

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

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

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

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

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

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

Any request for an opinion of value of real property calling for something less than, or different from, the work required by the specific requirements of STANDARD 1 (Standards Rules 1-2, 1-3, and 1-4) can be performed as a Limited Appraisal when the DEPARTURE RULE is properly invoked by the appraiser. (Reporting the results of the assignment is a separate issue discussed later in this document.) To properly invoke the DEPARTURE RULE, an appraiser practicing under USPAP must believe that the valuation method(s) used in a Limited Appraisal are of primary relevance to the valuation of the type of real property involved. The limitations on the appraisal process requested by a client may extend to specific requirements other than those related to valuation methods (Standards Rule 1-4(a), (b), or (c)). For example, an appraiser might be requested to appraise a property while not considering the impact of an easement associated with the property (Standards Rule 1-2(e)(iv)).

Whatever the request, the three conditions of the DEPARTURE RULE must be satisfied for the appraiser to properly invoke the DEPARTURE RULE and accept the assignment as a Limited Appraisal.

A client's request for an evaluation may also present a situation where no limitations on the appraisal process are involved. In such a case, a Complete Appraisal can be performed. An example of this might be an appraisal of undeveloped land. The elimination of the Cost Approach, in this example, may not be a departure because the cost approach is ordinarily not used in this type of appraisal assignment.

If the *evaluation* request does not call for an opinion of value of a specific property, the appraiser may consider the request as a real estate or real property consulting service under STANDARDS 4 and 5 of USPAP. Examples of requests for services that do not require a value conclusion of a specific property include, without limitation:

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

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

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

### **Illustrations**

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

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

In either case, the appraiser should decide whether the DEPARTURE RULE can be properly invoked to develop a Limited Appraisal under STANDARD 1 before considering the reporting options of STANDARD 2.

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

If market experience reasonably supports the view that the sales comparison approach is of primary relevance in the valuation of the residential property, then an evaluation based solely on this evidence can qualify as a Limited Appraisal.

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

If market experience supports the view that the income capitalization approach is of primary relevance in the valuation of the office building property, then an evaluation of this property based solely on this evidence could qualify as a Limited Appraisal.

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

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

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

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

In either case, the appraiser must be sufficiently diligent to ensure that any value opinion will not result in significant errors of omission or commission.

### Scenario #3: Consulting

The potential client requests a residential or office property evaluation, but asks for an opinion on market trends or conditions and not an opinion of value. These assignments may be completed under STANDARDS 4 and 5. As examples and without limitation, the appraiser may provide in a consulting assignment information and/or conclusions on:

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

The above are examples of only a few of the many situations when an appraiser may best serve the client's evaluation-related needs under STANDARDS 4 and 5 by providing market information without indicating a value conclusion of a specific property.

### Scenario #4: Subdivision Lot

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

If a value opinion for a specific lot is requested, the evaluation could be performed and reported as an appraisal assignment under STANDARDS 1 and 2 of USPAP. According to Statement No. 7, an opinion of value may be expressed as a single point value, a range in value, or a value relationship.

If a value opinion for a specific lot is not required, an evaluation could be performed and reported as a consulting assignment under STANDARDS 4 and 5 of USPAP. The appraiser could provide a variety of market data, including a listing of sales that have occurred in the subdivision, or a set of comparable assessment values.

### Reporting the Results of an Evaluation

When reporting evaluations, appraisers need to be aware that the evaluation content, described in the Agencies' Guidelines, differs from the contents required for appraisal reports under STANDARD 2 and consulting reports under STANDARD 5 (see Statement on Appraisal Standards No. 7 (SMT-7) and Advisory Opinion AO-11). It is important that appraisers take care that the contents of their reports satisfy the requirements of STANDARDS 2 or 5. When reporting the results of an evaluation that includes a value conclusion, an appraiser would typically use the Summary Appraisal Report format, as described in Standards Rule 2-2(b). In some instances, and depending on the client's needs, a Self-Contained or a Restricted Use Appraisal Report may also be appropriate.

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

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

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

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

#### **THE ISSUE:**

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

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

##### **Relevant USPAP References**

The COMPETENCY RULE requires the appraiser to "...properly identify the problem to be addressed..." and (in the Comment) "...understand the nuances of the local market and the supply and demand factors relating to the specific property type and the location involved."

The Comment to Standards Rule 1-1(a) states: "Important changes in the cost and manner of constructing and marketing commercial, industrial, and residential real estate as well as changes in the legal framework in which real property rights and interests are created, conveyed, and mortgaged have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect...."

Standards Rule 1-2, particularly (a), (b), (c)(iv), (e) and (f); Standards Rule 1-3(a) and (b); and Standards Rule 1-4(g).

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

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

##### **Competency Issues**

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

## **Property Rights Issues**

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

Standards Rule 1-2(e) allows the inclusion of intangible assets that are not real property in the appraisal. If they are significant to the overall value, the value of the intangibles should be developed and reported separately, as required by Standards Rule 1-4(g). One way to measure the significance of the intangible asset's value is to develop a value opinion including the intangibles and to compare the results with an opinion of value excluding the intangibles. Additional guidance is provided in the Comment section of Standards Rule 1-4(g).

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

## **Value Definition Issues**

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

- (i) in terms of cash; or
- (ii) in terms of financial arrangements equivalent to cash; or
- (iii) in such other terms as may be precisely defined; and
- (iv) if an opinion of market-value is to be based on non-market financing with unusual conditions or incentives, the appraiser must clearly identify the terms of such financing and develop, by analysis of relevant market data, the appraiser's opinion of their contributions to or negative influence on value.

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

USPAP does not mandate market-value appraisals, but it does require that the value be defined. If the defined value for the total property (real property and intangible assets) is not market value, then (i), (ii), (iii), and (iv) above may not be applicable. Additional guidance is provided in the Comment section of Standards Rule 1-4(g).

The Glossary of USPAP recognizes there are numerous definitions of market value. The Glossary includes one commonly used market value definition, which is the definition agreed upon by agencies that regulate federal financial institutions in the United States. Implicit in this definition is the consummation of a sale under a condition that the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

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

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

Subsidies and incentives should be explained in the appraisal report, and their impact on value, if any, needs to be reported in conformity with the Comment to Standards Rule 1-4(g), which states in part: "A separate valuation, developed in compliance with the Standard pertinent to the property type involved, is required when the value of a nonrealty item or combination of such items is significant to the overall value."

Appraisers should be aware that appraisal of subsidized housing usually requires more than one value analysis predicated on different scenarios. In appraisal of subsidized housing, value conclusions that include the intangibles arising from the programs will also have to be analyzed under a scenario without the intangibles in order to measure their influence on value and report the results without misleading the intended user.

### **Market Analysis Issues**

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

### **Legal Jurisdictions**

Appraisers should be aware that some jurisdictions may have laws, administrative rules, regulations, or ordinances that stipulate requirements in the valuation of subsidized housing within their jurisdiction. If so, appraisers, who are bound to utilize these requirements, comply with USPAP under the JURISDICTIONAL EXCEPTION RULE.

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

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

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

#### **THE ISSUE:**

The DEPARTURE RULE permits appropriate exceptions from all or part of a standards rule that is a specific requirement. (Departure is never permitted from binding requirements.) How can use of the DEPARTURE RULE assist appraisers complying with the *Uniform Standards of Professional Appraisal Practice* (USPAP) in providing credible, cost-efficient, and timely services?

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

##### **Relevant USPAP References**

The DEPARTURE RULE distinguishes between the standards rules that are binding requirements and those that are specific requirements of USPAP. It discusses the circumstances under which an appraiser may agree to perform an assignment that calls for something less than or different from work that would otherwise be performed in the development of a Complete Appraisal.

STANDARD 156 contains the rules for development of a real property value opinion under USPAP. An appraiser may depart from specific requirement rules of STANDARD 1, but must always meet the binding requirement rules.

STANDARD 2 details real property appraisal reporting rules. There is no departure from the binding requirement rules in STANDARD 2, or in any of the other reporting standards.

This Advisory Opinion does not address situations where the JURISDICTIONAL EXCEPTION RULE applies. By definition, jurisdictional exception renders a specific portion of USPAP void and of no force or effect; therefore, for purposes of that assignment, the excepted portion of USPAP does not exist and so cannot be subject to the DEPARTURE RULE.

##### **The Appraisal Assignment**

Appraisers need to be familiar with the DEPARTURE RULE because it is a powerful tool that allows the extent of appraisal analysis or development (conducted under STANDARD 1 or 7) to be varied as appropriate for the appraisal assignment. Appropriate use of the DEPARTURE RULE provides appraisers with an effective means to compete in an increasingly competitive market.

In accepting an appraisal assignment, an appraiser needs to make two immediate decisions:

1. What is the appropriate level of analysis to develop the value opinion?

and

2. Which report option of STANDARD 2 is to be provided?

The first question is addressed in this document. Selecting the appropriate report option for the assignment is discussed in STANDARD 2 and Statement on Appraisal Standards No. 7 (SMT-7). Additional guidance is provided in Advisory Opinions AO-11 and AO-12.

It is important to view development of a value opinion and reporting of that opinion as two distinctly separate components of an assignment.

### Using the DEPARTURE RULE

Appraisers strive to offer a variety of appraisal services and products in response to clients' needs. Some appraisers attempt to achieve this by conducting all of the analysis typically performed under STANDARD 1 (performing a Complete Appraisal)<sup>57</sup> and delivering as brief an appraisal report as possible. However, appraisers generally spend far more time in developing, rather than reporting, a value opinion. Attempts to condense a report do not usually allow an appraiser to markedly reduce the total time he or she dedicates to an assignment.

An effective means to satisfy client needs for a credible, cost-efficient, timely service lies in appropriate use of the DEPARTURE RULE in development of a value opinion under STANDARD 1 or 7.

For example, using a real property appraisal assignment as a model, no departure is permitted from Standards Rule 1-1, which discusses appraiser competency and ethics, or from Standards Rule 1-2, which addresses identifying the scope of work and other assignment criteria. Departure is also not permitted from Standards Rule 1-5, which requires consideration of the subject property's current and past sale as well as reconciliation of the data and approaches used. Appraisers must meet the requirements of these standards rules in all assignments. However, Standards Rules 1-3 and 1-4 contain development requirements from which departure is permitted.

In this example, deciding whether to exercise the DEPARTURE RULE regarding any part of the specific requirements of Standards Rules 1-3 or 1-4 depends on the nature of the particular assignment. An appraiser should examine the conditions of the DEPARTURE RULE in light of the requirements for a particular assignment and identify appropriate departure(s), if any.

The following excerpt from the DEPARTURE RULE indicates the conditions under which appraisers may depart from specific requirements:

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

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

An appraiser can invoke and properly use the DEPARTURE RULE when he or she elects not to perform analysis that otherwise could be performed in the context of a particular assignment. Elimination of an approach to value constitutes departure only when that approach is applicable and is typically used in developing the value opinion. Typical practice for an assignment is measured by:

- the expectations of the participants in the market for appraisal services, and
- what an appraiser's peers' actions would be in performing the same or a similar assignment.

For example, consider the appraisal of a newly constructed detached single-family home located in a predominantly owner occupied neighborhood with few rentals. When the sales comparison approach is necessary in order to produce credible results, eliminating it would be inappropriate, and departure from this approach would not be permitted. Eliminating the income approach in this example would not typically constitute departure because it is not "typical practice" and generally would not produce meaningful results for this type of assignment. However, eliminating the cost approach in the same example would typically constitute departure because the cost approach is generally considered "typical practice" for newly constructed detached single family homes.

### Workfile and Report Considerations

The requirements for preparation of a Self-Contained Appraisal Report, a Summary Appraisal Report, and a Restricted Use Appraisal Report require that all departures be clearly identified. (See Standards Rules 2-2 and 8-2(a)(xi), (b)(xi), and (c)(xi).)

Appraisers who elect to use the DEPARTURE RULE need to ensure that the appraisal report contains information indicating satisfaction of the requirements of the DEPARTURE RULE. It is important to understand that neither the workfile nor the report needs to contain evidence of *analytical consideration* of the particular item from which the appraisal departs. Departure from a specific requirement of STANDARD 1 means that the value opinion is developed without consideration of the analysis item from which the appraiser departed. An appraiser may depart from one or more of the specific requirements of STANDARD 1 as appropriate for an assignment, but he or she must be aware that the DEPARTURE RULE requires that elimination of any analysis items must not result in a value opinion that is not credible.

### Illustrations

1. An opinion of market value is requested by a prospective buyer of a special-purpose property to be sold at a foreclosure auction the next day. Could an appraiser depart from consideration of the sales comparison approach and perform only the cost approach?

This could be a legitimate means to complete the assignment, assuming the following:

- the sales comparison is applicable but not necessary in order to produce results that are credible;
  - the income approach is not applicable to this particular assignment;
  - the appraiser is familiar with and regularly performs the cost approach to develop an opinion of market value;
  - the resulting value opinion will be credible;
  - the client agrees that the performance of a Limited Appraisal is appropriate;
  - and the appraisal report clearly identifies the departures.
2. The same situation occurs, except the property to be auctioned is a single-family residence in a neighborhood where similar residences are bought and sold on a regular basis.

Departure in the form of eliminating the sales comparison approach would not be appropriate in this instance because actions of both market participants and local appraisers suggest that the sales comparison approach is necessary.

- 3(A). A client telephones an appraiser and requests information about a condominium project, including the number and size of the project's units, as well as demographic information about the surrounding community. After the appraiser provides the requested information orally, the client asks the appraiser to provide an oral opinion of value of units within the project. The appraiser has appraised other units in this project and is familiar with the market for this type of condominium units. The sales comparison approach was found in those prior appraisals to be the only approach that provided meaningful results. Can the appraiser provide the value opinions by using departure?

The appraiser can complete this assignment without invoking the DEPARTURE RULE. Because the income and cost approaches are not applicable, there is no need to depart from Standards Rules 1-4(b) or (c).

The appraiser must identify the scope of work to be applied, in accordance with Standards Rule 1-2(1). Scope of work includes the degree to which a property inspection (if any) is performed. In this case, the scope of work will include the application of prior knowledge about the subject condominium project, as opposed to knowledge obtained through a current inspection of the unit appraised. The appraiser must ascertain with the client that this scope of work is adequate, given the intended use of the appraisal. However, the lack of a property inspection with this assignment does not constitute a departure from any standards rule.

The value opinions can be given orally, provided the appraiser complies with the requirements of Standards Rule 2-4 regarding oral reports.

3(B). The same situation occurs *but* the appraiser has not seen the specific units and has no first-hand knowledge of the project except what the client has said over the telephone. The appraiser is, however, familiar with the market for this type of condominium unit.

In this case, the scope of work, which would lack a property inspection or application of prior knowledge about the property, would be inadequate for an appraiser to develop a credible value opinion. The appraiser would not be able to complete this assignment without first gathering sufficient information, via a property inspection or otherwise, to meet the requirements of Standards Rule 1-2(e).

However, the appraiser could develop the appraisal on the basis of extraordinary assumptions about the missing information, as long as the requirements of Standards Rule 1-2(g) can be met. If this is done, it is critical that the client be made fully aware of the impact of such extraordinary assumptions on the value conclusion. The appraiser and the client must agree that such an appraisal is appropriate, given the intended use.

### **Competency To Use the DEPARTURE RULE**

Use of the DEPARTURE RULE allows appraisers to vary the extent of the analyses conducted in developing a value opinion as appropriate for each particular appraisal assignment. It is important to realize that some assignments can be most practically completed by departing from some of the analysis normally conducted under specific requirements of STANDARD 1 or 7. The DEPARTURE RULE is a useful tool that enables appraisers to provide reliable, timely, and cost-efficient services.

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

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## ADVISORY OPINION 16 (AO-16)

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

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

### THE ISSUE:

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

### BACKGROUND:

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

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

### ADVICE FROM THE ASB ON THE ISSUE:

#### Relevant USPAP References

- 1) The Preamble states: "It is essential that professional appraisers develop and communicate their analyses, opinions, and conclusions in a manner that is meaningful and not misleading."
- 2) The Conduct section of the ETHICS RULE states: "An appraiser must perform assignments ethically and competently in accordance with these standards, and must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests."
- 3) The COMPETENCY RULE states: "...an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently...."
- 4) The Comment to Standards Rule 1-1(a) states: "Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession is constantly reviewing and revising appraisal methods and techniques and developing new methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in real property appraisal."
- 5) Standards Rule 2-1(a) states: "Each written or oral real property appraisal report must clearly and accurately set forth the appraisal in a manner that will not be misleading."
- 6) The content of the certification in Standards Rules 2-3, 3-2(f), 5-3, 6-8, 8-3, and 10-3 requires the following disclosures: "I certify that, to best of my knowledge and belief, ... the reported analyses, opinions, and conclusions are my personal, impartial, and unbiased professional analyses, opinions, and conclusions...[and] my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*."

- 7) The Conduct section of the ETHICS RULE states: "An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value."
- 8) Appraisers must be aware that jurisdictions have laws or public policy that may affect the consideration of certain information in the development and reporting process. In some of these cases the JURISDICTIONAL EXCEPTION RULE may apply.

### **Appraisal Report Content**

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

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

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

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

Appraisers should be aware that some jurisdictions may have laws, administrative rules, regulations, or ordinances that stipulate requirements within their jurisdiction that address discrimination issues that may affect the information an appraiser may consider in developing opinions or conclusions in an assignment. In some such cases, the JURISDICTIONAL EXCEPTION RULE may apply.

### **Competency**

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

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

### **ILLUSTRATIONS:**

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

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

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

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

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

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

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

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

The appraiser should reflect market preferences for the components of the structure. However, the appraiser should not draw an unsupported conclusion that the fixtures either enhance or diminish value.

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

Approved June 10, 1996

Revised

September

16,

1998

## **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. They do not constitute a legal opinion of the ASB.*

### **SUBJECT: Appraisals of Real Property with Proposed Improvements**

#### **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 extraordinary 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, particularly those with residential practices, 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 (SMT-4) addresses how an appraiser may provide a prospective value opinion in a manner that is not misleading. This Advisory Opinion provides guidance in performing an assignment involving proposed improvements to real property, whether the purpose of the assignment is to develop a current value opinion or to develop a prospective value opinion.

The value opinion in an appraisal assignment involving proposed improvements is developed on the basis of one or more hypothetical conditions. Using a hypothetical condition always requires specific reporting steps. An appraiser must properly address the requirements set forth in Standards Rule 1-4(h) related to use of a hypothetical condition in developing an appraisal, and Standards Rules 2-2(a)(viii), (b)(viii), and (c)(viii) in reporting the appraisal opinions and conclusions so as to ensure that the results are credible and not misleading.

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

##### **Relevant USPAP 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.
- SUPPLEMENTAL STANDARDS RULE, particularly as to when and under what conditions a client's requirements may augment USPAP.
- JURISDICTIONAL EXCEPTION RULE, particularly when applicable law requires use of a hypothetical condition that is not consistent with the highest and best use of the subject property.

- STANDARD 1, particularly Standards Rules 1-1(a); 1-2(d); 1-2(e); 1-2(f); 1-3(a); and 1-4(h).
- STANDARD 2, particularly Standards Rules 2-1(a); 2-1(c); and Standards Rule 2-2.

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

- No. 2 (SMT-2), addressing discounted cash flow analysis;
- No. 4 (SMT-4), explaining that three categories of effective appraisal dates may be used — retrospective, current, or prospective — according to the purpose and function of the appraisal assignment, and addressing how an appraisal can be prepared and presented in a manner that will not be misleading when a prospective value opinion is required;
- No. 6 (SMT-6), addressing reasonable exposure time in market value opinions; and
- No. 7 (SMT-7), addressing permitted departure from specific requirements for real property appraisal.

Additional guidance also appears in Advisory Opinion AO-7, which addresses marketing time opinions.

### **General Comments**

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

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

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

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

Clients may have supplemental standards that affect how and when a hypothetical condition may be used in an appraisal assignment. An appraiser should consider a client's supplemental standards, but must make certain that developing and reporting either a current or a prospective value opinion under a hypothetical condition in accordance with a client's supplemental standards still results in an appraisal that complies with USPAP.

The JURISDICTIONAL EXCEPTION RULE may apply in assignments when a value opinion based on a hypothetical condition is required by applicable law or public policy.

## Assignment Considerations

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

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

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

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

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

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

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

In an appraisal with a prospective date of value, the extraordinary assumption that the proposed improvements are complete as of that future date must be disclosed each time the appraiser expresses an opinion or conclusion that is affected by the assumption. The appraiser also should report any extraordinary assumption's impact on each affected opinion and conclusion, and each extraordinary assumption's effect on the appraisal's results should be disclosed.

An appraiser should carefully review Standards Rule 1-4(h) and determine whether the information available for analysis is sufficient to identify the scope and character of the proposed improvements. If sufficient information is not available, an appraiser may have to (1) invoke the DEPARTURE RULE and, for purposes of reasonable analysis, (2) use an extraordinary assumption about the scope and character of the proposed improvements. In an appraisal with a prospective date of value, the extraordinary assumption about the scope and character of the improvements is in addition to the extraordinary assumption about those improvements being completed on the future date of value.

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

## **Illustrations:**

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

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

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

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

3. A client is considering financing a proposed office tower with a loan commitment based on the value of the property as though the improvements were complete and occupancy is at stabilized market level. Because of the amount of vacant office space available in the subject's market area, it is anticipated that the subject property will take five years to reach stabilized occupancy. The client requests a current value opinion that assumes the property is complete and at stabilized occupancy. Can such an appraisal be provided in compliance with USPAP?

No. Because of the combination of the intended use of the appraisal and the market conditions that are expected to affect the subject property, the resulting appraisal would most likely be misleading. A prospective value opinion could be provided, with an effective date of appraisal as of the date when stabilized occupancy is expected to be achieved. This would more clearly reflect the market conditions affecting the subject, when completed.

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

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

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

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

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

An appraiser should not provide, unless required to do so under law or public policy by proper application of the JURISDICTIONAL EXCEPTION RULE, a current or prospective value opinion concerning proposed improvements under either of the following conditions:

1. the resulting value opinion would be misleading; or
2. the actions or events required to meet the extraordinary assumptions would be illegal.

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

Approved July 26, 1996

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1998

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

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

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

#### **THE ISSUE:**

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

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

#### **BACKGROUND:**

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

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

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

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

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

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

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

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

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

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

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

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

### **Relevant USPAP References**

Conduct section of the ETHICS RULE: "An appraiser must perform assignments ethically and competently in accordance with these standards, and must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests." Further, "An appraiser must not communicate assignment results in a misleading or fraudulent manner. An appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report."

COMPETENCY RULE: "prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently."

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

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

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

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

Standards Rule 1-5 (c): An appraiser must "reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used."

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

STANDARD 3: "In performing an appraisal review assignment involving a real property or personal property appraisal, an appraiser acting as a reviewer must develop and report a credible opinion as to the quality of another appraiser's work and must clearly disclose the scope of work performed in the assignment."

Statement on Appraisal Standards No. 7 (SMT-7), quoting from the DEPARTURE RULE: "The burden of proof is on the appraiser to decide before accepting an assignment and invoking this rule that the scope of work applied will result in opinions or conclusions that are credible."

Statement on Appraisal Standards No. 9 (SMT-9): "Although an appraiser bound by the *Uniform Standards of Professional Appraisal Practice* must identify and consider the client's intended use of the appraiser's reported appraisal, appraisal review, or consulting opinions and conclusions, an appraiser must not allow a client's intended use or the requirements of any user of the report to affect the appraiser's independence and objectivity in performing an assignment. An appraiser must not allow a client's objectives to cause the analysis or report to be biased."

### **Competency**

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

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

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

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

If use of the AVM involves invoking departure, the DEPARTURE RULE requires the appraiser to advise the client of the appraisal's limitations, and to disclose those limitations in the report, provided the client has agreed that the limited service is appropriate.

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

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

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

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

### **Database**

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

### **Understanding and Control of the AVM**

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

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

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

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

### **Communicating the AVM Output**

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

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

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

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

### **Analyzing an AVM's Effectiveness**

An appraiser may be asked to analyze and comment on the effectiveness of an AVM for a stated intended use. This is a consulting assignment under USPAP. In order to accept such an assignment, an appraiser bound by USPAP must ensure compliance with the COMPETENCY RULE and STANDARDS 4 and 5. To meet the COMPETENCY RULE, at a minimum, the appraiser should also have a basic understanding of how the AVM works.

### **Review of the Output of an AVM**

An appraiser may be asked if the output of an AVM is reliable for a specific property, given the purpose and intended use of the AVM's output. Making this determination is a consulting assignment under USPAP. The appraiser must ensure compliance with the COMPETENCY RULE and STANDARDS 4 and 5.

## Review of an Appraisal Report Containing Output of an AVM

An appraiser may be asked to review an appraisal report that includes an opinion of value based on the output of an AVM. This kind of appraisal review assignment may be accepted if the appraiser performing the review (1) understands how the AVM works and (2) can form an opinion as to the adequacy and relevancy of the data and the appropriateness of the analysis, based on the information provided in the report under review.

## Use of an AVM in an Appraisal Review Assignment

An AVM may be used in the process of reviewing a real property appraisal report. The appraisal reviewer may use the AVM to test the reasonableness of the value conclusion in the report under review if the appraisal reviewer (1) has a basic understanding of how the AVM works, (2) can use the AVM properly, (3) determines that use of the AVM is appropriate for the appraisal review assignment, and (4) believes the AVM output is credible and sufficiently reliable for the appraisal review assignment.

## ILLUSTRATIONS:

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

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

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

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

- 1B. Staff Appraiser D receives AVM output from a co-worker who is not an appraiser. Appraiser D is requested to determine if the AVM output is reliable, given the intended use.

What can Appraiser D do?

Appraiser D should not express an opinion regarding value. Appraiser D can indicate if the AVM output is reliable. However, this service is a consulting assignment because it considers the quality of the output relative to the client's intended use. Appraiser D must, therefore, ensure compliance with the COMPETENCY RULE and STANDARDS 4 and 5.

- 1C. After staff Appraiser D has received the AVM output, can she incorporate the information into the appraisal process?

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

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

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

Not without further investigation, because assumptions made by Appraiser V in qualifying the AVM itself and the AVM output for Client A's needs may not be appropriate for Client B's needs.

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

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

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

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

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

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

- 4A. A client of Appraiser A requests that Appraiser A use Blue Box AVM. The client says, "Since we are only doing residential appraisals you can skip the cost and income approach. To lower the cost of the appraisal just use the Blue Box AVM results as the basis for your value conclusion." The client also says, "Blue Box AVM makes 13 adjustments, and that is all that the appraiser needs to be concerned with." The Blue Box AVM developer feels that appraisers cannot understand this new technology and that appraisers do not need to know how the 13 adjustments are made.

What should Appraiser A do?

Appraiser A should:

1. learn how the Blue Box AVM works;
2. determine if he can use the AVM properly;
3. given the intended use, determine if the output of Blue Box AVM is credible and sufficiently reliable for use in the assignment; and
4. review the DEPARTURE RULE to determine whether not performing the cost and income approaches would result in a Limited Appraisal assignment.

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

- 4B. Another client requests that Appraiser A consider Green Box AVM. The client indicates that Appraiser A can modify 6 of the 13 items analyzed in Green Box AVM, such as the distance within which the comparables are selected and the size range (square footage) of the comparables. The developer of Green Box AVM will also describe how the AVM works and provide the results of test data, which indicate that the model is reliable.

What should Appraiser A do?

Appraiser A needs to follow the same steps as indicated in 4A.

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

Can Appraiser C apply the Red Box AVM in the consulting assignment?

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

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

Approved July 9, 1997

Revised

September

16,

1998

## 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. They do not constitute a legal opinion of the ASB.*

### **SUBJECT: Unacceptable Assignment Conditions in Real Property Appraisal Assignments**

#### **ISSUE:**

All real property appraisals assignments involve conditions that affect the appraiser's scope of work and the type of report. What types of 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 won't 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.

Appraiser's ask "Can I respond to such requests without violating USPAP and, if so, how?"

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

##### **Relevant USPAP 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, or a direction in value that favors the cause of the client, or the amount of the value opinion, or the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the value opinion.
- The Definitions of "Appraisal," "Appraisal Practice," "Assignment" and "Scope of Work" in USPAP.
- Standards Rule 1-1(b), particularly as it relates to diligence in the level of research and analysis necessary to develop credible opinions and conclusions.

- Standards Rules 1-2(f), (g) and (h), regarding identification of the scope of work necessary to complete an assignment, and any extraordinary assumptions or hypothetical conditions necessary in an assignment.
- Standards Rule 1-5(a) and (b), regarding the analysis of current or historical market activity regarding the property appraised.
- the DEPARTURE RULE, with particular attention to the appraiser's burden of proof in connection with the appraiser's scope of work decision and burden of disclosure in connection with any departures from specific requirements.
- Statement on Appraisal Standards No. 7 (SMT-7), particularly the Scope of Work and Levels of Reliability sections.
- as guidance, Advisory Opinions AO-11, 12, 13, and 15.

### **Unacceptable Conditions:**

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

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

### **Accepting Assignment Conditions:**

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

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

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

When considering a request for service, appraisers should ascertain:

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

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

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

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

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

However, this does not mean that the appraiser cannot provide an economic and competitive service. Indeed, the *Uniform Standards of Professional Appraisal Practice* recognize the need for different kinds of appraisals. A competent appraiser can vary the scope of work in an assignment, in accordance with the purpose and intended use of the appraiser's opinions and conclusions in the assignment, and remain in compliance with USPAP. (See Statement 7, particularly the "Scope of Work" and "Levels of Reliability" sections, and Advisory Opinion AO-15, particularly the sections on "The Appraisal Assignment" and "Using the Departure Rule")

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

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

When the client's intended use is to screen potential business for feasibility, a higher reliance on assumptions or extraordinary assumptions is more appropriate than when the client's intended use is for loan documentation or loan settlement. While the client can accept a higher level of risk in different situations, an appraiser should take reasonable care to inform the client of the risks involved with the assignment limitations.

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

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

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

**An appraiser must perform assignments ethically and competently in accordance with these standards, and must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence and without accommodation of personal interests.**

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

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

**Whenever an appraiser develops an opinion of value, it is unethical for the appraiser to accept compensation in developing that opinion that is contingent upon:**

1. the reporting of a predetermined value, or
2. a direction in value that favors the cause of the client, or
3. the amount of the value opinion, or
4. the attainment of a stipulated result, or

5. the occurrence of a subsequent event directly related to the value opinion.

**Illustrations:**

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

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

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

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

2. *Sales Price \_\_\_\_\_.*

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

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

3. *Approximate (or Minimum) value needed \_\_\_\_\_.*
4. *Amount needed \_\_\_\_\_.*
5. *Owner's estimate of value. \_\_\_\_\_.*

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

6. *If this property will not appraise for at least \_\_\_\_\_, stop and call us immediately.*
7. *Please call and notify if it is NOT possible to support a value at or above \_\_\_\_\_, BEFORE YOU PROCEED!!!!*

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

### **Research Illustration:**

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

- not an appraisal assignment (the appraiser does not develop a value opinion);
- not a real property consulting assignment (the appraiser does not decide what data is relevant or the meaning of that data in the context of the client’s intended use); and
- not a real property appraisal review (there is no appraisal to review).

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

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

Possible Response:

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

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

### **Staff or Multi-Appraiser Firm Context:**

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

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

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

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

*This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.*

Approved September 15, 1999

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(END OF TEXT OF RULE)  
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The rules adopted in this order shall take effect on the first day of the month following publication in the Wisconsin administrative register, pursuant to s. 227.22 (2) (intro.), Stats.

Dated \_\_\_\_\_

Agency \_\_\_\_\_

William Conway, Deputy Secretary  
Department of Regulation and Licensing

FISCAL ESTIMATE

1. The anticipated fiscal effect on the fiscal liability and revenues of any local unit of government of the proposed rule is: \$0.00.
2. The projected anticipated state fiscal effect during the current biennium of the proposed rule is: \$0.00.
3. The projected net annualized fiscal impact on state funds of the proposed rule is: \$0.00.

INITIAL REGULATORY FLEXIBILITY ANALYSIS

These proposed rules will be reviewed by the department through its Small Business Review Advisory Committee to determine whether there will be an economic impact on a substantial number of small businesses, as defined in s. 227.114 (1) (a), Stats.

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5/17/2000