

# USPAP ADVISORY OPINIONS

## 2010-2011 EDITION

APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION

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

Published in the United States of America.

All rights reserved.

No parts of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopy, recording or otherwise, without the prior written consent of the publisher.

**EFFECTIVE:**

**January 1, 2010 through  
December 31, 2011**



# APPRAISAL STANDARDS BOARD



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

## FOREWORD

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

Appraisal Standards Board  
The Appraisal Foundation  
1155 15<sup>th</sup> Street, NW, Suite 1111  
Washington, DC 20005  
Phone: 202-347-7722  
Fax: 202-347-7727  
E-Mail: [info@appraisalfoundation.org](mailto:info@appraisalfoundation.org)  
[www.appraisalfoundation.org](http://www.appraisalfoundation.org)

## TABLE OF CONTENTS

### 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

AO-1	Sales History (RP) .....	A-1
AO-2	Inspection of Subject Property (RP, PP).....	A-4
AO-3	Update of a Prior Appraisal (ALL).....	A-7
AO-4	Standards Rule 1-5(b) (RP) .....	A-10
AO-5	Assistance in the Preparation of an Appraisal - Retired .....	A-11
AO-6	The Appraisal Review Function - Retired .....	A-12
AO-7	Marketing Time Opinions (RP, PP) .....	A-13
AO-8	Market Value vs. Fair Value in Real Property Appraisals - Retired.....	A-15
AO-9	The Appraisal of Real Property That May Be Impacted by Environmental Contamination (RP) .....	A-16
AO-10	The Appraiser-Client Relationship - Retired .....	A-20
AO-11	Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2 (RP, PP) .....	A-21
AO-12	Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2 (RP, PP).....	A-26
AO-13	Performing Evaluations of Real Property Collateral to Conform with USPAP (RP).....	A-28
AO-14	Appraisals for Subsidized Housing (RP).....	A-32
AO-15	Using the DEPARTURE RULE in Developing a Limited Appraisal - Retired .....	A-35
AO-16	Fair Housing Laws and Appraisal Report Content (RP) .....	A-36
AO-17	Appraisals of Real Property with Proposed Improvements (RP) .....	A-39
AO-18	Use of an Automated Valuation Model (AVM) (ALL).....	A-44
AO-19	Unacceptable Assignment Conditions in Real Property Appraisal Assignments (RP) .....	A-51
AO-20	An Appraisal Review Assignment That Includes the Reviewer’s Own Opinion of Value (ALL) .....	A-56
AO-21	USPAP Compliance (ALL).....	A-63
AO-22	Scope of Work in Market Value Appraisal Assignments, Real Property (RP) .....	A-73
AO-23	Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment (RP).....	A-80
AO-24	Normal Course of Business (RP, PP) .....	A-84
AO-25	Clarification of the Client in a Federally Related Transaction (RP).....	A-87
AO-26	Readdressing (Transferring) a Report to Another Party (ALL).....	A-89
AO-27	Appraising the Same Property for a New Client (ALL).....	A-91
AO-28	Scope of Work Decision, Performance, and Disclosure (ALL) .....	A-95
AO-29	An Acceptable Scope of Work (ALL).....	A-99
AO-30	Appraisals for Use by a Federally Regulated Financial Institution (RP).....	A-102
AO-31	Assignments Involving More Than One Appraiser (ALL).....	A-107
AO-32	Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments (RP, PP).....	A-111

**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 the sales history requirements vary according to the jurisdiction and the availability of information. This lack of consistency has raised questions regarding the applicability and relevance of the sales history requirements.

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 appraiser’s 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

## **ADVISORY OPINION 1**

---

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

### **Sample Sales Histories**

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

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

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

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

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

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

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

### **Sample Comments**

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

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

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

75 In jurisdictions where reliable price information cannot be found in the public records and where the appraiser  
76 is unable to obtain complete information in the normal course of business, it would be appropriate to include in  
77 the appraisal report a comment similar to the one shown below.

78           The subject property was sold by John Jones to the current owner on June 1, 20XX, for an unknown  
79           price. The appraiser attempted to obtain the purchase price and other terms of the transaction without  
80           success. The parties to the transaction declined to discuss the terms or conditions of the sale.

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

## ADVISORY OPINION 2

---

### 1 **ADVISORY OPINION 2 (AO-2)**

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

5 **SUBJECT: Inspection of Subject Property**

6 **APPLICATION: Real Property, Personal Property**

7 **THE ISSUE:**

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

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

### 13 **ADVICE FROM THE ASB ON THE ISSUE**

#### 14 **Purpose of an Inspection**

15 The primary reason for inspection of a property is to gather information about the characteristics of the property  
16 that are *relevant* to its value.<sup>1</sup>

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

#### 19 **Minimum Level of Inspection**

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

24 The extent of the inspection process is an aspect of the scope of work, and may vary based on assignment  
25 conditions and the intended use of the assignment results.<sup>2</sup> It is the appraiser's responsibility to determine the  
26 appropriate scope of work, including the degree of inspection necessary to produce credible assignment results  
27 given the intended use.

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

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

---

<sup>1</sup> See Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*.

<sup>2</sup> See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*.

34 the subject property.<sup>3</sup> For some assignments, it may be necessary to rely on reports prepared by other  
 35 professionals. In such cases the appraiser must comply with USPAP requirements related to reliance on work  
 36 done by others.

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

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

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

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

56 **Disclosure Requirements**

57 Appraisal reports for real and personal property must contain a signed certification indicating whether the  
 58 appraiser has or has not personally inspected the subject property. All appraisal reports must also contain  
 59 sufficient information to enable the intended users to understand the extent of the inspection that was  
 60 performed.

61 Because of the infinite variability of inspections, it is important that the appraisal report clearly communicates  
 62 the degree of the inspection in order for the report to be meaningful.<sup>4</sup>

63 **Illustrations**

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

66 If an appraiser's observations are limited to an exterior-only inspection from the street, then the  
 67 appraiser must gather information on relevant characteristics from other data sources and/or use  
 68 extraordinary assumptions.<sup>5</sup> The data sources used are often the same sources used to gather  
 69 information on comparable sales. For example, the size of the property might be obtained from public  
 70 records, and other information might be obtained from interior photographs included in a listing of the  
 71 property for sale, or information from the appraiser's own files.

---

<sup>3</sup> See Comment to Standards Rules 1-2(e) and 7-2(e).

<sup>4</sup> 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).

<sup>5</sup> 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).

## ADVISORY OPINION 2

---

72 The report must disclose the extent of the property inspection in a manner that is clear to the intended  
73 users. For example, in this case it would probably be insufficient to merely state that the property was  
74 inspected. The report must make clear that the appraisal was based on an “exterior only” inspection  
75 from the street and state the sources used to identify the relevant characteristics other than those  
76 observed during the inspection.

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

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

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

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

---

<sup>6</sup> 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.

## ADVISORY OPINION 3

---

### **A New Assignment of a Prior Assignment**

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

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

40 The same USPAP requirements apply when appraising or analyzing a property that was the subject of a prior  
41 assignment. There are no restrictions on who the appraiser is in such a circumstance, who the client is<sup>1</sup>, what  
42 length of time may have elapsed between the prior and current assignments, or whether the characteristics of the  
43 subject property are unchanged or significantly different than in the prior assignment.

### **Development Requirements**

44  
45 For all assignments, the development of the assignment results must be in accordance with the requirements  
46 contained in the applicable STANDARD (1, 3, 4, 6, 7, or 9). When developing an opinion regarding a property  
47 that was the subject of a previous assignment, the scope of work in the new assignment may be different from  
48 the scope of work in the prior one. In addition, rather than duplicating steps in the appraisal process, the  
49 appraiser can elect to incorporate some of the analyses from the previous assignment (those items that the  
50 appraiser concludes are credible and in compliance with the applicable development Standard) into the new  
51 assignment through the use of an extraordinary assumption.

### **Reporting Requirements**

52  
53 For all assignments, the results must be reported in accordance with the requirements of STANDARDS 2, 3, 5,  
54 6, 8, or 10, as applicable. The new report is not required to have the same level of detail as the original report –  
55 i.e., a different reporting option may be used. However, the new report must contain sufficient information to  
56 be meaningful and not misleading to the intended users. There are three ways that the reporting requirements  
57 can be satisfied for these types of assignments:

- 58 1. Provide a new report that contains all the necessary information/analysis to satisfy the applicable  
59 reporting requirements, *without incorporation* of the prior report by either attachment or reference.
- 60 2. Provide a new report that *incorporates by attachment* specified information/analysis from the prior  
61 report so that, in combination, the attached portions and the new information/analysis added satisfies  
62 the applicable reporting requirements.
- 63 3. Provide a new report that *incorporates by reference* specified information/analysis from the prior  
64 report so that, in combination, the referenced portions and the new information/analysis added satisfies  
65 the applicable reporting requirements. This option can only be used if the original appraiser’s firm and  
66 original intended users are involved, since the prior report was issued from that appraiser to those  
67 intended users, assuring they have access to a copy. When this incorporation by reference option is  
68 used, the following items from that prior report must be specifically identified in the new report to  
69 avoid being misleading:
  - 70 • subject property
  - 71 • client and any other intended users
  - 72 • intended use
  - 73 • appraiser(s)
  - 74 • effective date of value or assignment results

---

<sup>1</sup> See Advisory Opinion 27, *Appraising the Same Property for a New Client*.

- 75           • date of report, and  
76           • interest(s) appraised

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

79       **Confidentiality**

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

85       **Record Keeping**

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

## ADVISORY OPINION 4

---

1 **ADVISORY OPINION 4 (AO-4)**

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

5 **SUBJECT: Standards Rule 1-5(b)**

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

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

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

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

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

1 **ADVISORY OPINION 5 (AO-5)**

2 **SUBJECT: Assistance in the Preparation of an Appraisal**

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

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

## **ADVISORY OPINION 6**

---

1 **ADVISORY OPINION 6 (AO-6)**

2 **SUBJECT: The Appraisal Review Function**

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

4 Please refer to Advisory Opinion 20, *An Appraisal Review Assignment That Includes the Reviewer's Own*  
5 *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.<sup>1</sup>

**Rationale and Method for Developing a Marketing Time Opinion**

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.

---

<sup>1</sup> 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**

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

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

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

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

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

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

1 **ADVISORY OPINION 8 (AO-8)**

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

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

## ADVISORY OPINION 9

---

### 1 ADVISORY OPINION 9 (AO-9)

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

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

### 6 **APPLICATION: Real Property**

### 7 **THE ISSUE:**

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

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

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

#### 17 **Relevant USPAP & Advisory References**

- 18 • DEFINITIONS, specifically the definitions of  
19 Extraordinary Assumption: *an assumption, directly related to a specific assignment, which, if*  
20 *found to be false could alter the appraiser’s opinions or conclusions.*  
21 Hypothetical Condition: *that which is contrary to what exists but is supposed for the purpose of*  
22 *analysis.*
- 23 • ETHICS RULE, particularly  
24 Conduct: *An appraiser must perform assignments with impartiality, objectivity, and*  
25 *independence, and without accommodation of personal interests .... An appraiser must not*  
26 *communicate assignment results with the intent to mislead or to defraud.*
- 27 • COMPETENCY RULE, *An appraiser must: (1) be competent to perform the assignment; (2)*  
28 *acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the*  
29 *assignment.*
- 30 • Standards Rule 1-1(a): *In developing a real property appraisal, an appraiser must: (a) be aware*  
31 *of, understand, and correctly employ those recognized methods and techniques that are necessary*  
32 *to produce a credible appraisal;*
- 33 • Standards Rule 1-2(e): *In developing a real property appraisal, an appraiser must: (e) identify the*  
34 *characteristics of the property that are relevant to the type and definition of value and intended*  
35 *use of the appraisal....*
- 36 • Standards Rule 1-2(f) and (g): *In developing a real property appraisal, an appraiser must: (f)*  
37 *identify any extraordinary assumptions necessary in the assignment; and (g) identify any*  
38 *hypothetical conditions necessary in the assignment.*
- 39 • Standards Rule 1-3(b): *When necessary for credible assignment results in developing a market*  
40 *value opinion, an appraiser must: (b) develop an opinion of the highest and best use of the real*  
41 *estate.*
- 42 • Standards Rule 1-4: *In developing a real property appraisal, an appraiser must collect, verify,*  
43 *and analyze all information necessary for credible assignment results.*

44 **Competency and Related Issues**

45 Consistent with Standards Rule 1-1(a): in the appraisal of a property as impacted by environmental  
 46 contamination, an appraiser must *be aware of, understand, and correctly employ those recognized methods and*  
 47 *techniques necessary to develop and communicate a credible appraisal.* Accordingly, an appraiser must have  
 48 the requisite knowledge about appropriate methods, and be able to assemble the required information. An  
 49 appraiser who lacks knowledge and experience in analyzing the impact of environmental contamination on the  
 50 value of real property must take the steps necessary to complete the assignment competently, as required by the  
 51 COMPETENCY RULE. However, an appraiser need not be an expert on the scientific aspects of environmental  
 52 contamination, and in most situations the appraiser will utilize scientific and other technical data prepared by  
 53 others, such as environmental engineers. In these situations, the appraiser should utilize an extraordinary  
 54 assumption [see Standards Rule 1-2(f)] regarding the information obtained from other experts that is used in the  
 55 appraisal. Examples of such information include items (1) to (10) under the header titled “Relevant Property  
 56 Characteristics” later in this Advisory Opinion. This is especially important in situations where there is  
 57 conflicting information about such information.

58 **Specialized Terms and Definitions**

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

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

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

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

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

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

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

84 **Remediation Cost:** The cost to cleanup (or remediate) a contaminated property to the appropriate regulatory  
 85 standards. These costs can be for the cleanup of on-site contamination as well as mitigation of off-site impacts  
 86 due to migrating contamination.

## ADVISORY OPINION 9

---

87 **Remediation Lifecycle:** A cycle consisting of three stages of cleanup of a contaminated site: before  
88 remediation or cleanup; during remediation; and after remediation. A contaminated property's remediation  
89 lifecycle stage is an important determinant of the risk associated with environmental contamination.  
90 Environmental risk can be expected to vary with the remediation lifecycle stage of the property.

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

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

### 97 **Relevant Property Characteristics**

98 The appraisal of a property that includes the effects of environmental contamination on its value usually  
99 requires data not typically used in an appraisal of a noncontaminated property or an  
100 appraisal of a potentially impacted property using either a hypothetical condition or an extraordinary  
101 assumption that it is uncontaminated or not impacted. The inclusion of these additional relevant property  
102 characteristics is consistent with Standards Rule 1-2(e). The relevant property characteristics may include, but  
103 are not limited to:

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

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

### 119 **Valuation Issues – As If Unimpaired**

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

- 124 1) the resulting appraisal report is not misleading,
- 125 2) the client has been advised of the limitation, and
- 126 3) all the requirements of the ETHICS RULE have been satisfied.

127 To avoid confusion in the marketplace, the appraiser should disclose available information about the  
 128 contamination problem, explain the purpose of the hypothetical condition that the real estate is not  
 129 contaminated, and state that the use of the hypothetical condition might have affected the assignment results in  
 130 accordance with SR 2-2(a), (b), and (c)(x).

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

### 137 **Valuation Issues - As Impaired**

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

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

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

## **ADVISORY OPINION 10**

---

1 **ADVISORY OPINION 10 (AO-10)**

2 **SUBJECT: The Appraiser-Client Relationship**

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

4 Please refer to Advisory Opinion 25, *Clarification of the Client in a Federally Related Transaction*, Advisory  
5 Opinion 26, *Readdressing (Transferring) a Report to Another Party*, and Advisory Opinion 27, *Appraising the*  
6 *Same Property for a New Client*, for related advice.

1 **ADVISORY OPINION 11 (AO-11)**

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

5 **SUBJECT: Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2<sup>1</sup>**

6 **APPLICATION: Real Property, Personal Property**

7 **THE ISSUE:**

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

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

11 **Relevant USPAP & Advisory References**

- 12 • Under Standards Rules 2-2 and 8-2, an appraiser may communicate the results of the appraisal in  
 13 one of three formats: Self-Contained Appraisal Report (Standards Rules 2-2(a) and 8-2(a),  
 14 Summary Appraisal Report (Standards Rules 2-2(b) and 8-2(b)), or Restricted Use Appraisal  
 15 Report (Standards Rules 2-2(c) and 8-2(c)). Standards Rules 2-2 and 8-2 require that the report  
 16 prominently state which option is used.
- 17 • The Comments to Standards Rules 2-2 and 8-2 state that *the essential difference among the three*  
 18 *options is in the content and level of information provided.*

19 **Prominent Statement of Option Used**

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

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

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

28 **Content of the Self-Contained Appraisal Report**

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

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

---

<sup>1</sup> 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

---

### 34 **Content of the Summary Appraisal Report**

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

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

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

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

### 43 **Content of the Restricted Use Appraisal Report**

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

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

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

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

### 53 **Differences in the Appraisal Report Options**

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

58 The chart on the following page displays a rule by rule comparison of the reporting rules for the three types of  
59 reports. Space does not permit inclusion of the Comment to the reporting rules in the chart. The Comments  
60 contain important distinctions that must be considered in the preparation of each type of appraisal report, and  
61 the reader of this Advisory Opinion should refer to the full text of Standards Rules 2-2 and 8-2.

63 **STANDARDS RULES 2-2 AND 8-2 REPORT COMPARISON CHART:** The essential difference among  
 64 the three options is in the use and application of the terms “describe,” “summarize,” and “state.” “Describe” is  
 65 used to connote a comprehensive level of detail in the presentation of information. “Summarize” is used to  
 66 connote a more concise presentation of information. “State” is used to connote the minimal presentation of  
 67 information.

68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100  
101  
102  
103  
104  
105  
106  
107  
108  
109  
110

a) Self-Contained Appraisal Report	b) Summary Appraisal Report	c) Restricted Use Appraisal Report
i. state the identity of the client and any intended users, by name or type;	i. state the identity of the client and any intended users, by name or type;	i. state the identity of the client by name or type; 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;
ii. state the intended use of the appraisal;	ii. state the intended use of the appraisal;	ii. state the intended use of the appraisal;
iii. describe information sufficient to identify the real estate or personal property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. summarize information sufficient to identify the real estate or personal property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. state information sufficient to identify the real estate or personal property involved in the appraisal;
iv. state the property interest appraised;	iv. state the property interest appraised;	iv. state the property interest appraised;
v. state the type and definition of value and cite the source of the definition;	v. state the type and definition of value and cite the source of the definition;	v. state the type of value, and cite the source of its definition;
vi. state the effective date of the appraisal and the date of the report;	vi. state the effective date of the appraisal and the date of the report;	vi. state the effective date of the appraisal and the date of the report;
vii. describe the scope of work used to develop the appraisal;	vii. summarize the scope of work used to develop the appraisal;	vii. state the scope of work used to develop the appraisal;
viii. describe the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;	viii. summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;	viii. state the appraisal methods and techniques employed, state the value opinion(s) and conclusion(s) reached and reference the workfile; exclusion of the sales comparison approach, cost approach, or income approach must be explained;
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;	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;	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;
x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and that their use might have affected the assignment results; and	x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and that their use might have affected the assignment results; and	x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and that their use might have affected the assignment results; and
xi. include a signed certification in accordance with Standards Rule 2-3 or 8-3.	xi. include a signed certification in accordance with Standards Rule 2-3 or 8-3.	xi. include a signed certification in accordance with Standards Rule 2-3 or 8-3.
Comments have not been included in this chart		

## ADVISORY OPINION 11

---

### 111 **Examples of the Application of the Terms “Describe,” “Summarize,” and “State” in the Context of a Real** 112 **Property Appraisal Report**

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

#### 117 **EXAMPLE OF “DESCRIBE”**

##### 118 **Zoning**

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

##### 122 **Principal Permitted Uses**

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

##### 125 **Special Permit Uses**

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

##### 128 **Yard and Bulk Regulations**

129	Minimum Requirements	Lot Area:	10,000 sq. ft.
130		Lot Width:	100 feet
131		Front Yard:	20 feet
132		Side Yards:	10 feet (each)
133		Rear Yard:	10 feet
134		Off-Street Parking (Stores):	4 spaces per 1,000 sq. ft. of sales area
135	Maximum Requirements	Building Coverage:	50% of lot area
136		Building Height:	2 stories or 20 feet

##### 137 **Conclusion**

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

#### 140 **EXAMPLE OF “SUMMARIZE”**

##### 141 **Zoning**

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

147 **EXAMPLE OF “STATE”**148 **Zoning**

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

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

153 **Varying Depth and Detail Within the Report Option Selected**

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

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

## ADVISORY OPINION 12

---

### 1 **ADVISORY OPINION 12 (AO-12)**

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

5 **SUBJECT: Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2<sup>1</sup>**

6 **APPLICATION: Real Property, Personal Property**

#### 7 **THE ISSUE:**

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

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

##### 11 **Relevant USPAP & Advisory References**

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

##### 16 **Deciding Which Report Option to Use**

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

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

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

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

---

<sup>1</sup> 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*.

- 37 • the client is the only intended user of the appraiser's opinions and conclusions set forth in the  
38 report;
- 39 • the client understands the limited utility of this option;
- 40 • the intended use of the appraisal warrants restricted disclosure about the appraisal process steps  
41 completed in the assignment; and
- 42 • the client (the only intended user) does not need the level of information required in a Self-  
43 Contained Appraisal Report or Summary Appraisal Report.

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

## ADVISORY OPINION 13

---

### 1 **ADVISORY OPINION 13 (AO-13)**

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

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

### 6 **APPLICATION: Real Property**

### 7 **THE ISSUE:**

8 How can a n ap praiser o perating under t he *Uniform Standards of Professional Appraisal Practice (USPAP)*  
9 develop an evaluation of real property collateral (evaluation)?

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

#### 11 **Relevant USPAP & Advisory References**

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

#### 18 **Background**

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

29 Many p rofessional ap praisers an d s tate ap praiser r egulators h ave e xpressed uncertainty as to whether  
30 evaluations o f r eal p roperty co llateral co mply with U SPAP. A p praisers ar e co ncerned with the p otential  
31 consequences of a violation of USPAP.

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

33 “An in stitution s hould e stablish p rudent s tandards f or th e p reparation o f e valuations. At a  
34 minimum, an evaluation should:

- 35 • be written;
- 36 • include the preparer’s name, address, and signature and the effective date of the evaluation;
- 37 • describe the real estate collateral, its condition, and its current and projected use;
- 38 • describe the source(s) of information used in the analysis;
- 39 • describe the analysis and supporting information; and
- 40 • provide an estimate of the real estate’s market value, with any limiting conditions

41 An evaluation report should include calculations, supporting assumptions, and, if utilized, a  
 42 discussion of comparable sales. Documentation should be sufficient to allow an institution to  
 43 understand the analysis, assumptions, and conclusions. An institution's own real estate loan  
 44 portfolio experience and value estimates prepared for recent loans on comparable properties might  
 45 provide a basis for evaluations.

46 An evaluation should provide a net estimate of value to assist the institution in assessing the  
 47 soundness of the transaction. Prudent practices also require that as an institution engages in more  
 48 complex real estate-related financial transactions, or as its overall exposure increases, a more  
 49 detailed evaluation should be performed. For example, an evaluation for a home equity loan might  
 50 be based primarily on information derived from a sales data services organization or current tax  
 51 assessment information, while an evaluation for an income-producing real estate property should  
 52 fully describe the current and expected use of the property and include an analysis of the  
 53 property's rental income and expenses."

54 Appraisers need to be aware that lenders regulated by different agencies may have different interpretations of  
 55 the Agencies' Guidelines. Lender institutions may have developed different requirements for evaluations based  
 56 on their interpretations of the Agencies' Guidelines. It is critical that the appraiser and the client have a mutual  
 57 understanding of the intended use and the scope of work for the assignment. One way to enhance this mutual  
 58 understanding is for the appraiser to request copies of the institution's evaluation standards or requirements  
 59 pertinent to the assignment.

60 **ASB Opinion on Evaluations of Real Property Collateral**

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

63 When an evaluation assignment includes a request for an opinion of value, under USPAP the evaluation  
 64 becomes an appraisal, which USPAP defines as *the act or process of developing an opinion of value; an*  
 65 *opinion of value.*

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

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

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

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

75 If the evaluation request does not call for an opinion of value of a specific property, the request might be a part  
 76 of appraisal practice for which there are no specific performance standards in USPAP. If the evaluation request  
 77 requires information that is an aspect of value, but not a no opinion of value, the appraiser would then be  
 78 obligated to comply only with the Conduct, Management, and Confidentiality sections of the ETHICS RULE,  
 79 the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE. Examples of requests for services  
 80 that do not require a value conclusion of a specific property include, without limitation:

- 81 • providing sales and rent data, listings, assessments and other similar information, without
- 82 adjustments to indicate the value of a specific property; and

## ADVISORY OPINION 13

---

- 83                   • providing data describing a neighborhood, community, or any other real estate market segment  
84                   and analyses on real estate market trends.

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

### 89 **Illustrations**

#### 90 **Scenario #1: Market Value**

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

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

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

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

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

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

#### 110 **Scenario #2: Value/Assessments**

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

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

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

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

122 **Scenario #3: Providing Market Information**

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

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

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

142 **Scenario #4: Subdivision Lot**

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

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

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

152 **Reporting the Results of an Evaluation**

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

## ADVISORY OPINION 14

---

### 1 **ADVISORY OPINION 14 (AO-14)**

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

### 5 **SUBJECT: Appraisals for Subsidized Housing**

### 6 **APPLICATION: Real Property**

### 7 **THE ISSUE:**

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

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

#### 12 **Relevant USPAP & Advisory References**

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

#### 26 **Identification of Subsidized Housing**

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

#### 33 **Competency Issues**

34 Appraisers should be aware that the competency required to appraise subsidized housing extends beyond typical  
35 residential appraisal competency. Subsidized housing appraisals require the appraiser to understand the various  
36 programs, definitions, and pertinent tax considerations involved in the particular assignment applicable to the  
37 location and development. An appraiser should be capable of analyzing the impact of the programs and  
38 definitions in the local subsidized housing submarket, as well as in the general market that is unaffected by  
39 subsidized housing programs. Appraisers should also be aware of possible political changes that will affect the  
40 durability of the benefits and restrictions to subsidized housing projects and fully understand interpretation and  
41 enforcement of subsidy programs. An appraiser's lack of knowledge and understanding of the impact of the

42 various influences that affect subsidized housing projects could lead to misleading conclusions. For example,  
 43 subsidized housing projects may have differences in income, expenses, and rates of returns when compared  
 44 with unsubsidized housing projects. Appraisers should reflect the actions of the participants in the market and  
 45 avoid any stereotyped or biased assumptions.

#### 46 **Property Rights Issues**

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

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

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

#### 61 **Value Definition Issues**

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

- 66 (i) *in terms of cash; or*
- 67 (ii) *in terms of financial arrangements equivalent to cash; or*
- 68 (iii) *in other precisely defined terms; and*
- 69 (iv) *if the opinion of value is to be based on non-market financing or financing with unusual*  
 70 *conditions or incentives, the terms of such financing must be clearly identified and the*  
 71 *appraiser's opinion of their contributions to or negative influence on value must be developed*  
 72 *by analysis of relevant market data.*

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

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

81 In appraisal of subsidized housing, the value definition selected or required by the client and the reporting  
 82 techniques used should be discussed with the client prior to the acceptance of the assignment because the  
 83 analyses may be based on general market terms, subsidized housing submarket financing with unusual  
 84 conditions or incentives, both, or some other defined premise.

## ADVISORY OPINION 14

---

85 Because Standards Rule 1-2(c) also states that the terms of submarket financing or financing with unusual  
86 conditions or incentives must be clearly set forth, their contributions to or negative influence on value must be  
87 developed by analysis of relevant market data.

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

### 90 **Market Analysis Issues**

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

1 **ADVISORY OPINION 15 (AO-15)**

2 **SUBJECT: Using the DEPARTURE RULE in Developing a Limited Appraisal**

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

## ADVISORY OPINION 16

---

### 1 **ADVISORY OPINION 16 (AO-16)**

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

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

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

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

10 **BACKGROUND:**

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

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

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

25 **Relevant USPAP & Advisory References**

- 26
- 27 • The PREAMBLE states, *It is essential that appraisers develop and communicate their analyses,*  
28 *opinions, and conclusions to intended users of their services in a manner that is meaningful and*  
29 *not misleading.*
  - 30 • The Conduct section of the ETHICS RULE states:  
31 *An appraiser must not engage in criminal conduct.*  
32 *An appraiser must perform assignments with impartiality, objectivity, and independence, and*  
33 *without accommodation of personal interests.*  
34 **The COMPETENCY RULE states, ... An appraiser must: (1) be competent to perform the**  
35 **assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or**  
36 **withdraw from the assignment.**
  - 37 • *Competency requires: (1) the ability to properly identify the problem to be addressed; and (2) the*  
38 *knowledge and experience to complete the assignment competently; and (3) recognition of, and*  
39 *compliance with, laws and regulations that apply to the appraiser or to the assignment.*
  - 40 • The Comment to the COMPETENCY RULE states: *Competency may apply to factors such as, but*  
41 *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.*

- 42 • The Comment to Standards Rule 1-1(a) states, *Social change has also had an effect on appraisal*  
 43 *theory and practice. To keep abreast of these changes and developments, the appraisal profession*  
 44 *is constantly reviewing and revising appraisal methods and techniques and developing new*  
 45 *methods and techniques to meet new circumstances. For this reason, it is not sufficient for*  
 46 *appraisers to simply maintain the skills and knowledge they possess when they become*  
 47 *appraisers. Each appraiser must continuously improve his or her skills to remain proficient in*  
 48 *real property appraisal.*
- 49 • Standards Rule 2-1(a) states, *Each written or oral real property appraisal report must clearly and*  
 50 *accurately set forth the appraisal in a manner that will not be misleading.*
- 51 • The content of the certification in Standards Rules 2-3, 3-3, 5-3 and 6-9 requires the following  
 52 disclosures: *I certify that, to best of my knowledge and belief, ... the reported analyses, opinions,*  
 53 *and conclusions are my personal, impartial, and unbiased professional analyses, opinions, and*  
 54 *conclusions ...[and] my analyses, opinions, and conclusions were developed, and this report has*  
 55 *been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*
- 56 • The Conduct section of the ETHICS RULES states, *An appraiser must not use or rely on*  
 57 *unsupported conclusions relating to characteristics such as race, color, religion, national origin,*  
 58 *gender, marital status, familial status, age, receipt of public assistance income, handicap, or an*  
 59 *unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.*

60 **Appraisal Report Content**

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

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

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

76 Appraisers should exercise care that comments made in a report will not be perceived as illegally biased or  
 77 discriminatory. Factual descriptions, rather than subjective phrases, allow the user of a report to draw his or her  
 78 own conclusions. The use of terms that reflect a scale such as "high," "low," "good," "fair," "poor," "strong,"  
 79 "weak," "rapid," "slow," "average," or the like should also provide contextual information that properly  
 80 explains the frame of reference and the relative position of the subject property on the scale. For example, if  
 81 absorption is stated as "rapid," the context of the rating should be cited as well ("rapid" relative to what?).

82 **Competency**

83 Situations such as those listed below require specific research and competency to avoid the use of unsupported  
84 conclusions:

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

91 **Illustrations:**

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

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

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

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

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

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

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

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

120 The appraiser should reflect market preferences for the components of the structure. However, the  
121 appraiser should not draw an unsupported conclusion that the fixtures either enhance or diminish  
122 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, as it relates to the complexity of an appraisal assignment involving proposed improvements;

## ADVISORY OPINION 17

---

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

44 Additional standards information is provided in these Statements on Appraisal Standards:

- 45 • No. 2, addressing discounted cash flow analysis;
- 46 • No. 4, explaining that three categories of effective appraisal dates may be used—retrospective,  
47 current, or prospective—according to the intended use of the appraisal assignment, and addressing  
48 how an appraisal can be prepared and presented in a manner that will not be misleading when a  
49 prospective value opinion is required; and
- 50 • No. 6, addressing reasonable exposure time in market value opinions.

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

### 54 **General Comments**

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

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

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

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

77 There may be laws, regulations or guidelines that affect how and when a hypothetical condition may be used in  
78 an appraisal assignment. An appraiser should consider these assignment conditions, but he or she must make  
79 certain that developing and reporting a current value opinion under a hypothetical condition in accordance with  
80 the assignment conditions still results in an appraisal that complies with USPAP.

81 **Assignment Considerations**

82 An appraiser asked to complete an assignment involving proposed improvements to real property should  
83 consider and discuss with the client:

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

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

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

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

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

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

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

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

114 A current value opinion assignment does not require an appraiser to provide a prospective value opinion.  
115 However, so as to not be misleading the appraisal report should clearly indicate the fact that the value of the  
116 property that actually exists as of the date of the report would be different from the value concluded for the  
117 property with the proposed improvements completed as described in the hypothetical condition(s) used in the  
118 appraisal.

119 **Illustrations:**

120 1. A client is considering financing the construction of a single-family residence. Construction is  
121 expected to be complete in six to eight months from the date of the appraisal report. No significant  
122 changes in market conditions are foreseeable during the construction period. The client requests a  
123 current value opinion based on the hypothetical condition that the improvements are complete as of the  
124 current date. Can such an appraisal be provided in compliance with USPAP?

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

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

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

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

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

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

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

153 No, because given the intended use and the foreseeable changes in market competition  
154 during the course of construction, a current value opinion for the property, as if  
155 complete, would most likely be misleading. A prospective value opinion, with an  
156 effective value date as of the expected completion date, would more realistically reflect  
157 market conditions affecting the subject property as proposed.

158 B. The client requests an appraisal with a current value opinion for use in testing project  
159 feasibility or investment alternatives, based on the hypothetical condition that the apartment  
160 complex is complete and stabilized occupancy. Can such an appraisal be provided in  
161 compliance with USPAP?

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

## ADVISORY OPINION 18

---

1 **ADVISORY OPINION 18 (AO-18)**

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

5 **SUBJECT: Use of an Automated Valuation Model (AVM)**

6 **APPLICATION: Real Property, Personal Property, Intangible Property**

7 **THE ISSUE:**

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

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

13 **BACKGROUND:**

14 This Advisory Opinion addresses how an appraiser may use an AVM.

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

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

20 An appraiser can use an AVM as a tool in the development of appraisal, appraisal review, or appraisal  
21 consulting opinions and conclusions. However, the appropriate use of an AVM is, like any tool, dependent upon  
22 the skill of the user and the tool's suitability to the task at hand.

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

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

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

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

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

- 33       1. does not alter the input or affect the output of the AVM, and  
34       2. does not communicate his or her own appraisal, appraisal review, or appraisal consulting opinions  
35       or conclusions regarding the AVM's output.

36 If the appraiser uses an AVM only to provide the client with the AVM output, the references to the Conduct  
 37 section of the ETHICS RULE and the “Communicating the AVM Output” section in this Advisory Opinion are  
 38 relevant.

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

40 **Relevant USPAP & Advisory References**

- 41 • Conduct section of the ETHICS RULE:  
 42 *An appraiser must not engage in criminal conduct.*  
 43 *An appraiser must perform assignments with impartiality, objectivity, and independence, and*  
 44 *without accommodation of personal interests.*  
 45 *Further, An appraiser must not communicate assignment results with the intent to mislead or to*  
 46 *defraud.. An appraiser must not use or communicate a report that is known by the appraiser to be*  
 47 *misleading or fraudulent.*
- 48 • The COMPETENCY RULE states, ... *Competency requires: (1) the ability to properly identify*  
 49 *the problem to be addressed; and (2) the knowledge and experience to complete the assignment*  
 50 *competently; and (3) recognition of, and compliance with, laws and regulations that apply to the*  
 51 *appraiser or to the assignment.*
- 52 • The Comment to the COMPETENCY RULE states: *Competency may apply to factors such as, but*  
 53 *not limited to, an appraiser’s familiarity with a specific type of property or asset, a market, a*  
 54 *geographic area, an intended use, specific laws and regulations, or an analytical method.*
- 55 • SCOPE OF WORK RULE: *The scope of work must include the research and analyses that are*  
 56 *necessary to develop credible assignment results... Appraisers have broad flexibility and*  
 57 *significant responsibility in determining the appropriate scope of work for an appraisal, appraisal*  
 58 *review, and appraisal consulting assignment.” “The appraiser must be prepared to demonstrate*  
 59 *that the scope of work is sufficient to produce credible assignment results... An appraiser must*  
 60 *not allow the intended use of an assignment or a client’s objectives to cause the assignment results*  
 61 *to be biased.*
- 62 • Standards Rule 1-1(a): *An appraiser must be aware of, understand, and correctly employ those*  
 63 *recognized methods and techniques that are necessary to produce a credible appraisal.*
- 64 • Standards Rule 1 -1(b): *An appraiser must not commit a substantial error of omission or*  
 65 *commission that significantly affects an appraisal.*
- 66 • Standards Rule 1-1(c): *An appraiser must not render appraisal services in a careless or negligent*  
 67 *manner, such as by making a series of errors that, although individually might not significantly*  
 68 *affect the results of an appraisal, in the aggregate affect the credibility of those results.*
- 69 • Standards Rule 1 -6(b): *An appraiser must reconcile the applicability and relevance of the*  
 70 *approaches, methods and techniques used to arrive at the value conclusion(s).*
- 71 • STANDARD 2 : *In reporting the results of a real property appraisal, an appraiser must*  
 72 *communicate each analysis, opinion, and conclusion in a manner that is not misleading.*
- 73 • STANDARD 3: *In developing an appraisal review assignment, an appraiser acting as a reviewer*  
 74 *must identify the problem to be solved, determine the scope of work necessary to solve the*  
 75 *problem, and correctly complete research and analyses necessary to produce a credible appraisal*  
 76 *review. In reporting the results of an appraisal review assignment, an appraiser acting as a*  
 77 *reviewer must communicate each analysis, opinion, and conclusion in a manner that is not*  
 78 *misleading.*
- 79 • Statement on Appraisal Standards No. 9: *Although an appraiser must identify and consider the*  
 80 *intended use of the appraiser’s opinions and conclusions, an appraiser must not allow the*  
 81 *objectives of the client or other intended users of the report to affect the appraiser’s independence*  
 82 *and objectivity. An appraiser must not allow the objectives of a client or other intended users to*  
 83 *cause the analysis or report to be biased.*

84 **Competency**

85 When an appraiser is asked to use an AVM in an assignment, the appraiser must ensure that he or she can  
86 comply with the requirements of the COMPETENCY RULE both prior to accepting the assignment and in the  
87 course of performing it.

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

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

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

101 **Under What Conditions May AVMs Be Used?**

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

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

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

112 **Database**

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

116 **Understanding and Control of the AVM**

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

123 AVMs differ in the number and type of data characteristics as well as in the volume of data analyzed. The  
124 appraiser should know which characteristics (e.g., size, location, quality) are analyzed and how the analysis is

125 tested for accuracy and reasonableness. The appraiser should ascertain that the characteristics analyzed are  
 126 those to which the market responds.

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

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

135 **Communicating the AVM Output**

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

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

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

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

159 **Analyzing an AVM's Effectiveness**

160 An appraiser bound by law, regulation, or an agreement to comply with USPAP may be asked to analyze and  
 161 comment on the effectiveness of an AVM for a stated intended use. Such a request involves an aspect of value  
 162 and thereby this would be an appraisal practice service, but one for which USPAP has no specific performance  
 163 standards. In order to accept such an assignment, an appraiser bound to comply with USPAP must ensure  
 164 compliance with the Conduct, Management and Confidentiality sections of the ETHICS RULE, the  
 165 COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE. To meet the COMPETENCY  
 166 RULE, at a minimum, the appraiser should also have a basic understanding of how the AVM works.

167 **Review of the Output of an AVM**

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

174 **Review of an Appraisal Report Containing Output of an AVM**

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

180 **Use of an AVM in an Appraisal Review Assignment**

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

186 **Illustrations:**

187 1(a). Staff Appraiser D, who has access to market databases, is asked to use an AVM to process  
188 information. When Appraiser D runs the AVM, she has done no other appraisal research. Appraiser D  
189 does not apply any of her appraisal knowledge or judgment in operating the AVM. Appraiser D has  
190 entered only property characteristics provided by the client and does not know how the AVM analyzes  
191 the data. Is the AVM output an appraisal?

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

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

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

204 1(b). Staff Appraiser D receives AVM output from a coworker who is not an appraiser. Appraiser D is  
205 requested to determine if the AVM output is credible, given the intended use. What can Appraiser D  
206 do?

207 Appraiser D should not express an opinion regarding value. However, the request involves an  
208 aspect of value and, therefore, Appraiser D can indicate if the AVM output is credible. USPAP

209 includes no specific performance standards for this kind of service. However, because performing  
 210 the service requires an appraiser to consider an aspect of property value, it is part of appraisal  
 211 practice. An appraiser must, therefore, ensure compliance with the Conduct, Management and  
 212 Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the  
 213 JURISDICTIONAL EXCEPTION RULE.

214 1(c). After staff Appraiser D has received the AVM output, can she incorporate the information into the  
 215 appraisal process?

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

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

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

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

226 Client A's intended use of the appraisal is to document security for an equity line of credit.  
 227 Typically, Client A's lending decision is based primarily on the homeowner's capacity to pay the  
 228 debt and only secondarily on the value of the house. The reliability expectation of the value  
 229 opinion needed by Client A is relatively low.

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

235 3(a). Appraiser A developed a regression analysis model that suggests a relationship between the size of a  
 236 residence and the price per square foot of similar residences in a specific market. This relationship has  
 237 been confirmed by market behavior, and the database used is believed to be reliable. Can the appraiser  
 238 use the regression analysis model in other appraisal assignments of similar properties in the same  
 239 market?

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

244 3(b). Appraiser A's friend, Appraiser B, works in a different market area. Appraiser B is impressed with  
 245 Appraiser A's model and wants to use the model in Appraiser B's market area. Can Appraiser B use  
 246 Appraiser A's model?

247 Yes, if Appraiser B understands how Appraiser A's model works and verifies by independent  
 248 testing that the model produces reliable results in Appraiser B's market area and that the database  
 249 used by Appraiser B reflects behavior in Appraiser B's market area. However, the appraiser must  
 250 consider whether the AVM output is credible and reliable for each assignment on a case-by-case  
 251 basis.

## ADVISORY OPINION 18

---

252 4(a). A client of Appraiser A requests that Appraiser A use Blue Box AVM. The client says, “Since we are  
253 only doing residential appraisals, you can skip the cost and income approach. To lower the cost of the  
254 appraisal just use the Blue Box AVM results as the basis for your value conclusion.” The client also  
255 says, “Blue Box AVM makes thirteen adjustments, and that is all that the appraiser needs to be  
256 concerned with.” The Blue Box AVM developer feels that appraisers cannot understand this new  
257 technology and that appraisers do not need to know how the thirteen adjustments are made. What  
258 should Appraiser A do?

259 Appraiser A should:

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

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

267 4(b). Another client requests that Appraiser A consider Green Box AVM. The client indicates that Appraiser  
268 A can modify six of the thirteen items analyzed in Green Box AVM, such as the distance within which  
269 the comparables are selected and the size range (square footage) of the comparables. The developer of  
270 Green Box AVM will also describe how the AVM works and provide the results of test data, which  
271 indicate that the model is reliable. What should Appraiser A do?

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

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

279 Yes, if the Red Box AVM is used for that part of the process for which it has been determined to  
280 be credible and reliable. However, the appraiser must consider whether the AVM output is  
281 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.

Appraisers ask, “Can I respond to such requests without violating USPAP and, if so, how?”

**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.

## ADVISORY OPINION 19

---

- 39 • The definitions of “Appraisal,” “Appraisal Practice,” “Assignment” and “Scope of Work” in the  
40 DEFINITIONS section of USPAP.
- 41 • Standards Rule 1-1(b), particularly as it relates to diligence in the level of research and analysis  
42 necessary to develop credible opinions and conclusions.
- 43 • Standards Rules 1-2(f), (g), and (h), regarding identification of the scope of work necessary to  
44 complete an assignment and any extraordinary assumptions or hypothetical conditions necessary  
45 in an assignment.
- 46 • Standards Rules 1-5(a) and (b), regarding the analysis of current or historical market activity  
47 regarding the property appraised.
- 48 • The SCOPE OF WORK RULE, with particular attention to the appraiser’s responsibility in  
49 connection with the scope of work decision and disclosure obligations
- 50 • As guidance, Advisory Opinions 11, 12, and 13.

### 51 Unacceptable Conditions

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

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

### 59 Accepting Assignment Conditions

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

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

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

72 When considering a request for service, appraisers should ascertain:

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

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

- 78 **1) the type of assignment in each request described in the Background section of this Advisory**  
79 **Opinion is an appraisal.**

80 If an appraiser is asked whether a specific property has a value (a point, a range, or a relationship to some  
 81 benchmark), that request is for an opinion of value (an appraisal). Appraisers, obligated to comply with USPAP,  
 82 must develop a real property appraisal in accordance with STANDARD 1. Communicating that value opinion  
 83 must be accomplished in accordance with STANDARD 2.

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

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

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

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

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

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

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

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

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

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

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

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

- 116 1. *the reporting of a predetermined result (e.g., opinion of value);*
- 117 2. *a direction in assignment results that favors the cause of the client;*
- 118 3. *the amount of a value opinion;*
- 119 4. *the attainment of a stipulated result; or*

## ADVISORY OPINION 19

---

- 120 5. *the occurrence of a subsequent event directly related to the appraiser's opinions and specific to*  
121 *the assignment's purpose* (bold added for emphasis).

### 122 **Illustrations:**

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

- 125 1. *We need comps for (a specific property) that will support a loan of \_\_\_\_\_; can you provide*  
126 *them?*

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

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

- 137 2. *Sales Price: \_\_\_\_\_.*

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

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

- 147 3. *Approximate (or Minimum) value needed: \_\_\_\_\_.*

- 148 4. *Amount needed: \_\_\_\_\_.*

- 149 5. *Owner's estimate of value: \_\_\_\_\_.*

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

- 154 6. *If this property will not appraise for at least \_\_\_\_\_, stop and call us immediately.*

- 155 7. *Please call and notify if it is NOT possible to support a value at or above \_\_\_\_\_, BEFORE*  
156 *YOU PROCEED!!!!*

157 “Your request is acknowledged, but it is important for you to be aware that I must develop an appraisal  
158 before I can tell you whether the property will support the value indicated. It is also important for you  
159 to be aware that your statement of that amount with this request for service does not, in my view,  
160 establish a ‘condition’ for my performing the appraisal. If you intend it to be a condition for  
161 performing the assignment, I cannot accept the assignment because it violates professional ethics.”

162 **Research Illustration:**

163 The foregoing illustrations all include an appraisal assignment. In some situations, a client will request a service  
 164 that is not an appraisal, appraisal review or appraisal consulting assignment as defined in USPAP. The service  
 165 to be performed by the appraiser in the following illustration is:

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

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

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

177 One possible response would be:

178 “If what you want is only the sales of properties shown in the databases available to me with the  
 179 criteria you specified, I can do that research and send you the result. Then you can decide what you  
 180 think your client’s property is worth. If I do only that, it is just research and is not an appraisal.

181 However, you need to recognize that there are risks if you decide to have the research done that way. If  
 182 you decide to limit my work to just gathering the sales data using the research criteria you set, you are  
 183 taking the risk that those criteria are both adequate and appropriate to find all of the market data  
 184 relevant to your client’s property. You also take the risk that any appraiser’s analysis of that data would  
 185 result in a value conclusion within the price range suggested by the sales data assembled using your  
 186 criteria. There is no assurance that such would be the case.”

187 **Staff or Multi-Appraiser Firm Context**

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

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

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

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

1 **ADVISORY OPINION 20 (AO-20)**

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

5 **SUBJECT: An Appraisal Review Assignment That Includes the Reviewer’s Own Opinion of**  
6 **ValueAPPLICATION: Real Property, Personal Property, Intangible Property**

7 **THE ISSUE:**

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

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

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

14 **BACKGROUND:**

15 Appraisal review is a specialized area of appraisal practice. Appraisal reviews are used in a variety of business,  
16 governmental, and legal situations and also have an important role in the enforcement of professional standards.

17 STANDARD 3 allows the reviewer to address all or part of the work under review (also referred to in this  
18 Advisory Opinion as the “original work”). In every appraisal review assignment, the reviewer is required to  
19 “...*identify the problem to be solved, determine the scope of work necessary to solve the problem, and correctly*  
20 *complete research and analyses necessary to produce a credible appraisal review.*” The reviewer’s opinion  
21 about the quality of the work under review can include addressing its completeness, relevance, appropriateness,  
22 and reasonableness, all in the context of the requirements applicable to that work.

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

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

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

- 32 A. recognize how terminology used in STANDARD 3 and in this Advisory Opinion prevents confusion as to  
33 the function the reviewer is fulfilling in an appraisal review assignment;
- 34 B. understand how the purpose of the appraisal review and the intended use of the appraisal review results  
35 affect the scope of work in an appraisal review assignment;
- 36 C. recognize how the scope of work changes when an appraisal review assignment includes a requirement for  
37 the reviewer to develop and report his or her own opinion of value concerning the subject property of the  
38 work under review; and
- 39 D. understand how the language in an appraisal review report can be used to indicate whether a value opinion  
40 was or was not developed by the reviewer.

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

42 **Relevant USPAP & Advisory References**

- 43 • DEFINITIONS section, specifically the definition of “Appraisal,” “Appraisal Review,” and
- 44 “Assignment”
- 45 • STANDARD 3

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

49 **A. TERMINOLOGY**

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

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

58 Rather than simply using labels, reviewers should also accurately define the scope of work — in fact, the  
 59 Comment to Standards Rule 3-2(h) requires the reviewer to “...*determine the scope of work necessary to*  
 60 *produce credible assignment results in accordance with the SCOPE OF WORK RULE*” and Standards Rule 3-  
 61 5(g) requires the reviewer to “*state the scope of work used to develop the appraisal review...*” These  
 62 requirements are designed to ensure that an intended user of appraisal review results is not misled as to the  
 63 reviewer’s scope of work and the basis for his or her opinions and conclusions.

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

68 **B. HOW PURPOSE AND INTENDED USE AFFECT SCOPE OF WORK**

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

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

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

- 80 1. only state the corrective action to be taken by the appraiser with regard to curing any deficiency,  
 81 leaving the client to decide whether to interact with the appraiser to accomplish the correction; or

## ADVISORY OPINION 20

---

- 82 2. act on behalf of the client to interact with the appraiser that prepared the original work to ensure any  
83 deficiency is appropriately corrected by that appraiser; or
- 84 3. make corrections to cure an error, such as a mathematical miscalculation, by showing what the  
85 calculation would have been if correct but without expressing the result as the reviewer's own opinion  
86 of value; or
- 87 4. make corrections to cure a deficiency, expressing the result as the reviewer's own opinion of value,  
88 which is to be developed within the same scope of work as was applicable in the assignment that  
89 generated the original work; or
- 90 5. make corrections to cure a deficiency, expressing the result as the reviewer's own opinion of value,  
91 which is to be developed using a different scope of work than was applicable in the assignment that  
92 generated the original work; or
- 93 6. regardless of the appraisal review result, develop his or her own opinion of value using the same scope  
94 of work as was applicable in the assignment that generated the original work; or
- 95 7. regardless of the appraisal review result, develop his or her own opinion of value using a different  
96 scope of work than was applicable in the assignment that generated the original work.

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

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

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

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

### 110 **C. SCOPE OF WORK AND THE REVIEWER'S OPINION OF VALUE**

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

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

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

- 118 • *Information that should have been considered by the original appraiser can be used*  
119 *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 a 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.

## ADVISORY OPINION 20

---

158 **An Appraisal Review Assignment WITHOUT an Opinion of Value**—If the assignment is only to develop an  
159 opinion as to the quality of another appraiser’s work, the appraisal review report content must include:

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

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

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

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

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

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

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

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

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

195 The reviewer is not required to replicate or duplicate in the appraisal review report the material in the work  
196 under review that the reviewer concludes is in compliance with the Standards applicable to that work. The  
197 reviewer can incorporate by reference those portions of the work under review that he or she concludes are in  
198 compliance with the applicable Standards by use of an extraordinary assumption.

199 **Illustrations of the Language in an Appraisal Review Report WITH an Opinion of Value**

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

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

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

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

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

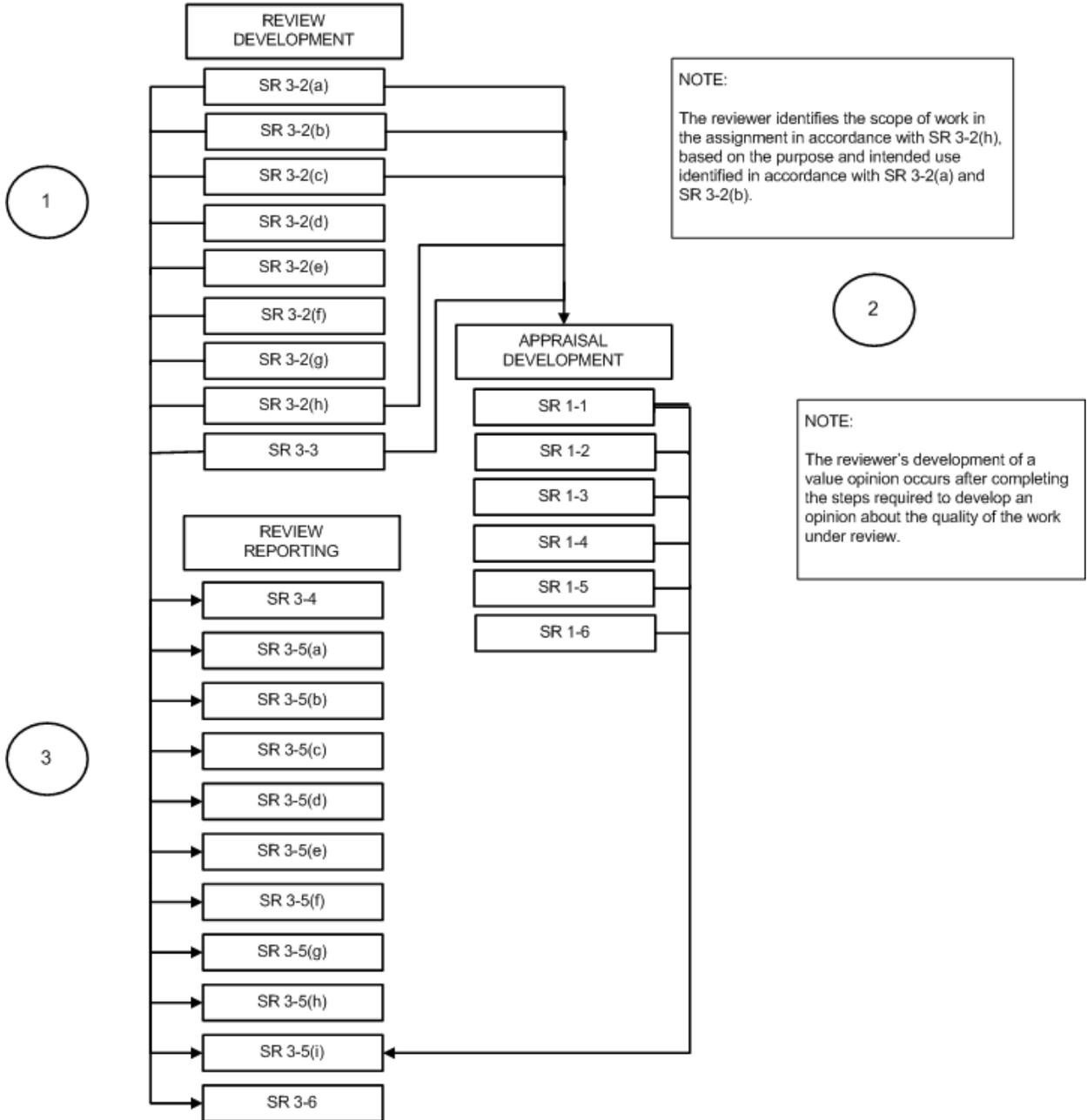
224 The following list summarizes the requirements in a real property appraisal review assignment with the  
 225 reviewer’s opinion of value. The sequence of steps completed in this type of assignment is presented in order.

- 226 1. The reviewer develops **opinions and conclusions about the quality** of the work under review.
- 227 2. The reviewer develops **an opinion of value for the subject property** of the work under review.
- 228 3. The reviewer then **communicates the opinions and conclusions** developed in the first two steps in the  
 229 report.

**ADVISORY OPINION 20**

230 The sequence of steps is illustrated in the following table.

APPRAISAL REVIEW THAT INCLUDES THE REVIEWER'S OPINION OF VALUE



**ADVISORY OPINION 21 (AO-21)**

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

**SUBJECT: USPAP Compliance**

**APPLICATION: Real Property, Personal Property, Intangible Property**

**THE ISSUE:**

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

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

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

**1. When should an individual comply with USPAP?**

The PREAMBLE states that *compliance with USPAP is required when either the service or the appraiser is obligated to comply by law or regulation, or by agreement with the client or intended users.* An obligation to comply with USPAP is created by law, regulation, or agreement with intended users.<sup>1</sup> In such cases an appraiser must follow USPAP. The PREAMBLE also states that *when not obligated, individuals may still choose to comply with USPAP.* The ETHICS RULE states that *an individual should comply any time that individual represents that he or she is performing the service as an appraiser.*<sup>2</sup> An ethical obligation to comply with USPAP is created by choice, that is, by choosing to represent one’s self as an appraiser.

Therefore,

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

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

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

33 **2. What is the relationship between Valuation Services and Appraisal Practice?**

34 A key to distinguishing an appraiser's obligations is understanding the relationship between "valuation  
35 services" and "appraisal practice" in USPAP. Appraisal practice is a subset of valuation services.

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

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

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

43 **3. What does acting "as an appraiser" or performing a service "as an appraiser" mean?**

44 An "appraiser" is defined as *one who is expected to perform valuation services **competently and in a manner***  
45 *that is **independent, impartial, and objective*** (bold added for emphasis). Therefore, an individual "acting as an  
46 appraiser" is expected, in part, to be competent in the service being provided. Also, an individual "acting as an  
47 appraiser" is expected to provide the service in a manner that is independent, impartial, and objective.  
48 Performing a service in a manner that is independent, impartial, and objective is an ethical requirement within  
49 USPAP.

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

54 Law, regulation, agreement, or representation (choice) each prescribes when a valuation service is to be  
55 provided by an appraiser as part of appraisal practice. Emphasizing another portion of the definition of an  
56 "appraiser" is *one who is **expected to perform valuation services competently and in a manner that is***  
57 ***independent, impartial, and objective*** (bold added for emphasis). The Comment to the definition goes on to  
58 state that the *expectation* [for ethical and competent performance] *occurs when individuals, either by choice or*  
59 *by requirement... represent that they comply*. Expectation is the crucial element in determining when one is  
60 acting as an appraiser.

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

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

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

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

74 in a given valuation service establishes a justifiable expectation that the valuation service will be performed in  
75 compliance with USPAP.

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

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

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

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

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

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

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

103 Assignments to which STANDARDS 1 through 10 do not apply must still comply with the portions of USPAP  
104 that apply generally to appraisal practice. These include the DEFINITIONS, PREAMBLE, the Conduct,  
105 Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the  
106 JURISDICTIONAL EXCEPTION RULE. As a result, such assignments must be provided without bias or  
107 accommodation of personal interest by competent appraisers.

108 The Record Keeping section of the ETHICS RULE applies to appraisal, appraisal review, or appraisal  
109 consulting assignments (i.e., STANDARDS 1 through 10). For other assignments, there are no workfile or  
110 record keeping requirements in USPAP. The SCOPE OF WORK RULE also applies only to appraisal,  
111 appraisal review, and appraisal consulting assignments.

112 **7. What are the USPAP obligations for valuation services outside of appraisal practice?**

113 As previously stated, many individuals have other professional roles in addition to their appraiser role. For  
114 example, some appraisers are also attorneys, accountants, brokers, or consultants. USPAP also places an  
115 obligation on an individual who sometimes acts as an appraiser even when he or she provides a valuation  
116 service in some other capacity – that obligation being not to mislead the users of the valuation service about the

## ADVISORY OPINION 21

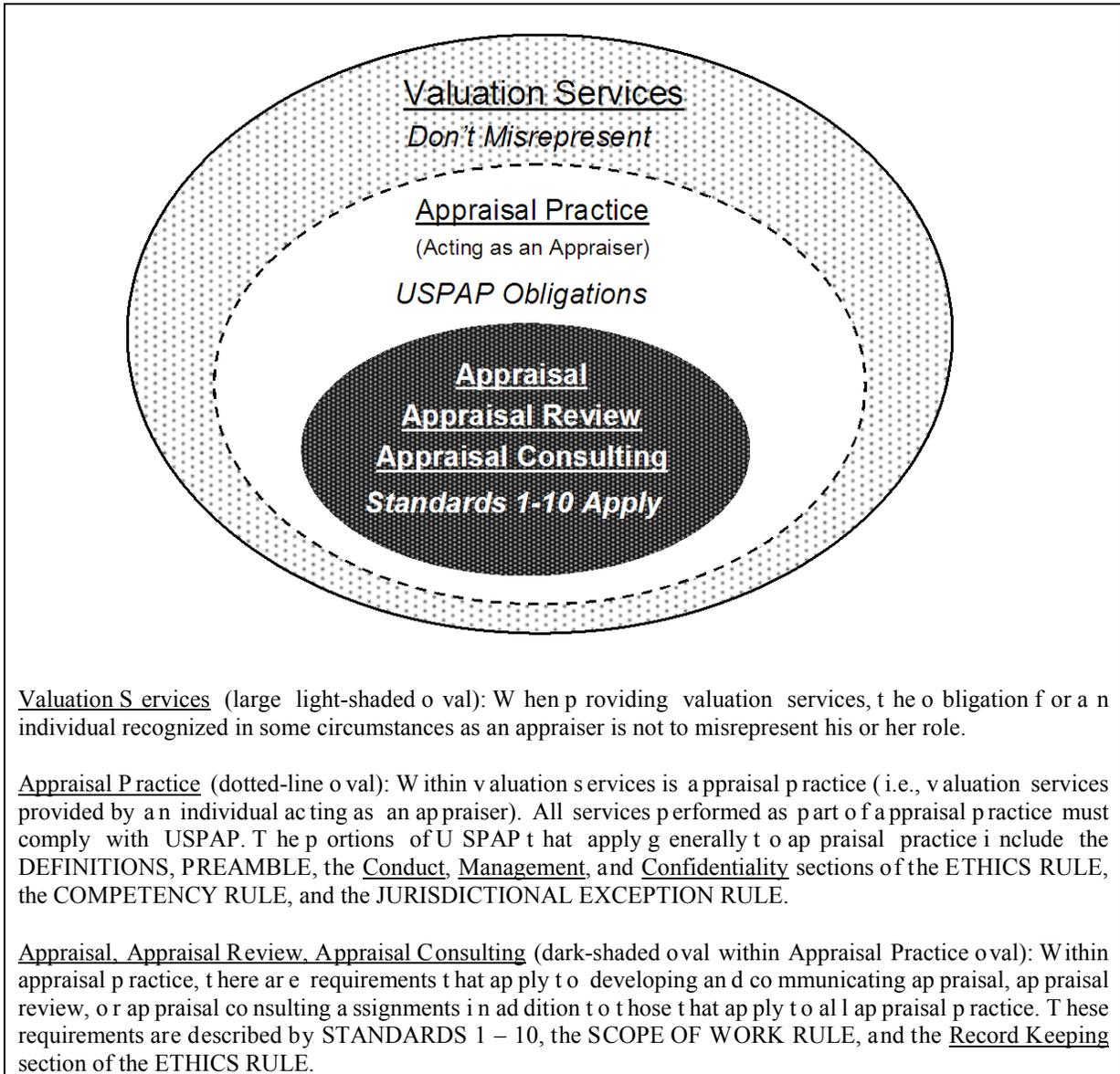
---

117 capacity in which he or she is acting. The ETHICS RULE states that *an appraiser must not misrepresent his or*  
118 *her role when providing valuation services that are outside of appraisal practice.* If a valuation service is  
119 premised on advocacy or compensation arrangements that are contrary to the ETHICS RULE, the valuation  
120 service is not consistent with the objectives of USPAP and cannot be performed by the individual acting as an  
121 appraiser.

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

128 **Relationships and Application**

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



	VALUATION SERVICES		
	Other Roles (e.g. brokerage, property management)	Appraisal Practice	
		Other Services	Appraisal, Appraisal Review & Appraisal Consulting
Pertains to aspects of value	√	√	√
Performed by individual acting as an appraiser		√	√
Obligation to comply with USPAP		√	√
Performance and reporting requirements (STANDARDS 1-10)			√
Record keeping and workfile requirements			√

142 **Summary**

- 143 • An individual must comply with USPAP when required by law, regulation, or agreement.
- 144 • An individual should comply with USPAP when choosing to represent one’s self as an appraiser.
- 145 • Appraisal practice is a subset of valuation services. Since USPAP obligations apply to those who act as  
146 appraisers, USPAP applies to appraisal practice.
- 147 • The definition of appraiser and need for public trust establish the factor of “expectation” as the basis for the  
148 obligation to comply with USPAP.
- 149 • An individual’s public identification as an appraiser establishes a justifiable expectation that valuation  
150 services will be performed in compliance with USPAP. Because of the need to preserve public trust and  
151 confidence in appraisal practice, the expectations of the client and other intended users for ethical and  
152 competent performance create an obligation to comply with USPAP.
- 153 • The appraiser has a professional responsibility to recognize the capacity in which he or she is performing.  
154 The responsibility includes inquiry about, and recognition of, the client’s expectations.
- 155 • When an individual has an opportunity to choose the capacity in which he or she will provide a valuation  
156 service, he or she is free to provide the valuation service as an appraiser or in some other capacity.
- 157 • An individual who is recognized as an appraiser must use great care not to violate the public trust. An  
158 appraiser acting in another role must ensure that intended users are not misled as to the individual’s role in  
159 providing that valuation service.
- 160 • USPAP also places an obligation on an appraiser even when he or she provides a valuation service in some  
161 other capacity – that obligation being to not mislead the intended users of the valuation service about the  
162 capacity in which he or she is acting.

- 163 • If a valuation service is premised on advocacy, or compensation arrangements that are contrary to the  
164 ETHICS RULE, an individual acting as an appraiser cannot perform the valuation service.
- 165 • Within appraisal practice, there are Standards that describe the requirements for developing and  
166 communicating appraisal, appraisal review, or appraisal consulting assignments. Appraisers who provide  
167 valuation services for which there are no Standards need to comply with the portions of USPAP that apply  
168 generally to appraisal practice.
- 169 • The Record Keeping section of the ETHICS RULE applies to appraisal, appraisal review, or appraisal  
170 consulting assignments. For other assignments, there are no USPAP record keeping or workflow  
171 requirements.
- 172 • The SCOPE OF WORK RULE applies only to appraisal, appraisal review, and appraisal consulting  
173 assignments.

174 **Illustrations**

175 Brokerage and Appraisal

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

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

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

188 The extent of Liz's USPAP obligation depends on the intended use of the price estimate. The  
189 distinction between "price" and "value" is crucial here: within USPAP, "price" is a fact<sup>3</sup> while "value"  
190 is an opinion<sup>4</sup>. If Liz recommends an asking price for a specific property owner, under specific  
191 circumstances, she is analyzing *price* as defined by USPAP STANDARDS 1, 7 and 9 apply to the  
192 development of an appraisal, which is defined as an opinion of *value*. Therefore, the obligations of  
193 STANDARDS 1, 7 and 9 do not apply to estimates of *price*. However, as an individual acting as an  
194 appraiser, Liz is obligated to comply with the remainder of USPAP (i.e., DEFINITIONS, PREAMBLE,  
195 the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY  
196 RULE, and the JURISDICTIONAL EXCEPTION RULE. For example, her estimate of *price* must be  
197 ethically and competently prepared, as part of appraisal practice.

---

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

<sup>4</sup> Value is defined as *the monetary relationship between properties and those who buy, sell, or use those properties*. The Comment goes on to state, *value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified for example, market value, liquidation value, or investment value.*

## ADVISORY OPINION 21

---

198 If Liz's recommendation represents the relationship between typical buyers and sellers, she is  
199 analyzing *value*. Her recommendation is an opinion of value and is by definition an appraisal. It must  
200 be ethically and competently prepared in accordance with STANDARDS 1, 7 or 9 and reported in  
201 compliance with STANDARDS 2, 8, or 10.

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

### 207 Appraisal Review

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

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

218 Dan must next decide if compliance with STANDARD 3 is required. To do this, Dan must consider the  
219 intended use, intended user, and type and definition of value for the assignment. These factors are the  
220 basis of Dan's scope of work decision. If the appropriate scope of work includes *developing or*  
221 *communicating an opinion about the quality of another appraiser's work that was performed as part of*  
222 *an appraisal, appraisal review, or appraisal consulting assignment*, then that assignment is by  
223 definition an appraisal review. The label placed on the service cannot support acting outside of  
224 STANDARD 3. The client may call the assignment an "administrative screening review," but it is the  
225 extent of the service that defines it.<sup>5</sup> Dan must decide, based on the problem to be solved and scope of  
226 work, if the assignment is an *appraisal review* as defined by USPAP. If the assignment is an *appraisal*  
227 *review*, then Dan must comply with the development and reporting requirements of STANDARD 3.

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

---

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

232 *Rent Survey*

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

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

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

252 *Appraisal and Market Information*

- 253 4. Steven Andrews is a residential appraiser. One day, when attending a backyard barbecue, Steven is  
 254 approached by a neighbor, who says, "Hey, Steven, I know you're an appraiser. What do you think my  
 255 house is worth?" What should Steven say?

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

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

264 Steven should be careful, though, about applying any judgment in answering his neighbor's question.  
 265 If Steven says, "House sales in our subdivision in the last year have been from \$100,000 to \$150,000. I  
 266 know that you've done lots of interior improvements to your house and, besides, it's the more desirable  
 267 two-story model, so its value should be near the high side of the range," he has just performed an  
 268 appraisal. In this case, he should comply with STANDARDS 1 and 2 and prepare a workfile. If Steven  
 269 only provides data, he is acting within appraisal practice, but if he relates that data to a specific  
 270 property, he has provided an appraisal.

271 *Litigation Services*

272 5. Marie Vaughn has a diverse appraisal practice with a specialization in litigation services. She commonly  
273 aids attorneys in developing cross-examination strategies for expert witness testimony from appraisers.  
274 How does USPAP apply to Marie’s “litigation services?”

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

282 If Marie’s services include providing an opinion of value, she must comply with the appropriate  
283 appraisal standards ( STANDARDS 1 and 2, 7 and 8, or 9 and 10). If Marie’s services include  
284 providing an opinion about the quality of another appraiser’s work, the appraisal review requirements  
285 of STANDARD 3 apply. If the service includes providing analysis, recommendation, or an opinion to  
286 solve a real property problem where an opinion of value is a component of the analysis leading to the  
287 assignment results, then Marie must adhere to the appraisal consulting requirements of STANDARDS  
288 4 and 5.

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

294 Marie may provide litigation services by either acting as an appraiser **or** acting as an advocate for the  
295 client’s cause; however, she must not perform both roles in the same case.

1 **ADVISORY OPINION 22 (AO-22)**

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

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

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

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

9 **ADVICE FROM THE ASB ON THE ISSUE**

10 **Relevant USPAP & Advisory References**

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

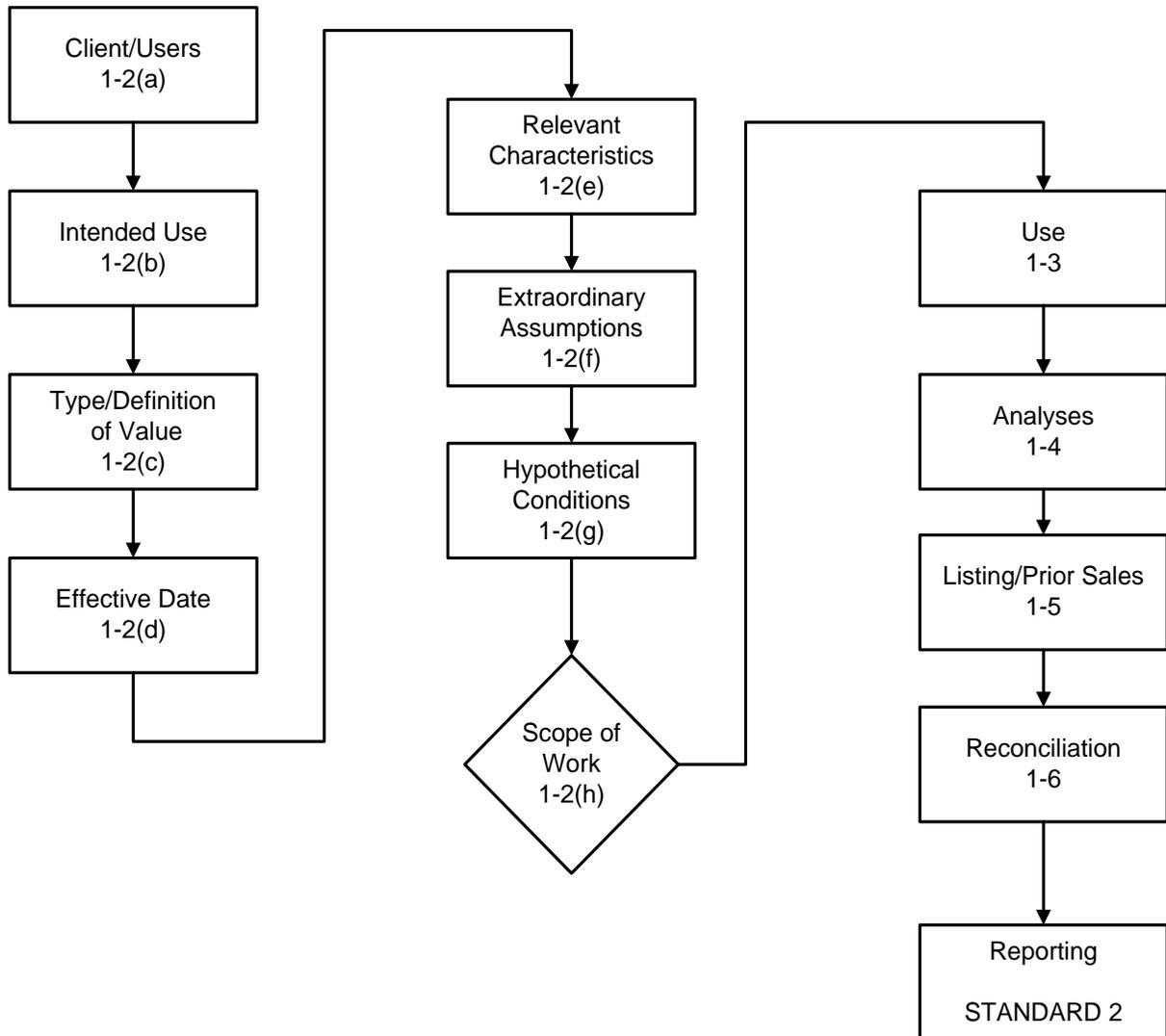
16 **Scope of Work in a Market Value Appraisal**

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

20 Competently determining the scope of work is an essential step in all assignments performed under USPAP. In  
21 a real property appraisal assignment, Standards Rules 1-2(a)–(h) set forth eight identification actions or steps  
22 that an appraiser must understand and complete in performing any appraisal assignment. Completing the first  
23 seven action steps provides support for the eighth step, the appraiser’s scope of work decision.

## ADVISORY OPINION 22

24 **The Sequence and Relationship of Action Steps Required by SR 1-2 in a Real Property Appraisal**—The  
25 following table illustrates the sequence and relationship of the action steps leading to the appraiser’s scope of  
26 work decision and the steps taken after that decision through to completion of the appraisal process.



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

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

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

36 **Competency and the Scope of Work Decision** - Accomplishing the first four action steps (SR 1-2(a) through  
37 (d)) illustrated in the table provides the basis for deciding which of the property’s characteristics are relevant in

38 the assignment. This information, together with the appraiser's competency (knowledge and expertise) in  
 39 appraising the specific type of property involved, permits the appraiser to determine whether any extraordinary  
 40 assumptions or hypothetical conditions are necessary to complete the assignment and to make a reasonable and  
 41 supportable scope of work decision.

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

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

#### 54 **General Comment on Market Value Definitions**

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

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

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

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

78 The market perspective replaces a user's (e.g., buyer, seller, lender, agent, etc.) perspective that might apply in  
 79 other appraisals, such as for investment value or insurable value. This market perspective directly affects the  
 80 scope of work necessary to develop credible opinions and conclusions in market value appraisals. The public's  
 81 expectation that a market value appraisal reflects only the perspective of the marketplace, and is not affected by  
 82 such other criteria as an intended user's objectives, is important. Meeting this expectation serves to foster and

83 promote public trust in professional appraisal practice, a fundamental purpose of the *Uniform Standards of*  
84 *Professional Appraisal Practice* and one that applies to all work performed under USPAP.

85 A market value appraisal is also based on whatever the “normal” or “typical” conditions are in the marketplace  
86 for the property appraised in a time frame that is consistent with the date of value in the appraisal. If the  
87 definition of value used in an appraisal contains criteria that are different from those that are “normal” or  
88 “typical,” the use of the term “Market Value,” alone, to characterize the assignment result is not appropriate.  
89 For example, a value opinion developed to reflect the most probable price in a sale under forced conditions is a  
90 forced-sale value and not consistent with the “normal” or “typical” premise to be reflected in a market value  
91 appraisal.

92 **Importance of Identifying the Specific Definition of Market Value**—The definition of the value to be  
93 developed in an appraisal establishes specific conditions. These conditions impose parameters on the appraisal  
94 assignment that are necessary to ensure that the results of the assignment are meaningful in the context of that  
95 definition of value.

96 There are many definitions of value, some of which are market value definitions. Other definitions of value  
97 appear to be related to market value but are not called market value. For example, it is common practice in  
98 appraisals for intended use in employee relocation assignments to use a value definition based on “anticipated  
99 sales price” rather than “market value.” The “anticipated sales price” definition contains very specific  
100 marketing, property condition, and terms of sale requirements that replace normal or typical market conditions.  
101 Thus, while the development process under the specific conditions may appear similar to market value  
102 assignments, the result is a value to the property user—the relocation company—under that client’s specific  
103 criteria and is not market value.

104 **Importance of Identifying the Source of a Market Value Definition**—Definitions of market value from  
105 different sources contain different conditions. Those differences can directly affect the scope of work that is  
106 necessary to develop credible assignment results. Each definition is unique, with authority only in a specific  
107 jurisdiction or to a specific client group. Therefore, identification of the source for the definition of value to be  
108 applied in an assignment is essential.

109 The source must be consistent with the jurisdiction having authority over the transaction in which the appraisal  
110 is to be used. For example, using a definition of market value other than the definition specified in regulations  
111 published pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989  
112 (FIRREA) may invalidate that appraisal for use in a federally related transaction. Likewise, if an appraisal is  
113 prepared for use in litigation, using a definition of value other than the definition specified by the court having  
114 jurisdiction over the matter being litigated may disqualify that appraisal for use in that court.

115 **How the “Conditions” in a Market Value Definition Affect the Scope of Work Decision**

116 *Market Value* is defined in USPAP as a general concept. But in an appraisal assignment, *Market Value* is  
117 defined by a specific jurisdiction (e.g., a court, a regulatory body or public agency with legal authority), or by a  
118 client group (e.g., Fannie Mae or Freddie Mac).

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

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

- 126 1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);

- 127 2. the terms of sale (e.g., cash, cash equivalent, or other terms); and  
 128 3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).

129 Market value appraisals focus on understanding how buyers and sellers are most likely to respond to a subject  
 130 property under the conditions stated in a specific value definition. Not all market value definitions contain the  
 131 same conditions, though most contain a common subset of elements. Experienced appraisers understand the  
 132 nuances in the various definitions and develop their assignments using data and analyses that match the  
 133 conditions required by the specific definition used in an appraisal.

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

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

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

145 In a market value assignment, the relevant characteristics (SR 1-2(e)) are those that have a significant impact on  
 146 the property’s marketability. These features include legal, economic and physical characteristics. The decision  
 147 as to which characteristics are relevant cannot be made without knowledge of the market in which the property  
 148 is sold. This is why competency in appraising a specific type of property and knowledge of the subject  
 149 property’s market are essential in an assignment.

150 Knowing the property’s relevant characteristics also provides the basis for deciding the applicability of a  
 151 approach to value.

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

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

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

---

<sup>1</sup> See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*.

167 This is consistent with the requirement stated in SR 1-1(b), which is designed to ensure that the scope of work  
168 completed in an appraisal is sufficient to produce credible opinions and conclusions, given the intended use of  
169 the appraisal.

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

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

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

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

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

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

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

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

205 **SUMMARY**

206 The scope of work decision is a critical step in any appraisal. That decision must result in a match between the  
207 extent of the research and analyses completed in an assignment with the conditions specified in the definition of  
208 value used in that assignment.

209 In a market value appraisal, the appraiser’s scope of work decision carries a burden of proof to support the  
210 appraiser’s conclusion about how he or she addresses each “condition” in the market value definition used in  
211 the appraisal. The definition includes conditions that often require a high degree of knowledge, competency,  
212 and judgment, which are necessary to effectively develop the appraisal process. An appraiser cannot meet his or  
213 her obligations in a market value assignment without having competently identified and then completed a scope  
214 of work that enables development of credible opinions and conclusions.

## ADVISORY OPINION 23

---

### 1 ADVISORY OPINION 23 (AO-23)

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

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

7 **APPLICATION: Real Property**

8 **THE ISSUE:**

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

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

#### 11 **Relevant USPAP & Advisory References**

- 12 • DEFINITIONS, specifically the definitions of  
13 Appraisal: (noun) the act or process of developing an opinion of value; an opinion of value.  
14 ...  
15 *Comment: An appraisal must be numerically expressed as a specific amount, as a range*  
16 *of numbers, or as a relationship (e.g., not more than, not less than) to a previous value*  
17 *opinion or numerical benchmark (e.g., assessed value, collateral value).*  
18 Assignment: 1) an agreement between an appraiser and a client to provide a valuation service;  
19 2) the valuation service that is provided as a consequence of such an agreement.  
20 Real Estate: an identified parcel or tract of land, including improvements if any.  
21 Real Property: the interests, benefits, and rights inherent in the ownership of real estate.  
22 Value: the monetary relationship between properties and those who buy, sell, or use those  
23 properties.  
24 *Comment: Value expresses an economic concept. As such, it is never a fact but always*  
25 *an opinion of the worth of a property at a given time in accordance with a specific*  
26 *definition of value. In appraisal practice, value must always be qualified for example,*  
27 *market value, liquidation value, investment value.*
- 28 • Standards Rule 1-2(e): *An appraiser must identify the characteristics of the property that are*  
29 *relevant to the type and definition of value and intended use of the appraisal, including:*  
30 (i) *its location and physical, legal, and economic attributes;*  
31 (ii) *the real property interest to be valued;*  
32 (iii) *any personal property, trade fixtures, or intangible items that are not real property but are*  
33 *included in the appraisal;*  
34 (iv) *any known easements, restrictions, encumbrances, leases, reservations, covenants, contracts,*  
35 *declarations, special assessments, ordinances, or other items of a similar nature; and*  
36 (v) *whether the subject property is a fractional interest, physical segment, or partial holding.*

#### 37 **The Subject of a Real Property Appraisal Assignment**

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

42 Appraisers and property owners often discuss a subject property in physical terms, such as *my home, the*  
43 *residence, my land, or the building*. However, a physical object, alone, is not what is being appraised.

44 Taken together, the definitions of *real property* and *real estate* provided in USPAP require that the subject of a  
 45 real property appraisal is a specific ownership of a right (or rights) in identified real estate.

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

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

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

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

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

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

- 67 2. If all of the same characteristics of the property in Illustration No. 1 apply, except that the land is a leased  
 68 site, the subject property becomes:
- 69 • leasehold interest, if the intended user needs to know the value of the rights in the real estate  
 70 owned by the lessee in the lease, or
  - 71 • leased fee interest, if the intended user needs to know the value of the rights in the real estate  
 72 owned by the lessor in the lease.

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

- 76 • If the subject property is the leasehold interest, the relevant analysis should include sales of  
 77 leasehold interest properties that are as similar to the subject as possible, both physically and in  
 78 terms of its lease (cash flow) characteristics.
- 79 • If the subject is the leased fee interest, the relevant data should include sales of leased fee interest  
 80 properties with similar physical and cash flow characteristics. The subject lease terms determine  
 81 whether the improvements’ characteristics are significant in this type of assignment. If the lease  
 82 ends before the improvements reach the end of their economic life, the improvements’  
 83 characteristics can be important to the appraisal problem. If the tenant must remove the  
 84 improvements upon termination of the lease, the improvements’ characteristics likely have little  
 85 significance in the assignment.

86 3. Next, assume the same subject property characteristics as in Illustration No. 1 but change the ownership to  
87 an undivided one-third interest in the fee simple title. The scope of work in this Illustration is significantly  
88 different than that in either Illustration No. 1 or No. 2. (See the Comment to Standards Rule 1-4(e)).

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

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

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

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

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

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

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

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

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

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

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

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

141 **SUMMARY**

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

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

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

## ADVISORY OPINION 24

---

### 1 **ADVISORY OPINION 24 (AO-24)**

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

5 **SUBJECT: Normal Course of Business**

6 **APPLICATION: Real Property, Personal Property**

#### 7 **THE ISSUE:**

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

#### 11 **BACKGROUND:**

12 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  
13 appraiser. Appropriate due diligence increases public trust in the appraisal profession. The intent is to ensure  
14 that the research of past sales and current listings, options, or agreements of sale of the subject property is  
15 sufficient to promote public trust, without creating undue hardship on the appraiser.

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

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

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

##### 24 **Relevant USPAP & Advisory References**

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

##### 30 **General Comments**

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

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

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

37 *the type and extent of research and analyses in an assignment*

38 Researching the subject’s sales history is an aspect of the scope of work. The Comment to the Scope of Work  
 39 Acceptability section in the SCOPE OF WORK RULE states:

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

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

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

46 “Appraisers Peers” is defined as:

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

48 In addition to the concept of “normal course of business” in an assignment, an appraiser has the obligation to  
 49 perform research and analysis appropriate to the intended use of the assignment. Standards Rules 1-1(b) and 7-  
 50 1(b) state:

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

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

53 The Comments to these Standards Rules state, in part:

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

56 **Illustrations**

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

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

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

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

77 clients for this specific type of assignment, then it is not required as part of the research and  
78 analysis in this assignment.

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

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

92 4. During an appraisal assignment, the appraiser was informed by the owner that the subject property was  
93 listed for sale on a prominent Internet site. The appraiser did no additional research, and in the  
94 appraisal report indicated only that the property was listed for sale. Does this comply with the  
95 requirements of USPAP?

96 Answer: No. The appraiser must analyze the current listing and report the findings within the  
97 appraisal report. Since the listing was placed on the Internet, where it would be available to the  
98 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.....”<sup>1</sup>

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*

---

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

### 31 **Comments**

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

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

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

### 49 **Illustrations:**

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

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

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

64 Answer: Jane has an obligation to disclose to the buyer that the federally regulated financial institution  
65 should not accept her appraisal report because a lender or its agent is required to directly engage the  
66 services of an appraiser in a federally related transaction. If the buyer still wants to engage Jane, her  
67 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:**

**Relevant USPAP & Advisory References**

- 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 ascertain 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).

## ADVISORY OPINION 26

---

37 Intended Use is defined as:

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

41 Intended User is defined as:

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

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

### 49 **Illustrations:**

50 Question #1

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

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

57 Question #2

58 How can this circumstance be handled according to Standards?

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

63 Question #3

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

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

67 A prudent method to establish an appraiser-client relationship is to have a written engagement letter or  
68 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;*

## ADVISORY OPINION 27

---

39 An appraiser cannot disclose the results of a particular assignment, performed for a particular client, to anyone  
40 other than those designated by that client. However, a n understanding o f t he d efinitions o f *assignment*,  
41 *assignment results*, and *client* are key to a complete understanding of this requirement.

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

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

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

47 As can be seen in the definitions, both the client and the assignment results are specific to an assignment. If  
48 there is a n ew p otential c lient, valuation services p erformed f or t hat new c lient wou ld c onstitute a new  
49 assignment and the assignment r esults wou ld be specific to that new assignment. Therefore, acceptance and  
50 performance of the new assignment to appraise the same property would not be considered revealing the first  
51 client’s assignment results to the second client, even if the value conclusions were the same. It should be noted  
52 that the value conclusion could easily be different if the effective date or the scope of work changed in any  
53 manner. It should also be noted that USPAP requires the appraiser to provide an unbiased opinion of value to  
54 each client.

### 55 **Obtaining a Release:**

56 As a matter o f b usiness p ractice, s ome appraisers r equest a r elease from a p rior c lient b efore accep ting an  
57 assignment to appraise the same property for a new client or to disclose the assignment for the second client to  
58 the first client. However, USPAP does not require this. Also, appraisers should be aware that, in some cases,  
59 informing a client about the existence o f another client and the fact that the property was appraised for that  
60 other client may not be compliant with the portion of the Confidentiality section of the ETHICS RULE, which  
61 states:

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

### 63 **Confidential Information:**

64 In all assignments the appraiser must comply with the Confidentiality section o f t he E THICS R ULE with  
65 respect to the handling of confidential information. Confidential information is defined in USPAP as:

66 *information that is either*

- 67 • *identified by the client as confidential when providing it to an appraiser and that is not available*  
68 *from any other source; or*
- 69 • *classified as confidential or private by applicable law or regulation*

70 The Confidentiality section of the ETHICS RULE states:

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

73 *An appraiser must not disclose: (1) confidential information; or (2) assignment results to anyone other*  
74 *than the client, persons specifically authorized by the client, state appraiser regulatory agencies, third*  
75 *parties as may be authorized by due process of law, and a duly authorized professional peer review*  
76 *committee except when such disclosure to a committee would violate applicable law or regulation.*

77 If a prior assignment included any confidential information, its disclosure to a different client or intended user  
 78 would violate the ETHICS RULE if the information were still classified as confidential information. This  
 79 includes the requirement to comply with all confidentiality and privacy laws and regulations.

80 **Client Expectations:**

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

89 **Illustrations:**

90 **Example A – Litigation**

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

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

99 In the absence of such an agreement between the client and the appraiser, the appraiser should make  
 100 appropriate disclosure to the client and consider the presence of confidential information. The  
 101 knowledge of confidential information may prevent the appraiser from accepting the second  
 102 assignment. The appraiser must decline the second assignment if:

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

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

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

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

## ADVISORY OPINION 27

---

115 **Example B – Competing Banks**

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

118 No, assuming disclosure is made to the client and confidential information is handled correctly. This  
119 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.<sup>1</sup>

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*

---

<sup>1</sup> See Advisory Opinion 29, *An Acceptable Scope of Work*.

38            *addressed; (2) the knowledge and experience to complete the assignment competently; and (3)*  
39            *recognition of, and compliance with, laws and regulations that apply to the appraiser or to the*  
40            *assignment.*

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

45            **Determining and Performing the Scope of Work**

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

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

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

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

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

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

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

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

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

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

76                    *Determining the scope of work is an ongoing process in an assignment. Information or conditions*  
77                    *discovered during the course of an assignment might cause the appraiser to reconsider the scope of*  
78                    *work.*

79 **Disclosing the Scope of Work Performed**

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

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

82 The Rule also states that:

83 *The report must contain sufficient information to allow intended users to understand the scope of work*  
84 *performed.*85 An appraiser must disclose research and analyses not performed when such disclosure is necessary for intended  
86 users to understand the report properly and not be misled.87 These disclosure requirements apply to the scope of work performed, rather than the scope of work initially  
88 planned by the appraiser. The appraiser must disclose the type and extent of research and analyses that were  
89 actually completed in the development process. Additionally, the information required to allow intended users  
90 to understand the scope of work may include disclosure of research and analyses not performed. There is no  
91 requirement for the scope of work description to be in a particular or separate section of the report.92 **Illustrations:**93 1. A real property appraiser is engaged to appraise the market value of a twelve-unit apartment building. The  
94 appraiser initially decided that the scope of work should include the inspection of two of each of the three  
95 unit types (studio, one- and two-bedroom). In the course of conducting the inspection, the property  
96 manager had a key for only one of the two-bedroom units; thus the appraiser was not able to inspect one of  
97 the two-bedroom units as planned.98 The scope of work, which includes the degree of inspection, was affected in this assignment because of  
99 lack of access. If the appraiser decides that she has sufficient information to produce credible assignment  
100 results, the appraiser can complete the appraisal based on the inspection completed. The report would  
101 include a description of the scope of work performed, stating that five units had been inspected.102 2. A personal property appraiser was engaged to appraise four sets of china. The intended use of the report  
103 was for litigation regarding an estate. The client requested that all pieces of each set of china be inspected,  
104 since one cause of action claimed that several pieces were damaged.105 When the appraiser contacted the estate's administrator to arrange for inspection, he was told that one set of  
106 china was in storage and could not be retrieved until after the Court's deadline for the submission of expert  
107 reports.108 In this case, assignment conditions have changed the appraiser's scope of work. The appraiser may not  
109 have sufficient information to produce credible assignment results in the context of the intended use. The  
110 appraiser should consult with the client on the proper course of action. The appraiser may alter the scope of  
111 work to include the appraisal of only the three sets of china available for inspection or use an extraordinary  
112 assumption regarding the condition of the fourth set.113 3. A business appraiser is appraising a closely held business enterprise with real property and personal  
114 property assets. In the course of the assignment, the appraiser's research indicates that the market for the  
115 company's product is declining and management's projections are not supported. Therefore, the appraiser  
116 believes the company might be worth more in liquidation than as a going concern, which would make  
117 performance of the work addressed in Standards Rule 9-3 necessary for credible assignment results.

118 The scope of work must be modified because of what the appraiser learned in the course of performing  
119 research and analyses.

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

125 Accepting and completing this assignment requires the appraiser to:

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

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

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

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

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

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

154 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.

## ADVISORY OPINION 29

---

36 Because assignments can require different types of expertise and competency, it is possible to be considered an  
37 appraiser's peer for some assignments, but not for others. Identifying an appraiser's peer is always done in the  
38 context of a particular assignment.

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

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

### 46 **Application**

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

### 52 **Illustrations:**

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

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

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

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

71 3. A business appraiser is engaged to value a 25% minority interest in the equity of a small privately held  
72 company for estate tax reporting purposes. The standard of value is fair market value as defined in the tax  
73 regulations. The engagement requires that a second appraiser, meeting the definition of an appraiser's peer,  
74 be retained to review the work and to opine on the value of the subject interest. Another appraiser is  
75 experienced in valuing companies in the same industry, but typically appraises them for purposes of sale,  
76 valuing 100% of the equity and has never performed appraisals of minority interests for estate tax reporting  
77 purposes. Is this other appraiser an appraiser's peer for this assignment?

78 No. Part of problem identification for a business appraisal includes identification of the extent to which  
79 the subject interest contains elements of ownership control. Part of the appraisal process includes  
80 analyzing the effect on value, if any, of the extent to which the interest appraised contains elements of  
81 ownership control. Individuals who meet the definition of a peer appraiser would need to have  
82 expertise and competency in valuing minority interests. Additionally, the fact that the second appraiser  
83 has not performed appraisals for the same intended use could also render him or her to not be a peer in  
84 this assignment.

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

88 If an appraiser is unable to perform research that the appraiser's peers would conduct and intended  
89 users would expect, the appraiser must modify the assignment to allow time for the research to be  
90 conducted, or withdraw from the assignment.

## ADVISORY OPINION 30

---

1 **ADVISORY OPINION 30 (AO-30)**

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

5 **SUBJECT: Appraisals for Use by a Federally Regulated Financial Institution**

6 **APPLICATION: Real Property**

7 **THE ISSUE:**

8 In order to comply with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989  
9 (FIRREA), the federal financial institutions regulatory agencies (“agencies”)<sup>1</sup> of the United States have adopted  
10 appraisal regulations and guidelines. These laws, regulations and guidelines are established to protect federally  
11 insured depository institutions and include the requirement that appraisals be prepared in compliance with the  
12 *Uniform Standards of Professional Appraisal Practice (USPAP).*

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

15 **ADVICE FROM THE ASB ON THE ISSUE**

16 **Recognition of Assignment Conditions**

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

- 22 • Laws, principally Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989  
23 (FIRREA);
- 24 • Regulations, primarily the following agency appraisal regulations:
  - 25 – Office of the Comptroller of the Currency (OCC) 12 CFR 34, Subpart C;
  - 26 – Federal Reserve Board (FRB) 12 CFR 225, Subpart G;
  - 27 – Federal Deposit Insurance Corporation (FDIC) 12 CFR 323;
  - 28 – Office of Thrift Supervision (OTS) 12 CFR 564; and
  - 29 – National Credit Union Administration (NCUA) 12 CFR 722.
- 30 • Guidelines provided in the agencies’ bulletins and issuances, including documents such as:
  - 31 – *Interagency Appraisal and Evaluation Guidelines;*
  - 32 – *Independent Appraisal And Evaluation Function;*
  - 33 – *Frequently Asked Questions on Residential Tract Development Lending;*
  - 34 – *The 2006 Revisions to Uniform Standards of Professional Appraisal Practice;* and
  - 35 – *Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on*  
36 *Independent Appraisal and Evaluation Functions.*

---

<sup>1</sup> 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)

37 The guidelines identified in this Advisory Opinion are subject to change. Appraisers are cautioned to  
 38 communicate with their client on the current guidance that is applicable in a given assignment. Reference can be  
 39 made to the website of the applicable federal financial institutions regulatory agency for these documents and  
 40 more information on current bulletins and applicable issuances.

#### 41 **USPAP Applicability**

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

- 46 1. The PREAMBLE requires that appraisers develop and communicate assignment results in a manner that is  
 47 meaningful and not misleading.
- 48 2. The ETHICS RULE requires that appraisers perform assignments ethically and competently.
- 49 3. The COMPETENCY RULE requires appraisers to provide competent service, including the specific  
 50 requirement to recognize and comply with applicable laws and regulations.
- 51 4. In developing assignment results, the SCOPE OF WORK RULE requires appraisers to determine, perform,  
 52 and disclose the scope of work necessary to produce credible assignment results. Determining the  
 53 appropriate scope of work requires identification of the problem to be solved, which includes identification  
 54 of assignment conditions.  
 55 The scope of work is acceptable when it meets or exceeds the expectations of parties who are regularly  
 56 intended users for similar assignments. Upon accepting an assignment, an appraiser is obligated to  
 57 competently satisfy the applicable assignment conditions.
- 58 5. Standards Rule 1-1(a) is an extension of the COMPETENCY RULE that specifically requires that *the*  
 59 *appraiser be aware of, understand, and correctly employ those recognized methods and techniques that are*  
 60 *necessary to produce a credible appraisal.*
- 61 6. Standards Rules 2-1(a) and 2-1(b) require that each written appraisal report (a) *clearly and accurately set*  
 62 *forth the appraisal in a manner that will not be misleading;* and (b) *contain sufficient information to enable*  
 63 *intended users of the appraisal to understand the report properly.*
- 64 7. STANDARD 2 also requires that report content be consistent with the intended use of the appraisal.

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

67 Appraisers must identify and consider the intended use and intended users in an assignment to understand their  
 68 USPAP development and reporting obligations. The agencies' appraisal regulations and guidelines contain  
 69 assignment conditions that are part of competent performance when they apply in an assignment. Therefore,  
 70 compliance with USPAP requirements for proper development and reporting require adherence to those  
 71 assignment conditions that apply in an assignment.

## ADVISORY OPINION 30

---

### 72 **Failure to Adhere to Assignment Conditions**

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

- 75 • An appraiser who represents that an assignment is or will be completed in compliance with applicable  
76 assignment conditions and who then knowingly fails to comply with those assignment conditions  
77 violates the ETHICS RULE.
- 78 • An appraiser who unintentionally fails to comply with or fails to recognize those assignment  
79 conditions violates the COMPETENCY RULE.
- 80 • An appraiser who fails to develop assignment results in accordance with the assignment conditions  
81 necessary for credible assignment results violates the SCOPE OF WORK RULE and STANDARD 1.
- 82 • An appraiser who fails to report assignment results in accordance with the assignment conditions that  
83 are necessary to enable intended users to understand the report properly violates STANDARD 2.

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

85 Note: All quotations in this section are from the agencies' appraisal regulations.<sup>2</sup> The quoted text is only a  
86 portion of the complete regulations, and the applicable regulations should be reviewed in their entirety.

### 87 **Appraiser Independence**

88 The agencies' appraisal regulations state, in part:

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

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

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

- 103 (i) The appraiser has no direct or indirect interest, financial or otherwise, in the property or the  
104 transaction; and
- 105 (ii) The regulated institution determines that the appraisal conforms to the requirements of this subpart  
106 and is otherwise acceptable."

---

<sup>2</sup> Office of the Comptroller of the Currency – 12 CFR 34.45(b), Federal Reserve Board – 12 CFR 225.65(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)

107 For more information on these requirements and related USPAP obligations see Advisory Opinion 25,  
 108 *Clarification of the Client in a Federally Related Transaction* and Advisory Opinion 26, *Readdressing*  
 109 *(Transferring) a Report to Another Party*.

#### 110 **Appraisal Development and Reporting**

111 The agencies' appraisal regulations state, in part:

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

- 113 (a) Conform to generally accepted appraisal standards as evidenced by the Uniform Standards of  
 114 Professional Appraisal Practice (USPAP) promulgated by the Appraisal Standards Board of the  
 115 Appraisal Foundation (1155 15<sup>th</sup> Street, Suite 1111, NW., Washington, DC 20005), unless  
 116 principles of safe and sound banking require compliance with stricter standards;
- 117 (b) Be written and contain sufficient information and analysis to support the institution's decision to  
 118 engage in the transaction;
- 119 (c) Analyze and report appropriate deductions and discounts for proposed construction or renovation,  
 120 partially leased buildings, nonmarket lease terms, and tract developments with unsold units;
- 121 (d) Be based upon the definition of market value as set forth in this subpart; and
- 122 (e) Be performed by State licensed or certified appraisers in accordance with requirements set forth in  
 123 this subpart."

#### 124 **Market Value Definition**

125 The agencies' appraisal regulations state, in part:

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

- 131 (1) Buyer and seller are typically motivated;
- 132 (2) Both parties are well informed or well advised, and acting in what they consider their own best  
 133 interests;
- 134 (3) A reasonable time is allowed for exposure in the open market;
- 135 (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable  
 136 thereto; and
- 137 (5) The price represents the normal consideration for the property sold unaffected by special or  
 138 creative financing or sales concessions granted by anyone associated with the sale."

139 **Commonly Asked Questions**

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

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

145 2. What is a "real estate-related financial transaction"?

146 The term is defined in Title XI of FIRREA and the agencies' appraisal regulations as "any transaction  
147 involving —

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

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

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

153 3. What is a "federally related transaction"?

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

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

157 (B) requires the services of an appraiser."

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

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

163 FHA, VA, Fannie Mae, Freddie Mac, Farmer Mac and Sallie Mae are not under the supervision of the  
164 federal financial institutions regulatory agencies and therefore are not subject to their appraisal  
165 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.

## ADVISORY OPINION 31

---

- 34       • Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3 and 10-3, which identify the requirements for an appraiser who  
35       is signing the certification and also for instances when appraisers provide significant assistance but do  
36       not sign the certification.

### 37       Record Keeping Requirements

38       The Record Keeping section of the ETHICS RULE requires:

39               *An appraiser must prepare a workfile for each appraisal, appraisal review, or appraisal consulting*  
40               *assignment. A workfile must be in existence prior to the issuance of a written or oral report.*

41       The Rule also mandates that workfiles be retained for a specified time, and states,

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

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

- 46               • *submission to state appraiser regulatory agencies;*  
47               • *compliance with due process of law;*  
48               • *submission to a duly authorized professional peer review committee; or*  
49               • *compliance with retrieval arrangements.*

50       When an assignment is performed by more than one appraiser, each appraiser is subject to the same obligations  
51       regarding the workfile for the assignment, whether or not the appraiser signs the certification. These obligations  
52       may be met by creating a copy of the workfile for every appraiser involved in the assignment. Alternatively,  
53       the appraisers might agree in writing to an access arrangement whereby the workfile is stored in a single  
54       location but access is provided to all appraisers involved. In whatever manner this USPAP requirement is met,  
55       all appraisers involved with the assignment must meet it.

### 56       Certifications/Signatures

57       A signed certification is required for all appraisal, appraisal review and appraisal consulting reports. A  
58       appraiser who signs any part of a report, including a letter of transmittal, must also sign the certification.

59       A signed certification provides important disclosures about aspects of the assignment. It provides evidence that  
60       the appraiser is aware of the ethical obligations of acting as an appraiser. In single-discipline appraisals, the  
61       certification also attests that the analyses, opinions, and conclusions expressed are those of the signatory. The  
62       certification is also where significant appraisal assistance from others not signing the certification must be  
63       acknowledged. Any appraiser who provides significant appraisal, appraisal review, or appraisal consulting  
64       assistance to the assignment must sign the certification or be identified in the certification. When more than one  
65       appraiser is involved in an assignment, USPAP allows for certification in a variety of ways, including:

- 66               • all appraisers could sign a certification accepting responsibility for the entirety of the analyses and the  
67               report if they are all competent to do so; or  
68               • one appraiser could sign a certification and provide the name of each individual who provided  
69               significant appraisal, appraisal review, or appraisal consulting assistance. In such a case, the exact  
70               nature of the assistance must be reported, but this need not be in the certification; or

- 71 • for assignments involving multiple disciplines ( e.g., real property appraisal and personal property  
72 appraisal), an appraiser could sign a certification accepting responsibility only for the elements of the  
73 certification, assignment results and report contents applicable to the appraiser’s discipline.

74 **Illustrations**

75 *Workfile Obligations When Trainee Signs the Report*

- 76 1. Jennifer is currently being trained as an appraiser (a trainee) working toward her state license as a real  
77 property appraiser. Her work includes completing and co-signing appraisal reports with her  
78 supervising appraiser. Must she keep a copy of the workfile for every assignment she works on?

79 If Jennifer acted as an appraiser in the assignment, USPAP provides two options: 1) she can  
80 maintain custody of the workfile, either the original or a copy; or 2) she can make appropriate  
81 access arrangements for the retention period, for example, with her employer or supervising  
82 appraiser.

83 Some common scenarios in such an assignment may include the trainee appraiser and the  
84 supervising appraiser each keeping a copy of the workfile. Or, the supervising appraiser may  
85 retain custody of the workfile and provide for access by the trainee appraiser. Both of these  
86 arrangements meet the record keeping requirements.

87 *Certification Requirements When Trainee Does Not Sign the Report*

- 88 2. Using the same scenario from Illustration 1 except only the senior appraiser signs the report and **not**  
89 the trainee appraiser, what certification requirements must each appraiser meet to comply with  
90 USPAP?

91 USPAP states that when a signing appraiser relies on work done by others who do not sign the  
92 certification, the signing appraiser is responsible for the decision to rely on the trainee appraiser’s  
93 work.

94 The name of the trainee appraiser who provided significant assistance, but does not sign the  
95 certification, must be stated in the certification. It is not required that the description of the  
96 assistance appear in the certification, but the extent of the assistance must be set forth in the report  
97 as required in STANDARDS 2, 3, 5, 6, 8 and 10. The degree of this description is identified by the  
98 applicable reporting option for the assignment. For example, in a Summary Appraisal Report the  
99 extent of the significant assistance must be “summarized.”

100 *Possession of Workfiles*

- 101 3. An appraiser is an employee of an appraisal firm. The firm has announced that the office is moving to  
102 another city. All appraisers not moving to the new location have been asked to turn over their  
103 workfiles to the company. The appraiser believes that he is required to keep the workfiles. Who is  
104 correct?

105 The Record Keeping section of the ETHICS RULE does not mandate that an appraiser have  
106 possession of assignment workfiles. Employment contracts and other employment arrangements  
107 often require appraisers to leave their workfiles with an employer should the appraiser leave that  
108 firm, or in other situations. However, if an appraiser must relinquish a actual possession of the  
109 workfiles, the appraiser must establish appropriate access arrangements for the length of the  
110 retention period. In the circumstances described, an other solution may be for the appraiser to  
111 obtain permission from the employer to make copies of his or her workfiles.

112 4. Jonathan is a trainee appraiser who has been working with the same supervising appraiser for some  
113 time. Recently, his supervising appraiser told him that since he was only a trainee, he had no right to  
114 access workfiles on appraisals where he had provided significant professional assistance. Is the  
115 supervising appraiser correct? Do trainees have any rights regarding access to workfiles?

116 The supervising appraiser is not correct. USPAP places workfile retention requirements on the  
117 **appraiser**. Jonathan, since he is acting as an appraiser, is an appraiser as defined in USPAP. In  
118 assignments where more than one appraiser is involved (e.g. a trainee appraiser and a supervising  
119 appraiser) each appraiser shares responsibility for complying with the Record Keeping section of  
120 the ETHICS RULE.

121 Supervising appraisers should be aware that all appraisers, including trainee appraisers, must  
122 maintain access to workfiles for a minimum of five years. A supervising appraiser must not  
123 impede a trainee appraiser's ability to access a workfile under the following conditions:

- 124 • submission to state appraiser regulatory agencies;
- 125 • compliance with due process of law;
- 126 • submission to a duly authorized professional peer review committee; or
- 127 • compliance with retrieval arrangements..

128 Denying access to a workfile that the trainee worked on is a violation of the ETHICS RULE.

129 *An individual appraiser employed by a group or organization that conducts itself in a manner*  
130 *that does not conform to these Standards should take steps that are appropriate under the*  
131 *circumstances to ensure compliance with the Standards.*

132 *Acknowledging Significant Appraisal Assistance*

133 5. Matthew, an appraiser, is working with a more senior appraiser on a complex appraisal assignment.  
134 His only task has been to develop the income approach based on information provided by the senior  
135 appraiser. What is the appropriate way to acknowledge Matthew's role in the assignment?

136 Since Matthew's work is limited to part of the assignment, signing a certification accepting  
137 responsibility for the entire assignment would not be appropriate. USPAP requires that Matthew  
138 be named in the certification, and the nature of his significant assistance be reported.

139 6. Margaret is performing a specific portion of a complex appraisal assignment, but is not competent to  
140 complete the entire assignment. As part of her training, she read the report and discussed it with the  
141 senior appraiser. Having now expanded her knowledge of the assignment, she wants to sign the  
142 certification along with the senior appraiser on the project. Is this appropriate?

143 No. By signing the certification, she would be accepting full responsibility for all elements of the  
144 certification, for the assignment results, and for the contents of the appraisal report. Although she  
145 was competent to perform her assigned task, reading the report and discussing it with the senior  
146 appraiser does not confer competence. Therefore, she cannot accept full responsibility for the  
147 assignment results or sign the certification.

**ADVISORY OPINION 32 (AO-32)**

*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 assignments, 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 is the valuation of a universe of properties (many properties) as of a given date 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 a report in order to satisfy disclosure requirements does not become an intended user of the appraisal or mass appraisal unless the appraiser identifies such party as an intended user as part of the assignment.

37 **Scope of Work**

38 The determination of an appropriate scope of work in all appraisal and mass appraisal assignments, including ad  
39 valorem taxation assignments, is based on problem identification. The assignment elements necessary for  
40 problem identification are identified in Standards Rule 1-2 (real property appraisal), Standards Rule 6-2 (real  
41 property and personal property mass appraisal) and Standards Rule 7-2 (personal property appraisal). This  
42 information provides the appraiser with the basis for determining the scope of work necessary to develop  
43 credible assignment results.

44 In ad valorem taxation assignments, applicable laws and regulations of an assessing jurisdiction may define the  
45 assignment elements needed for problem identification. For example, the type and definition of value is usually  
46 established by statute, as is the effective date of the appraiser's opinions and conclusions (tax year, levy year,  
47 valuation date, etc). Whatever the source of the assignment elements needed for problem identification, the  
48 appraiser must identify the problem to be solved, and determine and perform the scope of work necessary to  
49 develop credible assignment results.

50 In the interests of equity, the scope of work in mass appraisal assignments for ad valorem taxation can include  
51 consideration of appraisal level (the overall proximity between appraised values and actual prices) and the  
52 uniformity of property values (equity within groups of like properties). Standard Rule 6-1 (a) states:

53 *In developing a mass appraisal, an appraiser must: (a) be aware of, understand, and correctly employ*  
54 *those recognized methods and techniques necessary to produce a credible mass appraisal;*

55 The appraiser is responsible for recognizing when the concepts of appraisal level and appraisal uniformity are  
56 necessary for credible assignment results in a mass appraisal assignment for ad valorem taxation.

57 **Reporting**

58 Standards Rules 6-8 and 6-9 address the requirements for reporting mass appraisal results for real property and  
59 personal property. The Mass Appraisal Report must clearly communicate the elements, results, opinions, and  
60 value conclusions of the mass appraisal. In mass appraisals for ad valorem taxation, local statutes may  
61 prescribe additional reporting requirements and procedures for the delivery of the assignment results.

62 In mass appraisal, the value opinion for each property is developed using the standard methods applied in the  
63 mass appraisal model for a universe of properties. There may be many mass appraisal models used to value an  
64 entire universe of properties. An individual property record or worksheet may describe the valuation of the  
65 specific property after the application of the mass appraisal model. A written report of the mass appraisal as  
66 described in Standards Rule 6-8 is not provided for each individual property. To understand the individual  
67 property result developed in a mass appraisal requires the examination of all the information and analysis  
68 required by Standards Rule 6-8.

69 STANDARDS 2 & 8 address the requirements for reporting of appraisal results for real property and personal  
70 property (respectively). The written report must be presented in a Self-Contained Appraisal Report, Summary  
71 Appraisal Report, or Restricted Use Appraisal Report.

72 An appraiser may be asked to communicate the assignment results for a single property that was appraised as  
73 part of a mass appraisal assignment. USPAP does not address this specific circumstance. The reporting  
74 requirements of STANDARD 2 apply to appraisal assignments developed under STANDARD 1 and do not  
75 apply to mass appraisal assignments prepared under STANDARD 6. However, the second sentence of the  
76 PREAMBLE states: *It is essential that appraisers develop and communicate their analyses, opinions, and*  
77 *conclusions to intended users of their services in a manner that is meaningful and not misleading.* Additionally,  
78 the ETHICS RULE states: *An appraiser must not communicate assignment results in a misleading or fraudulent*  
79 *manner.* Therefore, if an appraiser communicates mass appraisal results for a single property, the  
80 communication must be meaningful and must not be misleading.

81 In assignments for ad valorem taxation, public policy may direct property owner notification of the property  
 82 values rendered as a result of an appraisal or mass appraisal. Notifications are commonly required within the  
 83 jurisdiction to meet due process requirements. These property owner notifications are not “reports” as defined  
 84 in USPAP. Further, a party receiving a notification in order to satisfy disclosure requirements does not become  
 85 an intended user unless the appraiser identifies such party as an intended user as part of the assignment.

86 **Workfile Requirements**

87 The ETHICS RULE requirement to prepare a workfile applies to appraisals and mass appraisals performed for  
 88 ad valorem taxation assignments. An appraiser’s assignment workfile preserves evidence of the appraiser’s  
 89 compliance with USPAP and other information as may be required to support the appraiser’s opinions and  
 90 conclusions.

91 For a mass appraisal assignment, compliance with the Record Keeping section of the ETHICS RULE requires a  
 92 workfile for the mass appraisal assignment, not a workfile for each property in the mass appraisal. The workfile  
 93 for a mass appraisal contains the information to support the valuation of all properties in the mass appraisal.  
 94 This supporting material may be documented in any form of media, including electronic files, and includes such  
 95 items as property records, market data, sales ratios and other statistical studies, appraisal manuals and  
 96 documentation, market studies, model building documentation, regulations, statutes, property photos, sketches,  
 97 aerial imagery, maps, automated mapping and geographic information systems, worksheets, spreadsheets, and  
 98 analysis reports. USPAP does not dictate the form or format of workfile documentation. There is no  
 99 requirement that the contents of the workfile be held in a single location.

100 The retention of the workfile in support of an assignment for ad valorem taxation is governed by USPAP and  
 101 may also be subject to retention schedules in the jurisdictions. The record retention time frames referenced in  
 102 the Record Keeping section of the ETHICS RULE are minimums. Retention beyond the USPAP requirements  
 103 is permitted. Unless compelled by law or regulation, USPAP does not permit appraisers to destroy records prior  
 104 to five years after preparation **for any reason**. An appraiser citing a jurisdictional exception must comply with  
 105 the requirements of the JURISDICTIONAL EXCEPTION RULE.

106 **JURISDICTIONAL EXCEPTION RULE**

107 The JURISDICTIONAL EXCEPTION RULE exempts appraisers from the part or parts of USPAP that are  
 108 precluded by the law or regulation of a particular jurisdiction. If compliance with a part of USPAP is precluded  
 109 by any applicable federal, state, or local law or regulation, only that part shall be of no force and effect in that  
 110 assignment. Appraisers using the JURISDICTIONAL EXCEPTION RULE must properly disclose the legal  
 111 authority justifying the exemption of part or parts of USPAP that are precluded by law.

112 Use of the JURISDICTIONAL EXCEPTION RULE is triggered by a contradiction between the requirements of  
 113 USPAP and the law or regulations of a jurisdiction, not by client or appraiser discretion.

114 USPAP does not establish who or which assignments must comply. Therefore, the JURISDICTIONAL  
 115 EXCEPTION RULE cannot be applied to the decision to comply with USPAP.

116 An individual’s identification as an appraiser is the basis for determining who should comply with USPAP.  
 117 This is because an individual’s public identification as an appraiser establishes an expectation that valuation  
 118 services will be performed in compliance with USPAP. An individual must comply with USPAP when  
 119 required by law, regulation, or agreement. Even if the governing authority’s policy does not require USPAP  
 120 compliance, other applicable law or regulation might require compliance.

121 **Illustrations**

- 122 1. An appraiser is in the process of developing appraisals for the next year’s tax roll. The residential  
 123 properties, condominiums, and general commercial and major commercial properties will be valued  
 124 with a mass appraisal model. Which development standards apply?

## ADVISORY OPINION 32

---

125                    Because the subject of the appraisal is a universe of properties, and because they are being  
126                    appraised with a mass appraisal model, STANDARD 6 applies.

127            2.            An appraiser has completed a mass appraisal for ad valorem taxation using a mass appraisal model.  
128                    There is a special use property for which it has been determined that the mass appraisal model is not  
129                    appropriate. This property will be appraised as an individual property. Which development standard  
130                    applies to the appraisal of the special use property?

131                    Even though the special use property is being appraised for ad valorem taxation, STANDARD 1  
132                    would apply because the subject is an individual property, not a universe of properties.

133            3.            An assessment appeal is in process, and an appraisal of an individual property is being conducted as  
134                    part of that appeal. Which development standards apply?

135                    STANDARD 1 or STANDARD 7 would apply because an individual property is being appraised  
136                    rather than a universe of properties.

137            4.            An appraiser is conducting a mass appraisal for ad valorem taxation. A property record card is  
138                    produced for each property. Is each property record card considered a report under STANDARD 6?

139                    No. The property record card is not the mass appraisal report; it is only a portion of the  
140                    information and analysis supporting the mass appraisal.