single-family home based on an exterior-only inspection from the street. What are my development and reporting obligations?

   If an appraiser’s observations are limited to an exterior-only inspection from the street, then the appraiser must gather information on relevant characteristics from other data sources and/or use extraordinary assumptions. The data sources used are often the same sources used on comparable sales. For example, the size of the property might be obtained from public records, and other information might be obtained from interior photographs included in a listing of the property for sale, or information from the appraiser’s own files.

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3 See Comment to Standards Rules 1-2(e) and 7-2(e).
4 See Standards Rules 2-2(a)(vii), 2-2(b)(vii), 2-2(c)(vii), 7-2(a)(vii), 7-2(b)(vii) and 7-2(c)(vii).
5 See Standards Rules 2-2(a)(x), 2-2(b)(x), 2-2(c)(x), 7-2(a)(x), 7-2(b)(x) and 7-2(c)(x).
The report must disclose the extent of the property inspection in a manner that is clear to the intended users. For example, in this case it would probably be insufficient to merely state that the property was inspected. The report must make clear that the appraisal was based on an “exterior only” inspection from the street and state the sources used to identify the relevant characteristics other than those observed during the inspection.

2. A dealer has asked me to appraise a Rolex watch. I will not be provided access to the piece. However, I have been given the serial number, a copy of an authenticity certificate and several recent photographs of the watch. Can I develop an appraisal based solely on this information?

Yes, if the data provided contains sufficient information about the subject’s relevant characteristics, one could develop an appraisal based on the information described in the illustration. Without directly inspecting the watch, however, the information provided is “assumed” to be accurate. Because some of these assumptions will have a significant effect on the assignment results, the assignment will involve the use of extraordinary assumptions and require proper disclosure. The scope of work in the assignment, including the degree of the inspection, must provide results that are credible in the context of the intended use.6

3. I have been contacted by a property owner who is being transferred by his company to another city. The owner indicated that while he might want a “detailed appraisal” later, right now he only needs a rough idea of the value of the residence to begin negotiations related to the relocation. The owner has asked me to perform a “desktop” appraisal (i.e., an appraisal with no inspection of the property). I believe that, given this intended use, credible assignment results can be developed without an inspection. Is this permitted under USPAP?

Yes, this is permitted if sufficient information regarding the relevant characteristics of the property is available. Such information could be obtained from public records, previous listings of the property for sale, appraiser’s files, etc. If use of extraordinary assumptions related to various relevant characteristics is necessary, then one must comply with the requirements for their use.

6 See SCOPE OF WORK RULE.
ADVISORY OPINION 3 (AO-3)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Update of a Prior Appraisal

APPLICATION: Real Property, Personal Property, Intangible Property

THE ISSUE:

Once an appraisal of a property, or an appraisal consulting assignment, has been completed, there are many cases in which a client may need a subsequent appraisal or analysis involving the same property. Examples include:

- In the appraisal of real property, a current value is commonly required by lenders and secondary market participants when the time frame between the effective date of a prior appraisal and the closing of a loan exceeds certain limits. A current value is also required by agencies in eminent domain cases when time has elapsed between a prior appraisal and the date of taking.
- In the appraisal of business equity of privately held companies held by Employee Stock Ownership Trusts, current values are required at least annually.
- In the appraisal of personal property, it may be necessary to appraise equipment every two years for financing purposes.
- Similarly, a client may request an update of a prior appraisal consulting assignment, or a review assignment that included the reviewer’s opinion of value.

Clients sometimes label such requests as “updates,” “reappraisals,” or “recertifications.” Does USPAP address these and how can an appraiser comply with USPAP for such assignments?

ADVICE FROM THE ASB ON THE ISSUE:

Clarification of Terminology

Various terms have been developed by clients and client groups for certain appraisal assignments, including “updates” and “recertifications.” While such terms may be convenient for use in a business setting, they do not necessarily impart the same meaning in every situation.

The term “Update” is often used by clients when they are seeking a current appraisal of a property that was the subject of a prior assignment. This practice is addressed in this Advisory Opinion.

The term “Recertification of Value” is often mistakenly used by some clients in lieu of the term “Update.” A Recertification of Value is performed to confirm whether or not the conditions of a prior appraisal have been met. A Recertification of Value does not change the effective date of the value opinion. If a client uses this term in an assignment request that includes an updated value opinion, then it constitutes a new appraisal assignment that must be completed as discussed in this Advisory Opinion.
A New Assignment of a Prior Assignment

Regardless of the nomenclature used, when a client seeks a more current value or analysis of a property that was the subject of a prior assignment, this is not an extension of that prior assignment that was already completed—it is simply a new assignment. An “assignment” is defined in USPAP as:

*a valuation service provided as a consequence of an agreement between an appraiser and a client.*

The same USPAP requirements apply when appraising or analyzing a property that was the subject of a prior assignment. There are no restrictions on who the appraiser is in such a circumstance, who the client is¹, what length of time may have elapsed between the prior and current assignments, or whether the characteristics of the subject property are unchanged or significantly different than in the prior assignment.

Development Requirements

For all assignments, the development of the assignment results must be in accordance with the requirements contained in the applicable STANDARD (1, 3, 4, 6, 7, or 9). When developing an opinion regarding a property that was the subject of a previous assignment, the scope of work in the new assignment may be different from the scope of the prior one. In addition, rather than duplicating steps in the appraisal process, the appraiser can elect to incorporate some of the analyses from the previous assignment (those items that the appraiser concludes are credible and in compliance with the applicable development standard) into the new assignment through the use of an extraordinary assumption.

Reporting Requirements

For all assignments, the results must be reported in accordance with the requirements of STANDARDS 2, 3, 5, 6, 8, or 10, as applicable. The new report is not required to have the same level of detail as the original report—i.e., a different reporting option may be used. However, the new report must contain sufficient information to be meaningful and not misleading to the intended users. There are three ways that the reporting requirements can be satisfied for these types of assignments:

1. Provide a new report that contains all the necessary information/analysis to satisfy the applicable reporting requirements, *without incorporation* of the prior report by either attachment or reference.

2. Provide a new report that *incorporates by attachment* specified information/analysis from the prior report so that, in combination, the attached portions and the new information/analysis added satisfies the applicable reporting requirements.

3. Provide a new report that *incorporates by reference* specified in formation/analysis from the prior report so that, in combination, the referenced portions and the new information/analysis added satisfies the applicable reporting requirements. This option can only be used if the original appraiser’s firm and original intended users are involved, since the prior report was issued from that appraiser to those intended users, assuring they have access to a copy. When this incorporation by reference option is used, the following items from that prior report must be specifically identified in the new report to avoid being misleading:

   - subject property
   - client and any other intended users
   - intended use
   - appraiser(s)
   - effective date of value or assignment results

¹ See Advisory Opinion 27, *Appraising the Same Property for a New Client.*
• date of report, and
• interest(s) appraised

When information is being extended to the report by use of an extraordinary assumption, the requirements in USPAP for use of an extraordinary assumption must be met.

Confidentiality

In all assignments the appraiser must comply with the Confidentiality section of the ETHICS RULE with respect to the handling of confidential information – i.e., if the prior appraisal, appraisal review, or appraisal consulting report included any confidential information, its disclosure in a new report to a different client or intended user might violate the ETHICS RULE. This includes the requirement to comply with all confidentiality and privacy laws and regulations.

Record Keeping

If the assignment includes use of, or reliance upon, all or part of a prior report, that report (or the portions used or relied upon) must be retained in the workfile for the new assignment, or its location must be properly referenced in the workfile. Refer to the Record Keeping section of the ETHICS RULE for more information.
ADVISORY OPINION 4

ADVISORY OPINION 4 (AO-4)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Standards Rule 1-5(b)

APPLICATION: Real Property

THE ISSUE:

In developing a real property appraisal, Standards Rule 1-5(b) requires an appraiser to analyze all sales of the subject property being appraised that occurred within three (3) years prior to the effective date of the appraisal. Must a transfer of title in lieu of foreclosure or a foreclosure sale be analyzed?

ADVICE FROM THE ASB ON THE ISSUE:

The intent of Standards Rule 1-5(b) is to encourage the research and analysis of prior sales of the subject property. All sales of the appraised property within the 3-year time period stated in Standards Rule 1-5(b) includes transfers in lieu of foreclosure and foreclosure sales.

Foreclosure sales and voluntary transfers of title by mortgagor to mortgagee in lieu of foreclosure are transactions grounded in objective necessity. Nevertheless, they are sales because they transfer ownership of and title to property for a valuable consideration. With research and analysis, an appraiser would be able to report under STANDARD 2 that a prior sale of the subject property is influenced by undue stimulation or that the sale does not reflect typical buyer and seller motivation.
ADVISORY OPINION 5 (AO-5)

SUBJECT: Assistance in the Preparation of an Appraisal

This Advisory Opinion has been retired by action of the Appraisal Standards Board.

Please refer to Advisory Opinion 31, *Assignments Involving More Than One Appraiser* for related advice.
ADVISORY OPINION 6

ADVISORY OPINION 6 (AO-6)

SUBJECT: The Appraisal Review Function

This Advisory Opinion has been retired by action of the Appraisal Standards Board.

Please refer to Advisory Opinion 20, *An Appraisal Review Assignment That Includes the Reviewer’s Own Opinion of Value* and Advisory Opinion 21, *USPAP Compliance* for related advice.
ADVISORY OPINION 7 (AO-7)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Marketing Time Opinions

APPLICATION: Real Property, Personal Property

THE ISSUE:

The Uniform Standards of Professional Appraisal Practice recognizes that some assignment conditions require the appraiser to analyze and report a reasonable marketing period for the subject property when developing and reporting an opinion of market value of real or personal property.

How is this reasonable marketing period opinion developed, and what is the relationship of this opinion of marketing time to the appraisal process?

ADVICE FROM THE ASB ON THE ISSUE:

The reasonable marketing time is an opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal.

Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.

The development of a marketing time opinion uses some of the same data analyzed in the process of developing a reasonable exposure time opinion as part of the appraisal process and is not intended to be a prediction of a date of sale or a one-line statement. It is an integral part of the analyses conducted during the appraisal assignment. The opinion may be a range and can be based on one or more of the following:

- statistical information about days on market,
- information gathered through sales verification,
- interviews of market participants, and
- anticipated changes in market conditions.

Related information garnered through this process includes other market conditions that may affect marketing time, such as the identification of typical buyers and sellers for the type of real or personal property involved and typical equity investment levels and/or financing terms. The reasonable marketing time is a function of price, time, use, and anticipated market conditions, such as changes in the cost and availability of funds, and is not an isolated opinion of time alone.

1 See Statement on Appraisal Standards No. 6, Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions.
ADVISORY OPINION 7

Discussion of Marketing Time in the Appraisal Report

Marketing time occurs after the effective date of the market value opinion and the marketing time opinion is related to, yet apart from, the appraisal process. Therefore, it is appropriate for the section of the appraisal report that discusses marketing time and its implications to appear toward the end of the report after the market value conclusion. The request to provide a reasonable marketing time opinion exceeds the normal information required for the appraisal process and should be treated separately from that process.

It is also appropriate for the appraiser to discuss the impact of price/value relationships on marketing time and to contrast different potential prices and their associated marketing times with an appraiser’s market value opinion for the subject property.

Applications to Client Uses of an Appraisal

Clients concerned with marketing real or personal properties who obtain a market value appraisal as part of their decision-making process should be aware that it may be inappropriate to assume that the value remains stable during the marketing period. Therefore, it is technically incorrect for the user of an appraisal to take a current value opinion, carry it forward to the end of a concluded marketing period, and then discount back to the present.

Some clients attempt to solve their problem by ordering a “120-day market value,” a “six-month market value,” or a “one-year market value” from the appraiser. Unless the opinion of reasonable exposure time made by the appraiser in the course of such an assignment coincides with the precondition imposed by the client, the answer to this assignment cannot be stated as market value under a typical definition of the term. In such situations, the appraiser must clearly distinguish between a market value opinion allowing for reasonable exposure time and any alternative, appropriately defined, value opinion(s) subject to a special limiting condition resulting from the client-imposed marketing time.

Whether or not the appraiser and client define the appraisal problem to include more than one opinion of market value, the roles of the parties must be kept clear. The appraiser provides the client with a supported opinion of defined value in an appropriately documented report that includes a section on reasonable marketing time and any inherent price/value implications. The ultimate decision on issues like what price to ask, when to accept a particular offering price, and how to account for the asset during the interim rests with the client.
ADVISORY OPINION 8 (AO-8)

SUBJECT: Market Value vs. Fair Value in Real Property Appraisals

This Advisory Opinion has been retired by action of the Appraisal Standards Board.
ADVISORY OPINION 9

ADVISORY OPINION 9 (AO-9)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: The Appraisal of Real Property That May Be Impacted by Environmental Contamination

APPLICATION: Real Property

THE ISSUE:

Appraisals of contaminated properties, or properties suspected of being contaminated, are sometimes developed using either a hypothetical condition or an extraordinary assumption that the property is free of the contamination. While this is acceptable practice under certain conditions and for certain intended uses, there are assignments that require an appraisal of the "as-is" condition of the property, with full consideration of the effects of environmental contamination. In these assignments, the appraiser is asked to analyze the effects of known environmental contamination on the value of the subject property.

How does an appraiser comply with USPAP when appraising properties that may be impacted by environmental contamination?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- **DEFINITIONS**, specifically the definitions of
  
  Extraordinary Assumption: an assumption, directly related to a specific assignment, which, if found to be false could alter the appraiser’s opinions or conclusions.
  
  Hypothetical Condition: that which is contrary to what exists but is supposed for the purpose of analysis.
  
- **ETHICS RULE**, particularly
  
  Conduct: An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests .... An appraiser must not communicate assignment results with the intent to mislead or to defraud.
  
- **COMPETENCY RULE**, An appraiser must:
  
  1. be competent to perform the assignment;
  
  2. acquire the necessary competency to perform the assignment; or
  
  3. decline or withdraw from the assignment.
  
- **Standards Rule 1-1(a)**: In developing a real property appraisal, an appraiser must: (a) be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal;
  
- **Standards Rule 1-2(e)**: In developing a real property appraisal, an appraiser must: (e) identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal...
  
- **Standards Rule 1-2(f) and (g)**: In developing a real property appraisal, an appraiser must: (f) identify any extraordinary assumptions necessary in the assignment; and (g) identify any hypothetical conditions necessary in the assignment.
  
- **Standards Rule 1-3(b)**: When necessary for credible assignment results in developing a market value opinion, an appraiser must: (b) develop an opinion of the highest and best use of the real estate.
  
- **Standards Rule 1-4**: In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results.
Consistent with Standards Rule 1-1(a): in the appraisal of a property as impacted by environmental contamination, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques necessary to develop and communicate a credible appraisal. Accordingly, an appraiser must have the requisite knowledge about appropriate methods, and be able to assemble the required information. An appraiser who lacks knowledge and experience in analyzing the impact of environmental contamination on the value of real property must take the steps necessary to complete the assignment competently, as required by the COMPETENCY RULE. However, an appraiser need not be an expert on the scientific aspects of environmental contamination, and in most situations the appraiser will utilize scientific and other technical data prepared by others, such as environmental engineers. In these situations, the appraiser should utilize an extraordinary assumption [see Standards Rule 1-2(f)] regarding the information obtained from other experts that is used in the appraisal. Examples of such information include items (1) to (10) under the header title “Relevant Property Characteristics” later in this Advisory Opinion. This is especially important in situations where there is conflicting information about such information.

The appraisal of properties that may be impacted by environmental contamination involves specialized terms and definitions that might not be used in an assignment in which the effect of the property’s environmental condition is not analyzed, or when the property is not contaminated. Though it is recognized that there are other valid definitions of these and similar terms, for purposes of this Advisory Opinion, the following definitions apply:

**Diminution in Value (Property Value Diminution):** The difference between the unimpaired and impaired values of the property being appraised. This difference can be due to the increased risk and/or costs attributable to the property’s environmental condition.

**Environmental Contamination:** Adverse environmental conditions resulting from the release of hazardous substances into the air, surface water, groundwater, or soil. Generally, the concentrations of these substances would exceed regulatory limits established by the appropriate federal, state, and/or local agencies.

**Environmental Risk:** The additional or incremental risk of investing in, financing, buying and/or owning property attributable to its environmental condition. This risk is derived from perceived uncertainties concerning:

1. the nature and extent of the contamination;
2. estimates of future remediation costs and their timing;
3. potential for changes in regulatory requirements;
4. liabilities for cleanup (buyer, seller, third party);
5. potential for off-site impacts; and
6. other environmental risk factors, as may be relevant.

**Environmental Stigma:** An adverse effect on property value produced by the market’s perception of increased environmental risk due to contamination. (See Environmental Risk)

**Impaired Value:** The market value of the property being appraised with full consideration of the effects of its environmental condition and the presence of environmental contamination on, adjacent to, or proximate to the property. Conceptually, this could be considered the “as-is” value of a contaminated property.

**Remediation Cost:** The cost to cleanup (or remediate) a contaminated property to the appropriate regulatory standards. These costs can be for the cleanup of on-site contamination as well as mitigation of off-site impacts due to migrating contamination.
Remediation Lifecycle: A cycle consisting of three stages of cleanup of a contaminated site: before remediation or cleanup; during remediation; and after remediation. A contaminated property's remediation lifecycle stage is an important determinant of the risk associated with environmental contamination. Environmental risk can be expected to vary with the remediation lifecycle stage of the property.

Source, Non-source, Adjacent and Proximate Sites: Source sites are the sites on which contamination is, or has been, generated. Non-source sites are sites onto which contamination, generated from a source site, has migrated. An adjacent site is not contaminated, but shares a common property line with a source site. Proximate sites are not contaminated and not adjacent to a source site, but are in close proximity to the source site.

Unimpaired Value: The market value of a contaminated property developed under the hypothetical condition that the property is not contaminated.

Relevant Property Characteristics

1) whether the contamination discharge was accidental or permitted;
2) the status of the property with respect to regulatory compliance requirements;
3) the remediation lifecycle stage (before, during or after cleanup) of the property as of the appraisal date;
4) the contamination constituents (petroleum hydrocarbons, chlorinated solvents, etc.);
5) the contamination conveyance (air, groundwater, soil, etc.);
6) whether the property is a source, non-source, adjacent or proximate site;
7) the cost and timing of any site remediation plans;
8) liabilities and potential liabilities for site cleanup;
9) potential limitations on the use of the property due to the contamination and its remediation; and
10) potential or actual off-site impacts due to contaminant migration (for source sites).

Since the appraiser is usually not an expert on the scientific aspects of contamination, experts from other fields will typically provide this information. Appropriate regulatory authorities should also be consulted to confirm the presence or absence of contamination. The appraiser should consider the use of extraordinary assumptions when this information serves as a basis for an opinion of value. The appraiser should also collect similar data for any comparable sales used in the analysis.

Valuation Issues – As If Unimpaired

In some assignments, the appraiser may be asked to appraise a property known to be contaminated under the hypothetical condition that the real estate is free of contamination. In these assignments, an appraiser may appraise interests in real estate that is known to be contaminated under the hypothetical condition that the real estate is free of contamination when:

1) the resulting appraisal report is not misleading,
2) the client has been advised of the limitation, and
3) all the requirements of the ETHICS RULE have been satisfied.
To avoid confusion in the marketplace, the appraiser should disclose available information about the contamination problem, explain the purpose of the hypothetical condition that the real estate is not contaminated, and state that the use of the hypothetical condition might have affected the assignment results in accordance with SR 2-2(a), (b), and (c)(x).

In other situations, the appraiser may be asked to appraise a property believed to be free of contamination or for which the environmental status is uncertain due to the lack of information or conflicting information. For these assignments, the property may be appraised under the extraordinary assumption concerning assumed factual information about its environmental condition and status. Indeed, since an appraiser is usually not an expert in detecting contamination, or confirming its absence, extraordinary assumptions regarding environmental condition may be necessary in many assignments.

Valuation Issues - As Impaired

Highest & Best Use Issues: The appraisal of properties that may be impacted by environmental contamination usually involves extensive highest and best use analysis. In accordance with Standards Rules 1-2(e) and 1-3(b), the appraiser must consider relevant factors in developing an opinion of the highest and best use of the property in its impaired condition. The valuation of properties impacted by environmental contamination usually involves the estimate of two values: the unimpaired value and the impaired. As such, two highest and best use analyses are typically required. The first does not consider any limitations on the property due to the environmental contamination. The second does consider any limitations due to the contamination, its remediation, and any legal restrictions associated with the cleanup of the contamination source. Environmental contamination and its remediation to appropriate regulatory standards may affect the feasibility of site development or redevelopment, use of the site during remediation, use of the site after remediation, marketability of the site, and other economic characteristics of a contaminated property. The appraiser should consider the possibility that site remediation and any remaining limitations on the use of the site following remediation may alter or limit its highest and best use in the impaired condition. In addition, excessive environmental risk and stigma may deter site development or redevelopment and thereby limit the highest and best use until the property’s environmental risk is reduced to levels acceptable to the relevant market participants.

Satisfying SR 1-4 Requirements: When the appraiser addresses the diminution in value of a contaminated property and/or its impaired value, the appraiser must recognize that the value of an interest in an impacted or contaminated real estate may not be measurable directly by deducting the remediation or compliance costs estimate from the opinion of the value as if unaffected (unimpaired value). Rather, cost, use and risk effects can potentially impact the value of contaminated property. Cost effects primarily represent deductions for costs to remediate a contaminated property. These costs are usually estimated by someone other than the appraiser, and should include consideration of any increased operating costs due to property remediation. The appraiser should also be aware that the market might not recognize all estimated costs as having an effect on value. Use effects reflect impacts on the utility of the site as a result of the contamination. If the contamination and/or its cleanup rendered a portion of the site unusable, or limited the future highest and best use of the property, then there could be a use effect on value. Risk effects are typically estimated by the appraiser and often represent the most challenging part of the appraisal assignment. Tese effects are derived from the market’s perception of increased environmental risk and uncertainty. The analysis of the effects of increased environmental risk and uncertainty on property value (environmental stigma) must be based on market data, rather than unsupported opinion or judgment.

In general, the unimpaired value of the property being appraised can be estimated using the sales comparison approach [SR 1-4(a)], cost approach [SR 1-4(b)], and income approach [SR 1-4(c)]. Estimating the effects of environmental contamination on real property value usually involves the application of one or more specialized valuation methods. Tese methods should be consistent with the requirements related to the valuation approaches in USPAP.
ADVISORY OPINION 10

ADVISORY OPINION 10 (AO-10)

SUBJECT: The Appraiser-Client Relationship

This Advisory Opinion has been retired by action of the Appraisal Standards Board.

Please refer to Advisory Opinion 25, Clarification of the Client in a Federally Related Transaction, Advisory Opinion 26, Readdressing (Transferring) a Report to Another Party, and Advisory Opinion 27, Appraising the Same Property for a New Client, for related advice.
ADVISORY OPINION 11 (AO-11)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2

APPLICATION: Real Property, Personal Property

THE ISSUE:

Standards Rules 2-2 and 8-2 of the Uniform Standards of Professional Appraisal Practice (USPAP) offer three written appraisal report options. What information should be contained in each type of report?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- Under Standards Rules 2-2 and 8-2, an appraiser may communicate the results of the appraisal in one of three formats: Self-Contained Appraisal Report (Standards Rules 2-2(a) and 8-2(a)), Summary Appraisal Report (Standards Rules 2-2(b) and 8-2(b)), or Restricted Use Appraisal Report (Standards Rules 2-2(c) and 8-2(c)). Standards Rules 2-2 and 8-2 require that the report prominently state which option is used.

- The Comments to Standards Rules 2-2 and 8-2 state that the essential difference among the three options is in the content and level of information provided.

Prominent Statement of Option Used

The prominent statement of which option was used is a label that indicates to the reader how the appraisal is reported. Therefore, the statement should appear at or near the beginning of the report.

In narrative appraisal reports, the prominent statement of which report option is used could appear with the statement of the intended use of the appraisal because the decision on which report option to use is primarily related to the intended use of the appraisal. For added prominence, a statement of the report option used could also appear on any cover page or transmittal letter, if part of the report.

In form appraisal reports, the prominent statement of which report option is used could appear in the margin at the top of the front of the form.

Content of the Self-Contained Appraisal Report

The Self-Contained Appraisal Report should contain all information significant to the solution of the appraisal problem. “Describe” is the distinguishing term related to the Self-Contained Appraisal Report.

Standards Rules 2-2(a)(vii) and 8-2(a)(vii) require a description of the scope of work used to develop the appraisal. The intended users of the Self-Contained Appraisal Report should expect to find all significant data reported in comprehensive detail.

1 See Standards Rules 2-2 and 8-2. See also related Advisory Opinion 12, Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2.
ADVISORY OPINION 11

Content of the Summary Appraisal Report

As noted in the Comments to Standards Rules 2-2(b) and 8-2(b):

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

The Summary Appraisal Report should contain a summary of all information significant to the solution of the appraisal problem. “Summarize” is the distinguishing term related to the Summary Appraisal Report.

Standards Rules 2-2(b)(vii) and 8-2(b)(vii) require a summary of the scope of work used to develop the appraisal. The intended users of the Summary Appraisal Report should expect to find all significant data reported in tabular or abbreviated narrative formats.

Content of the Restricted Use Appraisal Report

As noted in the Comment to Standards Rules 2-2(c)(i) and 8-2(c)(i):

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

The Restricted Use Appraisal Report should contain a brief statement of information significant to the solution of the appraisal problem. “State” is the distinguishing term related to the Restricted Use Appraisal Report.

Standards Rules 2-2(c)(vii) and 8-2(c)(vii) requires the report to state the scope of work used to develop the appraisal. The contents of the workfile must be sufficient for the appraiser to produce a Summary Appraisal Report.

Differences in the Appraisal Report Options

Each of the appraisal report options has reporting rules that serve as a content outline. The reporting rules for the Self-Contained Appraisal Report are Standards Rules 2-2(a)(i)-(xi) and 8-2(a)(i)-(xi). The reporting rules for the Summary Appraisal Report are Standards Rules 2-2(b)(i)-(xi) and 8-2(b)(i)-(xi). The reporting rules for the Restricted Use Appraisal Report are Standards Rules 2-2(c)(i)-(xi) and 8-2(c)(i)-(xi).

The chart on the following page displays a rule by rule comparison of the reporting rules for the three types of reports. Space does not permit inclusion of the Comment to the reporting rules in the chart. The Comments contain important distinctions that must be considered in the preparation of each type of appraisal report, and the reader of this Advisory Opinion should refer to the full text of Standards Rules 2-2 and 8-2.
STANDARDS RULES 2-2 AND 8-2 REPORT COMPARISON CHART: The essential difference among the three options is in the use and application of the terms “describe,” “summarize,” and “state.” “Describe” is used to connote a more comprehensive level of detail in the presentation of information. “Summarize” is used to connote a more concise presentation of information. “State” is used to connote the minimal presentation of information.

<table>
<thead>
<tr>
<th>a) Self-Contained Appraisal Report</th>
<th>b) Summary Appraisal Report</th>
<th>c) Restricted Use Appraisal Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. state the identity of the client and any intended users, by name or type;</td>
<td>i. state the identity of the client and any intended users, by name or type;</td>
<td>i. state the identity of the client by name or type; and state a prominent use restriction that limits use of the report to the client and warns that the appraiser’s opinions and conclusions set forth in the report may not be understood properly without additional information in the appraiser’s workfile;</td>
</tr>
<tr>
<td>ii. state the intended use of the appraisal;</td>
<td>ii. state the intended use of the appraisal;</td>
<td>ii. state the intended use of the appraisal;</td>
</tr>
<tr>
<td>iii. describe information sufficient to identify the economic property characteristics relevant to the assignment;</td>
<td>iii. summarize information sufficient to identify the economic property characteristics relevant to the assignment;</td>
<td>iii. state information sufficient to identify the real estate or personal property involved in the assignment;</td>
</tr>
<tr>
<td>iv. state the property interest appraised;</td>
<td>iv. state the property interest appraised;</td>
<td>iv. state the property interest appraised;</td>
</tr>
<tr>
<td>v. state the type and definition of value and cite the source of the definition;</td>
<td>v. state the type and definition of value and cite the source of the definition;</td>
<td>v. state the type of value, and cite the source of its definition;</td>
</tr>
<tr>
<td>vi. state the effective date of the appraisal and the date of the report;</td>
<td>vi. state the effective date of the appraisal and the date of the report;</td>
<td>vi. state the effective date of the appraisal and the date of the report;</td>
</tr>
<tr>
<td>vii. describe the scope of work used to develop the appraisal;</td>
<td>vii. summarize the scope of work used to develop the appraisal;</td>
<td>vii. state the scope of work used to develop the appraisal;</td>
</tr>
<tr>
<td>viii. describe the information analyzed, the appraisal methods, conclusions, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;</td>
<td>viii. summarize the information analyzed, the appraisal methods, conclusions, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;</td>
<td>viii. state the appraisal methods and techniques employed, state the value opinion(s) reached and reference the workfile; exclusion of the sales comparison approach, cost approach, or income approach must be explained;</td>
</tr>
<tr>
<td>ix. state the use of the property existing as of the date of value and the use of the real estate or personal property reflected in the appraisal; and, when an opinion of highest and best use or the appropriate market or market level was developed by the appraiser, describe the support and rationale for that opinion;</td>
<td>ix. state the use of the property existing as of the date of value and the use of the real estate or personal property reflected in the appraisal; and, when an opinion of highest and best use or the appropriate market or market level was developed by the appraiser, summarize the support and rationale for that opinion;</td>
<td>ix. state the use of the property existing as of the date of value and the use of the real estate or personal property reflected in the appraisal; and, when an opinion of highest and best use or the appropriate market or market level was developed by the appraiser, state that opinion;</td>
</tr>
<tr>
<td>x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; a nd that t heir use might have affected the assignment results; and</td>
<td>x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; a nd that t heir use might have affected the assignment results; and</td>
<td>x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; a nd that t heir use might have affected the assignment results; and</td>
</tr>
<tr>
<td>xi. include a signed certification in accordance with Standards Rule 2-3 or 8-3.</td>
<td>xi. include a signed certification in accordance with Standards Rule 2-3 or 8-3.</td>
<td>xi. include a signed certification in accordance with Standards Rule 2-3 or 8-3.</td>
</tr>
</tbody>
</table>

Comments: have not been included in this chart
Examples of the Application of the Terms “Describe,” “Summarize,” and “State” in the Context of a Real Property Appraisal Report

The following presentations of the zoning section of a commercial appraisal report are used to exemplify the content differences in the three appraisal report options. These examples show a relative illustration of depth and detail of presentation and are not intended to characterize the format for an entire appraisal report. The examples are not intended to imply that information on zoning is necessary in all appraisal reports.

**EXAMPLE OF “DESCRIBE”**

Zoning

The General Business B-4 zoning classification applies to the subject real estate. The purpose of the B-4 zone is to encourage local commercial development along arterial streets to serve the surrounding residential areas. The uses of B-4 zoning and yard and bulk regulations to the B-4 zone are described below.

**Principal Permitted Uses**

Banking facilities, houses of worship, public buildings and facilities, service establishments, sit-down restaurants serving patrons on the premises, and stores for the sale of goods at retail.

**Special Permit Uses**

Business and professional offices, manufacturing of goods sold on the premises, medical clinics, multifamily dwellings (sites in excess of 15,000 sq. ft.), and take-out restaurants (sites in excess of 25,000 sq. ft.).

**Yard and Bulk Regulations**

<table>
<thead>
<tr>
<th>Minimum Requirements</th>
<th>Lot Area: 10,000 sq. ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lot Width:</td>
<td>100 feet</td>
</tr>
<tr>
<td>Front Yard:</td>
<td>20 feet</td>
</tr>
<tr>
<td>Side Yards:</td>
<td>10 feet (each)</td>
</tr>
<tr>
<td>Rear Yard:</td>
<td>10 feet</td>
</tr>
<tr>
<td>Off-Street Parking (Stores):</td>
<td>4 spaces per 1,000 sq. ft. of sales area</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maximum Requirements</th>
<th>Building Coverage: 50% of lot area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Height:</td>
<td>2 stories or 20 feet</td>
</tr>
</tbody>
</table>

**Conclusion**

On the basis of a review of the zoning regulations and a discussion with John N. Forcer of the Anytown planning and zoning office, the existing use and subject improvements are in conformance with zoning.

**EXAMPLE OF “SUMMARIZE”**

Zoning

The General Business B-4 zoning classification applies. Its purpose is to encourage local commercial development of banking facilities, retail stores, and service establishments along arterial streets on minimum lots of 10,000 sq. ft. with a width of 100 feet. Building coverage is limited to 50% of the lot, and building height is limited to two stories or 20 feet. John N. Forcer of the Anytown planning and zoning office indicates that the existing use and subject improvements conform.
EXAMPLE OF “STATE”

Zoning

General Business, B-4; existing use and subject improvements conform.

The purpose of the above examples is to show one view of the differences among the application of the terms “describe,” “summarize,” and “state.” The examples should not be extended beyond this Advisory Opinion to every section of an appraisal report.

Varying Depth and Detail Within the Report Option Selected

Standard Rules 2-2(a)(viii) and 2-2(b)(viii) and 8-2(a)(viii) and 8-2(b)(viii) use the words “describe” and “summarize,” respectively, as the distinguishing verb, but they contain the identical Comment that each item must be addressed in the depth and detail required by its significance to the appraisal. The overall depth and detail of information presented to satisfy each Standards Rule, not the length of any specific item, determine the proper application of the report option utilized.

This Advisory Opinion focuses on the content of the appraisal report options and should be read in conjunction with Advisory Opinion 12, which focuses on the use of the appraisal report options of STANDARD 2 and STANDARD 8.
ADVISORY OPINION 12

ADVISORY OPINION 12 (AO-12)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2

APPLICATION: Real Property, Personal Property

THE ISSUE:

Standards Rules 2-2 and 8-2 of the Uniform Standards of Professional Appraisal Practice (USPAP) offer three written appraisal report options. What are appropriate circumstances for the use of these options?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- Under Standards Rules 2-2 and 8-2, an appraiser may communicate the results of an appraisal in one of three formats: Self-Contained Appraisal Report (Standards Rules 2-2(a) and 8-2(a)), Summary Appraisal Report (Standards Rules 2-2(b) and 8-2(b)), or Restricted Use Appraisal Report (Standards Rules 2-2(c) and 8-2(c)).

Deciding Which Report Option to Use

As with other business decisions that involve the application of USPAP, the existence of a appraisal report options implies a dialogue between the appraiser and the client to define the appraisal problem prior to reaching an agreement to perform an assignment. Part of that dialogue is a decision on which report option is appropriate for the assignment. This dialogue/decision process can be applied to a series of assignments performed by an appraiser for the same client. In most situations, the client may decide which report option is appropriate for the assignment. The appraiser may agree to provide the report option suggested by the client as long as the report option is consistent with the intended use of the appraisal.

The decision between using a Self-Contained Appraisal Report and a Summary Appraisal Report is not absolute. The following factors should be considered by the appraiser and the client in deciding whether a Self-Contained Appraisal Report or a Summary Appraisal Report is appropriate:

- the intended use of the appraisal;
- that the appraiser and client understand the differences between the options; and
- whether the intended use of the appraisal warrants comprehensive or summary disclosure of the steps in, and information considered in, the appraisal process.

A decision to use the Restricted Use Appraisal Report is absolute because the minimum level of information required in a Restricted Use Appraisal Report is not designed to address the needs of any third-party users. When an appraiser uses the Restricted Use Appraisal Report option, a prominent notice to any reader must be provided. The prominent notice must warn any reader of the report that the appraiser’s opinions and conclusions set forth in the report may not be understood properly without the additional information in the appraiser’s workfile. The Restricted Use Appraisal Report may be useful when:

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1 See Standards Rules 2-2 and 8-2. See also related Advisory Opinion 11, Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2.
• the client is the only intended user of the appraiser’s opinions and conclusions set forth in the report;
• the client understands the limited utility of this option;
• the intended use of the appraisal warrants restricted disclosure about the appraisal process steps completed in the assignment; and
• the client (the only intended user) does not need the level of information required in a Self-Contained Appraisal Report or Summary Appraisal Report.

This Advisory Opinion focuses on the use of the appraisal report options and should be read in conjunction with Advisory Opinion 11, which focuses on the content of the appraisal report options of STANDARDS 2 and 8.
ADVISORY OPINION 13

ADVISORY OPINION 13 (AO-13)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Performing Evaluations of Real Property Collateral to Conform with USPAP

APPLICATION: Real Property

THE ISSUE:

How can an appraiser operating under the Uniform Standards of Professional Appraisal Practice (USPAP) develop an evaluation of real property collateral (evaluation)?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- Under STANDARD 1, in developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.
- The SCOPE OF WORK RULE of USPAP states in part, Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal, appraisal review, and appraisal consulting assignment.

Background

The terms “appraisal” and “evaluation” have special meaning and use for institutions regulated by and under the rules and published guidelines of the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of Thrift Supervision (OTS) (Agencies). The October 27, 1994, Interagency Appraisal and Evaluation Guidelines (Agencies’ Guidelines) discusses “evaluation” as a term used to describe an estimate of value for certain real estate-related transactions that are exempt from the Agencies’ appraisal requirements. The federal regulators have ruled that an appraisal must conform to generally accepted appraisal standards as evidenced by USPAP but that an evaluation need not conform to USPAP. This distinction is important because appraisers who are bound by USPAP must comply with USPAP whenever they provide an opinion of value.

Many professional appraisers and state appraiser regulators have expressed uncertainty as to whether evaluations of real property collateral comply with USPAP. Appraisers are concerned with the potential consequences of a violation of USPAP.

The October 27, 1994, Interagency Appraisal and Evaluation Guidelines state:

“An institution should establish prudent standards for the preparation of evaluations. At a minimum, an evaluation should:

- be written;
- include the preparer’s name, address, and signature and the effective date of the evaluation;
- describe the real estate collateral, its condition, and its current and projected use;
- describe the source(s) of information used in the analysis;
- describe the analysis and supporting information; and
- provide an estimate of the real estate’s market value, with any limiting conditions.
An e valuation r eport s hould in clude c alculations, s upporting a ssumptions, a nd, if u tilized, a
discussion o f c omparable sales. D ocumentation should b e s ufficient to a llow a n institution to
understand t he a nalysis, a ssumptions, a nd c onclusions. An institution’s o wn r eal e state l oan
portfolio experience and value estimates prepared for recent loans on comparable properties might
provide a basis for evaluations.

An e valuation shou ld p rovide a n e stimate o f v alue t o a ssist t he i nstitution i n a ssessing t he
soundness of the transaction. Prudent practices also require that as an institution engages in more
complex r eal e state-related fin ancial t ransactions, o r as i ts o verall e xposure i ncreases, a more
detailed evaluation should be performed. For example, an evaluation for a home equity loan might
be based primarily on information derived from a sales data services organization or current tax
assessment information, while an evaluation for an income-producing real estate property should
fully d escribe t he c urrent a nd e xpected u se o f t he p roperty a nd i nclude a n a nalysis o f t he
property’s rental income and expenses.”

Appraisers need to be aware that lenders regulated by different agencies may have different interpretations of
the Agencies’ Guidelines. Lender institutions may have developed different requirements for evaluations based
on their interpretations of the Agencies’ Guidelines. It is critical that the appraiser and the client have a mutual
understanding of the intended use and the scope of work for the assignment. One way to enhance this mutual
understanding is for the appraiser to request copies of the institution’s e valuation s tandards o r r equirements
pertinent to the assignment.

ASB Opinion on Evaluations of Real Property Collateral

Appraisers operating under USPAP may accept all requests for evaluations of real property collateral as long as
the appraiser’s work meets minimum USPAP requirements.

When an e valuation a ssignment i ncludes a r equest f or a n o pinion o f v alue, u nder U SPAP t he e valuation
becomes an ap praisal, which U SPAP d efines as t he a ct or p rocess of d eveloping an o pinion of v alue; an
opinion of value.

Any request for an opinion of value of real property requires compliance with the SCOPE OF WORK RULE,
which states in part:

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

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

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

If the evaluation request does not call for an opinion of value of a specific property, the request might be a part
of appraisal practice for which there are no specific performance standards in USPAP. If the evaluation request
requires i nformation t hat i s a n a spect o f t he p roperty, t he a pp raiser w ould t hen b e
obligated to comply only with the Conduct, Management, and Confidentiality sections of the ETHICS RULE,
the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE. Examples of requests for services
that do not require a value conclusion of a specific property include, without limitation:

• providing sales a nd r ent d ata, t hings, a ssessments a nd o ther s imilar in f or mation, w ithout
adjustments to indicate the value of a specific property; and
• providing data describing a neighborhood, community, or any other real estate market segment and analyses on real estate market trends.

Appraisers who believe certain requests for evaluations of real property collateral are inconsistent with USPAP or contrary to law should explain their concerns to the potential client. If necessary, additional information and advice may be obtained from the appropriate federal regulator regarding the Agencies’ Guidelines. Issues regarding state law should be directed to those state government regulators with jurisdiction.

Illustrations

Scenario #1: Market Value

A potential client requests two evaluations of real property collateral. The client wants as little as possible in writing on the current market value of the fee simple interest for each property. The client is knowledgeable about the market for the type(s) of property involved.

In either case, the appraiser should determine the appropriate scope of work to develop credible assignment results based on the problem to be solved before considering the reporting options of STANDARD 2.

One evaluation is for an existing single-family residential fee simple property in connection with a real estate loan of $250,000 or less. The client requests only the sales comparison approach for this residential evaluation.

If the appraiser determines that the sales comparison approach alone is sufficient to produce credible assignment results in the appraisal of the residential property, an evaluation based solely on this evidence can be performed in compliance with USPAP.

The other evaluation is for an existing office building, occupied by the owner (without a lease). The lender is considering a business loan of $1,000,000 or less that is not dependent on the sale of or rental income derived from real estate as the primary source of repayment. The client requests only the income capitalization approach for this office building evaluation.

If the appraiser determines that the income approach alone is sufficient to produce credible assignment results in the appraisal of the office building property, an evaluation of this property based solely on this evidence can be performed in compliance with USPAP.

Scenario #2: Value/Assessments

The potential client requests two evaluations, including value conclusions, of the two properties based only on their current assessments for real estate taxation purposes.

In the example of the residential evaluation, the appraiser should first verify the processes, accuracy, and reliability of the assessing agency. Assuming these are sound, the appraiser may be able to accept the assignment if the appraiser is competent to employ sales/assessment ratio techniques and employs a valid sales/assessment ratio analysis as part of the evaluation.

In the example of the office building evaluation, if the income approach is not used in determining the assessed value, the assessment analysis alone would not appear to be sufficient.

In either case, the appraiser must be sufficiently diligent to ensure that any value opinion will not result in significant errors of omission or commission and the scope of work is sufficient to produce assignment results that are credible in the context of the intended use of the assignment.
Scenario #3: Providing Market Information

The potential client requests a residential or office property evaluation but asks for an opinion on market trends or conditions and not an opinion of value. However, since market trend information includes data on aspects of value, these assignments may be completed as a part of appraisal practice, in compliance with USPAP, but no specific performance standards apply. USPAP would require that when an appraiser provides this service he or she do so competently, impartially, independently and without bias or accommodation of personal interests, in recognition of any applicable jurisdictional requirements, as well as any applicable laws and regulations. As examples and without limitation, the appraiser could provide, as part of appraisal practice, information and/or conclusions on:

- rent, sale, or assessment levels, for such purposes as to address a client’s need for market trend conclusions;
- sales and/or assessment levels at various or certain points in time, for such purposes as to address sales/assessment ratio or loan portfolio ratio questions;
- the rate of market absorption of new or existing properties—such as time from listing to sale or lease of a property, a set of properties, or a volume of space—for such purposes as to address questions on market supply/demand balance.

The above are examples of only a few of the many situations when an appraiser may best serve the client’s valuation-related needs by simply providing market information without indicating a value conclusion of a specific property. Such assignments are not appraisals and have no specific performance standards in USPAP.

Scenario #4: Subdivision Lot

The potential client requests an evaluation on a vacant residential subdivision lot where many nearby lots have been sold and improved with new homes within recent years.

If a value opinion for a specific lot is requested, the evaluation could be performed and reported as an appraisal assignment under STANDARDS 1 and 2 of USPAP. Based on the definition of “appraisal,” an opinion of value may be expressed as a single point value, a range in value, or a value relationship.

If a value opinion for a specific lot is not required, the appraiser could provide a variety of market data, including a listing of sales that have occurred in the subdivision, or information relating to assessment values of other lots in the subdivision. Such an assignment is not an appraisal and has no specific performance standards in USPAP.

Reporting the Results of an Evaluation

When reporting evaluations, appraisers need to be aware that the evaluation content, described in the Agencies’ Guidelines, differs from the content required for appraisal reports under STANDARD 2 (see Advisory Opinion 11). It is important that appraisers take care that the contents of their appraisal reports satisfy the requirements of STANDARD 2. When reporting the results of an evaluation that includes a value conclusion, an appraiser could use the Summary Appraisal Report format, as described in Standards Rule 2-2(b). In some instances, and depending on the client’s needs, a Self-Contained or a Restricted Use Appraisal Report may also be appropriate.
ADVISORY OPINION 14

ADVISORY OPINION 14 (AO-14)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Appraisals for Subsidized Housing

APPLICATION: Real Property

THE ISSUE:

Preparation of appraisals for subsidized housing in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) requires knowledge and experience that goes beyond typical residential appraisal competency. What guidance does USPAP provide for the appraisal of subsidized housing?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- The COMPETENCY RULE requires the appraiser to "properly identify the problem to be addressed..." and (in the Comment) "...understand the nuances of the local market and the supply and demand factors relating to the specific property type and the location involved.
- The Comment to the COMPETENCY RULE states: The COMPETENCY RULE requires recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.
- The Comment to Standards Rule 1-1(a) states: Important changes in the cost and manner of constructing and marketing commercial, industrial, and residential real estate as well as changes in the legal framework in which real property rights and interests are created, conveyed, and mortgaged have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect...
- Standards Rule 1-2, particularly (a), (b), (c)(iv), (e) and (h); Standards Rule 1-3(a) and (b); and Standards Rule 1-4(g).

Identification of Subsidized Housing

Subsidized housing may be defined as single- or multifamily residential real estate targeted for ownership or occupancy by low- or moderate-income households as a result of public programs and other financial tools that assist or subsidize the developer, purchaser, or tenant in exchange for restrictions on use and occupancy. The United States Department of Housing and Urban Development (HUD) provides the primary definition of income and asset eligibility standards for low- and moderate-income households. Other federal, state, and local agencies define income eligibility standards for specific programs and developments under their jurisdictions.

Competency Issues

Appraisers should be aware that the competency required to appraise subsidized housing extends beyond typical residential appraisal competency. Subsidized housing appraisals require the appraiser to understand the various programs, definitions, and pertinent tax considerations involved in the particular assignment applicable to the location and development. An appraiser should be capable of analyzing the impact of the programs and definitions in the local subsidized housing submarket, as well as in the general market that is unaffected by subsidized housing programs. Appraisers should also be aware of possible political changes that will affect the durability of the benefits and restrictions to subsidized housing projects and fully understand interpretation and enforcement of subsidy programs. An appraiser’s lack of knowledge and understanding of the impact of the
various influences that affect subsidized housing projects could lead to misleading conclusions. For example, subsidized housing projects may have differences in income, expenses, and rates of returns when compared with nonsubsidized housing projects. Appraisers should reflect the actions of the participants in the market and avoid any stereotyped or biased assumptions.

**Property Rights Issues**

Subsidies and incentives that encourage housing for low- and moderate-income households may create intangible property rights in addition to real property rights and may also create restrictions that modify real property rights. The appraiser should demonstrate the ability to discern the differences between the real and intangible property rights and value the various rights involved. Low-Income Housing Tax Credits (LIHTCs) are an example of an incentive that results in intangible property rights that are not real property but might be included in the appraisal. Project-based rent subsidies are an example of a subsidy accompanied by restrictions that modify real property rights. Appraisers should be aware that tenant-based rent subsidies do not automatically result in a property right to the owner or developer of subsidized housing.

Standards Rule 1-2(e) allows the inclusion of intangible assets that are not real property in the appraisal. When personal property, trade fixtures, or intangible items are included in the appraisal, the appraiser must analyze the effect on value of such non-real property items, as required by Standards Rule 1-4(g).

A critical factor in all subsidized housing appraisals is the analysis of whether or not the various subsidies, incentives, and restrictions remain with the real property following a sale or foreclosure and thus are marketable property rights to be included in the appraisal.

**Value Definition Issues**

The value definition in any appraisal is a controlling factor of the bundle of rights to be considered in the appraisal. Standards Rule 1-2(c) requires an appraiser to identify the type and definition of value. Standards Rule 1-2(c) further states, if the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:

1. in terms of cash; or
2. in terms of financial arrangements equivalent to cash; or
3. in other precisely defined terms; and
4. if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser’s opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data.

If the appraisal of a subsidized housing assignment for market value, the appraiser must determine if requirement (i), (ii), (iii), or (iv) above applies to the specific definition selected or required by the client. The appraiser can then determine if the programs and intangible assets created by the programs affecting the subject property qualify under the selected or required market value definition. This determination requires competent knowledge of the programs and whether the programs qualify under (i), (ii), (iii), or (iv) above.

USPAP does not mandate market value appraisals, but it does require that the type and definition of value be identified. If the type of value for the total property (real property and intangible assets) is not market value, then (i), (ii), (iii), and (iv) above may not be applicable.

In an appraisal of a subsidized housing, the value definition selected or required by the client and the reporting techniques used should be discussed with the client prior to the acceptance of the assignment because the analyses may be based on general market terms, subsidized housing submarket financing with unusual conditions or incentives, both, or some other defined premise.
Because Standards Rule 1-2(c) also states that the terms of submarket financing or financing with unusual conditions or incentives must be clearly set forth, their contributions to or negative influence on value must be developed by analysis of relevant market data.

Subsidies and incentives should be explained in the appraisal report, and their effect on value, if any, needs to be reported in conformity with STANDARD 2.

Market Analysis Issues

Certain specific steps should be taken when appraising subsidized property. Research with housing organizations and public agencies should be completed to find appropriate data on financing, rental and occupancy restrictions, resale restrictions, and sales of comparably subsidized or restricted properties. Knowledge of the general markets and the subsidized housing submarkets should be evident in all analyses. The market analyses should also address the subject’s ability to attract a sufficient number of subsidized tenants. Reversion projections should be based on interviews with market participants; any factual information from developments that have reached the expiration of their subsidies, incentives, and restrictions; and other relevant information.
ADVISORY OPINION 15 (AO-15)

SUBJECT: Using the DEPARTURE RULE in Developing a Limited Appraisal

This Advisory Opinion has been retired by action of the Appraisal Standards Board.
This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

**SUBJECT:** Fair Housing Laws and Appraisal Report Content

**APPLICATION:** Real Property

**THE ISSUE:**

In developing and reporting an appraisal, appraisal review, or appraisal consulting assignment, what should an appraiser consider to comply with current fair housing laws?

**BACKGROUND:**

Fair housing laws preclude the use of certain specific information or supported conclusions related to protected group(s) in some assignments. Accordingly, an appraiser should be knowledgeable about the laws that affect the subject property of an assignment. Laws and regulations on fair lending and fair housing (such as the Fair Housing Act, the Equal Credit Opportunity Act (ECOA), and laws and regulations of applicable federal, state, and local jurisdictions) continue to evolve. Further, appraisers must continue to provide appraisals that do not illegally discriminate or contribute to illegal discrimination. The Conduct section of the ETHICS RULE states in part, *An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value* (bold added for emphasis).

In some cases, even **supported** conclusions in assignments relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or group homogeneity cannot be used because they are precluded by applicable law.

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

- The PREAMBLE states, *It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.*

- The Conduct section of the ETHICS RULE states:
  
  An appraiser must not engage in criminal conduct.

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

- The COMPETENCY RULE states, ... *An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the assignment.*

  Competency requires: (1) the ability to properly identify the problem to be addressed; and (2) the knowledge and experience to complete the assignment competently; and (3) recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.

  The Comment to the COMPETENCY RULE states: Competency may apply to factors such as, but not limited to, an appraiser’s familiarity with a specific type of property or asset, a market, a geographic area, an intended use, specific laws and regulations, or an analytical method.
**Advisory Opinion 16**

- The Comment to Standards Rule 1-1(a) states, *Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession is constantly reviewing and revising appraisal methods and techniques and developing new methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in real property appraisal.*

- Standards Rule 2-1(a) states, *Each written or oral real property appraisal report must clearly and accurately set forth the appraisal in a manner that will not be misleading.*

- The content of the certification in Standards Rules 2-3, 3-3, 5-3 and 6-9 requires the following disclosures: *I certify that, to best of my knowledge and belief, ... the reported analyses, opinions, and conclusions are my personal, impartial, and unbiased professional analyses, opinions, and conclusions ...[and] my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*

- The Conduct section of the ETHICS RULE states, *An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.*

**Appraisal Report Content**

An appraiser must ensure that his or her appraisal, appraisal review, or appraisal consulting opinions and conclusions are impartial and objective and do not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions.

The use of terms or descriptive phrases in place of factual information in a report imposes particular obligations on an appraiser to ensure that the user properly understands the report and is not misled. An appraiser needs to have, and should report wherever possible and appropriate, factual information to support the use of terms or descriptive phrases that reflect a scale of a property or market of a property that affects value or marketability conclusions. If such factual information is absent, an appraiser should clearly disclose that the rating or descriptive phrase is the appraiser's opinion but that no factual information was available to support that rating or descriptive phrase and ensure that the use of the term or descriptive phrase is not illegally discriminatory.

An appraiser should research the actions of participants in the subject's market to identify factors having a direct favorable or unfavorable influence on marketability or value. Failure to extract pertinent market information (e.g., sales, rents, occupancy rates, expense ratios, capitalization or discount rates, construction costs, depreciation, or exposure times) from the subject's market could produce conclusions that are misleading and/or illegally discriminatory.

Appraisers should exercise care that comments made in a report will not be perceived as illegally biased or discriminatory. Factual descriptions, rather than subjective phrases, allow the user of a report to draw his or her own conclusions. The use of terms that reflect a scale such as “high,” “low,” “good,” “fair,” “poor,” “strong,” “weak,” “rapid,” “slow,” “average,” or the like should provide contextual information that properly explains the frame of reference and the relative position of the subject property on the scale. For example, if absorption is stated as “rapid,” the context of the rating should be cited as well (“rapid” relative to what?).
Situations such as those listed below require specific research and competency to avoid the use of unsupported conclusions:

- the property is designed to suit the needs of a protected group;
- there is little or no transaction information available on similar properties;
- the property is in a market setting where similar properties have not previously existed;
- market conditions are not similar to the conditions prevailing during the timeframe in which previous market transactions occurred; or
- there are financially subsidized rental or ownership programs.

Illustrations:

1. An appraiser is completing an assignment in an area where crime activity has recently been publicized. The appraiser considers the use of the term “high-crime area.”

   This is a subjective term that may be understood by the appraiser but may mislead the client. This term does not provide evidence that the appraiser used in making the observation. The appraiser may provide a specific reference that is factual and objective (e.g., one crime per 100 people or one crime per 1,000,000 people) but may still mislead the client. If the appraiser is to be competent with these types of statistics, the crime ratio should be correlated to the actions of the market in reflecting a valuation adjustment or other indication of property demand. If all of the comparables used by the appraiser are from a market sharing the same crime characteristic, the appraiser should question whether the term and/or the statistic(s) are relevant to the appraisal assignment.

2. A religious organization requests an appraiser to determine if a facility offering unique services to specific religious members is feasible. The appraiser must research a geographic market and identify concentrations of individuals that are members of that specific religion. Is the appraiser permitted to complete the assignment under USPAP?

   The assignment is not covered by ECOA or the Fair Housing Act. Under USPAP, the appraiser must comply with the ETHICS RULE concerning discrimination.

   The key in this case is not to use or rely on unsupported conclusions. If the appraiser can identify the market behavior of the religious members and relate that behavior to the assignment, the appraiser is not in violation of USPAP.

3. An appraiser is requested to review a portfolio of apartment appraisal reports in a market area where apartments with public rent subsidies also exist. How does the Conduct section of the ETHICS RULE affect the appraisal reviewer’s actions?

   The review and conclusion of acceptance or rejection of the reports should not rely on the appraisal reviewer’s unsupported conclusions regarding public assistance projects.

4. An appraiser is requested to appraise a house with specific features (e.g., ramps, wider doorways, and special plumbing fixtures) designed to accommodate handicapped individuals. How does the appraiser analyze the unique improvements?

   The appraiser should reflect market preferences for the components of the structure. However, the appraiser should not draw an unsupported conclusion that the fixtures either enhance or diminish value.
ADVISORY OPINION 17 (AO-17)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Appraisals of Real Property with Proposed Improvements

APPLICATION: Real Property

THE ISSUE:

Can either a current or a prospective value opinion for a property subject to completion of proposed improvements be provided in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP)?

BACKGROUND:

An appraisal of real property with proposed improvements presents complex analysis and reporting issues because some portion of the property appraised does not exist at the time of the appraisal. Consequently, an appraiser must use particular care when performing an appraisal of such property to ensure that the results are credible and the appraisal report is not misleading.

A client may have a legitimate need for either a current or a prospective opinion of value (or both) concerning proposed improvements to real property. This kind of appraisal may be performed for a variety of client types, such as lenders, developers, private investors, trusts, attorneys, government agencies, or insurance companies. Further, such an appraisal may be for purposes other than providing an opinion of market value.

Many real property appraisers have been uncertain whether a current value opinion, rather than a prospective value opinion, may be provided in compliance with USPAP for a property subject to completion of proposed improvements and, if so, which portions of USPAP are most relevant to the assignment.

Statement on Appraisal Standards No. 4 addresses how an appraiser may provide a prospective value opinion in a manner that is not misleading. This Advisory Opinion provides guidance in performing an assignment involving proposed improvements to real property, whether the purpose of the assignment is to develop a current value opinion or to develop a prospective value opinion.

The value opinion in an appraisal assignment involving proposed improvements is developed on the basis of one or more extraordinary assumptions. Using an extraordinary assumption always requires specific reporting steps. An appraiser must properly address the requirements set forth in Standards Rule 1-2(f) related to use of an extraordinary assumption in developing an appraisal and must address Standards Rules 2-2(a)(x), (b)(x), and (c)(x) in reporting the appraisal opinions and conclusions so as to ensure that the results are credible and not misleading.

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

The following USPAP references are applicable when completing an assignment involving proposed improvements to real property:

- COMPETENCY RULE, a situation relates to the complexity of an appraisal assignment involving proposed improvements;
ADVISORY OPINION 17

- SCOPE OF WORK RULE particularly regarding laws, regulations, or guidelines which may augment USPAP;
- JURISDICTIONAL EXCEPTION RULE;
- STANDARD 1, particularly Standards Rules 1-1(a), 1-2(d), 1-2(e), 1-2(h), 1-3(a); and
- STANDARD 2, particularly Standards Rules 2-1(a), 2-1(c), and Standards Rule 2-2.

Additional standards information is provided in these Statements on Appraisal Standards:
- No. 2, addressing discounted cash flow analysis;
- No. 4, explaining that three categories of effective appraisal dates may be used—retrospective, current, or prospective—according to the intended use of the appraisal assignment, and addressing how an appraisal can be prepared and presented in a manner that will not be misleading when a prospective value opinion is required; and
- No. 6, addressing reasonable exposure time in market value opinions.

Additional guidance appears in Advisory Opinion 7, which addresses marketing time opinions. AO-30, Appraisals for Use by a Federally Regulated Financial Institution addresses when other requirements may augment USPAP.

General Comments

Both current and prospective value appraisals subject to completion of proposed improvements to real property are permitted under USPAP. As noted in Statement on Appraisal Standards No. 4, a current value appraisal occurs when the effective date of appraisal is contemporaneous with the date of the report, and a prospective value appraisal occurs when the effective date of appraisal is after the date of the report.

Development of a value opinion for a subject property with proposed improvements in a current value appraisal involves at least one hypothetical condition, specifically that the described improvements have been completed as of the date of value. The use of a hypothetical condition, in turn, imposes additional reporting requirements as set forth in Standards Rule 1-2(g) and Standards Rules 2-2(a)(x), (b)(x), and (c)(x). The additional reporting requirements are to ensure that an intended user understands that:

(a) the improved subject property does not yet, in fact, exist as of the date of appraisal;
(b) the analyses performed to develop the opinion of value are based on a hypothesis, specifically that the improved subject property is assumed to exist when in fact it does not exist;
(c) certain events need to occur, as disclosed in the report, before the property appraised with the proposed improvements will in fact exist; and
(d) the appraisal does not address unforeseeable events that could alter the proposed property improvements and/or the market conditions reflected in the analyses.

Development of a value opinion based on a hypothetical condition is addressed in Standards Rule 1-2(g). Use of a hypothetical condition is permitted when it is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison. An analysis based on a hypothetical condition must not result in an appraisal, appraisal review, or appraisal consulting report that is misleading. The hypothetical condition must be clearly disclosed conspicuously in the report, with a description of the hypothetical condition and a statement that its use might have affected the assignment results.

There may be laws, regulations or guidelines that affect how and when a hypothetical condition may be used in an appraisal assignment. An appraiser should consider these assignment conditions, but he or she must make certain that developing and reporting a current value opinion under a hypothetical condition in accordance with the assignment conditions still results in an appraisal that complies with USPAP.
An appraiser asked to complete an assignment involving proposed improvements to real property should consider and discuss with the client:

- the intended use of the appraisal report;
- the effective date of the appraisal and the date when the proposed improvements are expected to be complete;
- the physical and economic changes to the existing property and changes in the market for the property that may result from completion of the proposed improvement; and
- the possible change in market competition from other properties over the time frame of the improvement project.

It is important for an appraiser to ensure that the client knows that the differences in the information considered in the two types of analyses can result in significant differences between a current and a prospective value opinion concerning the same subject property.

Taken together, these factors and the client’s needs determine whether it is most appropriate to develop:

- a current value opinion on the basis of a hypothetical condition that the proposed improvements already have been completed, or
- a prospective value opinion on the basis of an extraordinary assumption that the property will be improved as of a future date, as proposed.

If a prospective value opinion is the most appropriate, the appraiser must ensure that the requirements set forth in Statement on Appraisal Standards No. 4 are properly met in the course of completing the assignment.

As stated in “General Comments” above, an appraisal of a property subject to completion of proposed improvements with a current date of value always involves use of at least one hypothetical condition (i.e., the proposed improvements have been completed as of the date of value), and this always requires reporting that the proposed improvements are appraised as if completed as described in the report, as of the date of value.

In an appraisal with a prospective date of value, the extraordinary assumption that the proposed improvements are complete as of that future date must be disclosed clearly and conspicuously. The appraiser also should report that the extraordinary assumption might have affected the assignment results.

An appraiser should carefully review Standards Rule 1-2(e) and determine whether the information available for analysis is sufficient to identify the extent and character of the proposed improvements. If sufficient information is not available, an appraiser may use an extraordinary assumption about the extent and character of the proposed improvements, if credible assignment results can still be developed. In an appraisal with a prospective date of value, the extraordinary assumption about the extent and character of the improvements is in addition to the extraordinary assumption about those improvements being completed on the future date of value.

A current value opinion assigns a dollar amount to the property as of the date of the report, not to the proposed improvements. However, so as not to mislead the appraisal report should clearly indicate the fact that the value of the property that actually exists as of the date of the report would be different from the value concluded for the property with the proposed improvements completed as described in the hypothetical condition(s) used in the appraisal.
1. A client is considering financing the construction of a single-family residence. Construction is expected to be complete in six to eight months from the date of the appraisal report. No significant changes in market conditions are foreseeable during the construction period. The client requests a current value opinion based on the hypothetical condition that the improvements are complete as of the current date. Can such an appraisal be provided in compliance with USPAP?

Illustrations:

Yes, provided sufficient information about the extent and character of the proposed improvements is available or can be reasonably assumed under a hypothetical condition used for purposes of reasonable analysis in this case. Given the intended use of the appraisal (construction financing) and the lack of significant change in the market conditions during the construction period, in this case, a current value appraisal would not be misleading solely on the basis of the hypothetical condition that the improvements are complete as of a current date.

2. A client requests an appraisal to assist in establishing contract rent in a build-to-suit agreement. The agreement stipulates that contract rent will be based on a stated percentage of the market value of the property as if it were completed as of a current date. The client requests a current value opinion based on the hypothetical condition that the improvements are complete as of the current date. Can such an appraisal be provided in compliance with USPAP?

Yes. Given the intended use of the appraisal, the use of the hypothetical condition is necessary for purposes of reasonable analysis and would not in itself result in a misleading appraisal.

3. A client is considering making a current loan on a hotel and requests an opinion of the current value. The current occupancy levels are below 60% and are not expected to improve for at least two years. The client has requested the appraiser to utilize a hypothetical condition which assumes that the occupancy level of the hotel is 70%. Can such an appraisal be provided in compliance with USPAP?

No. The resulting appraisal would be misleading because of the combination of the intended use of the appraisal to make a current loan and the market conditions that are expected to affect the subject property.

4. A client is considering construction of a large apartment complex. The client expects construction to be complete in about two years. Currently, demand for similar apartment units is strong, but because of the amount of new construction under way or planned in the near future, vacancy levels are expected to rise from the current level (below 1 percent) to about 20 percent in two years.

A. The client requests an appraisal with a current value opinion for use in obtaining financing from a non-regulated financial institution, based on the hypothetical condition that the apartment complex is complete at stabilized occupancy. Can such an appraisal be provided in compliance with USPAP?

No, because given the intended use and the foreseeable changes in market competition during the course of construction, a current value opinion for the property, as if complete, would most likely be misleading. A prospective value opinion, with an effective value date as of the expected completion date, would more realistically reflect market conditions affecting the subject property as proposed.
B. The client requests an appraisal with a current value opinion for use in estimating project feasibility or investment alternatives, based on the hypothetical condition that the apartment complex is complete and at stabilized occupancy. Can such an appraisal be provided in compliance with USPAP?

Yes, because the intended use of the appraisal and the hypothesis, in this type of assignment, is for purposes of reasonable analysis and comparison. However, so as not to be misleading, the appraisal analyses should reflect the market risk resulting from the foreseeable trend in vacancy and its probable impact on cash flow and market competition, and the appraisal report must clearly indicate the intended use of the appraisal.
ADVISORY OPINION 18

ADVISORY OPINION 18 (AO-18)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Use of an Automated Valuation Model (AVM)

APPLICATION: Real Property, Personal Property, Intangible Property

THE ISSUE:

What steps should an appraiser take when using an AVM as a tool in the development of appraisal, appraisal review, or appraisal consulting opinions and conclusions concerning an individual property?

In addition, what steps should an appraiser take when he or she is using an AVM only to process information and communicate the AVM’s output but is not performing an appraisal, appraisal review, or an appraisal consulting assignment?

BACKGROUND:

This Advisory Opinion addresses how an appraiser may use an AVM. An AVM is a computer software program that analyzes data using an automated process. For example, AVMs may use regression, adaptive estimation, neural network, expert reasoning, and artificial intelligence programs.

The output of an AVM is not, by itself, an appraisal. An AVM’s output may become a basis for appraisal, appraisal review, or appraisal consulting opinions and conclusions if the appraiser believes the output to be credible for use in a specific assignment.

An appraiser can use an AVM in the development of an appraisal, appraisal review, or appraisal consulting assignment. However, the appropriate use of an AVM is, like any tool, dependent upon the skill of the user and the tool’s suitability to the task at hand.

This Advisory Opinion applies when an appraiser uses an AVM in connection with an individual property. This Advisory Opinion does not apply to mass appraising.

An appraiser needs to know, before using an AVM, whether it is to be used:

1. to perform an appraisal, appraisal review, or appraisal consulting service, or
2. solely to provide the client with AVM output.

When an appraiser uses an AVM to develop his or her own opinions or conclusions in an appraisal, appraisal review, or appraisal consulting assignment, all of the USPAP rules governing that assignment apply and all of this Advisory Opinion is relevant.

An appraiser is not performing an appraisal, appraisal review, or appraisal consulting assignment when he or she simply runs an AVM by using information provided by the client and:

1. does not alter the input or affect the output of the AVM, and
2. does not communicate his or her own appraisal, appraisal review, or appraisal consulting opinions or conclusions regarding the AVM’s output.
If the appraiser uses an AVM only to provide the client with the AVM output, the references to the Conduct section of the ETHICS RULE and the “Communicating the AVM Output” section in this Advisory Opinion are relevant.

**ADVICE FROM THE ASB ON THE ISSUE:**

**Relevant USPAP & Advisory References**

- **Conduct** section of the ETHICS RULE:
  
  An appraiser must not engage in criminal conduct.
  
  An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.
  
  Further, An appraiser must not communicate assignment results with the intent to mislead or to defraud. An appraiser must not use or communicate a report that is known by the appraiser to be misleading or fraudulent.

- The COMPETENCY RULE states, ... Competency requires: (1) the ability to properly identify the problem to be addressed; and (2) the knowledge and experience to complete the assignment competently; and (3) recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.

- The Comment to the COMPETENCY RULE states: Competency may apply to factors such as, but not limited to, an appraiser’s familiarity with a specific type of property or asset, a market, a geographic area, an intended use, specific laws and regulations, or an analytical method.

- SCOPE OF WORK RULE: The scope of work must include the research and analyses that are necessary to develop credible assignment results... Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal, appraisal review, and appraisal consulting assignment.” “The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results... An appraiser must not allow the intended use of an assignment or a client’s objectives to cause the assignment results to be biased.

- Standards Rule 1-1(a): An appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.

- Standards Rule 1 -1(b): A an appraiser must not commit a substantial error of omission or commission that significantly affects an appraisal.

- Standards Rule 1-1(c): An appraiser must not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.

- Standards Rule 1-6(b): A an appraiser must reconcile the applicability and relevance of the approaches, methods and techniques used to arrive at the value conclusion(s).

- STANDARD 2: In reporting the results of a real property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.

- STANDARD 3: In developing an appraisal review assignment, an appraiser acting as a reviewer must identify the problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete research and analyses necessary to produce a credible appraisal review. In reporting the results of an appraisal assignment, a an appraiser acting as a reviewer must communicate each analysis, opinion, and conclusion in a manner that is not misleading.

- Statement on Appraisal Standards No. 9: Although an appraiser must identify and consider the intended use of the appraiser’s opinions and conclusions, an appraiser must not allow the objectives of the client or other intended users of the report to affect the appraiser’s independence and objectivity. An appraiser must not allow the objectives of a client or other intended users to cause the analysis or report to be biased.
When an appraiser is asked to use an AVM in an assignment, the appraiser must ensure that he or she can comply with the requirements of the COMPETENCY RULE both prior to accepting the assignment and in the course of performing it.

In an appraisal assignment, an appraiser must have a basic understanding of how the AVM works in order to reasonably determine that:

1. use of the AVM is appropriate for the assignment;
2. the output of the AVM is credible for use in the assignment; and
3. the AVM does not exclude relevant market measures or factual information necessary for a credible calculation.

A client may suggest or request the use of an AVM in an appraisal, appraisal review, or appraisal consulting assignment, but ultimately the appraiser is responsible for the decision to use or not use the AVM and its output. The appraiser must be able to reasonably conclude that the AVM’s output is credible before deciding to use the AVM or rely on its output. For example, in an appraisal assignment, the credibility of the AVM output may be established by comparison to the subject market. If the appraiser concludes that using the AVM output in an assignment would be misleading, the appraiser should either use other tools to perform the analysis or decline the assignment.

There are five critical questions to which the appraiser should answer “yes” before deciding to use an AVM in an appraisal, appraisal review, or appraisal consulting assignment:

1. Does the appraiser have a basic understanding of how the AVM works?
2. Can the appraiser use the AVM properly?
3. Are the AVM and the data it uses appropriate given the intended use of assignment results?
4. Is the AVM output credible?
5. Is the AVM output sufficiently reliable for use in the assignment?

The answers to these questions may be affected by the degree to which the appraiser can interact with the AVM. The decision to use an AVM may also be affected by support information supplied by the AVM’s developer, the appraiser’s previous experience in using the AVM, or other available information.

Credibility of the AVM output depends on the quality of its database and how well the AVM is designed to analyze that database. When using an AVM in an appraisal, appraisal review, or appraisal consulting assignment, the appraiser must have reason to believe the AVM appropriately uses data that are relevant.

When using an AVM in an appraisal, appraisal review, or appraisal consulting assignment, an appraiser should have a basic understanding of how the AVM analyzes data to determine whether the AVM measures and reflects market activity for the subject property. The appraiser does not need to know, or be able to explain, the AVM’s algorithm or intricacies of its statistical or mathematical formulae. However, the appraiser should be able to describe the AVM’s overall process and verify that the AVM is consistent in producing results that accurately reflect prevailing market behavior for the subject property.

AVMs differ in the number and type of data characteristics as well as in the volume of data analyzed. The appraiser should know which characteristics (e.g., size, location, quality) are analyzed and how the analysis is
tested for accuracy and reasonableness. The appraiser should as certain that the characteristics analyzed are those to which the market responds.

Some AVMs allow the appraiser to select the data analyzed on the basis of, for example, distance from subject, size, or age of the improvements. An appraiser’s ability to change the AVM’s selection parameters may affect the appraiser’s decision to use or rely on the AVM output.

The appraiser should be aware that the AVM may not perform consistently given the same input criteria. The appraiser should be confident of the AVM’s credibility when applied to a specific property. The appraiser decides whether to rely on the AVM output, regardless of the AVM’s overall test performance. In some cases, the appraiser may accept the AVM’s output, while in other cases the same AVM’s output would not be acceptable.

**Communicating the AVM Output**

An appraiser must ensure that his or her communication of an AVM’s output is not misleading.

An AVM’s output is not, by itself, an appraisal, and communication of an AVM’s output is not, in itself, an appraisal report. When an AVM is used in an appraisal, appraisal review, or appraisal consulting assignment, information furnished about an AVM in the appraiser’s report must satisfy the reporting requirements applicable to the type of report provided (e.g., in the case of a real property appraisal, a Self-Contained, Summary, or Restricted Use Appraisal Report). The appraiser should cite the name and version of the AVM software and provide a brief description of its methods, assumptions, and level of allowed user intervention. The report should, to the extent possible, identify the database (e.g., Multiple Listing Services) and the data analyzed.

An appraiser bound by USPAP may be asked to run an AVM and communicate its output without performing an appraisal, appraisal review, or appraisal consulting assignment. For example, an appraiser may be asked to simply enter property characteristics provided by the client but not alter the input or affect the AVM’s output. In this specific instance, the appraiser is not acting in the capacity of an appraiser but rather is functioning only as an AVM operator. In such a situation, an appraiser must carefully avoid any action that could be considered misleading or fraudulent. The appraiser should take steps to ensure that communication of the AVM’s output is not misconstrued as an appraisal, appraisal review, or appraisal consulting report. For example, the appraiser should:

1. not communicate his or her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;
2. not provide an appraiser’s certification or statement of limiting conditions in connection with the AVM’s output; and
3. ensure that his or her role as only an AVM operator is clearly indicated if his or her signature or other identification marks appear on document(s) used to communicate the AVM’s output.

**Analyzing an AVM’s Effectiveness**

An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked to analyze and comment on the effectiveness of an AVM for a stated intended use. Such a request involves an aspect of value and thereby this would be an appraisal practice service, but one for which USPAP has no specific performance standards. In such a situation, an appraiser must carefully avoid any action that could be considered misleading or fraudulent. The appraiser should take steps to ensure that communication of the AVM’s output is not misconstrued as an appraisal, appraisal review, or appraisal consulting report. For example, the appraiser should:

1. not communicate his or her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;
2. not provide an appraiser’s certification or statement of limiting conditions in connection with the AVM’s output; and
3. ensure that his or her role as only an AVM operator is clearly indicated if his or her signature or other identification marks appear on document(s) used to communicate the AVM’s output.

An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked to analyze and comment on the effectiveness of an AVM for a stated intended use. Such a request involves an aspect of value and thereby this would be an appraisal practice service, but one for which USPAP has no specific performance standards. In such a situation, an appraiser must carefully avoid any action that could be considered misleading or fraudulent. The appraiser should take steps to ensure that communication of the AVM’s output is not misconstrued as an appraisal, appraisal review, or appraisal consulting report. For example, the appraiser should:

1. not communicate his or her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;
2. not provide an appraiser’s certification or statement of limiting conditions in connection with the AVM’s output; and
3. ensure that his or her role as only an AVM operator is clearly indicated if his or her signature or other identification marks appear on document(s) used to communicate the AVM’s output.

An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked to analyze and comment on the effectiveness of an AVM for a stated intended use. Such a request involves an aspect of value and thereby this would be an appraisal practice service, but one for which USPAP has no specific performance standards. In such a situation, an appraiser must carefully avoid any action that could be considered misleading or fraudulent. The appraiser should take steps to ensure that communication of the AVM’s output is not misconstrued as an appraisal, appraisal review, or appraisal consulting report. For example, the appraiser should:

1. not communicate his or her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;
2. not provide an appraiser’s certification or statement of limiting conditions in connection with the AVM’s output; and
3. ensure that his or her role as only an AVM operator is clearly indicated if his or her signature or other identification marks appear on document(s) used to communicate the AVM’s output.

**Analyzing an AVM’s Effectiveness**

An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked to analyze and comment on the effectiveness of an AVM for a stated intended use. Such a request involves an aspect of value and thereby this would be an appraisal practice service, but one for which USPAP has no specific performance standards. In such a situation, an appraiser must carefully avoid any action that could be considered misleading or fraudulent. The appraiser should take steps to ensure that communication of the AVM’s output is not misconstrued as an appraisal, appraisal review, or appraisal consulting report. For example, the appraiser should:

1. not communicate his or her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;
2. not provide an appraiser’s certification or statement of limiting conditions in connection with the AVM’s output; and
3. ensure that his or her role as only an AVM operator is clearly indicated if his or her signature or other identification marks appear on document(s) used to communicate the AVM’s output.
ADVISORY OPINION 18

Review of the Output of an AVM

An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked if the output of an AVM is credible for a specific property, given the intended use of the AVM’s output. Such a request involves an aspect of value and thereby making this determination is an appraisal practice service, but one for which USPAP has no specific performance standards. The appraiser must ensure compliance with the Conduct, Management and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.

Review of an Appraisal Report Containing Output of an AVM

An appraiser may be asked to review an appraisal report that includes an opinion of value based on the output of an AVM. This is an appraisal assignment under USPAP which must follow the requirements of STANDARD 3. This kind of appraisal review assignment may be accepted if the appraiser performing the review understands how the AVM works and can form an opinion as to the adequacy and relevancy of the data and the appropriateness of the analysis, based on the information provided in the report under review.

Use of an AVM in an Appraisal Review Assignment

An AVM may be used in the process of reviewing a real property appraisal report. The appraisal reviewer may use the AVM to test the reasonableness of the value conclusion in the report under review if the appraisal reviewer has a basic understanding of how the AVM works, can use the AVM properly, determines that use of the AVM is appropriate for the appraisal review assignment, and believes the AVM output is credible and sufficient for the appraisal review assignment.

Illustrations:

1(a). Staff Appraiser D, who has access to market databases, is asked to use an AVM to process information. When Appraiser D runs the AVM, she has done no other appraisal research. Appraiser D does not apply any of her appraisal knowledge or judgment in operating the AVM. Appraiser D has entered only property characteristics provided by the client and does not know how the AVM analyzes the data. Is the AVM output an appraisal?

No. The AVM output by itself is not an appraisal. Appraiser D did not apply her appraisal knowledge, judgment, or expertise, nor did she represent that the output was her own opinion of value.

Appraiser D must be very careful in communicating the AVM output to ensure that there is no misunderstanding as to her role in operating the AVM or communicating its output. For example, Appraiser D should:

1. not communicate her opinions or conclusions as an appraiser regarding the credibility or reliability of the AVM’s output;
2. not provide an appraiser’s certification or statement of limiting conditions in connection with the AVM’s output; and
3. ensure that her role as only an AVM operator is clearly indicated if her signature or other identification mark appears on documents used to communicate the AVM’s output.

1(b). Staff Appraiser D receives AVM output from a co-worker who is not an appraiser. Appraiser D is requested to determine if the AVM output is credible, given the intended use. What can Appraiser D do?

Appraiser D should not express an opinion regarding value. However, the request involves an aspect of value and, therefore, Appraiser D can indicate if the AVM output is credible. USPAP
includes no specific performance standards for this kind of service. However, because performing the service requires an appraiser to consider an aspect of property value, it is part of appraisal practice. Appraiser D must, therefore, ensure compliance with the Conduct, Management and Confidentiality sections of the Ethics Rule, the Competency Rule, and the Jurisdictional Exception Rule.

1(c). After staff Appraiser D has received the AVM output, can he incorporate the information into the appraisal process?

Yes. However, Appraiser D must be able to understand how the AVM works and determine that the information analyzed is credible and reliable.

2. Appraiser V provides residential appraisals to Client A, whose intended use is to document security for equity lines of credit. Appraiser V has determined that Orange Box AVM is sufficiently reliable to use as a tool in these appraisals. Orange Box AVM was recently used by Appraiser V on a house in a suburban single-family residential subdivision.

Client B requests Appraiser V to use Orange Box AVM, alone, for a relocation appraisal assignment on an identical house in the same subdivision. Can Appraiser V use Orange Box AVM alone in this relocation appraisal assignment?

AVM itself and the AVM output for Client A’s needs may not be appropriate for Client B’s needs.

Typically, Client A’s lending decision is based primarily on the homeowner’s capacity to pay the debt and only secondarily on the value of the house. The reliability expectation of the value opinion needed by Client A is relatively low.

The intended use of the relocation appraisal for Client B is to develop an opinion of a sale price of the house under very specific conditions. Typically, the reliability expectation of the opinion needed by Client B is relatively high because his or her intended use involves a near-term transfer of the house, with immediate financial implications. Appraiser V must determine if Orange Box AVM’s output is sufficiently reliable to meet Client B’s stated expectations.

3(a). Appraiser A developed a regression analysis model that suggests a relationship between the size of a residence and the price per square foot of similar residences in a specific market. This relationship has been confirmed by market behavior, and the database used is believed to be reliable. Can the appraiser use the regression analysis model in other appraisal assignments of similar properties in the same market?

Yes, because the appraiser knows how the regression analysis model works, has independently tested the conclusions it provides, and believes the database is reliable. However, the appraiser must consider whether the AVM output is credible and reliable for each assignment on a case-by-case basis.

3(b). Appraiser A’s friend, Appraiser B, works in a different market area. Appraiser B is impressed with Appraiser A’s model and wants to use the model in Appraiser B’s market area. Can Appraiser B use Appraiser A’s model?

Yes, if Appraiser B understands how Appraiser A’s model works and verifies by independent testing that the model produces reliable results in Appraiser B’s market area and that the database used by Appraiser B reflects behavior in Appraiser B’s market area. However, the appraiser must consider whether the AVM output is credible and reliable for each assignment on a case-by-case basis.
4(a). A client of Appraiser A requests that Appraiser A use Blue Box AVM. The client says, “Since we are only doing residential appraisals, you can skip the cost and income approach. To lower the cost of the appraisal just use the Blue Box AVM results as the basis for your value conclusion.” The client also says, “Blue Box AVM makes thirteen adjustments, and that is all that the appraiser needs to be concerned with.” The Blue Box AVM developer feels that appraisers cannot understand this new technology and that appraisers do not need to know how the thirteen adjustments are made. What should Appraiser A do?

Appraiser A should:

1. learn how the Blue Box AVM works;
2. determine if he can use the AVM properly; and,
3. given the intended use, determine if the output of Blue Box AVM is credible and sufficiently reliable for use in the assignment.

If Appraiser A cannot understand how the Blue Box AVM works or concludes that the results are not credible, given the intended use, Appraiser A should discuss the issue with the client. This discussion may result in a modified scope of work or in the appraiser declining the assignment.

4(b). Another client requests that Appraiser A consider Green Box AVM. The client indicates that Appraiser A can modify six of the thirteen items analyzed in Green Box AVM, such as the distance within which the comparables are selected and the size range (square footage) of the comparables. The developer of Green Box AVM will also describe how the AVM works and provide the results of test data, which indicate that the model is reliable. What should Appraiser A do?

Appraiser A needs to follow the same steps described in 4(a).

5. Appraiser C’s client has licensed the Red Box AVM. The client requests that Appraiser C use the Red Box AVM as a tool in an appraisal consulting assignment. The client knows that Appraiser C has a reliable internal residential database. The client also knows that Appraiser C has tested Red Box AVM and has found it to be reliable. Further, the software developer of Red Box AVM has given Appraiser C information about how Red Box AVM works and test data showing its results. Can Appraiser C apply the Red Box AVM in the appraisal consulting assignment?

Yes, if the Red Box AVM is used for that part of the process for which it has been determined to be credible and reliable. However, the appraiser must consider whether the AVM output is credible and reliable for each assignment.
ADVISORY OPINION 19 (AO-19)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Unacceptable Assignment Conditions in Real Property Appraisal Assignments

APPLICATION: Real Property

ISSUE:

All real property appraisal assignments involve conditions that affect the appraiser’s scope of work and the type of report. What types of assignment conditions are unacceptable?

BACKGROUND:

Many residential property appraisers report requests for service where the caller includes statements or information in the request similar to the following:

1. We need comps for (property description) that will support a loan of $___________; can you provide them?
2. Sales Price: ____________.
3. Approximate (or Minimum) value needed: ____________.
4. Amount needed: ______________.
5. Owner’s estimate of value: ____________.
6. If this property will not appraise for at least ____________, stop and call us immediately.
7. Please call and notify if it is NOT possible to support a value at or above ____________, BEFORE YOU PROCEED!!!

Appraisers report that the caller usually makes it clear that they do not want the appraiser to do any fieldwork. Some callers refer to the service requested as a “comp check” while others refer to it as a “preliminary appraisal” or use some terms other than appraisal (such as preliminary evaluation, study, analysis, etc.). Some callers indicate that if the numbers will not work, the appraiser can send a bill for research services or a “preliminary” inspection. Other callers promise future assignments if the appraiser can make the present deal work.

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

Appraisers receiving requests for services that include the kind of information and situations described in the Background section of this Advisory Opinion should carefully review:

- The Conduct and Management sections of the ETHICS RULE, particularly in regard to assignments offered under condition of “predetermined opinions or conclusions” or compensation conditioned on the reporting of a predetermined value result, a direction in assignment results that favors the cause of the client, the amount of a value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the appraiser’s opinions and specific to the assignment’s purpose.
• The definitions of “Appraisal,” “Appraisal Practice,” “Assignment” and “Scope of Work” in the DEFINITIONS section of USPAP.
• Standards Rule 1-1(b), particularly as it relates to diligence in the level of research and analysis necessary to develop credible opinions and conclusions.
• Standards Rules 1-2(f), (g), and (h), regarding identification of the scope of work necessary to complete an assignment and any extraordinary assumptions or hypothetical conditions necessary in an assignment.
• Standards Rules 1-5(a) and (b), regarding the analysis of current or historical market activity regarding the property appraised.
• The SCOPE OF WORK RULE, with particular attention to the appraiser’s responsibility in connection with the scope of work decision and disclosure obligations.
• As guidance, Advisory Opinions 11, 12, and 13.

Unacceptable Conditions

Certain types of conditions are unacceptable in any assignment because performing an assignment under such conditions violates USPAP. Specifically, an assignment condition is unacceptable when it:

• precludes an appraiser’s impartiality, because such condition destroys the objectivity and independence required for the development and communication of credible results;
• limits the scope of work to such a degree that the assignment results are not credible, given the intended use of the assignment; or
• limits the content of a report in a way that results in the report being misleading.

Accepting Assignment Conditions

The intended use of the assignment results affects whether assignment conditions are acceptable. Some assignment conditions may be acceptable in one type of assignment but not in another. An appraiser should carefully consider the information provided by the client prospective assignment before accepting or declining the assignment. (See Statement on Appraisal Standards No. 9.)

In the highly competitive financial services market, cost versus benefit is always an issue. Residential appraisers, particularly, have seen an increase in the use of sophisticated loan application screening tools by their lender-clients. Many lenders believe an appraiser can enhance their screening efforts by doing “preliminary work” that they do not view as an “appraisal.”

Other client groups also ask appraisers to provide services under conditions that limit the appraiser’s scope of work. Investors, trust administrators, and portfolio account managers often require opinions and data from appraisers in order to make decisions. Attorneys often rely on appraisers in counseling their clients and in preparing for litigation.

When considering a request for service, appraisers should ascertain:

• whether the service involves an appraisal,
• what levels of risk are associated with the service, and
• whether there are any unacceptable conditions attached to the assignment.

Appraisers should take care to communicate with prospective clients to reach a common understanding about assignment conditions. Further, the appraiser and client need to recognize that:

1) the type of assignment in each request described in the Background section of this Advisory Opinion is an appraisal.
If an appraiser is asked whether a specific property has a value (a point, a range, or a relationship to some benchmark), that request is for an opinion of value (an appraisal). Appraisers, obligated to comply with USPAP, must develop a real property appraisal in accordance with STANDARD 1. Communicating that value opinion must be accomplished in accordance with STANDARD 2.

Appraisers, like other professionals, must ensure that those who use their services recognize the amount of work required—and the expertise needed—to develop a credible value conclusion about a property.

However, this does not mean that the appraiser cannot provide an economic and competitive service. Indeed, the Uniform Standards of Professional Appraisal Practice recognize the need for different kinds of appraisals. A competent appraiser can vary the scope of work in an assignment, in accordance with the type and definition of value and the intended use of the appraiser’s opinions and conclusions in the assignment, and remain in compliance with USPAP.

2) assignment limitations affect the level of risk accepted by each party in an assignment;

Appraisers and users of appraisals should recognize that assignment limitations affect the reliability of an appraiser’s opinions and conclusions. In some assignments, an appraiser can reasonably apply extraordinary assumptions to compensate for assignment limitations. In other situations, the use of the same assumptions may not be acceptable.

When the intended use is to screen a potential business for feasibility, the use of assumptions or extraordinary assumptions is more appropriate than when the intended use is for loan documentation or loan settlement. Because intended users’ reliance on an appraisal may be affected by the scope of work, the report must enable them to be properly informed and not misled.

3) assignment conditions that compromise an appraiser’s impartiality and objectivity in an assignment are unacceptable.

While a client may feel that offering preference in current or future assignments on the basis of “making the numbers work” in a specific assignment is appropriate, attaching such a condition to an assignment compromises an appraiser’s impartiality and destroys the appraiser’s credibility.

The Uniform Standards of Professional Appraisal Practice is explicit about such matters. Accepting an appraisal assignment under such a condition violates the Conduct section of the ETHICS RULE in USPAP, which states:

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

An appraiser must not accept an assignment that includes the reporting of predetermined opinions and conclusions.

Furthermore, accepting compensation for completing an appraisal assignment under such a condition violates the Management section of the ETHICS RULE in USPAP, which states:

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

1. the reporting of a predetermined result (e.g., opinion of value);
2. a direction in assignment results that favors the cause of the client;
3. the amount of a value opinion;
4. the attainment of a stipulated result; or
5. the occurrence of a subsequent event directly related to the appraiser’s opinions and specific to the assignment’s purpose (bold added for emphasis).

Illustrations:

Some of the requests shown in the Background section of this Advisory Opinion share common characteristics. Possible responses to each common group of requests could be:

1. We need comps for [a specific property] that will support a loan of __________: can you provide them?

“Maybe, but I’ll need to research the market to know whether the ‘comps’ will support a value range relative to the loan amount. In doing this, I will be deciding which sales are ‘comps’ and what those ‘comps’ mean. Those decisions will result in a range of value for your prospective borrower’s property, which is an appraisal.

You also need to recognize that there are risks in this kind of assignment. You should realize that my value conclusion could change if I subsequently perform an appraisal. Under the research and analysis limitations you suggest, I would not have verified some of the data and would have to use extraordinary assumptions about the market data and your borrower’s property information. I would not have performed some of the analyses steps I might complete in an appraisal assignment without those limitations. If all of that is agreeable to you, we can proceed.”

2. Sales Price: __________.

“As long as the amount is only to inform me of the pending contract [or of the sale price] and is not a condition for your placement of this assignment with me, we can proceed. However, if that amount is a condition of the assignment, accepting an assignment under that condition violates professional ethics.”

Note: A sale price (in a pending or settled transaction) is part of the information an appraiser is required to ascertain in accordance with Standards Rules 1-5(a) and (b). Receiving this information with a request for service is appropriate, but accepting an assignment with the price in an agreement of sale, option, or listing or a sale price in a settled transaction as a predetermined value in the assignment violates USPAP.

3. Approximate (or Minimum) value needed: __________.

4. Amount needed: __________.

5. Owner’s estimate of value: __________.

“As long as the amount is only to inform me of your objectives or someone else’s opinion and is not a condition for your placement of this assignment with me, we can proceed. However, if that amount is a condition of the assignment, accepting an assignment under that condition violates professional ethics.”

6. If this property will not appraise for at least __________, stop and call us immediately.

7. Please call and notify if it is NOT possible to support a value at or above __________, BEFORE YOU PROCEED!!!!

“Your request is acknowledged, but it is important for you to be aware that I must develop an appraisal before I can tell you whether the property will support the value indicated. It is also important for you to be aware that your statement of that a mount with this request for service does not, in my view, establish a ‘condition’ for more reforming the assignment. I f y ou i ntend i t t o be a condition f or performing the assignment, I cannot accept the assignment because it violates professional ethics.”
The foregoing illustrations all include an appraisal assignment. In some situations, a client will request a service that is not an appraisal, appraisal review or appraisal consulting assignment as defined in USPAP. The service to be performed by the appraiser in the following illustration is:

- not an appraisal assignment (the appraiser does not develop a value opinion);
- not a real property appraisal consulting assignment (a value opinion is not a component of the analysis); and
- not a real property appraisal review (there is no appraisal to review).

The caller in this illustration is usually in the process of making a business decision and needs impartial and objective information but has not yet decided whether to pursue the matter at hand. The caller knows there is the potential for needing an appraisal, depending, in part, on what the sales data shows. The caller also believes that, if the data indicates that an appraisal is worthwhile, having that work completed by the appraiser in that subsequent assignment will lessen the time required to perform an appraisal. The prospective client may ask:

“We want you to check your data resources to see if there are sales within the past six months that are within one mile of [address]. If you find some, we may order an appraisal from you.”

One possible response would be:

“If what you want is only the sales of properties shown in the databases available to me with the criteria you specified, I can do that research and send you the result. Then you can decide what you think your client’s property is worth. If I do only that, it is just research and is not an appraisal. However, you need to recognize that there are risks if you decide to have the research done that way. If you decide to limit my work to just gathering the sales data using the research criteria you set, you are taking the risk that those criteria are both adequate and appropriate to find all of the market data relevant to your client’s property. You also take the risk that any appraiser’s analysis of that data would result in a value conclusion within the price range suggested by the sales data assembled using your criteria. There is no assurance that such would be the case.”

**Staff or Multi-Appraiser Firm Context**

The foregoing illustrations reflect communications between a client and an appraiser in the context of the appraiser as an independent contractor (fee appraiser).

In a staff context, such as where the appraisal function is established as a business or agency unit, the part of the entity that uses the appraiser’s opinions and conclusions represents the “client” (intended user) and the part that completes the assignment represents the “appraiser.”

In that context, the “assignment” originates from the “intended user” part of the entity. The appraisal unit’s response to an “intended user” in situations like those in the foregoing illustrations reasonably could be similar because imposing assignment conditions that compromise an appraiser’s impartiality and objectivity is unacceptable, whatever the setting.

However, the example responses in the illustrations do not apply to the customary interaction and dialogue that occurs between appraisers within organizations or peers in multi-appraiser firms. Such interaction and dialogue within the unit or group that develops opinions and conclusions in an assignment is not the same as communicating opinions and conclusions to an intended user.
ADVISORY OPINION 20

ADVISORY OPINION 20 (AO-20)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: An Appraisal Review Assignment That Includes the Reviewer’s Own Opinion of Value

APPLICATION: Real Property, Personal Property, Intangible Property

THE ISSUE:

A client may want an appraiser, functioning as a reviewer, to develop and report his or her own opinion of value (i.e., an appraisal) within an appraisal review assignment. This leads to two questions:

How does the assignment change when the reviewer’s scope of work includes the development of his or her own opinion of value?

What language in appraisal review reports indicates when the reviewer did or did not develop his or her own opinion of value?

BACKGROUND:

Appraisal review is a specialized area of appraisal practice. Appraisal reviews are used in a variety of business, governmental, and legal situations and also have an important role in the enforcement of professional standards. STANDARD 3 allows the reviewer to address all or part of the work under review (also referred to in this Advisory Opinion as the “original work”). In every appraisal review assignment, the reviewer is required to “...identify the problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete research and analyses necessary to produce a credible appraisal review.” The reviewer’s opinion about the quality of the work under review can include addressing its completeness, relevance, appropriateness, and reasonableness, all in the context of the requirements applicable to that work.

However, a client may also want the reviewer to develop and report his or her own opinion of value (an appraisal) within an appraisal review assignment. In this instance, the appraisal review assignment is actually a two stage assignment: an appraisal review plus a value opinion by the reviewer.

The purpose and intended use together, of an appraisal review assignment, affect the scope of work in an assignment. Therefore, it is essential that the purpose and intended use of the appraisal review and establish a well defined scope of work with their client to ensure a clear understanding of what steps are and are not necessary in an assignment.

This Advisory Opinion provides guidance to help appraisers, clients, and other users or readers of an appraisal review report:

A. recognize how terminology used in STANDARD 3 and in this Advisory Opinion prevents confusion as to the function the reviewer is fulfilling in an appraisal review assignment;

B. understand how the purpose of the appraisal review and the intended use of the appraisal review results affect the scope of work in an appraisal review assignment;

C. recognize how the scope of work changes when an appraisal review assignment includes a requirement for the reviewer to develop and report his or her own opinion of value concerning the subject property of the work under review; and

D. understand how the language in an appraisal review report can be used to indicate whether a value opinion was or was not developed by the reviewer.
ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- DEFINITIONS section, specifically the definition of “Appraisal,” “A appraisal Review,” and “Assignment”
- STANDARD 3

Portions of the referenced material are cited in this Advisory Opinion. An appraiser performing an appraisal review assignment should carefully study the complete text to ensure a proper understanding of the requirements and the text in STANDARDS 1, 4, 6, 7, or 9, as applicable, as well as those in STANDARD 3.

A. TERMINOLOGY

When reading the references cited above, appraisers performing appraisal review assignments (referred to as “reviewers” in USPAP) should note that the terminology used in STANDARD 3 have very specific meanings.

The term “Appraisal Review” is used in USPAP to identify the activity of a reviewer in an appraisal review assignment. Appraisers sometimes use such terms as “Desk Review,” “Field Review,” “Complete Review,” “Limited Review,” “Technical Review,” and “Administrative Review.” However, without an appropriate explanation, these terms and phrases can result in misunderstanding about the function being performed by a reviewer. While such terms may be convenient labels for use in a business setting, they do not necessarily impart the same meaning in every situation.

Rather than simply using labels, reviewers should also accurately define the scope of work — in fact, the Comment to Standards Rule 3-2(h) requires the reviewer to “...determine the scope of work necessary to produce credible assignment results in accordance with the SCOPE OF WORK RULE” and Standards Rule 3-5(g) requires the reviewer to “state the scope of work used to develop the appraisal review...” These requirements are designed to ensure that an intended user of appraisal review results is not misled as to the reviewer’s scope of work and the basis for his or her opinions and conclusions.

The terms “Review Appraisal” and “Review Appraiser” are also sometimes used in practice, primarily to refer to the marketing of services or to an appraiser’s functional status in employment. These phrases are not used in STANDARD 3, in part to avoid giving confusing implications, such as, for example, the impression that an appraisal is always part of a review.

B. HOW PURPOSE AND INTENDED USE AFFECT SCOPE OF WORK

A reviewer’s scope of work in an appraisal review assignment is determined primarily by the purpose(s) of the assignment and the intended use of the assignment results. Standards Rule 3-2(b) requires, in part, that the reviewer must “identify ... the intended use of the reviewer’s opinions and conclusions.” In addition, Standards Rule 3-2(c) states the reviewer must “identify the purpose of the appraisal review, including whether the assignment includes the development of the reviewer’s own opinion of value, review opinion or real property appraisal consulting conclusion related to the work under review.”

Examples of intended use include (without limitation) quality control, audit, qualification, or confirmation. Each type of intended use affects the scope of work that may be appropriate for a particular appraisal review assignment.

As examples, a client may want the reviewer to develop and report an opinion as to the quality of another appraiser’s work, and:

1. only state the corrective action to be taken by the appraiser with regard to curing any deficiency, leaving the client to decide whether to interact with the appraiser to accomplish the correction; or
2. act on behalf of the client to interact with the appraiser that prepared the original work to ensure any deficiency is appropriately corrected by that appraiser; or

3. make corrections to cure an error, such as a mathematical miscalculation, by showing what the calculation would have been if correct but without expressing the result as the reviewer’s own opinion of value; or

4. make corrections to cure a deficiency, expressing the result as the reviewer’s own opinion of value, which is to be developed within the same scope of work as was applicable in the assignment that generated the original work; or

5. make corrections to cure a deficiency, expressing the result as the reviewer’s own opinion of value, which is to be developed using a different scope of work than was applicable in the assignment that generated the original work; or

6. regardless of the appraisal review result, develop his or her own opinion of value using the same scope of work as was applicable in the assignment that generated the original work; or

7. regardless of the appraisal review result, develop his or her own opinion of value using a different scope of work than was applicable in the assignment that generated the original work.

In Examples 1, 2, and 3 the reviewer has not taken any steps to offer his or her own opinion of value, and therefore, has not bridged over into the appraisal stage.

In Examples 4, 5, 6, and 7, the appraisal review assignment is actually a two stage assignment—an appraisal review plus a value opinion by the reviewer. It is also important to note that this second stage occurs even if the reviewer concurs with the value opinion in the original work. This is because a reviewer’s concurrence in a value opinion developed by another appraiser converts it to the reviewer’s own opinion of value—in effect, the reviewer is taking ownership of that value by concurring with it. As such, it constitutes a value opinion (i.e., appraisal) by the reviewer.

In Examples 6 and 7, the client might, alternatively, engage the reviewer (as an appraiser) in a separate assignment to perform an appraisal outside the context of the appraisal review assignment.

In any case, the reviewer must carefully develop the scope of work as required by SR 3-2(h) and state the scope of work in the report as required by SR 3-5(g). The concluding language used (see illustrations to follow) should also be consistent with the scope of work decision.

C. SCOPE OF WORK AND THE REVIEWER’S OPINION OF VALUE

An appraisal review assignment that includes a requirement for the reviewer to develop his or her own opinion of value imposes on the reviewer an expanded scope of work. This additional scope of work requirement is set forth in the Comment to SR 3-2(h), which states, in part:

Determine the scope of work necessary to produce credible assignment results in accordance with the SCOPE OF WORK RULE.

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

- Information that should have been considered by the original appraiser can be used by the reviewer in developing an opinion as to the quality of the work under review.
• Information that was not available to the original appraiser in the normal course of business may also be used by the reviewer; however, the reviewer must not use such information in the reviewer's development of an opinion as to the quality of the work under review.

Compliance with STANDARD 1, 4, 6, 7, or 9 through the Use of Extraordinary Assumption(s)—The development of the reviewer's opinion of value requires compliance with STANDARD 1, 4, 6, 7, or 9 as applicable. The reviewer's use of those items from the work under review that the reviewer concludes are credible and in compliance with the applicable development standard is based on an extraordinary assumption. This is because, unless the reviewer actually replicates the steps necessary to develop those items, the reviewer is assuming the integrity of that work without personal verification. If those assumptions were found to be false, the reviewer's appraisal-related opinions and conclusions would be affected. As such, this situation constitutes an extraordinary assumption (refer to requirements for proper application in SR 1-2(f), 4-2(f), 6-2(i), 7-2(f), or 9-2(f) as applicable). Those items not deemed to be credible or in compliance must be replaced with information or analysis by the reviewer, developed in conformance with STANDARD 1, 4, 6, 7, or 9, as applicable, to produce a credible value opinion.

Altering the Scope of Work in Developing the Reviewer's Opinion of Value—In some appraisal review assignments, the client needs a reviewer's opinion of value to be developed under a different scope of work than in the original appraisal.

If the reviewer's assignment has a different scope of work than does the original work, or if the reviewer relies on different information not available to, or not used by, the original appraiser, then it is possible that the two appraisal results could also differ. This does not mean that either set of results is “wrong” per se; in any event, the reviewer should not use information unavailable to the original appraiser as the basis to discredit the original appraiser's opinion of value.

If there is a difference between the appraiser's opinion of value and the reviewer's opinion of value, the reviewer should use care to ensure correct identification of the cause of that difference in the appraisal review process. The reviewer should also use care to not mislead an intended user when providing support for the reviewer's conclusions in the appraisal review report. This is critical from an enforcement perspective as well as in a business setting. Incorrectly characterizing the cause of a deficiency can erode the credibility of appraisal review conclusions and of the reviewer's value opinion.

D. APPRAISAL REVIEW REPORT CONTENT

The reviewer's opinions and conclusions stated in compliance with SR 3-2(d) can vary significantly, depending on the purpose and intended use of the appraisal review. A reviewer should carefully compose the particular language stating his or her opinions and conclusions to avoid misleading the user of the appraisal review report as to the scope of work completed in the assignment and the meaning of the reviewer's stated opinions and conclusions. Note that any additional information relied upon and the reasoning and basis for the reviewer's opinion of value must be summarized, in contrast to the other requirements in this section that must only be stated. Additionally, changes to the report content by the reviewer to support a different value conclusion must match, at a minimum, the reporting requirements for a Summary Appraisal Report.
An Appraisal Review Assignment WITHOUT an Opinion of Value—If the assignment is only to develop an opinion as to the quality of another appraiser’s work, the appraisal review report content must include:

1. the information set forth in Standards Rules 3-5(a)–(h); and
2. the reviewer’s certification shown in Standards Rule 3-6.

When the appraisal review is only for ascertaining quality, the reviewer should use extreme care to ensure the appraisal review report does not include language that implies the reviewer developed an opinion of value concerning the subject property of the original work. When the reviewer uses language to signify concurrence with the value or a different value opinion, the reviewer has additional appraisal development and reporting obligations.

Illustrations of the Language in an Appraisal Review Report WITHOUT an Opinion of Value

The following are examples of language that might be used in an appraisal review report that does not express an opinion of value and thus does not constitute evidence of an appraisal by the reviewer:

• “the value opinion stated in the appraisal report is (or is not) adequately supported”
• “the value conclusion is (or is not) appropriate and reasonable given the data and analyses presented”
• “the value opinion stated in the report under review was (or was not) developed in compliance with applicable standards and requirements”
• “the content, analyses, and conclusions stated in the report under review are (or are not) in compliance with applicable standards and requirements”
• “I reject the value conclusion as lacking credibility due to the errors and/or inconsistencies found”
• “the value conclusion is not appropriate due to (for example) a significant math error in the Sales Comparison Approach—if calculated properly, the value conclusion would change to $XXX; however, the reader is cautioned that this solely represents a recalculation and not a different opinion of value by the reviewer”
• “I accept (or approve) the appraisal report for use by XYZ bank (or agency).”

Such language, or language that conveys similar meanings to the intended of the appraisal review report, relates to the quality of the work under review, including the opinion of value stated in that work, but does not suggest either concurrence or a different opinion of value by the reviewer. It is also important that this language be consistent with the scope of work described in the appraisal review report.

An Appraisal Review Assignment WITH an Opinion of Value—When the appraisal reviewer develops an opinion as to the quality of another appraiser’s work PLUS the reviewer’s own opinion of value, the appraisal review report content must include:

1. the information set forth in Standards Rules 3-5(a)–(i); and
2. the reviewer’s certification shown in Standards Rule 3-6.

The appraisal-related content of the appraisal review report, in combination with the content of the original work under review that the reviewer concludes is in compliance with the Standards applicable to that work, must at least match the report content required for a Summary Appraisal Report.

The reviewer is not required to replicate or duplicate in the appraisal review report the material in the work under review that the reviewer concludes is in compliance with the Standards applicable to that work. The reviewer can incorporate by reference those portions of the work under review that he or she concludes are in compliance with the applicable Standards by use of an extraordinary assumption.
Illustrations of the Language in an Appraisal Review Report WITH an Opinion of Value

The following are examples of language that signify a value opinion (i.e., either by concurrence or by indication of a numeric point, a range, or a relationship to a numeric benchmark). These examples DO constitute evidence of a value opinion (i.e., appraisal) by the reviewer, thereby making the appraisal review one that includes an appraisal.

- “I concur (or do not concur) with the value”
- “I agree (or disagree) with the value”
- “in my opinion, the value is (the same)”
- “in my opinion, the value is incorrect and should be $XXX”
- “in my opinion, the value is too high (or too low)”

Such language, or language that conveys similar meanings to the intended users of the report, represents that the reviewer has completed the steps required to develop his or her own value opinion. Such language indicates the reviewer has either concurred with the appraiser’s value opinion in the underlying work, and thus has adopted that value opinion as his or her own, or has developed a different opinion of value—hence, this (or similar) language constitutes an opinion of value (i.e., appraisal) by the reviewer. It is also important that this language be consistent with the scope of work described in the appraisal review report.

Note that if a reviewer rejects the value, he or she should use care in how that result is stated. If the language of such rejection is based on errors or inconsistencies in the original work and does not include any qualifiers that would relate to a direction in value, it does not imply an appraisal by the reviewer.

However, if such rejection is stated in relation to a value or value range, such as indicating a direction in value (i.e., more than, less than) or to a benchmark, that language indicates the appraisal review has taken on the “opinion of value” characteristic of an appraisal. This is an important distinction that must be kept in mind by the reviewer when composing any language regarding the original appraiser’s opinions or conclusions. In addition, whichever category such language may fall under, it must also be consistent with the purpose, scope of work, and intended use of the appraisal review assignment results.

The following list summarizes the requirements in a real property appraisal assignment with the reviewer’s opinion of value. The sequence of steps completed in this type of assignment is presented in order.

1. The reviewer develops opinions and conclusions about the quality of the work under review.
2. The reviewer develops an opinion of value for the subject property of the work under review.
3. The reviewer then communicates the opinions and conclusions developed in the first two steps in the report.
The sequence of steps is illustrated in the following table.
ADVISORY OPINION 21 (AO-21)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: USPAP Compliance

APPLICATION: Real Property, Personal Property, Intangible Property

THE ISSUE:

Individuals perform numerous roles within the broad realm of valuation services. Examples include appraisal, brokerage, auctioning, property management, advocate consulting, appraisal consulting and collecting market data. Some valuation services are part of appraisal practice and require compliance with USPAP. What are the USPAP compliance requirements for these various services? More specifically:

1. When should an individual comply with USPAP?
2. What is the relationship between Valuation Services and Appraisal Practice?
3. What does acting “as an appraiser” or performing a service “as an appraiser” mean?
4. Why does an expectation for an individual to act as an appraiser indicate an obligation to comply with USPAP?
5. What are the responsibilities of an appraiser regarding intended user expectations?
6. What are the USPAP obligations for appraisal practice outside of appraisal, appraisal review, and appraisal consulting?
7. What are the USPAP obligations for valuation services outside of appraisal practice?

ADVICE FROM THE ASB ON THE ISSUE:

1. When should an individual comply with USPAP?

The PREAMBLE states that compliance with USPAP is required when either the service or the appraiser is obligated to comply by law or regulation, or by agreement with the client or intended users. An obligation to comply with USPAP is created by law, regulation, or agreement with intended users. In such cases an appraiser must follow USPAP. The PREAMBLE also states that when not obligated, individuals may still choose to comply with USPAP. The ETHICS RULE states that an individual should comply any time that individual represents that he or she is performing the service as an appraiser. An ethical obligation to comply with USPAP is created by choice, that is, by choosing to represent one’s self as an appraiser.

Therefore,

- When required by law, regulation, or agreement, an individual must comply with USPAP.
- When choosing to represent oneself as an appraiser, an individual should comply with USPAP.

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1 USPAP gains legal authority through adoption by the various state and federal jurisdictions. Consequently, the legal requirement to follow USPAP is rooted in federal and state laws or regulations.

2 The PREAMBLE states that the appraiser’s responsibility is to protect the overall public trust and it is the importance of the role of the appraiser that places ethical obligations on those who serve in this capacity. However, the PREAMBLE also states that USPAP does not establish who or which assignments must comply. Neither The Appraisal Foundation nor its Appraisal Standards Board is a government entity with the power to make, judge, or enforce law.
2. What is the relationship between Valuation Services and Appraisal Practice?

A key to distinguishing an appraiser’s obligations is understanding the relationship between “valuation services” and “appraisal practice” in USPAP. Appraisal practice is a subset of valuation services.

“Valuation services” are services pertaining to aspects of property value. Appraisers and others for whom value is an issue provide valuation services. Examples include appraisal, brokerage, auctioning, property management, advocate consulting, appraisal consulting, and collecting market data.

“Appraisal practice” is defined as valuation services performed by an individual acting as an appraiser. Only appraisers may offer services that are considered appraisal practice. Examples include appraisal, appraisal consulting, and collecting market data (acting as an appraiser).

Since USPAP obligations apply to those who are acting as appraisers, USPAP applies to appraisal practice.

3. What does acting “as an appraiser” or performing a service “as an appraiser” mean?

An “appraiser” is defined as one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective (bold added for emphasis). Therefore, an individual “acting as an appraiser” is expected, in part, to be competent in the service being provided. Also, an individual “acting as an appraiser” is expected to provide the service in a manner that is independent, impartial, and objective.

Performing a service in a manner that is independent, impartial, and objective is an ethical requirement within USPAP.

“Acting as an appraiser” means representing oneself as an appraiser. Many individuals have other professional roles in addition to their appraiser role. For example, some appraisers are also brokers, consultants, or leasing agents. Individuals who have appraiser roles as well as other professional roles must be careful to explain their role in performing a given valuation service (see question #7 below).

Law, regulation, agreement, or representation (choice) each prescribes when a valuation service is to be provided by an appraiser as part of an appraisal practice. Emphasizing another portion of the definition of an appraiser, the Comment to the definition goes on to state that the expectation for ethical and competent performance occurs when individuals, either by choice or by requirement... represent that they comply. Expectation is the crucial element in determining when one is acting as an appraiser.

4. Why does an expectation for an individual to act as an appraiser indicate an obligation to comply with USPAP?

Public trust requires that when an individual is expected to perform with the ethics and competency of an appraiser, he or she will do so. An individual who agrees to perform a valuation service as an appraiser has a duty to comply with the ethics and competency that the public expects from an appraiser. This obligates the individual to comply with USPAP in performing the service.

The definition of an appraiser in conjunction with the need for public trust establishes the “expectation” as the basis for the obligation to comply with USPAP.

Intended user expectations for valuation services performed in compliance with USPAP are created when an individual represents that he or she is acting as an appraiser in a service. For example, these expectations can arise when an individual advertises or solicits as an appraiser (such as telephone listings, professional directories, business cards, stationery, or office signage), holds appraiser accreditation from a licensing agency, or maintains membership in a professional appraiser organization. An individual’s identification as an appraiser
in a given valuation service establishes a justifiable expectation that the valuation service will be performed in compliance with USPAP.

In summary, expectation is the basis for determining when an individual providing a valuation service is acting as an appraiser. Because of the need to preserve public trust and confidence in appraisal practice, the expectations of the client and other intended users for ethical and competent performance create an obligation to comply with USPAP.

5. What are the responsibilities of an appraiser regarding intended user expectations?

The appraiser has a professional responsibility to recognize the capacity in which he or she is performing. The responsibility includes inquiry about, and recognition of, the intended users’ expectations. When an individual’s appraisal expertise and reputation for providing services without bias induce the client or other intended users to select the individual to provide a valuation service, there is a justifiable expectation that the valuation service will be performed in compliance with USPAP.

When an individual who acts as an appraiser in some circumstances chooses to provide a valuation service in some other capacity (i.e., not as an appraiser and outside of appraisal practice), he or she must not represent himself or herself to be acting in the capacity of an appraiser. Since choice is an instrument to create USPAP obligations it follows that when an individual has an opportunity to choose the capacity in which he or she will provide a valuation service, he or she is free to provide the valuation service as an appraiser or in some other capacity. However, an individual who is recognized as an appraiser must use great care not to violate the public trust.

6. What are the USPAP compliance obligations for appraisal practice outside of appraisal, appraisal review, and appraisal consulting?

Within appraisal practice, there are some assignments that are addressed by Standards (i.e., STANDARDS 1 through 10). The Standards describe the requirements for appraisal, appraisal review, or appraisal consulting assignments.

However, STANDARDS 1 through 10 do not apply in the performance of all appraisal practice services. Examples include assignments (performed as an appraiser) to teach appraisal courses, provide sales data, collect market data, analyze specific elements of value (e.g., reproduction cost or functional utility), and develop educational texts. (As defined in USPAP, assignments are performed by an individual acting as an appraiser. Therefore, all assignments fall within appraisal practice.)

Assignments to which STANDARDS 1 through 10 do not apply must still comply with the portions of USPAP that apply generally to appraisal practice (i.e., STANDARDS 1 through 10). However, assignments that apply to some non-appraisal assignments (e.g., STANDARDS 1 through 10) must provide without bias or accommodation of personal interest by competent appraisers.

As previously stated, many individuals have other professional roles in addition to their appraiser role. For example, some appraisers are also accountants, attorneys, brokers, or consultants. USPAP also places an obligation on an individual who sometimes acts as an appraiser even when he or she provides a valuation service in some other capacity – that obligation being not to mislead the users of the valuation service about the
capacity in which he or she is acting. The ETHICS RULE states that an appraiser must not misrepresent his or her role when providing valuation services that are outside of appraisal practice. If a valuation service is premised on advocacy or compensation arrangements that are contrary to the ETHICS RULE, the valuation service is not consistent with the objectives of USPAP and cannot be performed by the individual acting as an appraiser.

An individual who sometimes provides services as an appraiser, but who is currently acting in another role, must ensure that intended users are not misled as to the individual’s role in providing that valuation service. This can be accomplished through such means as disclosure, notification, or careful distinction when providing the valuation service as to the individual’s role. Additionally, clear representation of the valuation services to be rendered in the engagement communication, scope of work description, or contract, as well as in written and oral correspondence with the client should assist in ensuring intended users are not misled.
Relationships and Application

The relationship between valuation services and appraisal practice can be illustrated as follows.

Valuation Services (large light-shaded oval): When providing valuation services, the obligation for an individual recognized in some circumstances as an appraiser is not to misrepresent his or her role.

Appraisal Practice (dotted-line oval): Within valuation services is appraisal practice (i.e., valuation services provided by an individual acting as an appraiser). All services performed as part of appraisal practice must comply with USPAP. The portions of USPAP that apply generally to appraisal practice include the DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.

Appraisal, Appraisal Review, Appraisal Consulting (dark-shaded oval within Appraisal Practice oval): Within appraisal practice, there are requirements that apply developing and communicating appraisal, appraisal review, or appraisal consulting assignments in addition to those that apply to all appraisal practice. These requirements are described by STANDARDS 1 – 10, the SCOPE OF WORK RULE, and the Record Keeping section of the ETHICS RULE.
An individual must comply with USPAP when required by law, regulation, or agreement.

An individual should comply with USPAP when choosing to represent one’s self as an appraiser.

Appraisal practice is a subset of valuation services. Since USPAP obligations apply to those who act as appraisers, USPAP applies to appraisal practice.

The definition of appraiser and need for public trust establish the factor of “expectation” as the basis for the obligation to comply with USPAP.

An individual’s public identification as an appraiser establishes a justifiable expectation that valuation services will be performed in compliance with USPAP. Because of the need to preserve public trust and confidence in appraisal practice, the expectations of the client and other intended users for ethical and competent performance create an obligation to comply with USPAP.

The appraiser has a professional responsibility to recognize the capacity in which he or she is performing. The responsibility includes inquiry about, and recognition of, the client’s expectations.

When an individual has an opportunity to choose the capacity in which he or she will provide a valuation service, he or she is free to provide the valuation service as an appraiser or in some other capacity.

An individual who is recognized as an appraiser must use great care not to violate the public trust. An appraiser acting in another role must ensure that intended users are not misled as to the individual’s role in providing that valuation service.

USPAP also places an obligation on an appraiser even when he or she provides a valuation service in some other capacity – that obligation being to not mislead the intended users of the valuation service about the capacity in which he or she is acting.
• If a valuation service is premised on advocacy, or compensation arrangements that are contrary to the ETHICS RULE, an individual acting as an appraiser cannot perform the valuation service.

• Within appraisal practice, there are Standards that describe the requirements for developing and communicating appraisal, appraisal review, or appraisal consulting assignments. Appraisers who provide valuation services for which there are no Standards need to comply with the portions of USPAP that apply generally to appraisal practice.

• The Record Keeping section of the ETHICS RULE applies to appraisal, appraisal review, or appraisal consulting assignments. For other assignments, there are no USPAP recordkeeping or workfile requirements.

• The SCOPE OF WORK RULE applies only to appraisal, appraisal review, and appraisal consulting assignments.

Illustrations

Brokage and Appraisal

1. Liz Ross is an individual who provides both appraisal and brokerage services. When seeking a new brokerage client, Liz often prepares a market analysis to help establish an asking price for the client’s property. What are Liz’s obligations under USPAP?

Answer: Many states’ brokerage and appraiser licensing laws have specific provisions for appraisers who are also brokers. In the absence of such laws, USPAP provides flexibility for brokers/appraisers and others who have multiple professional roles.

The critical element in determining whether Liz should comply with USPAP is the expectation of her brokerage client. If Liz includes her appraiser status in her brokerage marketing materials, such as advertisements, business cards, or letterhead, it is likely that her client expects her to bring to her brokerage practice the ethics and competence associated with an individual acting as an appraiser. By allowing her client to believe that her appraisal expertise adds credibility to her price estimate, Liz has created an obligation to comply with USPAP in the preparation of a price estimate for the client.

The extent of Liz’s USPAP obligation depends on whether she advises a new brokerage client. If Liz includes her appraiser status in her brokerage marketing materials, such as advertisements, business cards, or letterhead, it is likely that her client expects her to bring to her brokerage practice the ethics and competence associated with an individual acting as an appraiser. By allowing her client to believe that her appraisal expertise adds credibility to her price estimate, Liz has created an obligation to comply with USPAP in the preparation of a price estimate for the client.

The distinction between “price” and “value” is crucial here: within USPAP, “price” is a fact, while “value” is an opinion. If Liz recommends an asking price for a specific property owner, under specific circumstances, she is analyzing price as defined by USPAP. STANDARDS 1, 7 and 9 apply to the development of an appraisal, which is defined as an opinion of value. Therefore, the obligations of STANDARDS 1, 7 and 9 do not apply to estimates of price. However, as an individual acting as an appraiser, Liz is obligated to comply with the remainder of USPAP (i.e., DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE. For example, her estimate of price must be ethically and competently prepared, as part of appraisal practice.

3 Price is defined as the amount asked, offered, or paid for a property. The Comment goes on to state, price is a fact, whether it is publicly disclosed or retained in private. Because of the financial capabilities, motivations, or special interests of a given buyer or seller, the price paid for a property may or may not have any relation to the value that might be ascribed to that property by others.

4 Value is defined as the monetary relationship between properties and those who buy, sell, or use those properties. The Comment goes on to state, value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified for example, market value, liquidation value, or investment value.
If Liz’s recommendation represents the relationship between typical buyers and sellers, she is analyzing value. Her recommendation is an opinion of value and is by definition an appraisal. It must be ethically and competently prepared in accordance with STANDARDS 1, 7 or 9 and reported in compliance with STANDARDS 2, 8, or 10.

Alternatively, if Liz has been careful to separate her roles as broker and appraiser, she would be able to prepare price estimates as a valuation service, outside of appraisal practice. Liz should have sound reasons to believe that her brokerage client does not expect her to act as an appraiser. Further, she should not characterize her conclusions in any manner as representing a “value” or an “opinion of value” of any kind.

Appraisal Review

2. Dan Williams is an appraiser. He was asked by a client to perform an “administrative screening review” of an appraisal report to determine if a more thorough review is warranted. The client would like Dan to check the math calculations and determine whether the appraisal report complies with the client’s basic content specifications. What are Dan’s obligations under USPAP?

Answer: The client has engaged Dan because of his identification as an appraiser; this clearly creates an expectation by the client that the service will be provided in compliance with USPAP. Therefore, this service is part of appraisal practice; at a minimum Dan must comply with the portions of USPAP that apply generally to appraisal practice (i.e., DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE).

Dan must next decide if compliance with STANDARD 3 is required. To do this, Dan must consider the intended use, intended user, and type and definition of value for the assignment. These factors are the basis of Dan’s scope of work decision. If the appropriate scope of work includes developing or communicating an opinion about the quality of another appraiser’s work that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment, then that assignment is by definition an appraisal review. The label placed on the service cannot support acting outside of STANDARD 3. The client may call the assignment an “administrative screening review,” but it is the extent of the service that defines it. Dan must decide, based on the problem to be solved and scope of work, if the assignment is an appraisal review as defined by USPAP. If the assignment is an appraisal review, then Dan must comply with the development and reporting requirements of STANDARD 3.

There may be circumstances when Dan is not acting as an appraiser. If Dan acts in other roles, say as a mortgage underwriter, then Dan may be in position to provide the valuation service outside of appraisal practice. If Dan acts outside of appraisal practice, he must ensure that he does not misrepresent his role and that the client and any other intended users do not expect him to act as an appraiser.

5 The Comment to the definition of appraisal practice states that the use of other nomenclature for an appraisal, appraisal review, or appraisal consulting assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the Uniform Standards of Professional Appraisal Practice.
Rent Survey

3. A client has asked Mike Black to perform a rent survey. The client owns the Acme Office Building and wants to know if he is charging enough rent. The client asked Mike to perform this work because he knows Mike is an appraiser; therefore, this valuation service is included in appraisal practice and USPAP applies. How can Mike provide this service in compliance with USPAP?

**Answer:** Mike should fully investigate the client’s expectations before determining the scope of work for this assignment. Does the client want only to know what rental rates are being charged for other office buildings in the area? If so, this is likely a service for which USPAP has no Standards (i.e., STANDARDS 1 and 2 when providing real property appraisals). Mike would then be obligated to comply with the portions of USPAP that apply generally to appraisal practice (i.e., DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE). The development and reporting of the assignment results would be entirely at his discretion, and a workfile would not be required.

However, if the client expects Mike to collect rental rate and lease term information and to analyze them to conclude the market rental terms for the Acme Building, this is an appraisal. This assignment is an appraisal because it includes a specific subject property (i.e., the right to use space in the building) and the problem to be solved in the assignment is a value opinion (i.e., the market rental terms for that space). The appraisal assignment should then be completed in compliance with STANDARDS 1 and 2.

Appraisal and Market Information

4. Steven Andrews is a residential appraiser. One day, when attending a backyard barbecue, Steven is approached by a neighbor, who says, “Hey, Steven, I know you’re an appraiser. What do you think my house is worth?” What should Steven say?

**Answer:** Steven should recognize immediately that his neighbor expects him to respond as an appraiser; therefore, Steven’s answer should comply with USPAP. Steven can, of course, always decline to answer.

Alternatively, Steven could provide data, such as, “I’ve been keeping track of the house sales in our subdivision, and they have been from $100,000 to $150,000 over the past couple of years.” Giving such information is a part of appraisal practice for which there are no Standards (i.e., STANDARDS 1 and 2 when providing real property appraisals). Steven should be certain that he is acting ethically and competently in giving this kind of information, but he doesn’t need to prepare a workfile for it.

Steven should be careful, though, about applying any judgment in answering his neighbor’s question. If Steven says, “House sales in our subdivision in the last year have been from $100,000 to $150,000. I know that you’ve done lots of interior improvements to your house and, besides, it’s the more desirable two-story model, so its value should be near the high side of the range,” he has just performed an appraisal. In this case, he should comply with STANDARDS 1 and 2 and prepare a workfile. If Steven only provides data, he is acting within appraisal practice, but if he relates that data to a specific property, he has provided an appraisal.
5. Marie Vaughn has a diverse appraisal practice with a specialization in litigation services. She commonly aids attorneys in developing cross-examination strategies for expert witness testimony from appraisers. How does USPAP apply to Marie’s “litigation services?”

**Answer:** In order to determine Marie’s obligation, it is necessary to understand the nature of her role. If she is acting as an appraiser, her litigation services are part of appraisal practice and the ethics and competency requirements of USPAP apply. Marie must comply, at a minimum, with the portions of USPAP that apply generally to appraisal practice. These include the DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION. As an appraiser, Marie cannot act as an advocate for any party or issue.

If Marie’s services include providing an opinion of value, she must comply with the appropriate appraisal standards (STANDARDS 1 and 2, 7 and 8, or 9 and 10). If Marie’s services include providing an opinion about the quality of another appraiser’s work, the appraisal review requirements of STANDARD 3 apply. If the service includes providing analysis, recommendation, or an opinion to solve a real property problem where an opinion of value is a component of the analysis leading to the assignment results, then Marie must adhere to the appraisal consulting requirements of STANDARDS 4 and 5.

On the other hand, if Marie provides litigation services as an advocate, then she is providing a valuation service outside of appraisal practice. When performing services outside of appraisal practice, Marie can act as an advocate and accept contingent compensation. The only USPAP obligation is that she not misrepresent her role. She must use care to distinguish her role from other roles that would carry an expectation of being impartial, objective, and independent, i.e., acting as an appraiser.

Marie may provide litigation services by either acting as an appraiser or acting as an advocate for the client’s cause; however, she must not perform both roles in the same case.
This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Scope of Work in Market Value Appraisal Assignments, Real Property

APPLICATION: Real Property

THE ISSUE:

How does “market value” affect the scope of work in a real property appraisal assignment?

ADVICE FROM THE ASB ON THE ISSUE

Relevant USPAP & Advisory References

• COMPETENCY RULE
• SCOPE OF WORK RULE
• DEFINITIONS section: “Appraisal,” “Intended Use,” “Market Value,” and “Scope of Work”
• STANDARD 1
• Statements on Appraisal Standards No. 6 and No. 9

Scope of Work in a Market Value Appraisal

This Advisory Opinion provides guidance that appraisers, users of appraisals, and enforcement bodies can use when making decisions about the scope of work in market value appraisal assignments (called a “market value assignment” or a “market value appraisal” in this Advisory Opinion).

Competently determining the scope of work is an essential step in all assignments performed under USPAP. In a real property appraisal assignment, Standards Rules 1-2(a)–(h) set forth eight identification actions or steps that an appraiser must understand and complete in performing any appraisal assignment. Completing the first seven action steps provides support for the eighth step, the appraiser’s scope of work decision.
The Sequence and Relationship of Action Steps Required by SR 1-2 in a Real Property Appraisal—The following table illustrates the sequence and relationship of the action steps leading to the appraiser’s scope of work decision and the steps taken after that decision through to completion of the appraisal process.

It is important to recognize that the action of identifying the client and intended users, the intended use, the type and definition of value, and the effective date of value (SR 1-2(a)-(d)) affects the appraiser’s decisions as to the subject’s relevant characteristics, the scope of work, and extraordinary assumptions or hypothetical conditions (SR 1-2(e)–(h)). The appraiser’s decisions about the last four elements to be identified follow from, and must be consistent with, factual information identified in the first four elements shown in the table.

The sequence illustrated in the table requires the appraiser to begin the decision-making process in the early stages of an assignment. It also means the appraiser has a burden of proof for conclusions about which property characteristics are relevant and which are not.

Sequence and Relationship of Action Steps Required by SR 1-2 in a Real Property Appraisal

Competency and the Scope of Work Decision - Accomplishing the first four action steps (SR 1-2(a) through (d)) illustrated in the table provides the basis for deciding which of the property’s characteristics are relevant in
the assignment. This information, together with the appraiser’s competency (knowledge and expertise) in appraising the specific type of property involved, permits the appraiser to determine whether any extraordinary assumptions or hypothetical conditions are necessary to complete the assignment and to make a reasonable and supportable scope of work decision.

It is important to note here that the appraiser’s competency in performing similar assignments is a key factor in the scope of work decision. Without competency, the appraiser is not prepared to correctly interpret the information gathered in response to SR 1-2(a)-(e) or to make well reasoned decisions based on that information in response to the requirements set forth in SR 1-2(f)-(h). Moreover, without competency, the appraiser is not aware of or capable of understanding how the information gathered in compliance with SR 1-2(a)-(e) and the conclusions formed in compliance with SR 1-2(f) and (g) affect the decision about which of the analyses steps set forth in Standards Rules 1-3 and 1-4 are necessary in an assignment.

Understanding which analyses, methods and techniques are necessary and what data are necessary to correctly complete the analyses is an integral part of the scope of work decision. This decision cannot be made competently without understanding how the “conditions” in a market value definition work together with the other factors identified in compliance with Standards Rule 1-2 to determine what kind of data are relevant and which types of analyses are applicable and necessary in the assignment.

**General Comment on Market Value Definitions**

Market value appraisals are distinct from appraisals using other types of value because market value appraisals are based on a market perspective and a normal or typical premise. These criteria are illustrated in the following definition of *Market Value*, provided here only as an example.

“Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”

* This example definition is from regulations published by federal regulatory agencies pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between July 5, 1990, and August 24, 1990, by the Federal Reserve System (FRS), the National Credit Union Administration (NCUA), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Office of the Comptroller of the Currency (OCC). This definition is also referenced in regulations jointly published by the OCC, OTS, FRS, and FDIC on June 7, 1994, and in the *Interagency Appraisal and Evaluation Guidelines*, dated October 27, 1994.

The market perspective replaces a user’s (e.g., buyer, seller, lender, agent, etc.) perspective that might apply in other appraisals, such as for investment value or insurable value. This market perspective directly affects the scope of work necessary to develop credible opinions and conclusions in market value appraisals. The public’s expectation that a market value appraisal reflects only the perspective of the marketplace, and is not affected by such other criteria as an intended user’s objectives, is important. Meeting this expectation serves to foster and
The definition of market value is a general concept. But in an appraisal asignment, Market Value is defined by a specific jurisdiction (e.g., a court, a regulatory body or public agency with legal authority), or by a client group (e.g., Fannie Mae or Freddie Mac).

In a market value appraisal, the appraiser’s conclusions about how best to analyze the market and what data are necessary for the development of credible results must be consistent with the conditions set forth in the specific definition of market value applicable in the assignment. The definition of market value included in the specific Advisory Opinion as an example illustrates the type of conditions that might be part of a specific market value definition used in an assignment.

Market value always presumes the transfer of a property as of a certain date, under specific conditions. The “Conditions” stated in market value definitions generally fall into three categories:

1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
Market value appraisals focus on understanding how buyers and sellers are most likely to respond to a subject property under the conditions stated in a specific value definition. Not all market value definitions contain the same conditions, though most contain a common subset of elements. Experienced appraisers understand the nuances in the various definitions and develop assignments using data and analyses that match the conditions required by the specific definition used in an appraisal.

The “knowledge” referred to in a market value definition is knowledge about the property appraised, about the market for that property, and about alternatives available in the marketplace that the appraiser concludes are reasonable competition for the property appraised.¹

An appraiser is expected to be at least as knowledgeable as the typical market participant is about the market for the type of property to be appraised. By completing research and verification steps while performing the assignment, the appraiser is expected to become as knowledgeable about the subject property and its comparables as the typical market participants.

Knowledge of the Subject Property—Of the three areas typical market participants are presumed to be knowledgeable about (subject, market, and competition), the first area that the appraiser must address is knowledge of the subject property, which is accomplished by gathering and verifying information about the subject property. This action step may or may not require a personal inspection.

Knowledge of the Market—The scope of work necessary to ensure an adequate knowledge of the market for the subject property may range from very little (in addition to what the appraiser already knows) to extensive new research. If the subject property is of a type frequently appraised in a locality where the appraiser regularly provides services, there may be little need for extensive market research beyond confirmation that the data available for analysis is current, adequate, relevant, and credible.

However, if the property involved is not of a type regularly appraised by the appraiser or if the market area is not familiar to the appraiser, extensive research needs to be sufficient for the appraiser to acquire competency. As stated in the COMPETENCY RULE, this can be achieved in several ways (self-study, association with a locally knowledgeable and competent appraiser, etc.).

The critically important aspect of this factor is the scope of work designation is to recognize when additional research is necessary. A competent, professional appraiser will not assume knowledge merely for the sake of convenience. Even though the appraiser might be actively involved in appraising a particular type of property in a given locality, self-imposed professional discipline will prompt that individual to ensure that the scope of work includes verification that the market data used in the analyses is credible, relevant, appropriate, adequate, and as current as possible.

¹ See Statement on Appraisal Standards No. 6, Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions.
This is consistent with the requirement stated in SR 1-1(b), which is designed to ensure that the scope of work completed in an appraisal is sufficient to produce credible opinions and conclusions, given the intended use of the appraisal.

**Knowledge of Alternatives**—An understanding of market behavior requires a scope of work that includes research and analyses that is sufficient to ensure competent knowledge of the supply and demand relationships that a relevant time frame and type of property involved in the appraisal. In a market value appraisal, this means gathering, verifying, and evaluating data about sales, listings, and failed efforts to sell “competitive” property, as well as more generalized market data.

**Conditions of Sale**—A market value appraisal requires research and analysis of market data sufficient to develop a reasonable opinion of exposure time (see the Comment to SR 1-2(c) and Statement on Appraisal Standards No. 6 with the property marketed in whatever manner is typical for that type of property in its locality. An appraiser working in different market areas should guard against presuming that a marketing process common in one area is typical in all areas. For example, in some markets, property is customarily sold through an auction arrangement, while in others professional brokerage is the norm, and in still others so called “for sale by owner” is the typical process. Each process, in a given time period and locality for the type of property involved, can be “normal.” The identification of the marketing process and exposure time requires an understanding of the subject’s market.

Market value definitions imply a sale of the property wherein the buyer and seller are “typically motivated.” This condition requires that the level of research in a market value assignment is sufficient to understand the motivations of the buyers and sellers for the sales used in the approaches to value. The motivations that lead to a sale play a critical role in establishing the relevancy or irrelevancy of a sale as a comparable one in an assignment.

Analysis of sales data can yield numeric results, but the numbers lack real meaning without an understanding of the market conditions that generated the sales involved. Without an understanding of what the market conditions were at the time of a sale, as well as the conditions of a particular sale, an appraiser can not reasonably conclude that the sale price, or any element of comparison based on that price, is a reliable indicator of market value.

**Subject’s Marketing and Sale History, and Reconciliation**

The appraiser’s scope of work decision in a market value appraisal needs to recognize the research and analyses steps that are necessary to comply with the requirements stated in SR 1-5 and SR 1-6. Those requirements have two objectives, both of which are especially important in a market value appraisal.

The first is to ensure that the appraiser makes the effort to obtain relevant information about current and recent market activity involving the subject property (SR 1-5(a) and (b)). This due diligence effort is consistent with the requirement stated in Standards Rule 1-1(b). It also serves as a safeguard against confusing the price in a contract (agreement of sale or option) or an offering with market value and as a safeguard against the appraiser being inadvertently involved in an effort to conceal the facts in regard to one or more recent sale transactions.

The second is to ensure that the appraiser reconciles the indications of value resulting from the various approaches utilized to arrive at the value conclusion (SR 1-6).

**SUMMARY**

The scope of work decision is a critical step in any appraisal. That decision must result in a match between the extent of the research and analyses completed in an assignment with the conditions specified in the definition of value used in that assignment.
In a market value appraisal, the appraiser’s scope of work decision carries a burden of proof to support the appraiser’s conclusion about how he or she addresses each “condition” in the market value definition used in the appraisal. The definition includes conditions that often require a high degree of knowledge, competency, and judgment, which are necessary to effectively develop the appraisal process. An appraiser cannot meet his or her obligations in a market value assignment without having competently identified and then completed a scope of work that enables development of credible opinions and conclusions.
ADVISORY OPINION 23

ADVISORY OPINION 23 (AO-23)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment

APPLICATION: Real Property

THE ISSUE:

How does an appraiser determine which characteristics of a real property are relevant to its appraisal?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- DEFINITIONS, specifically the definitions of
  - Appraisal: (noun) the act or process of developing an opinion of value; an opinion of value.
  
  ...  

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

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

  Real Estate: an identified parcel or tract of land, including improvements if any.

  Real Property: the interests, benefits, and rights inherent in the ownership of real estate.

  Value: the monetary relationship between properties and those who buy, sell, or use those properties.

  Comment: Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified for example, market value, liquidation value, investment value.

- Standards Rule 1-2(e): An appraiser must identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal, including:
  - (i) its location and physical, legal, and economic attributes;
  - (ii) the real property interest to be valued;
  - (iii) any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal;
  - (iv) any known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature; and
  - (v) whether the subject property is a fractional interest, physical segment, or partial holding.

The Subject of a Real Property Appraisal Assignment

The subject of a real property appraisal has both physical and legal characteristics. In combination, these characteristics define the subject property and, together with the type and definition of value and intended use of the assignment results, provide the basis for deciding what data and analyses should be included in the scope of work.

Appraisers and property owners often discuss a subject property in physical terms, such as my home, the residence, my land, or the building. However, a physical object, alone, is not what is being appraised.
Taken together, the definitions of real property and real estate provided in USPAP require that the subject of a real property appraisal is a specific ownership of a right (or rights) in identified real estate.

The right or rights might be owned in part, as a fractional interest, or in full. Further, real estate can take many forms, such as land, land and improvements, improvements without the underlying land, or an infinite variety that involve one or more of the physical aspects of real estate. Alternatively, a type of property, such as Class A Office Space, does not signify specific ownership rights in identifiable real estate. Consequently, surveys or studies relating to a class of property constitute the “subject” of a real property appraisal under STANDARD 1. In such situations, the service provided by completing the survey or study is not an appraisal assignment because there is no “subject property.”

Understanding these different characteristics is essential for correct identification of the subject of a real property appraisal and for determining which characteristics of the property are relevant in the assignment.

**How the Characteristics of the Subject Affect the Scope of Work Decision**

As discussed above, real property can have many different characteristics, each of which can significantly affect the scope of work in an assignment. Consider the following illustrations:

1. The subject is the fee simple interest owned in a single-family residence situated on an improved site. These components (the land, the improvements, and the ownership) are, together, the subject property of the appraisal assignment. In this assignment the appraiser is developing and reporting a market value opinion.

   The scope of work in this assignment should include gathering data about the characteristics of the subject that are significant in the market for this type of property under its highest and best use. Given the characteristics of the subject property, the analysis should include sales of other properties held in fee simple ownership situated in the subject’s market area that are similar to the subject in as many other respects as possible.

2. If all of the same characteristics of the property in Illustration No. 1 apply, except that the land is a leased site, the subject property becomes:

   - leasehold interest, if the intended user needs to know the value of the rights in the real estate owned by the lessor in the lease, or
   - leased fee interest, if the intended user needs to know the value of the rights in the real estate owned by the lessee in the lease.

   Note that the subject real estate (physical asset) was the same, but the ownership interest of the subject changed. The impact of this change on the scope of work and on the relevant data in each assignment is significant. For example, in a market value appraisal:

   - If the subject property is a leasehold interest, the relevant analysis should include sales of leasehold interest properties that are as similar to the subject as possible, both physically and in terms of its lease (cash flow) characteristics.
   - If the subject is the leased fee interest, the relevant data should include sales of leased fee interest properties with similar physical and cash flow characteristics. The subject lease terms determine whether the improvements’ characteristics are significant in this type of assignment. If the lease ends before the improvements’ economic life, the improvements’ characteristics can be important to the appraisal problem. If the tenant must remove the improvements upon termination of the lease, the improvements’ characteristics likely have little significance in the assignment.
3. Next, assume the same subject property characteristics as in Illustration No. 1 but change the ownership to an undivided one-third interest in the fee simple title. The scope of work in this Illustration is significantly different than that in either Illustration No. 1 or No. 2. (See the Comment to Standards Rule 1-4(e)).

If available, the most relevant analysis would be of sales of similar fractional interests in similar real estate. In the absence of such sales, the research might extend to secondary sources or other less direct analyses to develop, test, and support the fractional interest value conclusion.

4. A prospective client is considering a loan secured by a portfolio of properties owned in fee simple by a loan applicant. The real property offered as loan security is an ownership, held by one party, of several nearly identical properties in different locations.

In this situation, the appraiser must pay particular attention to the intended use of the assignment results and how that use affects the property configuration that will be relevant in the analyses. This is essential because assignment results must be meaningful to the client and analyses of the market for the subject must reflect the intended use.

If the client intends to use the appraisal to secure a single loan secured with all of the properties held by the client’s loan applicant, the subject property is the entire holding (i.e., the portfolio). In this situation, the appraiser must include research and analyses to address the impact of all of the subject’s individual parts appearing in the market at the same time, to be sold by one owner to one buyer. The intended use drives this configuration of the subject’s characteristics.

Alternatively, if the same client intended to use the appraisal to secure one loan under loan conditions that would allow each property in the holding to be released (sold) on its own, the assignment is actually for several appraisals communicated in one report or possibly in several reports. In this configuration, each individual property is a subject property to be sold by one seller in the same timeframe to (potentially) different buyers. The analyses must still address the potential impact, if any, of having all of the properties in the loan applicant’s portfolio on the market at one time but without the necessity of selling to one buyer in one transaction.

The intended use of the assignment results alters the characteristics of the subject that are relevant to the appraisal and clearly alters the appropriate scope of work. In the first instance, the relevant data about the subject and about its market must reflect the subject’s characteristics as a property portfolio rather than as an individual property within a community. In the latter case, the relevant data must address the relevant characteristics and market conditions for each individual property. Analyzing a portfolio of properties as if each property were a separate element or increment of value when the subject of the assignment is the portfolio fails to recognize distinct differences between the markets for individual properties and portfolios. Specifically, the value of the subject, as a portfolio, is not necessarily the sum of the values for each of the properties in that portfolio; it could be less or it could be more.

5. A prospective client finances real estate development projects and requests an appraisal for use in a single-family residential tract development financing package. The client needs an opinion of value for the project and values for each of four individual floor plans as if each was a finished property on a typical or so-called “base” lot within the development. The project involves acquisition of finished sites and the construction and sale of finished homes in phases over a period of years. All of the values are to be market value and the effective date of value is to be a current date, all for the intended use of securing the development loan and the take-out loan commitment.

It is important to recognize that in this illustration the assignment actually involves five properties: the entire project plus each of the four floor plans. In this case, the subject that is the project includes the land and the entitlements that allow development of the residential tract on the land. Each of the four floor plans becomes a subject under the hypothetical condition that the finished home on the typical or base lot actually

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exists as a finished property as of a current date of value. The appraiser must then develop and report five appraisals of five different subject properties.

For the development loan, the subject’s relevant characteristics are those of the project, not the homes, and the scope of work to analyze the market for the project must address the entire project’s characteristics.

For each take-out loan, the relevant subject property is an individual finished home, not the project, and the summation of the value for those individual homes is not meaningful in terms of the value of the project. Indeed, summation of the value of individual homes to indicate the market value of the project is incorrect development, and reporting such a summation as market value of the project is misleading.

The scope of work necessary to analyze the market for an individual home as a subject property is significantly different from that necessary to analyze the market for the project as a subject property.

**SUMMARY**

Identifying the relevant subject property characteristics, together with other information gathered in response to Standards Rule 1-2, enables an appraiser to make a sound scope of work decision.

Accepting a prospective assignment on the basis of incomplete information can result in a significant mismatch between the scope of work and the valuation problem to be solved in the appraisal assignment. The lack of clear communication with the client before deciding to accept or forego an assignment can lead to an excessive or deficient scope of work. When the scope of work is excessive, appraisers might unnecessarily forego valuation service opportunities. When the scope of work is inadequate or the subject property characteristics are not appropriately analyzed given the intended use of the assignment results, the results are not likely to be credible or meaningful.

An appraiser should, by communicating with a prospective client, gather information about the type and definition of value, the intended use, and the effective date of the appraisal, as well as characteristics of the subject of a real property appraisal assignment, before deciding which characteristics are relevant and the appropriate scope of work.
ADVISORY OPINION 24

ADVISORY OPINION 24 (AO-24)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Normal Course of Business

APPLICATION: Real Property, Personal Property

THE ISSUE:

Standards Rules 1-5 and 7-5 require an appraiser to analyze certain information about the subject property if the information is available to the appraiser in the normal course of business. How does one determine the “normal course of business” for a given assignment?

BACKGROUND:

The analysis that is required in SR 1-5 and SR 7-5 promotes a certain degree of due diligence on the part of the appraiser. Appropriate due diligence increases public trust in the appraisal profession. The intent is to ensure that the research of past sales and current listings, options, or agreements of sale of the subject property is sufficient to promote public trust, without creating undue hardship on the appraiser.

The availability of the data necessary to comply with the requirements in SR 1-5 and SR 7-5 varies greatly. In some situations, this data is available from multiple sources. In other instances, sales and listing data is not readily available.

The “normal course of business” is controlled to a large degree by the scope of work in a specific assignment. Differences in intended use, intended users, the type and definition of value, or other factors can dramatically alter the scope of work. Therefore, the “normal course of business” for one assignment might not be the “normal course of business” for a seemingly similar assignment.

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- The following USPAP references are applicable when ascertaining the “normal course of business” in an assignment:
  - Standards Rules 1-2(h) and 7-2(h)
  - Standards Rules 1-5 and 7-5
- For additional advice, refer to Advisory Opinion 1, Sales History

General Comments

The “normal course of business” is determined by the actions of an appraiser’s peers and by the expectations of parties who are regularly intended users for similar assignments; it is not any one appraiser’s practices or any one appraisal firm’s policies.

To fully understand this concept one must examine the definitions of “Scope of Work” and “Appraiser’s Peers.”

“Scope of Work” is addressed in the SCOPE OF WORK RULE, Standards Rules 1-2(h) and 7-2(h), and is defined in USPAP as:

the type and extent of research and analyses in an assignment
Researching the subject’s sales history is an aspect of the scope of work. The Comment to the Scope of Work Acceptability section in the SCOPE OF WORK RULE states:

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

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

Therefore, it is not the work habits of an individual appraiser that define the “normal course of business” in an assignment. Rather, it is the requirements of the Standards Rules measured against the actions of the appraiser’s peers and the expectations of parties who are regularly intended users for similar assignments.

“Appraisers Peers” is defined as:

other appraisers who have expertise and competency in a similar type of assignment.

In addition to the concept of “normal course of business” in an assignment, an appraiser has the obligation to perform research and analysis appropriate to the intended use of the assignment. Standards Rules 1-1(b) and 7-1(b) state:

In developing a[n] appraisal, an appraiser must:

not commit a substantial error of omission or commission that significantly affects an appraisal...

The Comments to these Standards Rules state, in part:

Diligence is required to identify and analyze the factors, conditions, data, and other information that would have a significant effect on the credibility of the assignment results.

Illustrations

1. A reviewer noted that a real property appraisal report did not include an analysis of a sale of the subject real property that had occurred six months prior to the effective date of the appraisal. The sale was reported in the local Multiple Listing Service (MLS), which is available to appraisers in the area and to which most area appraisers subscribe. When contacted about the matter, the appraiser stated that he did not subscribe to the MLS, and checking that data source was not within his normal course of business. Is this an appropriate response?

Answer: No. The fact that the individual appraiser does not subscribe to this data source does not excuse the lack of analysis. Since most appraisers in the market area do subscribe, and informed market participants would be aware of this and expect this level of diligence, the appraiser’s lack of research and analysis did not reflect the normal course of business in this market.

2. A real property appraiser is engaged to appraise a property that is located in a rural area. Sales prices are a matter of public record, but the records are not computerized, and personal analysis of the public records requires a trip to the municipal building and a great deal of time searching records. Local officials will not provide this information over the telephone. Most appraisers in the area analyze sales data by using information provided by a local on-line data provider and quarterly sales reports that are mailed out by the local jurisdiction. In this situation, what action is necessary by the appraiser to comply with the requirement to analyze the subject’s sales history?

Answer: In this case, the normal course of business is to use the information from the local data provider and the quarterly sales reports. If a trip to the municipal building does not reflect the typical actions of most other appraisers in this market for this property type, or the expectations of
ADVISORY OPINION 24

3. A personal property appraiser is engaged to appraise a painting by a well-known artist for estate tax purposes. Neither the heirs nor the executor of the estate could locate the documentation for the purchase by the decedent, even though the painting had been bought less than six months before the appraisal was ordered. However, the sale was widely reported, both in newspapers and trade publications, since the painting had been purchased at public auction and at a price that set a new high for that artist’s work. The appraiser used sales of other paintings by the same artist to support the final opinion of value, but not the recent sale of the subject property, stating in the report that the documentation was not available. Does this comply with the sales history requirements of Standards Rule 7-5?

Answer: No. This would not comply with the requirements of Standards Rule 7-5. Competent fine art appraisers would research relevant sections of newspapers and trade magazines and likely keep files or create databases of significant transactions. Therefore, this appraiser should have known at least the details of the sale that had been made public in the press.

4. During an appraisal assignment, the appraiser was informed by the owner that the subject property was listed for sale on a prominent Internet site. The appraiser did additional research, and in the appraisal report indicated only that the property was listed for sale. Does this comply with the requirements of USPAP?

Answer: No. The appraiser must analyze the current listing and report the findings within the appraisal report. Since the listing was placed on the Internet, where it would be available to the general public, it would be available to the appraiser in the normal course of business.
ADVISORY OPINION 25 (AO-25)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Clarification of the Client in a Federally Related Transaction

APPLICATION: Real Property

THE ISSUE:

The appraisal rules adopted by the Federal Financial Institutions Regulatory Agencies in August 1990 to comply with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) impose a requirement on regulated institutions that “if an appraisal is prepared by a fee appraiser, the appraiser shall be directly engaged by the regulated institution or its agent…….”

In some cases, however, a property owner might directly engage the services of an appraiser for one intended use, but later desire to use the appraisal report in a federally related loan transaction. This and other similar scenarios lead to the question: “Does an appraiser have an obligation to ensure that his or her services are directly engaged by a federally regulated financial institution?”

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- DEFINITIONS, specifically those of “client,” “intended user,” and “intended use.”
- The Confidentiality, Conduct, and Management sections of the ETHICS RULE.
- SCOPE OF WORK RULE, which requires an appraiser to determine an appropriate scope of work to produce credible assignment results including all assignment conditions.
- Standards Rules 1-2(a) and 1-2(b), which require an appraiser to identify the client, intended user, and intended use.
- Standards Rule 2-1(a), which requires an appraiser to clearly and accurately set forth the appraisal in a manner that is not misleading.
- Statement on Appraisal Standards No. 9, which addresses intended use and intended users in an assignment.
- Advisory Opinion 26 which covers readdressing (transferring) a report to another party.
- Advisory Opinion 27 which addresses appraising the same property for a new client.
- Advisory Opinion 30, Appraisals for Use by a Federally Regulated Financial Institution

1 National Credit Union Administration – 2 CFR 722.5(b)
   Federal Reserve System – 12 CFR 225.65(b)
   Federal Deposit Insurance Corporation – 12 CFR 323.5(b)
   Office of the Comptroller of the Currency – 12 CFR 34.45(b)
   Office of Thrift Supervision – 12 CFR 564.5(b)
Comments

USPAP requires an appraiser to identify the intended use and intended users in an appraisal assignment. USPAP also requires that an appraiser not be misleading in the marketing of their services (see Management section of the ETHICS RULE). Advisory Opinion 30 provides guidance on the applicability of federal regulations and USPAP obligations when performing appraisals for use by a federally regulated financial institution.

In order to not be misleading when contacted by a prospective client the appraiser’s obligation is one of proper disclosure. Before an appraiser accepts an assignment knowing the intended use of the appraisal is, or may be, for a federally related transaction by a federally regulated financial institution, it is the appraiser’s responsibility to disclose to the prospective client that the lender or its agent is required to directly engage the appraiser. The appraiser should also disclose to the prospective client that it is unethical for the appraiser to later “readdress” or otherwise change the report to indicate a federally regulated financial institution was the client when the appraisal was performed for another party (see AO-26 titled Readdressing [Transferring] a Report to Another Party and AO-27, titled Appraising the Same Property for Another Client for related advice on this issue).

If the client still wishes to proceed with the appraisal after the appraiser has properly fulfilled these disclosure obligations the appraiser can accept the assignment. It would be prudent to recite disclosures in the engagement letter and in the report. (Also refer to SMT-9 for additional information relating to intended use and intended users).

Illustrations:

1. Homeowner Susan Daly contacts appraiser John Hunt to perform an appraisal of her residence. She is considering refinancing and wants to determine the amount of equity in the residence before completing a loan application. Assuming the refinancing would be a federally related transaction at a federally regulated financial institution, what is John’s responsibility to this potential client?

   Answer: Before John accepts this assignment, it is his responsibility to disclose to Susan that a lender or its agent is required to directly engage the services of an appraiser in a federally related transaction and should not accept his appraisal report. If Susan still wants to engage John, his disclosure allows him to accept the assignment.

2. A buyer of a commercial building contacts appraiser Jane Johnson about appraising the property for financing. The buyer explains that he will likely be providing the report to an insurance company that is interested in financing the property. The insurance company has no problem with the buyer being the client, as long as the insurance company is identified as an intended user in this assignment. However, the buyer says that he may also make application to his local bank, a federally regulated financial institution. Can Jane accept this assignment? If so, does she have any disclosure obligations?

   Answer: Jane has an obligation to disclose to the buyer that the federally regulated financial institution should not accept her appraisal report because a lender or its agent is required to directly engage the services of an appraiser in a federally related transaction. If the buyer still wants to engage Jane, her disclosure allows her to accept the assignment.
ADVISORY OPINION 26 (AO-26)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Readdressing (Transferring) a Report to Another Party

APPLICATION: Real Property, Personal Property, and Intangible Property

THE ISSUE:

After an assignment has been completed and the report has been delivered, an appraiser may be asked to "readdress" (transfer) the report to another party. Does USPAP allow an appraiser to "readdress" (transfer) a report by altering it to indicate a new recipient as the client or additional intended user when the original report was completed for another party?

ADVICE FROM THE ASB ON THE ISSUE:

- The Confidentiality and Conduct sections of the ETHICS RULE.
- Standards Rules such as 1-2(a) and 1-2(b); 7-2(a) and 7-2(b); and 9-2(a), which require an appraiser to identify the client, intended users, and intended use.
- Standards Rules such as 2-1(a), 8-1(a), 10-1(a), which require an appraiser to clearly and accurately set forth the appraisal in a manner that is not misleading.
- SCOPE OF WORK RULE, which requires an appraiser to consider whether other laws or regulations apply to the assignment in addition to USPAP.
- Statement on Appraisal Standards No. 9, which requires the appraiser to identify and disclose the client and intended users and the intended use in an appraisal, appraisal review, or appraisal consulting assignment.
- Statement on Appraisal Standards No. 10, which describes applicability of USPAP in federally related transactions.
- Advisory Opinion 25, which covers clarification of the client in a federally related transaction.
- Advisory Opinion 27, which addresses appraising the same property for a new client.

Comments

No. Once a report has been prepared for a named client(s) and any other identified intended users and for an identified intended use, the appraiser cannot "readdress" (transfer) the report to another party.

USPAP defines the Client as:

The party or parties who engage an appraiser (by employment or contract) in a specific assignment (bold added for emphasis).

Assignment is defined as:

1) an agreement between an appraiser and a client to provide a valuation service; 2) the valuation service that is provided as a consequence of such an agreement (bold added for emphasis).
Intended Use is defined as:

the use or uses of an appraiser’s reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment (bold added for emphasis).

Intended User is defined as:

the client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment (bold added for emphasis).

Identification of the client, any other intended users, and the intended use are key elements in all assignments. Because these identifications drive the appraiser’s scope of work decision, as well as other elements of the assignment, they must be determined at the time of the assignment. They cannot be modified after an assignment has been completed. See Statement on Appraisal Standards No. 9 for further clarification.

Illustrations:

Question #1

An appraiser was engaged by Client A to appraise a property. The appraiser delivered the appraisal report to Client A. The client has decided not to pursue the transaction that generated the need for the appraisal report. The appraiser is contacted by Client B. Client B requests that the original report be readdressed (transferred) by replacing Client A’s name with Client B’s name in the report. Is this acceptable?

Answer: No. Simply changing the client name on the report cannot change or replace the original appraiser-client relationship that was established with Client A. Therefore, this action is misleading.

Question #2

How can this circumstance be handled according to Standards?

Answer: The appraiser can consider Client B’s request as a new assignment. In so doing, the appraiser may establish a new appraiser-client relationship with Client B and appraise the property for this new client. Important considerations, i.e., confidential information and other factors are further addressed in AO-27 – “Appraising the Same Property for a New Client”.

Question #3

Why might Client B want their name on the report that was completed for Client A?

Answer: Client B may want to establish an appraiser-client relationship because it provides all the rights, obligations and liabilities such a relationship places on the appraiser.

A prudent method to establish an appraiser-client relationship is to have a written engagement letter or contract with any client at the time of the assignment.
ADVISORY OPINION 27 (AO-27)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Appraising the Same Property for a New Client

APPLICATION: Real Property, Personal Property, and Intangible Property

THE ISSUE:

Situations often arise in which appraisers who have previously appraised a property are asked by a different party to appraise the same property. In some instances this request arises very soon after the first appraisal; in others, it may be months or years later. Under what circumstances can an appraiser accept an assignment to appraise a property for a prospective client when that appraiser has previously completed an appraisal of the same property for another client?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References:

- Conduct section of the ETHICS RULE
- Confidentiality section of the ETHICS RULE.
- Statement on Appraisal Standards No. 9, which addresses intended use and intended users in an assignment.
- Advisory Opinion 25 which covers clarification of the client in a federally related transaction.
- Advisory Opinion 26 which addresses reappraising/transferring a report to another party.

Comments:

Accepting the assignment from the subsequent prospective client is not prohibited by USPAP, assuming appropriate disclosure is made to the client before being engaged and any existing confidential information is handled properly.

The part of the Conduct section of the ETHICS RULE that is pertinent to this matter includes the following:

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

any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.

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

Several parts of the Confidentiality section of the ETHICS RULE are pertinent to this matter.

An appraiser must not disclose: (1) confidential information or (2) assignment result: to anyone other than the client;
An appraiser cannot disclose the results of a particular assignment, performed for a particular client, to anyone other than that client. However, an understanding of the definitions of assignment, assignment results, and client are key to a complete understanding of this requirement.

**Assignment** – 1) an agreement between an appraiser and a client to provide a valuation service; 2) the valuation service that is provided as a consequence of such an agreement.

**Client** – the party or parties who engage an appraiser (by employment or contract) in a specific assignment

**Assignment Results** – an appraiser’s opinions and conclusions developed specific to an assignment

As can be seen in the definitions, both the client and the assignment results are specific to an assignment. If there is a new potential client, valuation services performed for that new client would constitute a new assignment and the assignment results would be specific to that new assignment. Therefore, acceptance and performance of the new assignment to appraise the same property would not be considered revealing the first client’s assignment results to the second client, even if the value conclusions were the same. It should be noted that the value conclusion could easily be different if the effective date or the scope of work changed in any manner. It should also be noted that USPAP requires the appraiser to provide an unbiased opinion of value to each client.

**Obtaining a Release:**

As a matter of business practice, some appraisers request a release from a prior client before accepting an assignment to appraise the same property for a new client or to disclose the assignment for the second client to the first client. However, USPAP does not require this. Also, appraisers should be aware that, in some cases, informing a client about the existence of another client and the fact that the property was appraised for that other client may not be compliant with the portion of the Confidentiality section of the ETHICS RULE, which states:

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

**Confidential Information:**

In all assignments the appraiser must comply with the Confidentiality section of the ETHICS RULE with respect to the handling of confidential information. Confidential information is defined in USPAP as:

> information that is either
> 
> • identified by the client as confidential when providing it to an appraiser and that is not available from any other source; or
> • classified as confidential or private by applicable law or regulation

The Confidentiality section of the ETHICS RULE states:

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

> An appraiser must not disclose: (1) confidential information; or (2) assignment results to anyone other than the client, persons specifically authorized by the client, state appraiser regulatory agencies, third parties as may be authorized by due process of law, and a duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation.
If a prior assignment included any confidential information, its disclosure to a different client or intended user would violate the ETHICS RULE if the information were still classified as confidential information. This includes the requirement to comply with all confidentiality and privacy laws and regulations.

Client Expectations:

At times, an appraiser’s client may believe that his or her legitimate business intent could be harmed by that appraiser providing an appraisal of the subject property of that assignment to another client. In such cases, the client and the appraiser may stipulate in their service agreement the conditions under which the appraiser may or may not appraise the same subject property. A client involved in litigation may stipulate that the appraiser cannot appraise a subject property for the opposing party in that litigation. As another example, if an appraiser is providing the value of a property to a client who is planning to sell that property in an auction, the appraiser and client may agree that the appraiser will not appraise the same property for a party planning to participate in the bidding process.

Illustrations:

Example A – Litigation

An appraiser performs an appraisal for a client involved in litigation and then is requested to appraise the same property for the opposing party. Is accepting the assignment for the second client prohibited by USPAP?

No, assuming appropriate disclosure is made to the client and confidential information is handled correctly. However, there are common business practices in such circumstances. Often, the opposing parties each hire an appraiser to appraise the subject property. If the opposing parties do not plan to hire one appraiser jointly, each party could make it a part of the agreement between the appraiser and the client (the engagement letter or contract) that the appraiser is not to appraise the property for anyone representing the opposing side of the legal action.

In the absence of such an agreement between the client and the appraiser, the appraiser should make appropriate disclosure to the client and consider the presence of confidential information. The knowledge of confidential information may prevent the appraiser from accepting the property for anyone representing the opposing side of the legal action.

1) the appraiser used confidential information in performing the first assignment;
2) that information would not be available from any other source; and
3) credible results cannot be derived without the use of this confidential information.

However, the appraiser may accept the second assignment, making sure to not disclose any confidential information from the original assignment to the second client, if

1) the information is available from another source (meaning it is not confidential information, as defined); or
2) the confidential information is not material to deriving credible assignment results, and
3) the client agrees to engage the appraiser after the appraiser makes the appropriate disclosure.

However, the appraiser must ensure that confidential information is not disclosed, even if it has no impact on the assignment results (such as the litigation strategy of attorneys representing the first client).
Example B – Competing Banks

If an appraiser has appraised a property for Bank A and then is approached by Bank B to appraise the same property, does USPAP prohibit acceptance of the second assignment?

No, assuming disclosure is made to the client and confidential information is handled correctly. This constitutes a second assignment, a new client and a new agreement between a client and an appraiser.
ADVISORY OPINION 28 (AO-28)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Scope of Work Decision, Performance, and Disclosure

APPLICATION: Real Property, Personal Property, Intangible Property

THE ISSUE:

The SCOPE OF WORK RULE states:

For each appraisal, appraisal review, and appraisal consulting assignment, an appraiser must:

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

How are the requirements in the SCOPE OF WORK RULE incorporated into the process of developing and reporting assignment results?

ADVICE FROM THE ASB ON THE ISSUE

Problem Identification

Problem identification is the beginning point of every assignment. The appraiser must gather and analyze the information needed to properly recognize the appraisal, appraisal review, or appraisal consulting problem to be solved. The information necessary for problem identification is presented in each Standard that addresses the development process for an appraisal, appraisal review, or appraisal consulting assignment. For example, Standards Rules 1-2, 6-2, 7-2 and 9-2 provide the assignment elements that must be defined and analyzed in order to identify the problem to be solved in an appraisal assignment. These assignment elements include the:

- client and any other intended users;
- intended use of the appraiser’s opinions and conclusions;
- type and definition of value;
- effective date of the appraiser’s opinions and conclusions;
- subject of the assignment and its relevant characteristics; and
- assignment conditions.

Identifying the problem to be solved is required in order to make critical judgments in determining the appropriate scope of work. Therefore, the assignment elements necessary for problem identification in an appraisal, appraisal review, or appraisal consulting assignment also serve as reference points in determining whether the scope of work performed was appropriate to provide credible assignment results.

Additionally, proper identification of the problem to be solved is required for compliance with the COMPETENCY RULE, which states:

The appraiser must determine, prior to accepting an assignment, that he or she can perform the assignment competently. Competency requires (1) the ability to properly identify the problem to be

1 See Advisory Opinion 29, An Acceptable Scope of Work.
addressed; (2) the knowledge and experience to complete the assignment competently; and (3) recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.

One of the assignment elements that affects the scope of work is assignment conditions. Some assignment conditions are not a matter of choice, such as an inability to inspect a property because it has been destroyed. Other assignment conditions are a matter of choice, such as a client’s request to perform a desktop appraisal of machinery and equipment to reduce fees.

**Determining and Performing the Scope of Work**

USPAP recognizes that the appropriate scope of work may differ significantly for different assignments; the SCOPE OF WORK RULE provides flexibility in determining the scope of work. The competency necessary to determine an appropriate scope of work within the allowed flexibility resides with the appraiser. Therefore, while it is common and reasonable for the client to provide input to the appraiser regarding a desired scope of work, the responsibility for determining the appropriate scope of work resides with the appraiser.

The flexibility and responsibility are linked in the SCOPE OF WORK RULE when it states:

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

This responsibility is described when the SCOPE OF WORK RULE states:

*The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.*

The client, for example, might request that the appraiser include, or exclude, specific inspections, data collection, or analysis in the scope of work. The appraiser may accept an assignment with these types of assignment conditions provided that the assignment results are credible in the context of the intended use. The SCOPE OF WORK RULE addresses this issue in the Scope of Work Acceptability section:

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

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

Determining the appropriate scope of work requires judgment. This judgment rests on the appraiser’s identification of the assignment elements and understanding of what is required to solve the identified problem. In many assignments, experienced appraisers are able to make this judgment about the appropriate scope of work quickly because they have performed many assignments addressing a similar problem to be solved (assignment with similar assignment elements). In other assignments, the determination of the appropriate scope of work may require more analysis by the appraiser because the problem to be solved has certain unusual characteristics. In yet other assignments, the appraiser may begin with a planned scope of work but in the course of the assignment find that the planned scope of work must be modified in order to produce credible assignment results.

The SCOPE OF WORK RULE recognizes that the scope of work actually performed may differ from the scope of work initially planned, when it states:

*Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.*
**Disclosing the Scope of Work Performed**

The SCOPE OF WORK RULE explains that proper disclosure of the scope of work:

...is required because clients and other intended users rely on the assignment results.

The Rule also states that:

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

An appraiser must disclose research and analyses not performed when such disclosure is necessary for intended users to understand the report properly and not be misled.

These disclosure requirements apply to the scope of work performed, rather than the scope of work initially planned by the appraiser. The appraiser must disclose the type and extent of research and analyses that were actually completed in the development process. Additionally, the information required to allow intended users to understand the scope of work may include disclosure of research and analyses not performed. There is no requirement for the scope of work description to be in a particular or separate section of the report.

**Illustrations:**

1. A real property appraiser is engaged to appraise the market value of a twelve-unit apartment building. The appraiser initially decided that the scope of work should include the inspection of two of each of the three unit types (studio, one- and two-bedroom). In the course of conducting the inspection, the property manager had a key for only one of the two-bedroom units; thus the appraiser was not able to inspect one of the two-bedroom units as planned.

   The scope of work, which includes the degree of inspection, was affected in this assignment because of lack of access. If the appraiser decides that she has sufficient information to produce credible assignment results, the appraiser can complete the appraisal based on the inspection completed. The report would include a description of the scope of work performed, stating that five units had been inspected.

2. A personal property appraiser was engaged to appraise four sets of china. The intended use of the report was for litigation regarding an estate. The client requested that all pieces of each set of china be inspected, since one cause of action claimed that several pieces were damaged.

   When the appraiser contacted the estate’s administrator to arrange for inspection, he was told that one set of china was in storage and could not be retrieved until after the Court’s deadline for the submission of expert reports.

   In this case, assignment conditions have changed the appraiser's scope of work. The appraiser may not have sufficient information to produce credible assignment results in the context of the intended use. The appraiser should consult with the client on the proper course of action. The appraiser may alter the scope of work to include the appraisal of only the three sets of china available for inspection or use an extraordinary assumption regarding the condition of the fourth set.

3. A business appraiser is appraising a closely held business enterprise with real property and personal property assets. In the course of the assignment, the appraiser’s research indicates that the market for the company’s product is declining and management’s projections are not supported. Therefore, the appraiser believes the company might be worth more in liquidation than as a going concern, which would make performance of the work addressed in Standards Rule 9-3 necessary for credible assignment results.
The scope of work must be modified because of what the appraiser learned in the course of performing research and analyses.

4. A real property appraiser is contacted by a potential client to appraise an occupied manufacturing facility. The client requests that the occupants not be disturbed by a property inspection. Additionally, the client requests that the cost approach be performed in the appraisal of the building. These requests are assignment conditions and will be part of the appraiser’s identification of the problem to be solved and determination of the appropriate scope of work.

Accepting and completing this assignment requires the appraiser to:

- Determine that the client’s assignment conditions do not limit the scope of work to such a degree that assignment results are not credible in the context of the intended use;
- Gather information on relevant characteristics by means other than inspection and/or use extraordinary assumptions;
- Include a cost approach in the scope of work, even if this approach is not otherwise necessary for credible assignment results; and
- Properly reconcile the applicability of the cost approach in arriving at the value conclusion.

5. A real property appraiser accepted an assignment to appraise a three-unit residential property. The intended use of the appraisal was for mortgage financing. The client requested that the appraiser not verify the legal status (e.g., compliance with zoning, building codes, use permits) of the three units with municipal officials.

The appraiser withdrew from the assignment because she concluded that the client’s assignment condition limited the scope of work to such a degree that assignment results are not credible in the context of the intended use. The use of an extraordinary assumption about the legal use of the property would not produce credible assignment results in the context of the mortgage financing use.

6. An appraiser was engaged to appraise a one-unit residence. Based on the appraiser’s identification of the appraisal problem, the appropriate scope of work was determined to include development of the sales comparison approach and cost approach. However, at the time of the inspection the appraiser discovered that the property was not a one-unit, but instead a three-unit property.

Based on this new information, the appraiser re-considered the appraisal problem and the appropriate scope of work. The change in relevant property characteristics for the subject property significantly changes the appropriate scope of work; the initially planned scope of work is no longer suitable and would not produce credible assignment results. The type of data to be researched and the type of analysis to be applied changed when the property type changed from a single-unit to a three-unit.

A new appraisal problem requires reexamination of the scope of work. The appropriate scope of work for the new appraisal problem includes an income approach, and the cost approach is not necessary for credible assignment results.

The appraiser should consult with the client since the appraisal problem has changed.
ADVISORY OPINION 29 (AO-29)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: An Acceptable Scope of Work

APPLICATION: Real Property, Personal Property, Intangible Property

THE ISSUE:

The SCOPE OF WORK RULE states that an appraiser’s scope of work is acceptable when it meets or exceeds:

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

What makes an assignment similar?

Who are an appraiser’s peers?

Must an acceptable scope of work satisfy both benchmarks?

ADVICE FROM THE ASB ON THE ISSUE

Similar Assignments

Assignment elements define and characterize the problem to be solved in appraisal, appraisal review, and appraisal consulting assignments. The assignment elements necessary for proper identification of the appraisal problem are addressed in the applicable Standards Rules (i.e., SR 1-2, SR 3-1, SR 4-2, SR 6-2, SR 7-2 and SR 9-2). The applicability of Standards Rules depends on the type of asset being appraised (real property, tangible personal property, or intangible property including business interests) and the type of assignment (appraisal, appraisal review, real property appraisal consulting).

Assignments are similar when the assignment elements used to identify the appraisal problem are comparable. Assignment elements include such things as the intended use, intended users, type and definition of value, effective date, relevant characteristics of the subject property, and assignment conditions.

The information gathered about the assignment elements is used by the appraiser to identify the problem to be solved and determine an acceptable scope of work. The greater the commonality among assignment elements, the more similarity there is between assignments.

An Appraiser’s Peers

USPAP defines Appraiser’s Peers as:

other appraisers who have expertise and competency in a similar type of assignment.

To be an appraiser’s peer for a particular assignment, one must have the competency to address the appraisal problem presented in that assignment. This includes the knowledge and experience to:

- properly identify the appraisal, appraisal review, or appraisal consulting problem to be solved;
- determine the type and extent of research and analyses to include in the development process; and
- perform the required research and analyses properly.
Because assignments can require different types of expertise and competency, it is possible to be considered an appraiser’s peer for some assignments, but not for others. Identifying an appraiser’s peer is always done in the context of a particular assignment.

Within appraisal practice there are three disciplines (real property, tangible personal property, and intangible property including business interests), and within those disciplines there are many areas of specific expertise. An appraiser can have a focused area of expertise or a wide variety of expertise and competency. Merely holding the same type or level of credential does not make one an appraiser’s peer.

Determining if an individual is an appraiser’s peer requires examining the individual’s expertise regarding each of the elements that define the assignment. For example, solely having expertise in appraising the same type of property is not sufficient to make someone an appraiser’s peer.

The scope of work is acceptable when it leads to credible assignment results. The SCOPE OF WORK RULE establishes two benchmarks for measuring the acceptability of the scope of work, both of which need to be met. The scope of work is acceptable when it meets or exceeds both (1) the expectations of parties who are regularly intended users for similar assignments; and (2) what an appraiser’s peers’ actions would be in performing the same or a similar assignment. An acceptable scope of work must satisfy both benchmarks.

Illustrations:

1. An appraiser has been engaged to perform an “exterior only” appraisal of a single-family home for a potential home equity loan. Another appraiser has been asked to appraise a single-family home in the same development for an FHA loan. Since the subject properties are similar, would the assignments require the same scope of work?

   No. The subject of the assignment and its relevant characteristics is just one of several assignment elements that define an appraisal problem. Because of critical differences in the intended use and the appraisal problem to be solved, the scope of work that is acceptable for the first assignment would not be acceptable for the second assignment. For example, an appraisal performed for an FHA loan is subject to additional inspection requirements.

2. A state certified general appraiser is appraising a highly specialized industrial facility, and is concerned that the assignment is so complex that many appraisers who are knowledgeable about industrial property would not be qualified to judge whether or not the scope of work was appropriate. Who would be considered the appraiser’s peers in this assignment?

   The appraiser’s peers for this assignment would be other appraisers competent to complete a similar assignment. If special expertise is required, other state certified general appraisers without the required expertise and knowledge would not be the appraiser’s peers for this assignment. Identifying appraisers with expertise and competency in appraising similar complex property types or unusual intended uses may require seeking appraisers from other geographic areas.

3. A business appraiser is engaged to value a 25% minority interest in the equity of a small privately held company for estate tax reporting purposes. The standard of value is fair market value as defined in the tax regulations. The engagement requires that a second appraiser, meeting the definition of an appraiser’s peer, be retained to review the work and to opine on the value of the subject interest. Another appraiser is experienced in valuing companies in the same industry, but typically appraises them for purposes of sale, valuing 100% of the equity and has never performed appraisals of minority interests for estate tax reporting purposes. Is this other appraiser an appraiser’s peer for this assignment?
No. Part of problem identification for a business appraisal includes identification of the extent to which the subject interest contains elements of ownership control. Part of the appraisal process includes analyzing the effect on value, if any, of the extent to which the interest appraised contains elements of ownership control. Individuals who meet the definition of appraiser’s peers would need to have expertise and competency in valuing minority interests. Additionally, the fact that the second appraiser has not performed appraisals for the same intended use could also render him or her to not be a peer in this assignment.

4. An appraiser has agreed to complete an assignment in the next two days. While conducting research, the appraiser discovers that the primary data source for the assignment, a regional computer database, is offline and will not be available for three days. What is the appropriate course of action?

If an appraiser is unable to perform research that the appraiser’s peers would conduct and intended users would expect, the appraiser must modify the assignment to allow time for the research to be conducted, or withdraw from the assignment.
ADVISORY OPINION 30 (AO-30)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Appraisals for Use by a Federally Regulated Financial Institution

APPLICATION: Real Property

THE ISSUE:

In order to comply with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the federal financial institutions regulatory agencies (“agencies”) of the United States have adopted appraisal regulations and guidelines. These laws, regulations and guidelines are established to protect federally insured depository institutions and include the requirement that appraisals be prepared in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).

What are an appraiser’s obligations when performing a real property appraisal for use by a federally regulated financial institution?

ADVICE FROM THE ASB ON THE ISSUE

Recognition of Assignment Conditions

USPAP creates an obligation for appraisers to recognize and adhere to applicable assignment conditions. The appraiser’s identification of the intended use and intended users drives the applicable assignment conditions. The relevant laws and agencies’ appraisal regulations and guidelines are assignment conditions for real property appraisals for use by a federally regulated financial institution. These assignment conditions include, but are not limited to, the following:

- Laws, principally Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA);

- Regulations, primarily the following agency appraisal regulations:
  - Office of the Comptroller of the Currency (OCC) 12 CFR 34, Subpart C;
  - Federal Reserve Board (FRB) 12 CFR 225, Subpart G;
  - Federal Deposit Insurance Corporation (FDIC) 12 CFR 323;
  - Office of Thrift Supervision (OTS) 12 CFR 564; and
  - National Credit Union Administration (NCUA) 12 CFR 722.

- Guidelines provided in the agencies’ bulletins and issuances, including documents such as:
  - Interagency Appraisal and Evaluation Guidelines;
  - Independent Appraisal And Evaluation Function;
  - Frequently Asked Questions on Residential Tract Development Lending;
  - The 2006 Revisions to Uniform Standards of Professional Appraisal Practice; and

1 Office of the Comptroller of the Currency (OCC), Federal Reserve Board (FRB), Federal Deposit Insurance Corporation (FDIC), Office of Thrift Supervision (OTS), and the National Credit Union Administration (NCUA)
The guidelines identified in this Advisory Opinion are subject to change. Appraisers are advised to communicate with their client on the current guidance that is applicable in a given assignment. Reference can be made to the website of the applicable federal financial institutions regulatory agency for these documents and more information on current bulletins and applicable issuances.

**USPAP Applicability**

A client that is a federally regulated financial institution expects compliance with the applicable regulations and guidelines. An appraiser’s obligations are established in the course of considering and accepting an assignment. Appraisers must recognize and adhere to assignment conditions that apply in an assignment to satisfy the following USPAP requirements:

1. The **PREAMBLE** requires that appraisers develop and communicate assignment results in a manner that is meaningful and not misleading.
2. The **ETHICS RULE** requires that appraisers perform assignments ethically and competently.
3. The **COMPETENCY RULE** requires appraisers to provide competent service, including the specific requirement to recognize and comply with applicable laws and regulations.
4. In developing assignment results, the **SCOPE OF WORK RULE** requires appraisers to determine, perform, and disclose the scope of work necessary to produce credible assignment results. Determining the appropriate scope of work requires identification of the problem to be solved, which includes identification of assignment conditions.

The scope of work is acceptable when it meets or exceeds the expectations of parties who are regularly intended users for similar assignments. Upon accepting an assignment, an appraiser is obligated to competently satisfy the applicable assignment conditions.

5. Standards Rule 1-1(a) is an extension of the **COMPETENCY RULE** that specifically requires that the appraiser be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.
6. Standards Rules 2-1(a) and 2-1(b) require that each written appraisal report (a) clearly and accurately set forth the appraisal in a manner that will not be misleading; and (b) contain sufficient information to enable intended users of the appraisal to understand the report properly.
7. **STANDARD 2** also requires that report content be consistent with the intended use of the appraisal.

Use of the **JURISDICTIONAL EXCEPTION RULE** is not appropriate because none of the requirements in the agencies’ appraisal laws and regulations preclude compliance with USPAP.

Appraisers must identify and consider the intended use and intended users in an assignment to understand their USPAP development and reporting obligations. The agencies’ appraisal laws and regulations contain assignment conditions that are part of competent performance when they apply in an assignment. Therefore, compliance with USPAP requirements for proper development and reporting require adherence to these assignment conditions that apply in an assignment.
Failure to Adhere to Assignment Conditions

Failure to recognize and adhere to applicable assignment conditions violates one or more of the USPAP requirements previously identified.

- An appraiser who represents that an assignment is or will be completed in compliance with applicable assignment conditions and who then knowingly fails to comply with those assignment conditions violates the ETHICS RULE.

- An appraiser who unintentionally fails to comply with or fails to recognize those assignment conditions violates the COMPETENCY RULE.

- An appraiser who fails to develop assignment results in accordance with the assignment conditions necessary for credible assignment results violates the SCOPE OF WORK RULE and STANDARD 1.

- An appraiser who fails to report assignment results in accordance with the assignment conditions that are necessary to enable intended users to understand the report properly violates STANDARD 2.

Obligations for Appraisers Performing Appraisals for Use by a Federally Regulated Financial Institution

Note: All quotations in this section are from the agencies’ appraisal regulations. The quoted text is only a portion of the complete regulations, and the applicable regulations should be reviewed in their entirety.

Appraiser Independence

The agencies’ appraisal regulations state, in part:

“If an appraisal is prepared by a staff appraiser, that appraiser must be independent of the lending, investment, and collection functions and not involved, except as an appraiser, in the federally related transaction, and have no direct or indirect interest, financial or otherwise, in the property. If the only qualified persons available to perform an appraisal are involved in the lending, investment, or collection functions of the regulated institution, the regulated institution shall take appropriate steps to ensure that the appraisers exercise independent judgment. Such steps include, but are not limited to, prohibiting an individual from performing an appraisal in connection with federally related transactions in which the appraiser is otherwise involved and prohibiting directors and officers from participating in any vote or approval involving assets on which they performed an appraisal.”

“If an appraisal is prepared by a fee appraiser, the appraiser shall be engaged directly by the regulated institution or its agent, and have no direct or indirect interest, financial or otherwise, in the property or the transaction.”

“A regulated institution may accept an appraisal that was prepared by an appraiser engaged directly by another financial services institution, if:

(i) The appraiser has no direct or indirect interest, financial or otherwise, in the property or the transaction; and

(ii) The regulated institution determines that the appraisal conforms to the requirements of this subpart and is otherwise acceptable.”

2 Office of the Comptroller of the Currency – 12 CFR 34.45(b), Federal Reserve Board – 12 CFR225.65(b), Federal Deposit Insurance Corporation – 12 CFR 323.5(b), Office of Thrift Supervision – 12 CFR 564.5(b), National Credit Union Administration - 12 CFR 722.5(b)
For more information on these requirements and related USPAP obligations see Advisory Opinion 25, Clarification of the Client in a Federally Related Transaction and Advisory Opinion 26, Readdressing (Transferring) a Report to Another Party.

Appraisal Development and Reporting

The agencies’ appraisal regulations state, in part:

“For federally related transactions, all appraisals shall, at a minimum:

(a) Conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by the Appraisal Standards Board of the Appraisal Foundation (1155 15th Street, Suite 111, NW., Washington, D.C. 20005), unless principles of safe and sound banking require compliance with stricter standards;

(b) Be written and contain sufficient information and analysis to support the institution's decision to engage in the transaction;

(c) Analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, nonmarket lease terms, and tract developments with unsold units;

(d) Be based upon the definition of market value as set forth in this subpart; and

(e) Be performed by State licensed or certified appraisers in accordance with requirements set forth in this subpart.”

Market Value Definition

The agencies’ appraisal regulations state, in part:

“Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

(1) Buyer and seller are typically motivated;

(2) Both parties are well informed or well advised, and acting in what they consider their own best interests;

(3) A reasonable time is allowed for exposure in the open market;

(4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

(5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”
Commonly Asked Questions

1. How do the assignment conditions that apply to appraisals for use by a federally regulated financial institution affect the appraiser’s scope of work and report content?

An appraiser accepting an assignment to be performed under the agencies’ appraisal regulations and guidelines is obligated to complete that assignment in a manner that adheres to the applicable appraisal regulations and guidelines.

2. What is a “real estate-related financial transaction”?

The term is defined in Title XI of FIRREA and the agencies’ appraisal regulations as “any transaction involving —

(1) The sale, lease, purchase, investment in or exchange of real property, including interests in property, or the financing thereof; or

(2) The refinancing of real property or interests in real property; or

(3) The use of real property or interests in property as security for a loan or investment, including mortgage-backed securities.”

3. What is a “federally related transaction”?

The term is defined in Title XI of FIRREA as “any real estate-related financial transaction which —

(A) a federal financial institutions regulatory agency or the Resolution Trust Corporation engages in, contracts for, or regulates; and

(B) requires the services of an appraiser.”

The agencies’ appraisal regulations define when the services of an appraiser are required. The agencies’ appraisal regulations also list specific categories of transactions that do not require the services of an appraiser.

4. Do the agencies’ appraisal regulations apply to FHA, VA, Fannie Mae, Freddie Mac, Farmer Mac, or Sallie Mae?

FHA, VA, Fannie Mae, Freddie Mac, Farmer Mac, and Sallie Mae are not under the supervision of the federal financial institutions regulatory agencies and therefore are not subject to their appraisal regulations.
ADVISORY OPINION 31 (AO-31)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Assignments Involving More than One Appraiser

APPLICATION: Real Property, Personal Property, Intangible Property

THE ISSUE:
What are the specific USPAP obligations when an appraisal, appraisal review or appraisal consulting assignment involves more than one appraiser?

BACKGROUND:
Many appraisal assignments involve participation by more than one appraiser. Typical scenarios include, but are not limited to:

• Two appraisers working together as equals on an assignment.
• A staff appraiser whose work is reviewed and/or directed by a more senior appraiser.
• A person who is being trained as an appraiser (“trainee”) and requires supervision and direction by an appraiser already fully qualified to complete the assignment.
• An independent appraiser/contractor performing work for an appraisal firm.
• Two or more appraisers from different appraisal disciplines working on an assignment.

When assignments involve more than one appraiser there are often questions about the proper way to deal with USPAP requirements relating to record keeping, signatures and certifications.

It is important to realize that USPAP does not define an “appraiser” in terms of state licensing or certification requirements. USPAP defines an appraiser as one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective. Expectation is the crucial element in determining when one is acting as an appraiser. As a result, one could be a trainee by state licensing requirements and also identified as an appraiser by USPAP definition. Reference to applicable state law should be made to clarify the specific definition of appraiser and trainee in a jurisdiction.

ADVICE FROM THE ASB ON THE ISSUE

Relevant USPAP References

• SCOPE OF WORK RULE, which requires that the appraiser disclose the scope of work performed.
• Record Keeping section of the ETHICS RULE.
• Standards Rules 2-2(a)(vii), 2-2(b)(vii), 2-2(c)(vii), 3-5(g), 5-2(f), 6-8(j), 8-2(a)(vii), 8-2(b)(vii), 8-2(c)(vii), 10-2(a)(viii) and 10-2(b)(viii), which specify the reporting requirements when any portion of the work involves significant assistance.
• Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3 and 10-3, which identify the requirements for an appraiser who
is signing the certification and also for instances when appraisers provide significant assistance but do
not sign the certification.

Record Keeping Requirements

The Record Keeping section of the ETHICS RULE requires:

An appraiser must prepare a workfile for each appraisal, appraisal review, or appraisal consulting
assignment. A workfile must be in existence prior to the issuance of a written or oral report.

The Rule also mandates that workfiles be retained for a specified time, and states,

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

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

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

When an assignment is performed by more than one appraiser, each appraiser is subject to the same obligations
regarding the workfile for the assignment, whether or not the appraiser signs the certification. These obligations
may be met by creating a copy of the workfile for every appraiser involved in the assignment. Alternatively,
the appraisers might agree in writing to an arrangement whereby the workfile is stored in a single
location but access is provided to all appraisers involved. In whatever manner this USPAP requirement is met,
all appraisers involved with the assignment must meet it.

Certifications/Signatures

A signed certification is required for all appraisal, appraisal review, and appraisal consulting reports. An appraiser
who signs any part of a report, including a letter of transmittal, must also sign the certification.

A signed certification provides important disclosures about aspects of the assignment. It provides evidence that
the appraiser is aware of the ethical obligations of acting as an appraiser. In single-discipline appraisals, the
certification also attests that the analyses, opinions, and conclusions expressed are those of the signatory. The
certification is also where significant appraisal assistance from others not signing the certification must be
acknowledged. Any appraiser who provides significant appraisal, appraisal review, or appraisal consulting
assistance to the assignment must sign the certification or be identified in the certification. When more than one
apraiser is involved in an assignment, USPAP allows for certification in a variety of ways, including:

• all appraisers could sign a certification accepting responsibility for the entirety of the analyses and the
  report if they are all competent to do so; or
• one appraiser could sign a certification and provide the name of each individual who provided
  significant appraisal, appraisal review, or appraisal consulting assistance. In such a case, the exact
  nature of the assistance must be reported, but this need not be in the certification; or
• for assignments involving multiple disciplines (e.g., real property appraisal and personal property appraisal), an appraiser could sign a certification accepting responsibility only for the elements of the certification, assignment results and report contents applicable to the appraiser’s discipline.

Illustrations

Workfile Obligations When Trainee Signs the Report

1. Jennifer is currently being trained as an appraiser (a trainee) working toward her state license as a real property appraiser. Her work includes completing and co-signing appraisal reports with her supervising appraiser. Must she keep a copy of the workfile for every assignment she works on?

If Jennifer acted as an appraiser in the assignment, USPAP provides two options: 1) she can maintain custody of the workfile, either the original or a copy; or 2) she can make appropriate access arrangements for the retention period, for example, with her employer or supervising appraiser.

Some common scenarios in such an assignment may include the trainee appraiser and the supervising appraiser each keeping a copy of the workfile. Or, the supervising appraiser may retain custody of the workfile and provide for access by the trainee appraiser. Both of these arrangements meet the record keeping requirements.

Certification Requirements When Trainee Does Not Sign the Report

2. Using the same scenario from Illustration 1 except only the senior appraiser signs the report and not the trainee appraiser, what certification requirements must each appraiser meet to comply with USPAP?

USPAP states that when a signing appraiser relies on work done by others who do not sign the certification, the signing appraiser is responsible for the decision to rely on the trainee appraiser’s work.

The name of the trainee appraiser who provided significant assistance, but does not sign the certification, must be stated in the certification. It is not required that the description of the assistance appear in the certification, but the extent of the assistance must be set forth in the report as required in STANDARDS 2, 3, 5, 6, 8 and 10. The degree of this description is identified by the applicable reporting option for the assignment. For example, in a Summary Appraisal Report the extent of the significant assistance must be “summarized.”

Possession of Workfiles

3. An appraiser is an employee of an appraisal firm. The firm has announced that the office is moving to another city. All appraisers not moving to the new location have been asked to turn over their workfiles to the company. The appraiser believes that he is required to keep the workfiles. Who is correct?

The Record Keeping section of the ETHICS RULE does not mandate that an appraiser have possession of assignment workfiles. Employment contracts and other employment arrangements often require appraisers to leave their workfiles with an employer should the appraiser leave that firm, or in other situations. However, if an appraiser must relinquish actual possession of the workfiles, the appraiser must establish appropriate access arrangements for the retention period. In the circumstances described, an other solution may be for the appraiser to obtain permission from the employer to make copies of his or her workfiles.
4. Jonathan is a trainee appraiser who has been working with the same supervising appraiser for some time. Recently, his supervising appraiser told him that since he was only a trainee, he had no right to access workfiles on appraisals where he had provided significant professional assistance. Is the supervising appraiser correct? Do trainees have any rights regarding access to workfiles?

The supervising appraiser is not correct. USPAP places workfile retention requirements on the appraiser. Jonathan, since he is acting as an appraiser, is an appraiser as defined in USPAP. In assignments where more than one appraiser is involved (e.g. a trainee appraiser and a supervising appraiser) each appraiser shares responsibility for complying with the Record Keeping section of the ETHICS RULE.

Supervising appraisers should be aware that all appraisers, including trainee appraisers, must maintain access to workfiles for a minimum of five years. A supervising appraiser must not impede a trainee appraiser’s ability to access a workfile under the following conditions:

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

Denying access to a workfile that the trainee worked on is a violation of the ETHICS RULE.

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

Acknowledging Significant Appraisal Assistance

5. Matthew, an appraiser, is working with a more senior appraiser on a complex appraisal assignment. His only task has been to develop the income approach based on information provided by the senior appraiser. What is the appropriate way to acknowledge Matthew’s role in the assignment?

Since Matthew’s work is limited to part of the assignment, signing a certification accepting responsibility for the entire assignment would not be appropriate. USPAP requires that Matthew be named in the certification, and the nature of his significant assistance be reported.

6. Margaret is performing a specific portion of a complex appraisal assignment, but is not competent to complete the entire assignment. As part of her training, she read the report and discussed it with the senior appraiser. Having now expanded her knowledge of the assignment, she wants to sign the certification along with the senior appraiser on the project. Is this appropriate?

No. By signing the certification, she would be accepting full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. Although she was competent to perform her assigned task, reading the report and discussing it with the senior appraiser does not confer competence. Therefore, she cannot accept full responsibility for the assignment results or sign the certification.
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This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments

APPLICATION: Real Property, Personal Property

THE ISSUE:

Ad valorem is Latin for “according to value.” In ad valorem taxation as signs, the appraisal or mass appraisal is used to establish a value basis for a political subdivision’s tax burden. This guidance is provided to address the application of USPAP to appraisal and mass appraisal assignments for ad valorem taxation.

As used in this Advisory Opinion, “appraisal assignments” are those covered by STANDARDS 1 and 2 or STANDARDS 7 and 8. “Mass appraisal assignments” are those covered by STANDARD 6.

ADVICE FROM THE ASB ON THE ISSUE

Application of Standards

Ad valorem taxation assignments include both appraisal assignments and mass appraisal assignments.

- STANDARDS 1 & 2 address the requirements for development of an appraisal and reporting of appraisal results for a particular real property interest as of a given date.

- STANDARD 6 addresses the requirements for development of a mass appraisal and reporting of mass appraisal results for real property and personal property. Mass appraisal involves the valuation of a universe of properties using standard methodology, employing common data, and allowing for statistical testing. Mass appraisal provides for a systematic approach and uniform application of appraisal methods and techniques to obtain estimates of values that allow for statistical review and analysis of results.

- STANDARDS 7 & 8 address the requirements for development of an appraisal and reporting of appraisal results for a particular personal property interest as of a given date.

The keys to distinguishing a mass appraisal are: 1) the subject of the appraisal is a “universe” of properties, meaning more than one property; and 2) the assignment involves standard methodology employing common data that allows for statistical testing. These models may be based on the cost approach, the income approach and/or the sales comparison approach to value.

Identification of Intended Users

In ad valorem taxation assignments, the client is typically the government or taxing authority that engages the appraiser. As defined in USPAP, the intended users include the client. Through communication with the client, the appraiser may identify other intended users. A party receiving a copy of an appraisal report satisfies disclosure requirements if the appraiser identifies such party as an intended user as part of the assignment.

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Scope of Work

The determination of an appropriate scope of work in all appraisal and mass appraisal assignments, including ad
valorem taxation assignments, is based on problem identification. The assignment elements necessary for
problem identification are identified in Standards Rule 1-2 (real property appraisal), Standards Rule 6-2 (real
property and personal property mass appraisal) and Standards Rule 7-2 (personal property appraisal). This
information provides the appraiser with the basis for determining the scope of work necessary to develop
credible assignment results.

In ad valorem taxation assignments, applicable laws and regulations of an assessing jurisdiction may define the
assignment elements needed for problem identification. For example, the type and definition of value is usually
established by statute, as is the effective date of the appraiser’s opinions and conclusions (tax year, levy year,
valuation date, etc.). Whatever the source of the assignment elements needed for problem identification, the
appraiser must identify the problem to be solved, and determine and perform the scope of work necessary to
develop credible assignment results.

In the interests of equity, the scope of work in mass appraisal assignments for ad valorem taxation can include
consideration of appraisal level (the overall proximity between appraised values and actual prices) and the
uniformity of property values (equity within groups of like properties). Standard Rule 6-1 (a) states:

In developing a mass appraisal, an appraiser must: (a) be aware of, understand, and correctly employ
those recognized methods and techniques necessary to produce a credible mass appraisal;

The appraiser is responsible for recognizing when the concepts of appraisal level and appraisal uniformity are
necessary for credible assignment results in a mass appraisal assignment for ad valorem taxation.

Reporting

Standards Rules 6-8 and 6-9 address the requirements for reporting mass appraisal results for real property and
personal property. The Mass Appraisal Report must clearly communicate the elements, results, opinions, and
value conclusions of the mass appraisal. In mass appraisals for ad valorem taxation, local statutes may
prescribe additional reporting requirements and procedures for the delivery of the assignment results.

In mass appraisal, the value opinion for each property is developed using the standard methods applied in the
mass appraisal model for a universe of properties. There may be many mass appraisal models used to value an
entire universe of properties. An individual property record or worksheet may describe the valuation of the
specific property after the application of the mass appraisal model. A written report of the mass appraisal as
described in Standards Rule 6-8 is not provided for each individual property. To understand the individual
property results developed in a mass appraisal requires the examination of all the information and analysis
required by Standards Rule 6-8.

STANDARDS 2 & 8 address the requirements for reporting results for real property and personal
property (respectively). The written report must be presented in a Self-Contained Appraisal Report, Summary
Appraisal Report, or Restricted Use Appraisal Report.

An appraiser may be asked to communicate the assignment results for a single property that was appraised as
part of a mass appraisal as segment. USPAP does not address this specific circumstance. The reporting
requirements of STANDARD 2 apply to appraisal assignments developed under STANDARD 1 and do not
apply to mass appraisal as segments prepared under STANDARD 6. However, the second sentence of the
PREAMBLE states: It is essential that appraisers develop and communicate their analyses, opinions, and
conclusions to intended users of their services in a manner that is meaningful and not misleading. Additionally,
the ETHICS RULE states: An appraiser must not communicate assignment results in a misleading or fraudulent
manner. Therefore, if an appraiser communicates mass appraisal results for a single property, the
communication must be meaningful and must not be misleading.
In assignments for ad valorem taxation, public policy may direct property owner notification of the property values rendered as a result of an appraisal or mass appraisal. Notifications are commonly required within the jurisdiction to meet due process requirements. These property owner notifications are not “reports” as defined in USPAP. Further, a party receiving a notification in order to satisfy disclosure requirements does not become an intended user unless the appraiser identifies such party as an intended user as part of the assignment.

Workfile Requirements

The ETHICS RULE requirement to prepare a workfile applies to appraisals and mass appraisals performed for ad valorem taxation assignments. An appraiser’s assignment workfile preserves evidence of the appraiser’s compliance with USPAP and other information as may be required to support the appraiser’s opinions and conclusions.

For a mass appraisal assignment, compliance with the Record Keeping section of the ETHICS RULE requires a workfile for the mass appraisal assignment, not a workfile for each property in the mass appraisal. The workfile for a mass appraisal contains the information to support the valuation of all properties in the mass appraisal. This supporting material may be documented in any form of media, including electronic files, and includes such items as property records, market data, sales ratios and other statistical studies, appraisal manuals and documentation, market studies, model building documentation, regulations, statutes, property photos, sketches, aerial imagery, maps, automated mapping and geographic information systems, worksheets, spreadsheets, and analysis reports. USPAP does not dictate the form or format of workfile documentation. There is no requirement that the contents of the workfile be held in a single location.

The retention of the workfile in support of an assignment for ad valorem taxation is governed by USPAP and may also be subject to retention schedules in the jurisdictions. The record retention time frames referenced in the Record Keeping section of the ETHICS RULE are minimums. Retention beyond the USPAP requirements is permitted. Unless compelled by law or regulation, USPAP does not permit appraisers to destroy records prior to five years after preparation for any reason. An appraiser citing a jurisdictional exception must comply with the requirements of the JURISDICTIONAL EXCEPTION RULE.

JURISDICTIONAL EXCEPTION RULE

Use of the JURISDICTIONAL EXCEPTION RULE is triggered by a contradiction between the requirements of USPAP and the law or regulations of a jurisdiction, not by client or appraiser discretion. USPAP does not establish who or which assignments must comply. Therefore, the JURISDICTIONAL EXCEPTION RULE cannot be applied to the decision to comply with USPAP.

An individual’s identification as an appraiser is the basis for determining who should comply with USPAP. This is because an individual’s public identification as an appraiser establishes an expectation that valuation services will be performed in compliance with USPAP. An individual must comply with USPAP when required by law, regulation, or agreement. Even if the governing authority’s policy does not require USPAP compliance, other applicable law or regulation might require compliance.

Illustrations

1. An appraiser is in the process of developing appraisals for the next year’s tax roll. The residential properties, condominiums, and general commercial and major commercial properties will be valued with a mass appraisal model. Which development standards apply?
Because the subject of the appraisal is a universe of properties, and because they are being appraised with a mass appraisal model, STANDARD 6 applies.

2. An appraiser has completed a mass appraisal for ad valorem taxation using a mass appraisal model. There is a special use property for which it has been determined that the mass appraisal model is not appropriate. This property will be appraised as an individual property. Which development standard applies to the appraisal of the special use property?

   Even though the special use property is being appraised for ad valorem taxation, STANDARD 1 would apply because the subject is an individual property, not a universe of properties.

3. An assessment appeal is in process, and an appraisal of an individual property is being conducted as part of that appeal. Which development standards apply?

   STANDARD 1 or STANDARD 7 would apply because an individual property is being appraised rather than a universe of properties.

4. An appraiser is conducting a mass appraisal for ad valorem taxation. A property record card is produced for each property. Is each property record card considered a report under STANDARD 6?

   No. The property record card is not the mass appraisal report; it is only a portion of the information and analysis supporting the mass appraisal.