

CR 93-151

**CERTIFICATE**

**STATE OF WISCONSIN**

**DEPARTMENT OF REGULATION AND LICENSING**

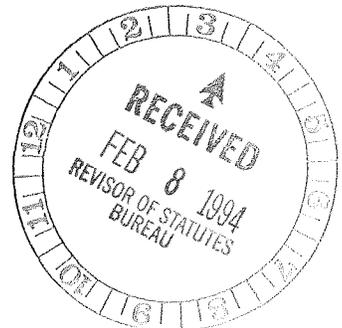
**TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:**

**I, Pat McCormack, Deputy Secretary of the Wisconsin Department of Regulation and Licensing and custodian of the official records of the Department of Regulation and Licensing, do hereby certify that the annexed rules were duly approved and adopted by the Department of Regulation and Licensing on the 7th day of February, 1994.**

**I further certify that said copy has been compared by me with the original on file in this office and that the same is a true copy thereof, and of the whole of such original.**

**IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the department at 1400 East Washington Avenue, Madison, Wisconsin, this 7th day of February, 1994.**

*Patricia McCormack*  
**Pat McCormack, Deputy Secretary  
Department of Regulation  
and Licensing**



STATE OF WISCONSIN  
DEPARTMENT OF REGULATION AND LICENSING

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IN THE MATTER OF RULE-MAKING	:	ORDER OF THE
PROCEEDINGS BEFORE THE	:	DEPARTMENT OF REGULATION AND LICENSING
DEPARTMENT OF REGULATION	:	ADOPTING RULES
AND LICENSING	:	(CLEARINGHOUSE RULE 93-151)

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ORDER

An order of the Department of Regulation and Licensing to repeal RL 83.01 (5) and (6); to renumber RL 80.03 (2), (3), (4), (5), (6), (7), (8), (9), (11) and (12), 84.01 (6), 85.01 (5), 85.02 (7), and 86.01 (4), (5), (6) and (7); to renumber and amend RL 80.03 (10); to amend RL 80.01, 80.02, 80.03 (intro.), 81.01 (intro.), (2), (3), (4), (6) and (7), 83.01 (1), (2) and (3) (b), 84.01 (1), 84.02 (1) and (2), 84.04 (1) and 86.01 (3); to repeal and recreate Appendix I; and to create RL 80.03 (2), (5), (11), (12), (13) and (15), 81.01 (8), 81.02, 81.03, 81.04, 83.02, 84.01 (6), (7) and (8), 85.01 (5), 85.02 (7), (8) and (9), 86.01 (4), 86.03 and chapter RL 87 relating to the regulation of real estate appraisers.

Analysis prepared by the Department of Regulation and Licensing.

ANALYSIS

Statutes authorizing promulgation: ss. 227.11 (2), 440.03 (1) and ch. 458, Stats., and ch. 458, Stats., as affected by 1993 Wisconsin Act 3.

Statutes interpreted: s. 440.08 (3) and ch. 458, Stats., and ch. 458, Stats., as affected by 1993 Wisconsin Act 3.

In this proposed rule-making order the Department of Regulation and Licensing amends various provisions in chapters RL 80 to 86, which were adopted by the department on July 29, 1991 (Clearinghouse Rule 90-237), and creates ch. RL 87. Prior amendments to chapters RL 80 to 86 were adopted by the department on April 13, 1992 (Clearinghouse Rule 91-147).

This proposed rule-making order is the result of changes made in the law by 1991 Wisconsin Act 39, 1991 Wisconsin Act 78 and 1993 Wisconsin Act 3, which create the requirements for the licensure and certification of real estate appraisers and require the department to promulgate rules for the guidance of the appraisal profession, including rules governing professional conduct, examination, experience, education and continuing education requirements and procedures for credential renewal.

Chapter RL 80 is being amended to include the definition of "appraisal analysis," "complex 1-to-4 family residential property appraisal," "practice of a temporary nature," "real estate broker's market analysis," "real estate counseling" and "transaction value."

The terms "appraisal analysis" and "real estate counseling" are used in s. RL 83.01 (3) (b), to refer to types of experience which may be claimed by applicants to satisfy experience requirements. Real estate broker's market analysis is being defined and included under s. RL 83.01 (3) (b) as an additional type of experience which may be claimed as experience.

DRAFT OF DECEMBER 17, 1993

The terms "complex 1-to-4 family residential property appraisal" and "transaction value" refer to the type of real estate which licensed and certified appraisers may appraise.

The term "practice of a temporary nature" relates to practice in this state by individuals who hold credentials in other states. Section 458.095, Stats., provides that such individuals may perform appraisals in this state without obtaining a credential, if they meet certain requirements, including but not limited to, the requirement that their practice in this state be of a temporary nature as determined by the department by rule.

Section RL 80.03 (10) defines the term "transitional license." The rule is being amended to reflect changes made in the law by 1993 Wisconsin Act 3.

Section RL 81.01 (intro.) provides that the department shall notify an applicant within 15 business days of receipt of a complete application whether the application is approved or denied. The rule is being amended to delete the reference to "15 business days." The department has adopted uniform procedures which establish the time for review and determination of credential applications (refer to s. RL 4.06, Wis. Admin. Code).

Section RL 81.01 (2) states, in part, that an applicant who has a pending charge or has been convicted of any crime must provide certain information to the board. The rule is being amended to include the term "conviction record" in lieu of the phrase "been convicted of any crime." The term "conviction record" is used in ch. 458, Stats., and is defined in ch. 111, Stats. The rule is also being amended to clarify that the department, not the board, grants appraiser credentials.

Section RL 81.01 (7) clarifies that appraisers are required to document experience on a roster provided by the department.

Section RL 81.02 sets forth the procedures for obtaining a transitional license.

Section RL 81.03 sets forth the requirements for the temporary registration of appraisers licensed or certified in other states.

Section RL 81.04 sets forth the scope of practice established for each type of appraiser credential. Section 458.01 (11) and (13), Stats., define the terms "general appraiser" and "certified residential appraiser," and specifies the type of real estate which each is authorized to appraise. The department is authorized under s. 458.03 (1) (e), Stats., to promulgate rules specifying the types of real estate that licensed appraisers may appraise.

Subsection RL 83.01 (3) (b) is being amended to add real estate broker's market analysis as an additional type of experience which may be used to satisfy the requirements for initial licensure or certification.

Subsections RL 83.01 (5) and (6) are being repealed and recreated as s. RL 83.02. The change makes it clear that documents requested by the department under that section are obtained for purposes of verifying appraisal experience.

Section RL 84.01 (6) sets forth the criteria for correspondence course approval for education coursework.

Section RL 84.01 (7) specifies the qualifications required of education course instructors.

Section RL 85.02 (8) sets forth the criteria for correspondence course approval for continuing education coursework.

Section RL 85.02 (9) specifies the qualifications required of continuing education course instructors.

Section RL 86.01 (3) deletes the references to initials, including "CRA," and adds the term "Wisconsin" before the title "certified residential appraiser."

Section RL 86.01 (4) is being created to clarify under what circumstances licensed appraisers may use the title "Wisconsin licensed appraiser."

Section RL 86.03 is being created to identify the title designations which may be used by appraisers on reports and agreements.

Chapter RL 87 sets forth the procedure for renewal of appraiser certificates. Chapter 440, Stats., as amended by 1991 Wisconsin Act 39, authorizes the department to implement a uniform procedure for renewal of credentials issued under chapters 440 to 459, Stats., and to adopt rules relating to late renewal of credentials.

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TEXT OF RULE

SECTION 1. RL 80.01, 80.02 and 80.03 (intro.) are amended to read:

RL 80.01 AUTHORITY. The rules in chs. RL 80 to ~~86~~ 87 are adopted under the authority of ss. 227.11, 440.03 (1) and ch. 458, Stats.

RL 80.02 INTENT. The intent of the department in adopting chs. RL 80 to ~~86~~ 87 is to establish minimum standards for professional appraisal practice for certified and licensed appraisers which are consistent with the uniform standards of professional appraisal practice promulgated by the appraisal standards board of the appraisal foundation. It is further intended that these rules shall establish standards of competency such that persons certified as certified general appraisers and certified residential appraisers or licensed as licensed appraisers are qualified to perform appraisals for federally related transactions under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, 12 USC 3331 et seq, Title XI and United States Code.

RL 80.03 DEFINITIONS. (intro.) As used in chs. RL 80 to ~~86~~ 87 and in ch. 458, Stats.:

SECTION 2. RL 80.03 (2), (3), (4), (5), (6), (7), (8) and (9) are renumbered (3), (4), (6), (7), (8), (9), (10) and (14).

SECTION 3. RL 80.03 (2), (5), (11), (12), (13) and (15) are created to read:

RL 80.03 (2) "Appraisal analysis" means a market analysis performed in accordance with Standards 4 and 5 of the uniform standards of professional appraisal practice as specified in Appendix I.

(5) "Complex 1-to-4 family residential property appraisal" means an appraisal of 1-to-4 family residential property in which the property to be appraised, the form of ownership, or market conditions are atypical.

(11) "Practice of a temporary nature" means the performance by an appraiser of one or more appraisals conducted for purposes of completing a specific appraiser assignment.

(12) "Real estate broker's market analysis" means a market analysis performed by a real estate broker or a real estate salesperson prepared in conformity with Standards 1 and 2 of the uniform standards of professional appraisal practice as specified in Appendix I, which demonstrates the use of techniques similar to those employed by appraisers to value real property, and which effectively utilizes the appraisal process.

(13) "Real estate counseling" means the performance of real estate consulting services in accordance with Standards 4 and 5 of the uniform standards of appraisal practice as specified in Appendix I.

(15) "Transaction value" means:

(a) For loans or other extensions of credit, the amount of the loan or extension of credit;

(b) For sales, leases, purchases, and investments in or exchanges of real property, the market value of the real property interest involved; or

(c) For the pooling of loans or interests in real property for resale or purchase, the amount of the loan or market value of the real property calculated with respect to each such loan or interest in real property.

SECTION 4. RL 80.03 (10) is renumbered (16) and amended to read:

RL 80.03 (16) "Transitional license" means ~~an initial~~ a certificate of licensure ~~valid until July 1, 1993, granted to a person who does not submit satisfactory evidence to the department of successful completion of either the experience or the educational requirements, as provided for in ss. RL 83.01 (2) and 84.04 (1)~~ granted under s. 458.08 (5), Stats.

SECTION 5. RL 80.03 (11) and (12) are renumbered (17) and (18).

SECTION 6. RL 81.01 (intro.), (2), (3), (4), (6) and (7) are amended to read:

RL 81.01 (intro.) APPLICATIONS FOR CERTIFIED AND LICENSED APPRAISERS. An applicant for certification or licensure shall apply on a form provided by the department. ~~The department shall notify the applicant within 15 business days of receipt of a complete application whether the application is approved or denied.~~ Any applicant who files an application for certification or licensure, but does not comply with a request for information related to the application or meet all requirements within one year from the date of filing, shall file a new application and fee if certification or licensure is sought at a later date. The complete application shall include:

(2) A statement of arrest or conviction subject to ss. 111.321, 111.322 and 111.335, Stats. An applicant who has a pending criminal charge or ~~has been convicted of any crime~~ a conviction record shall provide the ~~board~~ department with all related information necessary for the ~~board~~ department to determine whether the circumstances of the arrest or conviction ~~or other~~ offense substantially relate to the practice of appraisal;

(3) A transcript or proof of 75, 105, 120 or 165 hours of instruction as provided for in ss. RL 84.02, 84.03 and 84.04;

(4) Evidence of successful completion of 15 hours of instruction in professional standards, and code of ethics ~~and state laws~~ as required in s. 458.06 (2) (d), Stats.;

(6) An affidavit verifying the required appraisal experience as required in s. RL 83.01 (4) (a); ~~and~~

(7) ~~Documentation~~ A roster of appraisal experience as required in s. RL 83.01 (4) (b) ~~and (e)~~; and

SECTION 7. RL 81.01 (8) is created to read:

RL 81.01 (8) A chronological resume of employment as required in s. RL 83.01 (4) (c).

SECTION 8. RL 81.02, 81.03 and 81.04 are created to read:

RL 81.02 TRANSITIONAL LICENSE. (1) An individual seeking a transitional license shall submit the following:

(a) Except as provided in par. (b), a complete application which satisfies the requirements for licensure set forth in s. RL 81.01, and

(b) Documentation of 500 hours of appraisal experience as required in s. RL 83.01 (2) and (3), or a transcript or other proof of successful completion of 75 hours of instruction as required in s. RL 84.04.

(2) An appraiser who holds a transitional license granted under s. 458.08 (5), Stats., may obtain a license under s. RL 81.01 by submitting a new application, the applicable fee and satisfactory evidence of completion of the experience or educational coursework required under s. RL 83.01 (2) and (3) or 84.04, as appropriate.

NOTE: A transitional license granted under s. 458.08 (5) (a), Stats., is valid for 2 years from the date of issuance or until January 1, 1996, whichever occurs first, and may not be renewed. A transitional license granted under s. 458.08 (5) (b), Stats., is valid for 2 years less the time period during which the appraiser held the license under s. 458.08 (3) (b) 2 or (3) (c) 2, Stats., 1991 Stats., or until January 1, 1996, whichever occurs first.

RL 81.03 TEMPORARY REGISTRATION. (1) REQUIREMENTS. An appraiser who holds a current appraiser certificate in another state may use the titles described under s. 458.055, Stats., when performing an appraisal in this state, if all of the following apply:

- (a) The appraisal is performed in a federally related transaction.
- (b) The appraiser's practice in this state is practice of a temporary nature.
- (c) The appraiser completes the application and pays the fee specified in s. 440.05 (6), Stats.

(2) APPLICATION. An appraiser seeking a temporary registration shall apply on a form provided by the department. An applicant who fails to comply with a request for information related to the application or to meet all requirements for registration within one year from the date of filing, shall submit a new application and fee if registration is sought at a later date. The complete application shall include:

- (a) The fee specified in s. 440.05 (6), Stats;
- (b) Written verification of current appraiser licensure or certification submitted by an authorized state official for each state wherein the applicant holds an appraiser license or certification;
- (c) A description of the appraisal assignment in this state including, but not limited to, information pertaining to the type of property being appraised, the location and approximate size of the property, the anticipated completion date and the name and address of the lender requesting the appraisal; and
- (d) A statement of arrest or conviction subject to ss. 111.321, 111.322 and 111.335, Stats. An applicant who has a pending criminal charge or has a conviction record shall provide the department with all related information necessary for the department to determine whether the circumstances of the arrest or conviction substantially relate to the practice of appraisal.

Note: Applications for temporary registration are available from the Department of Regulation and Licensing, Bureau of Business and Design Professions, 1400 East Washington Avenue, P.O. Box 8935, Madison, WI 53708.

RL 81.04 SCOPE OF APPRAISAL PRACTICE. Except as permitted by state or federal law, licensed and certified appraisers are authorized to conduct appraisals as follows:

- (1) CERTIFIED GENERAL APPRAISER. A certified general appraiser may conduct appraisals of residential real estate and commercial real estate without regard to transaction value.
- (2) CERTIFIED RESIDENTIAL APPRAISER. A certified residential appraiser may conduct appraisals of residential real estate without regard to transaction value and of commercial real estate having a transaction value of not more than \$250,000.
- (3) LICENSED APPRAISER. A licensed appraiser may conduct appraisals of complex 1-to-4 family residential property having a transaction value of not more than \$250,000; 1-to-4 family residential real estate, having a transaction value of not more than one million dollars, and commercial real estate having a transaction value of not more than \$250,000.

SECTION 9. RL 83.01 (1), (2) and (3) (b) are amended to read:

RL 83.01 PROOF OF EXPERIENCE FOR CERTIFIED AND LICENSED APPRAISERS.

(1) Applicants for certification as a residential or general appraiser shall submit evidence satisfactory to the department that the applicant has at least 2 years of experience as defined in s. RL 80.03 ~~(11)~~ (17) ~~as a residential or general appraiser as required in s. 458.06 (3) (e) and (4) (e), Stats.~~

(2) An applicant seeking licensure as an appraiser shall submit evidence satisfactory to the department that the applicant has at least 500 hours of appraisal experience. ~~An applicant who meets all other requirements for licensure, but fails to submit evidence satisfactory to the department of successful completion of the experience requirements will be granted a transitional license. Transitional licenses expire on July 1, 1993, and may not be renewed. An individual who intends to practice as a licensed appraiser after the expiration of a transitional license must submit evidence satisfactory to the department prior to July 1, 1993, of successful completion of the experience requirements.~~

(3) (b) Include, but not be limited to fee and staff appraisal, ad valorem tax appraisal, review appraisal, appraisal analysis, highest and best use analysis, feasibility analysis, real estate counseling, real estate broker's market analysis and appraisal course instruction.

SECTION 10. RL 83.01 (5) and (6) are repealed.

SECTION 11. RL 83.02 is created to read:

RL 83.02 VERIFICATION OF APPRAISAL EXPERIENCE. For purposes of verifying appraisal experience claimed under this chapter, the department may require an applicant to submit any of the following:

(1) Business records, including tax records, which clearly demonstrate the practice of residential or commercial appraising claimed by the applicant.

(2) Records of teaching experience in residential or commercial appraising at any college, technical college or appraisal organization which is a charter member of the appraisal foundation and an affidavit from the employer.

(3) Employment records provided by an employer which verify the applicant's experience as an appraiser. Employment records shall include an affidavit which verifies the number of hours employed, the type of experience, and a description of the applicant's duties.

(4) Employment records provided by an official of a lending institution, insurance company, or similarly regulated agency, which verifies the applicant's experience as a review appraiser.

(5) Copies of any appraisal listed in the documentation of experience required under s. RL 83.01 (4) (b). The department may contact any person listed on the application to obtain additional information about the experience of the applicant.

(6) Any additional information the department deems necessary to evaluate the applicant's experience.

SECTION 12. RL 84.01 (1) is amended to read:

RL 84.01 COURSE APPROVAL. (1) All educational courses designed to meet the requirements in s. 458.06 (2) (d), (3) (b) or (4) (b), Stats., s. 458.08 (3) ~~(b)-1,~~ (c), Stats., and this chapter, shall be submitted to the department for approval.

SECTION 13. RL 84.01 (6) is renumbered (9).

SECTION 14. RL 84.01 (6), (7) and (8) are created to read:

RL 84.01 (6) Credit may be allowed for a correspondence course which satisfies the following requirements:

(a) The course is presented by an accredited college or university which offers correspondence programs in other disciplines;

(b) An individual successfully completes a written examination administered by a proctor approved by the course provider;

(c) An individual is awarded a minimum of one semester credit upon successful completion of the course; and

(d) The course relates to one or more subject areas described under s. RL 84.02 (3), 84.03 (3) or 84.04 (3).

Note: For purposes of evaluating educational coursework, one semester credit is the equivalent of 15 hours of instruction.

(7) Course instructors shall be approved by the department. An instructor whose appraiser certificate has been limited, suspended or revoked may not instruct in approved courses while the disciplinary action is in effect. An approved instructor shall possess at least one of the following qualifications:

(a) Be an instructor of appraisal courses who teaches or has taught appraisal courses at an accredited college or university or a vocational, technical and adult education school, or

(b) Be a licensed or certified appraiser who practices in the aspects of appraising being taught, and who has engaged in such practice for at least 5 years.

(8) Course providers shall agree to distribute course evaluation survey forms to individuals who complete courses offered by the providers, and shall retain the originals of the forms for at least 12 months after the date of completion.

SECTION 15. RL 84.02 (1) and (2) are amended to read:

RL 84.02 (1) A program of study for certified residential appraisers shall include at least 105 hours of instruction. After April 1, 1994, a program of study for certified residential appraisers shall include at least 120 hours of instruction.

NOTE: After April 1, 1994, an individual who files an application under s. RL 81.01 for certification as a residential appraiser will be required to submit evidence of completion of 120 hours of instruction.

(2) Any approved program of study for certified residential appraisers shall include ~~within the 105 hours,~~ not less than 15 hours of instruction in professional standards and code of ethics applicable to appraisers.

SECTION 16. RL 84.04 (1) is amended to read:

RL 84.04 LICENSED APPRAISER COURSE REQUIREMENTS. (1) A An applicant seeking licensure as an appraiser shall submit evidence satisfactory to the department that the applicant has completed a program of study for licensed appraisers shall include of at least 75 hours of instruction. ~~An applicant who meets all other requirements for licensure but fails to submit evidence satisfactory to the department of successful completion of the educational requirements will be granted a transitional license. Transitional licenses expire on July 1, 1993, and may not be renewed. An individual who intends to practice as a licensed appraiser after the expiration of a transitional license must submit evidence satisfactory to the department prior to July 1, 1993 of successful completion of the educational requirements.~~

SECTION 17. RL 85.01 (5) is renumbered (6).

SECTION 18. RL 85.01 (5) is created to read:

RL 85.01 (5) Credit may be allowed for appraiser education instruction provided by a course instructor in connection with an approved continuing education program.

SECTION 19. RL 85.02 (7) is renumbered (10).

SECTION 20. RL 85.02 (7), (8) and (9) are created to read:

RL 85.02 (7) Program providers shall agree to distribute course evaluation survey forms to credential holders who complete programs offered by the providers, and shall retain the originals of the forms for at least 12 months after the date of completion.

(8) A correspondence course which satisfies the following requirements may be approved:

(a) The course is presented by an accredited college or university which offers correspondence programs in other disciplines;

(b) An individual successfully completes a written examination administered at a location by a proctor approved by the course provider;

(c) An individual is awarded a minimum of one semester credit upon successful completion of the course; and

(d) The course relates to one or more subject areas described in s. RL 84.02 (3), 84.03 (3) or 84.04 (3) or other subject areas relevant to competent practice. If the subject area is not described in s. RL 84.02 (3), 84.03 (3) or 84.04 (3), the applicant shall include with the application a

statement explaining how the subject area is relevant to competent practice and is consistent with the content and criteria established by the appraiser qualifications board of the appraisal foundation.

Note: For purposes of evaluating educational coursework, one semester credit is the equivalent of 15 hours of instruction.

(9) Course instructors shall be approved by the department. An instructor whose appraiser certificate has been limited, suspended or revoked may not instruct in approved courses while the disciplinary action is in effect. An approved instructor shall possess at least one of the following qualifications:

(a) Be an instructor of appraisal courses who teaches or has taught appraisal courses at an accredited institution of higher education, or

(b) Be a licensed or certified appraiser who practices in the aspects of appraising being taught, and who has engaged in such practice for at least 5 years.

SECTION 21. RL 86.01 (3) is amended to read:

RL 86.01 (3) A certified residential appraiser shall not use the title "Wisconsin certified residential appraiser" or ~~similar designation, including the initials-CRA,~~ "WI certified residential appraiser" on any ~~non-residential appraisal except as permitted by state or federal law~~ appraisal report or written appraisal agreement pertaining to commercial real estate having a transaction value of more than \$250,000.

SECTION 22. RL 86.01 (4), (5), (6) and (7) are renumbered (5), (6), (7) and (8).

SECTION 23. RL 86.01 (4) is created to read:

RL 86.01 (4) A licensed appraiser who is not certified under s. 458.06, Stats., shall not use the title "Wisconsin licensed appraiser" on any appraisal report or agreement, except in conjunction with an appraisal performed within the scope of appraisal practice of a licensed appraiser as specified in s. RL 81.04.

SECTION 24. RL 86.03 is created to read:

RL 86.03 USE OF CERTIFICATE NUMBER AND TITLE. (1) Except as provided in sub. (2) and (3), each licensed and certified appraiser shall place his or her certificate number adjacent to or immediately below the title "Wisconsin certified general appraiser," "Wisconsin certified residential appraiser," or "Wisconsin licensed appraiser," as appropriate, on each appraisal report and each written appraisal agreement used by the appraiser in conducting appraisal activities.

(2) An appraiser may use the following abbreviations when placing his or her title on a report or agreement in the manner specified in sub. (1):

(a) "Appraiser" may be written as "app" or "appr."

(b) "Certified" may be written as "cer" or "cert."

- (c) "General" may be written as "gen."
- (d) "Licensed" may be written as "lic."
- (e) "Residential" may be written as "res."
- (f) "Wisconsin" may be written as "WI" or "Wis."

(3) In lieu of placing a title on a report or agreement in the manner specified in sub. (1), an appraiser may place his or her certificate number adjacent to or immediately below the initials "WCGA," "WCRA" or "WLA," as appropriate, on a report or agreement, in any instance in which he or she determines that it is impractical to comply with the requirement in sub. (1), because of space limitations on a report or agreement.

SECTION 25. Chapter RL 87 is created to read:

CHAPTER RL 87 (title)

CERTIFICATE RENEWAL

RL 87.01 RENEWAL OF CERTIFICATE. (1) Applications for renewal shall be submitted prior to the applicable renewal date specified under s. 440.08 (2) (a), Stats., on a form provided by the department, along with the renewal fee specified under s. 440.08 (2) (a) 11, 11m and 12, Stats., as appropriate, and proof of completion of 20 hours of continuing education coursework as required under s. RL 85.01.

(2) An appraiser granted a certificate of certification under s. 458.06 (3) or (4), 1989, Stats., may renew the certificate by satisfying the requirements in sub. (1) and by submitting evidence of completion of the educational coursework required under ss. RL 84.02 and 84.03, as appropriate.

(3) An appraiser granted a certificate of licensure under s. 458.08 (3), 1991, Stats., may renew the certificate by satisfying the requirements in sub. (1); and submitting evidence of completion of the experience or educational coursework required under ss. RL 83.01 (2) and 84.04, as appropriate.

NOTE: An appraiser granted a license under s. 458.08 (3), 1991, Stats., who lacks the experience or education required under s. RL 83.01 (2) or 84.04, as appropriate, may obtain a transitional license under s. 458.08 (5) (b), Stats. A license granted under s. 458.08 (5) (b), Stats., is valid for 2 years less the period during which the individual held the license under s. 458.08 (3) (b) 2 or (c) 2, 1991, Stats., or until January 1, 1996, whichever occurs first.

RL 87.02 LATE RENEWAL. An appraiser who fails to renew a certificate by the renewal date may restore the certificate by submitting an application on a form provided by the department and satisfying the following requirements:

(1) If applying less than 5 years after the renewal date, submitting proof of completion of 20 hours of continuing education as required under s. RL 85.01 and paying the renewal fees specified in s. 440.08 (2) (a) 11, 11m and 12 and (3), Stats.

(2) If applying 5 years or more after the renewal date, submitting proof of completion of 20 hours of continuing education as required under s. RL 85.01, paying the renewal fees specified in s. 440.08 (2) (a) 11, 11m and 12 and (3), Stats., and submitting proof of:

(a) Successful completion of educational coursework required by the department to ensure protection of the public health, safety and welfare; and,

(b) Successful completion of an examination required by the department to ensure protection of the public health, safety and welfare.

SECTION 26. Appendix I is repealed and recreated to read:

Appendix I  
UNIFORM STANDARDS OF PROFESSIONAL  
APPRAISAL PRACTICE

[The Uniform Standards of Professional Appraisal Practice (USPAP), excluding advisory opinions and statements, Copyright (c) 1994 by The Appraisal Foundation, are reproduced with permission of The Appraisal Foundation. All rights reserved. No part of the USPAP may be reproduced without prior consent of The Appraisal Foundation.]

[Complete copies of the Uniform Standards of Professional Appraisal Practice (including advisory opinions and statements) are available from the Appraisal Foundation, 1029 Vermont Avenue, N.W., Suite 900, Washington, D.C. 20005, (202) 347-7722.]

# UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

as promulgated by the  
Appraisal Standards Board of  
The Appraisal Foundation

## PREAMBLE

It is essential that a professional appraiser arrive at and communicate his or her analyses, opinions, and advice in a manner that will be meaningful to the client and will not be misleading in the marketplace. These Uniform Standards of Professional Appraisal Practice reflect the current standards of the appraisal profession.

The importance of the role of the appraiser places ethical obligations on those who serve in this capacity. These Standards include explanatory comments and begin with an Ethics Provision setting forth the requirements for integrity, objectivity, independent judgment, and ethical conduct. In addition, these Standards include a Competency Provision which places an immediate responsibility on the appraiser prior to acceptance of an assignment. The Standards contain binding requirements, as well as specific guidelines to which a Departure Provision may apply under certain limited conditions. Definitions applicable to these Standards are also included.

These Standards deal with the procedures to be followed in performing an appraisal, review or consulting service and the manner in which an appraisal, review or consulting service is communicated. Standards 1 and 2 relate to the development and communication of a real property appraisal. Standard 3 establishes guidelines for reviewing an appraisal and reporting on that review. Standards 4 and 5 address the development and communication of various real estate or real property consulting functions by an appraiser. Standard 6 sets forth criteria for the development and reporting of mass appraisals for ad valorem tax purposes or any other universe of properties. Standards 7 and 8 establish guidelines for developing and communicating personal property appraisals. Standards 9 and 10 establish guidelines for developing and communicating business appraisals.

These Standards include Statements on Appraisal Standards issued by the Appraisal Standards Board for the purpose of clarification, interpretation, explanation, or elaboration of a Standard or Standards Rule.

These Standards are for appraisers and the users of appraisal services. To maintain the highest level of professional practice, appraisers must observe these Standards. The users of appraisal services should demand work performed in conformance with these Standards.

Comment: Explanatory comments are an integral part of the Uniform Standards and should be viewed as extensions of the provisions, definitions, and standards rules. Comments provide interpretation from the Appraisal Standards Board concerning the background or application of certain provisions, definitions, or standards rules. There are no comments for provisions, definitions, and Standards Rules that are axiomatic or have not yet required further explanation; however, additional comments will be developed and others supplemented or revised as the need arises.

## ETHICS PROVISION

Because of the fiduciary responsibilities inherent in professional appraisal practice, the appraiser must observe the highest standards of professional ethics. This Ethics Provision is divided into four sections: Conduct, Management, Confidentiality, and Record Keeping.

Comment: This provision emphasizes the personal obligations and responsibilities of the individual appraiser. However, it should also be emphasized that groups and organizations engaged in appraisal practice share the same ethical obligations.

### Conduct

**An appraiser must perform ethically and competently in accordance with these standards and not engage in conduct that is unlawful, unethical, or improper. An appraiser who could reasonably be perceived to act as a disinterested third party in rendering an unbiased appraisal, review, or consulting service must perform assignments with impartiality, objectivity, and independence and without accommodation of personal interests.**

Comment: An appraiser is required to avoid any action that could be considered misleading or fraudulent. In particular, it is unethical for an appraiser to use or communicate a misleading or fraudulent report or to knowingly permit an employee or other person to communicate a misleading or fraudulent report.<sup>1</sup>

The development of an appraisal, review, or consulting service based on a hypothetical condition is unethical unless: 1) the use of the hypothesis is clearly disclosed; 2) the assumption of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison and would not be misleading; and 3) the report clearly describes the rationale for this assumption, the nature of the hypothetical condition, and its effect on the result of the appraisal, review, or consulting service.

An individual appraiser employed by a group or organization which conducts itself in a manner that does not conform to these standards should take steps that are appropriate under the circumstances to ensure compliance with the standards.

### Management

**The acceptance of compensation that is contingent upon the reporting of a predetermined value or a direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event is unethical.**

**The payment of undisclosed fees, commissions, or things of value in connection with the procurement of appraisal, review, or consulting assignments is unethical.**

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

<sup>1</sup> See Advisory Opinion G-5 on page 83.

Management (continued)

**Advertising for or soliciting appraisal assignments in a manner which is false, misleading or exaggerated is unethical.**

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

**The restriction on contingent compensation in the first paragraph of this section does not apply to consulting assignments where the appraiser is not acting in a disinterested manner and would not reasonably be perceived as performing a service that requires impartiality. This permitted contingent compensation must be properly disclosed in the report.**

Comment: Assignments where the appraiser is not acting in a disinterested manner are further discussed in the General Comment to Standard 4. The preparer of the written report of such an assignment must certify that the compensation is contingent and must explain the basis for the contingency in the report (See S.R. 5-3) and in any transmittal letter in which conclusions are stated.

**Confidentiality<sup>1</sup>**

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

Comment: An appraiser must not disclose confidential factual data obtained from a client or the results of an assignment prepared for a client to anyone other than: 1) the client and persons specifically authorized by the client; 2) such third parties as may be authorized by due process of law; and 3) a duly authorized professional peer review committee. As a corollary, it is unethical for a member of a duly authorized professional peer review committee to disclose confidential information or factual data presented to the committee.

**Record Keeping**

**An appraiser must prepare written records of appraisal, review, and consulting assignments—including oral testimony and reports—and retain such records for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which testimony was given, whichever period expires last.**

Comment: Written records of assignments include true copies of written reports, written summaries of oral testimony and reports (or a transcript of testimony), all data and statements required by these Standards, and other information as may be required to support the findings and conclusions of the appraiser. The term written records also includes information stored on electronic, magnetic, or other media. Such records must be made available by the appraiser when required by due process of law or by a duly authorized professional peer review committee.

<sup>1</sup> See Statement on Appraisal Standards Number 5 on page 63.

## COMPETENCY PROVISION

Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently; or alternatively:

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

Comment: The background and experience of appraisers varies widely and a lack of knowledge or experience can lead to inaccurate or inappropriate appraisal practice. The Competency Provision requires an appraiser to have both the knowledge and the experience required to perform a specific appraisal service competently. If an appraiser is offered the opportunity to perform an appraisal service but lacks the necessary knowledge or experience to complete it competently, the appraiser must disclose his or her lack of knowledge or experience to the client before accepting the assignment and then take the necessary or appropriate steps to complete the appraisal service competently. This may be accomplished in various ways including, but not limited to, personal study by the appraiser; association with an appraiser reasonably believed to have the necessary knowledge or experience; or retention of others who possess the required knowledge or experience.

Although this provision requires an appraiser to identify the problem and disclose any deficiency in competence prior to accepting an assignment, facts or conditions uncovered during the course of an assignment could cause an appraiser to discover that he or she lacks the required knowledge or experience to complete the assignment competently. At the point of such discovery, the appraiser is obligated to notify the client and comply with items 2 and 3 of the provision.

The concept of competency also extends to appraisers who are requested or required to travel to geographic areas wherein they have no recent appraisal experience. An appraiser preparing an appraisal in an unfamiliar location must spend sufficient time to understand the nuances of the local market and the supply and demand factors relating to the specific property type and the location involved. Such understanding will not be imparted solely from a consideration of specific data such as demographics, costs, sales and rentals. The necessary understanding of local market conditions provides the bridge between a sale and a comparable sale or a rental and a comparable rental. If an appraiser is not in a position to spend the necessary amount of time in a market area to obtain this understanding, affiliation with a qualified local appraiser may be the appropriate response to ensure the development of a competent appraisal.

## DEPARTURE PROVISION

This provision permits limited exceptions to sections of the Uniform Standards that are classified as specific guidelines rather than binding requirements. The burden of proof is on the appraiser to decide before accepting a limited assignment that the result will not confuse or mislead. The burden of disclosure is also on the appraiser to report any limitations.

An appraiser may enter into an agreement to perform an assignment that calls for something less than, or different from, the work that would otherwise be required by the specific guidelines, provided that prior to entering into such an agreement:

1. the appraiser has determined that the assignment to be performed is not so limited in scope that the resulting appraisal, review, or consulting service would tend to mislead or confuse the client, the users of the report, or the public; and
2. the appraiser has advised the client that the assignment calls for something less than, or different from, the work required by the specific guidelines and that the report will state the limited or differing scope of the appraisal, review, or consulting service.

Exceptions to the following requirements are not permitted: Standards Rules 1-1, 1-5, 2-1, 2-2, 2-3, 2-5, 3-1, 3-2, 4-1, 5-1, 5-3, 6-1, 6-3, 6-5, 6-6, 6-7, 6-8, 7-1, 8-1, 8-3, 9-1, 9-3, 9-5, 10-1, 10-3 and 10-5. This restriction on departure is reiterated throughout the document with the reminder comment: Departure from this binding requirement is not permitted.

Comment: Before making a decision to enter into an agreement for appraisal services calling for a departure from a specific appraisal guideline, an appraiser must use extreme care to determine whether the scope of the appraisal service to be performed is so limited that the resulting analysis, opinion, or conclusion would tend to mislead or confuse the client, the users of the report, or the public. For the purpose of this provision, users of the report might include parties such as lenders, employees of government agencies, limited partners of a client, and a client's attorney and accountant. In this context the purpose of the appraisal and the anticipated or possible use of the report are critical.

If an appraiser enters into an agreement to perform an appraisal service that calls for something less than, or different from, the work that would otherwise be required by the specific appraisal guidelines, Standards Rules 2-2(k), 5-2(i), 8-2(h), and 10-2(h) require that this fact be clearly and accurately set forth in the report.

The requirements of the departure provision may be satisfied by the technique of incorporating by reference.

For example, if an appraiser's complete file was introduced into evidence at a public hearing or public trial and the appraiser subsequently prepared a one-page report that 1) identified the property, 2) stated the value, and 3) stated that the value conclusion could not be properly understood without reference to his or her complete file and directed the reader to the complete file, the requirements of the departure provision would be satisfied if the appraiser's complete file contained, in coherent form, all the data and statements that are required by the Uniform Standards.

Another example would be an update report<sup>1</sup> that expressly incorporated by reference all the background data, market conditions, assumptions, and limiting conditions that were contained in the original report prepared for the same client.

<sup>1</sup> See Advisory Opinion G-3 on page 77.

## **JURISDICTIONAL EXCEPTION**

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

## **SUPPLEMENTAL STANDARDS**

**These Uniform Standards provide the common basis for all appraisal practice. Supplemental standards applicable to appraisals prepared for specific purposes or property types may be issued by public agencies and certain client groups, e.g. regulatory agencies, eminent domain authorities, asset managers, and financial institutions. Appraisers and clients must ascertain whether any supplemental standards in addition to these Uniform Standards apply to the assignment being considered.<sup>1</sup>**

<sup>1</sup> See the following Advisory Opinions:  
G-7 on page 89  
G-8 on page 91

## DEFINITIONS

For the purpose of these Standards, the following definitions apply:

**APPRAISAL:** (noun) the act or process of estimating value; an estimate of value.  
(adjective) of or pertaining to appraising and related functions, e.g. appraisal practice, appraisal services.

**APPRAISAL PRACTICE:** the work or services performed by appraisers, defined by three terms in these standards: appraisal, review, and consulting.

Comment: These three terms are intentionally generic, and not mutually exclusive. For example, an estimate of value may be required as part of a review or consulting service. The use of other nomenclature by an appraiser (e.g. analysis, counseling, evaluation, study, submission, valuation) does not exempt an appraiser from adherence to these standards.

**BUSINESS ASSETS:** tangible and intangible resources that are employed by a business enterprise in its operations.

**BUSINESS ENTERPRISE:** a commercial, industrial or service organization pursuing an economic activity.

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

**CASH FLOW ANALYSIS:** a study of the anticipated movement of cash into or out of an investment.

**CLIENT:** any party for whom an appraiser performs a service.

**CONSULTING:** the act or process of providing information, analysis of real estate data, and recommendations or conclusions on diversified problems in real estate, other than estimating value.

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

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

**INVESTMENT ANALYSIS:** a study that reflects the relationship between acquisition price and anticipated future benefits of a real estate investment.

**MARKET ANALYSIS:** a study of real estate market conditions for a specific type of property.

**MARKET VALUE:** Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States of America is:

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

DEFINITIONS (continued)

MARKET VALUE: (continued)

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

Substitution of another currency for United States dollars in the fourth condition is appropriate in other countries or in reports addressed to clients from other countries.

Persons performing appraisal services that may be subject to litigation are cautioned to seek the exact legal definition of market value in the jurisdiction in which the services are being performed.

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

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

**PERSONAL PROPERTY:** identifiable portable and tangible objects which are considered by the general public as being "personal," e.g. furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all property that is not classified as real estate.

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

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

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

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

Comment: Most reports are written and most clients mandate written reports. Oral report guidelines (See Standards Rule 2-4) and restrictions (See Ethics Provision: Record Keeping) are included to cover court testimony and other oral communications of an appraisal, review or consulting service.

**REVIEW:** the act or process of critically studying a report prepared by another.

## STANDARD 1

In developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.

Comment: Standard 1 is directed toward the substantive aspects of developing a competent appraisal. The requirements set forth in Standards Rule 1-1, the appraisal guidelines set forth in Standards Rule 1-2, 1-3, 1-4, and the requirements set forth in Standards Rule 1-5 mirror the appraisal process in the order of topics addressed and can be used by appraisers and the users of appraisal services as a convenient checklist.

### Standards Rule 1-1

In developing a real property appraisal, an appraiser must:

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

Comment: Departure from this binding requirement is not permitted. This rule recognizes that the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in the real estate field have a substantial impact on the appraisal profession. Important changes in the cost and manner of constructing and marketing commercial, industrial, and residential real estate and 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 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 devising new methods and techniques to meet new circumstances. For this reason it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in real property appraisal.

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

Comment: Departure from this binding requirement is not permitted. In performing appraisal services an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are considered. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

- (c) **not render appraisal services in a careless or negligent manner, such as a series of errors that, considered individually, may not significantly affect the results of an appraisal, but which, when considered in the aggregate, would be misleading.**

Comment: Departure from this binding requirement is not permitted. Perfection is impossible to attain and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This rule requires an appraiser to use due diligence and due care. The fact that the carelessness or negligence of an appraiser has not caused an error that significantly affects his or her opinions or conclusions and thereby seriously harms a client or a third party does not excuse such carelessness or negligence.

STANDARD 1 (continued)

Standards Rule 1-2

In developing a real property appraisal, an appraiser must observe the following specific appraisal guidelines:

- (a) **adequately identify the real estate,<sup>1</sup> identify the real property interest, consider the purpose and intended use of the appraisal, consider the extent of the data collection process, identify any special limiting conditions, and identify the effective date of the appraisal;<sup>2</sup>**
- (b) **define the value being considered; if the value to be estimated is market value, the appraiser must clearly indicate whether the estimate 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; if an estimate of value is based on submarket financing or financing with unusual conditions or incentives, the terms of such financing must be clearly set forth, their contributions to or negative influence on value must be described and estimated, and the market data supporting the valuation estimate must be described and explained;**

Comment: For certain types of appraisal assignments in which a legal definition of market value has been established and takes precedence, the Jurisdictional Exception may apply to this guideline.

When estimating market value, the appraiser should be specific as to the estimate of exposure time linked to the value estimate.<sup>3</sup>

- (c) **consider easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature;**
- (d) **consider whether an appraised fractional interest, physical segment, or partial holding contributes pro rata to the value of the whole;**

Comment: This guideline does not require an appraiser to value the whole when the subject of the appraisal is a fractional interest, a physical segment, or a partial holding. However, if the value of the whole is not considered, the appraisal must clearly reflect that the value of the property being appraised cannot be used to estimate the value of the whole by mathematical extension.

- (e) **identify and consider the effect on value of any personal property, trade fixtures or intangible items that are not real property but are included in the appraisal.**

Comment: This guideline requires the appraiser to recognize the inclusion of items that are not real property in an overall value estimate. Additional expertise in personal property (See Standard 7) or business (See Standard 9) appraisal may be required to allocate the overall value to its various components. Separate valuation of such items is required when they are significant to the overall value.

<sup>1</sup> See Advisory Opinion G-2 on page 73.

<sup>2</sup> See Statements on Appraisal Standards Number 3 on page 59 and Number 4 on page 61.

<sup>3</sup> See Statement on Appraisal Standards Number 6 on page 65 and related Advisory Opinions G-7 and G-8 on pages 89 and 91.

STANDARD 1 (continued)

Standards Rule 1-3

In developing a real property appraisal, an appraiser must observe the following specific appraisal guidelines:

- (a) consider the effect on use and value of the following factors: existing land use regulations, reasonably probable modifications of such land use regulations, economic demand, the physical adaptability of the real estate, neighborhood trends, and the highest and best use of the real estate;

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

- (b) recognize that land is appraised as though vacant and available for development to its highest and best use and that the appraisal of improvements is based on their actual contribution to the site.

Comment: This guideline may be modified to reflect the fact that, in various legal and practical situations, a site may have a contributory value that differs from the value as if vacant.

Standards Rule 1-4

In developing a real property appraisal, an appraiser must observe the following specific appraisal guidelines, when applicable:

- (a) value the site by an appropriate appraisal method or technique;
- (b) collect, verify, analyze, and reconcile:
- (i) such comparable cost data as are available to estimate the cost new of the improvements (if any);
  - (ii) such comparable data as are available to estimate the difference between cost new and the present worth of the improvements (accrued depreciation);
  - (iii) such comparable sales data, adequately identified and described, as are available to indicate a value conclusion;
  - (iv) such comparable rental data as are available to estimate the market rental of the property being appraised;
  - (v) such comparable operating expense data as are available to estimate the operating expenses of the property being appraised;
  - (vi) such comparable data as are available to estimate rates of capitalization and/or rates of discount.

Comment: This rule covers the three approaches to value. See Standards Rule 2-2(j) for corresponding reporting requirements.

STANDARD 1 (continued)

Standards Rule 1-4 (continued)

- (c) **base projections of future rent and expenses on reasonably clear and appropriate evidence;**<sup>1</sup>

Comment: This guideline requires an appraiser, in developing income and expense statements and cash flow projections, to weigh historical information and trends, current market factors affecting such trends, and anticipated events such as competition from developments under construction.

- (d) **when estimating the value of a leased fee estate or a leasehold estate, consider and analyze the effect on value, if any, of the terms and conditions of the lease(s);**
- (e) **consider and analyze the effect on value, if any, of the assemblage of the various estates or component parts of a property and refrain from estimating the value of the whole solely by adding together the individual values of the various estates or component parts;**

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

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

- (f) **consider and analyze the effect on value, if any, of anticipated public or private improvements, located on or off the site, to the extent that market actions reflect such anticipated improvements as of the effective appraisal date;**

Comment: In condemnation valuation assignments in certain jurisdictions, the Jurisdictional Exception may apply to this guidelines.

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

Comment: The appraisal may require a complete market analysis (See Standards Rule 4-4).

- (h) **appraise proposed improvements only after examining and having available for future examination:**

- (i) **plans, specifications, or other documentation sufficient to identify the scope and character of the proposed improvements;**
- (ii) **evidence indicating the probable time of completion of the proposed improvements; and**
- (iii) **reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion.**

Comment: The evidence required to be examined and maintained under this guideline may include such items as contractor's estimates relating to cost and the time required to complete construction, market, and feasibility studies; operating cost data; and the history of recently completed similar developments. The appraisal may require a complete feasibility analysis (See Standard Rule 4-6).

<sup>1</sup> See Statement on Appraisal Standards Number 2 on page 55.

STANDARD 1 (continued)

Standards Rule 1-4 (continued)

- (i) All pertinent information in items (a) through (h) above shall be used in the development of an appraisal.

Comment: See Standards Rule 2-2(k) for corresponding reporting requirements.

Standards Rule 1-5

In developing a real property appraisal, an appraiser must:

- (a) consider and analyze any current Agreement of Sale, option, or listing of the property being appraised, if such information is available to the appraiser in the normal course of business;
- (b) consider and analyze any prior sales of the property being appraised that occurred within the following time periods:<sup>1</sup>
- (i) one year for one-to-four family residential property; and
  - (ii) three years for all other property types;

Comment: The intent of this requirement is to encourage the research and analysis of prior sales of the subject; the time frames cited are minimums.

- (c) consider and reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used.

Comment: Departure from binding requirements (a) through (c) is not permitted. See Standards Rule 2-2(k) Comment for corresponding reporting requirements.

<sup>1</sup> See Advisory Opinions G-1 on page 69 and G-4 on page 81.

## 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.

Comment: Standard 2 governs the form and content of the report that communicates the results of an appraisal to a client and third parties.

### Standards Rule 2-1

Each written or oral real property appraisal report must:

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

Comment: Departure from this binding requirement is not permitted. Since most reports are used and relied upon by third parties, communications considered adequate by the appraiser's client may not be sufficient. An appraiser must take extreme care to make certain that his or her reports will not be misleading in the marketplace or to the public.

- (b) contain sufficient information to enable the person(s) who receive or rely on the report to understand it properly;

Comment: Departure from this binding requirement is not permitted. A failure to observe this rule could cause a client or other users of the report to make a serious error even though each analysis, opinion, and conclusion in the report is clearly and accurately stated. To avoid this problem and the dangers it presents to clients and other users of reports, 2-1(b) requires an appraiser to include in each report sufficient information to enable the reader to understand it properly. All reports, both written and oral, must clearly and accurately present the analyses, opinions, and conclusions of the appraiser in sufficient depth and detail to address adequately the significance of the specific appraisal problem.

- (c) clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects the appraisal and indicate its impact on value.

Comment: Departure from this binding requirement is not permitted. Examples of extraordinary assumptions or conditions might include items such as the execution of a pending lease agreement, atypical financing, or completion of onsite or offsite improvements. In a written report the disclosure would be required in conjunction with statements of each opinion or conclusion that is affected.

### Standards Rule 2-2

Each written real property appraisal report must:

- (a) identify and describe the real estate being appraised;<sup>1</sup>  
(b) identify the real property interest being appraised;

Comment on (a) and (b): These two requirements are essential elements in any report. Identifying the real estate can be accomplished by any combination of a legal description, address, map reference, copy of a survey or map, property sketch and/or photographs. A property sketch and photographs also provide some description of the real estate in addition to written comments about the physical attributes of the real estate. Identifying the real property rights being appraised requires a direct statement substantiated as needed by copies or summaries of legal descriptions or other documents setting forth any encumbrances.

<sup>1</sup> See Advisory Opinion G-2 on page 73.

STANDARD 2 (continued)

Standards Rule 2-2 (continued)

- (c) state the purpose of the appraisal;
- (d) define the value to be estimated;
- (e) set forth the effective date of the appraisal and the date of the report;<sup>1</sup>

Comment on (c), (d) and (e): These three requirements call for clear disclosure to the reader of a report the “why, what and when” surrounding the appraisal. The purpose of the appraisal is used generically to include both the task involved and rationale for the appraisal. Defining the value to be estimated requires both an appropriately referenced definition and any comments needed to clearly indicate to the reader how the definition is being applied [See Standards Rule 1-2(b)].<sup>2</sup> The effective date of the appraisal establishes the context for the value estimate, while the date of the report indicates whether the perspective of the appraiser on the market conditions as of the effective date of the appraisal was prospective, current, or retrospective. Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market conditions on the date of the report are different from market conditions on the effective date of the appraisal.

- (f) describe the extent of the process of collecting, confirming, and reporting data;

Comment: This requirement is designed to protect third parties whose reliance on an appraisal report may be affected by the extent of the appraiser’s investigation; i.e., the process of collecting, confirming and reporting data.

- (g) set forth all assumptions and limiting conditions that affect the analyses, opinions, and conclusions;

Comment: It is suggested that assumptions and limiting conditions be grouped together in an identified section of the report.

- (h) set forth the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;

Comment: This requirement calls for the appraiser to summarize the data considered and the procedures that were followed. Each item must be addressed in the depth and detail required by its significance to the appraisal. The appraiser must be certain that sufficient information is provided so that the client, the users of the report, and the public will understand it and will not be misled or confused. The substantive content of the report, not its size, determines its compliance with this specific reporting guideline.

- (i) set forth the appraiser’s opinion of the highest and best use of the real estate, when such an opinion is necessary and appropriate;

Comment: This requirement calls for a written report to contain a statement of the appraiser’s opinion as to the highest and best use of the real estate, unless an opinion as to highest and best use is unnecessary, e.g. insurance valuation or value in use appraisals. If an opinion as to highest and best use is required, the reasoning in support of the opinion must also be included.

- (j) explain and support the exclusion of any of the usual valuation approaches;

<sup>1</sup> See Statements on Appraisal Standards Number 3 on page 59 and Number 4 on page 61.

<sup>2</sup> See Statement on Appraisal Standards Number 6 on page 65 and related Advisory Opinions G-7 and G-8 on pages 89 and 91.

## STANDARD 2 (continued)

### Standards Rule 2-2 (continued)

- (k) set forth any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the requirements of Standard 1;

Comment: This requirement calls for a written appraisal report or other written communication concerning the results of an appraisal to contain sufficient information to indicate that the appraiser complied with the requirements of Standard 1, including the requirements governing any permitted departures from the appraisal guidelines. The amount of detail required will vary with the significance of the information to the appraisal.

**Information considered and analyzed in compliance with Standards Rule 1-5 is significant information that deserves comment in any report. If such information is unobtainable, comment on the efforts undertaken by the appraiser to obtain the information is required.**

- (l) include a signed certification in accordance with Standards Rule 2-3.

Comment: Departure from binding requirements (a) through (l) above is not permitted.

### Standards Rule 2-3

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

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

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)<sup>1</sup>
- no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

Comment: Departure from this binding requirement is not permitted.

### Standards Rule 2-4

**To the extent that it is both possible and appropriate, each oral real property appraisal report (including expert testimony) must address the substantive matters set forth in Standards Rule 2-2.**

<sup>1</sup> See Advisory Opinions G-2 on page 73 and G-5 on page 83.

## STANDARD 2 (continued)

### Standards Rule 2-4 (continued)

Comment: In addition to complying with the requirements of Standards Rule 2-1, an appraiser making an oral report must use his or her best efforts to address each of the substantive matters in Standards Rule 2-2.

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

See Record Keeping under the ETHICS PROVISION for corresponding requirements.

### Standards Rule 2-5

**An appraiser who signs a real property appraisal report prepared by another, even under the label of "review appraiser", must accept full responsibility for the contents of the report.<sup>1</sup>**

Comment: Departure from this binding requirement is not permitted.

This requirement is directed to the employer or supervisor signing the report of an employee or subcontractor. The employer or supervisor signing the report is as responsible as the individual preparing the appraisal for the content and conclusions of the appraisal and the report. Using a conditional label next to the signature of the employer or supervisor or signing a form report on the line over the words "review appraiser" does not exempt that individual from adherence to these standards.

This requirement does not address the responsibilities of a review appraiser, the subject of Standard 3.

<sup>1</sup> See Advisory Opinion G-5 on page 83.

## STANDARD 3

In reviewing an appraisal and reporting the results of that review, an appraiser must form an opinion as to the adequacy and appropriateness of the report being reviewed and must clearly disclose the nature of the review process undertaken.<sup>1</sup>

Comment: The function of reviewing an appraisal requires the preparation of a separate report or a file memorandum by the appraiser performing the review setting forth the results of the review process. Review appraisers go beyond checking for a level of completeness and consistency in the report under review by providing comment on the content and conclusions of the report. They may or may not have first-hand knowledge of the subject property or data in the report. The COMPETENCY PROVISION applies to the appraiser performing the review as well as the appraiser who prepared the report under review.

Reviewing is a distinctly different function from that addressed in Standards Rule 2-5. To avoid confusion in the marketplace between these two functions, review appraisers should not sign the report under review unless they intend to take the responsibility of a cosigner.

Review appraisers must take appropriate steps to indicate to third parties the precise extent of the review process. A separate report or letter is one method. Another appropriate method is a form or check-list prepared and signed by the appraiser conducting the review and attached to the report under review. It is also possible that a stamped impression on the appraisal report under review, signed or initialed by the reviewing appraiser, may be an appropriate method for separating the review function from the actual signing of the report. To be effective, however, the stamp must briefly indicate the extent of the review process and refer to a file memorandum that clearly outlines the review process conducted.

The review appraiser must exercise extreme care in clearly distinguishing between the review process and the appraisal or consulting processes. Original work by the review appraiser may be governed by STANDARD 1 or STANDARD 4 rather than this standard. A misleading or fraudulent review and/or report violates the ETHICS PROVISION.

### Standards Rule 3-1

**In reviewing an appraisal, an appraiser must:**

- (a) **identify the report under review, the real estate and real property interest being appraised, the effective date of the opinion in the report under review, and the date of the review;**
- (b) **identify the extent of the review process to be conducted;**
- (c) **form an opinion as to the completeness of the report under review in light of the requirements in these standards;**

Comment: The review should be conducted in the context of market conditions as of the effective date of the opinion in the report being reviewed.

- (d) **form an opinion as to the apparent adequacy and relevance of the data and the propriety of any adjustments to the data;**
- (e) **form an opinion as to the appropriateness of the appraisal methods and techniques used and develop the reasons for any disagreement;**
- (f) **form an opinion as to whether the analyses, opinions, and conclusions in the report under review are appropriate and reasonable, and develop the reasons for any disagreement.**

<sup>1</sup> See Advisory Opinion G-6 on page 87.

STANDARD 3 (continued)

Standards Rule 3-1 (continued)

Comment: Departure from binding requirements (a) through (f) above is not permitted.

An opinion of a different estimate of value from that in the report under review may be expressed, provided the review appraiser:<sup>1</sup>

1. satisfies the requirements of STANDARD 1;
2. identifies and sets forth any additional data relied upon and the reasoning and basis for the different estimate of value; and,
3. clearly identifies and discloses all assumptions and limitations connected with the different estimate of value to avoid confusion in the marketplace.

Standards Rule 3-2

**In reporting the results of an appraisal review, an appraiser must:**

- (a) disclose the nature, extent, and detail of the review process undertaken;
- (b) disclose the information that must be considered in Standards Rule 3-1 (a) and (b);
- (c) set forth the opinions, reasons, and conclusions required in Standards Rule 3-1 (c), (d), (e) and (f);
- (d) include all known pertinent information;
- (e) include a signed certification similar in content to the following:

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

- the facts and data reported by the review appraiser and used in the review process are true and correct.
- the analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report, and are my personal, unbiased professional analyses, opinions and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this review report.
- my analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
- I did not (did) personally inspect the subject property of the report under review.
- no one provided significant professional assistance to the person signing this review report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

Comment: Departure from binding requirements (a) through (e) above is not permitted.

<sup>1</sup> See Statement on Appraisal Standards Number 1 on page 53.

## STANDARD 4

**In performing real estate or real property consulting services, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible result.**

Comment: Standard 4 is directed toward the same substantive aspects of professional practice set forth in Standard 1, but addresses the performance of consulting services by an appraiser. Consulting is a broad term that is applied to studies of real estate other than estimating value. Land utilization studies; highest and best use analyses; marketability, feasibility, or investment studies; and other research-related studies are examples of consulting assignments. An appraiser must have the ability to develop an analysis/research program that is responsive to the client's objective; to perform primary research; to gather and present secondary and tertiary data; and to prepare a documented written report.

Standard 4 addresses the concept of identifying the client's objective. There is an important difference between performing an impartial consulting service as a disinterested third party that responds to the client's stated objective and performing a consulting service that is intended to facilitate the achievement of the client's objective. While both are legitimate business activities within the realm of professional appraisal practice, the appraiser must recognize the distinction and the consequent obligations.

An appraiser retained to act as a disinterested third party (or reasonably perceived by the public as acting as a disinterested third party) in performing an unbiased consulting service cannot be compensated in a manner that is contingent on the results. However, an appraiser retained to perform a legitimate service such as brokerage, mortgage banking, tax counseling, or zoning advice may be compensated by a fee contingent on the results achieved, but only when a proper disclosure of the role being performed by the appraiser is made.

### Standards Rule 4-1

**In performing real estate or real property consulting services, an appraiser must:**

- (a) **be aware of, understand, and correctly employ those recognized consulting methods and techniques that are necessary to produce credible results;**
- (b) **not commit a substantial error of omission or commission that significantly affects the results of a consulting service;**
- (c) **not render consulting services in a careless or negligent manner, such as a series of errors that, considered individually, may not significantly affect the results, but which, when considered in the aggregate, would be misleading.**

Comment: Standards Rule 4-1 is identical in scope and purpose to Standards Rule 1-1. Departure from binding requirements (a), (b), and (c) is not permitted.

### Standards Rule 4-2

**In performing real estate or real property consulting services, an appraiser must observe the following specific guidelines:**

- (a) **clearly identify the client's objective;**

## STANDARD 4 (continued)

### Standards Rule 4-2 (continued)

- (b) **define the problem to be considered, define the purpose and intended use of the consulting service, consider the extent of the data collection process, adequately identify the real estate and/or property under consideration (if any), describe any special limiting conditions, and identify the effective date of the consulting service;**
- (c) **collect, verify, and reconcile such data as may be required to complete the consulting service;**
  - (i) **if the market value of a specific property is pertinent to the consulting assignment, an appraisal in conformance with Standard 1 must be included in the data collection;**

**all pertinent information shall be included;**

Comment: If an appraisal is pertinent, the appraiser performing the consulting service should carefully review the ETHICS PROVISION and the explanatory comment at the beginning of STANDARD 4 to ensure that any personal interests of the appraiser or contingent compensation for the consulting service do not conflict with the independence required of the appraisal function.

The appraiser performing the consulting service may find it necessary to retain (or suggest that the client retain) another appraiser to perform the appraisal.

- (d) **apply the appropriate consulting tools and techniques to the data collected;**
- (e) **base all projections on reasonably clear and appropriate evidence.**

Comment: A consulting service must begin with a clear identification of the client's objective, which may not be explicit in the client's statement of the assignment. The appraiser should precisely define the nature of the problem the client faces and the purpose of the consulting service. If the consulting service involves specific real estate or property, the appraiser must obtain a legal description, street address or other means of specifically and adequately identifying the real estate or property.

The appraiser must assess the overall range of work for solving the problem, the methodologies to be used, and the specific research data directly relevant to the consulting service.

### Standards Rule 4-3

**In performing real estate or real property consulting services, an appraiser must observe the following specific guidelines when a conclusion or recommendation is required by the nature of the assignment:**

- (a) **identify alternative courses of action to achieve the client's objective, and analyze their implications;**
- (b) **identify both known and anticipated constraints to each alternative and consider their probable impact;**
- (c) **identify the resources actually or expected to be available to each alternative and consider their probable impact;**
- (d) **identify the optimum course of action to achieve the client's objective.**

## STANDARD 4 (continued)

### Standards Rule 4-3 (continued)

Comment: After proper consideration of all alternative courses of action, the appraiser should identify the optimum course of action in terms of the client's objective and forecast the likelihood it can be achieved. All conclusions must be logically related to the resources available and the constraints that may limit any of the alternatives.

### Standards Rule 4-4

**In performing a market analysis, an appraiser must observe the following specific guidelines when applicable:**

- (a) **define and delineate the market area;**
- (b) **identify and analyze the current supply and demand conditions that make up the specific real estate market;**
- (c) **identify, measure, and forecast the effect of anticipated development or other changes and future supply;**
- (d) **identify, measure, and forecast the effect of anticipated economic or other changes and future demand.**

Comment: The appraiser should carefully define and delineate the pertinent market area for the analysis. Supportive reasoning for the selection of the boundaries must be stated. The appraiser should identify the specific class(es) of real estate under consideration and analyze the forces that are likely to affect supply/demand relationships.

The appraiser is expected to provide a comprehensive physical and economic description of the existing supply of space for the specific use within the defined market area, an explanation of the competitive position of the subject, and a forecast of how anticipated changes in future supply (additions to or deletions from the inventory) may affect the subject property.

The appraiser is expected to project the quantity and price or rent level of space that will be demanded within the particular sub-market. The capture or penetration rates of competitive projects should be examined in sufficient detail to lead to a reasoned conclusion as to the forecasted price or rent levels at which the market is likely to accept the subject space and the estimated absorption or rent-up time period.

The analysis of economic changes in the market in which the property is located may include the following determinants of demand: population, employment, and income characteristics; interest rates; zoning and other regulations; rents and/or sales; new construction planned or underway; vacant sites as potential competition to the subject; transportation; taxes; and the cost and adequacy of sewer, water, power, and other utilities. Forecasting techniques should be relevant, reasonable, practical, and supportable. Regardless of the forecasting models employed, the appraiser is expected to provide a clear and concise explanation and description of the models and methodologies.

## STANDARD 4 (continued)

### Standards Rule 4-5

In developing a cash flow and/or investment analysis, an appraiser must observe the following specific guidelines when applicable:<sup>1</sup>

- (a) consider and analyze the quantity and quality of the income stream;
- (b) consider and analyze the history of expenses and reserves;
- (c) consider and analyze financing availability and terms;
- (d) select and support the appropriate method of processing the income stream;
- (e) consider and analyze the cash flow return(s) and reversion(s) to the specified investment position over a projected time period(s).

Comment: Since real estate investment decisions are predicated on financial implications, the consulting service should define the client's investment criteria, consider major variables in the real estate and financial markets, and forecast the anticipated results. Definitions of the financial indices used (such as internal rate of return) and explanations of the financial analysis techniques and computer programs employed should be included. The ETHICS PROVISION and COMPETENCY PROVISION are especially important to Standards Rule 4-5 with regard to hypothetical conditions and technical proficiency.

### Standards Rule 4-6

In developing a feasibility analysis, an appraiser must observe the following specific guidelines when applicable:

- (a) prepare a complete market analysis;
- (b) apply the results of the market analysis to alternative courses of action to achieve the client's objective;
  - (i) consider and analyze the probable costs of each alternative;
  - (ii) consider and analyze the probability of altering any constraints to each alternative;
  - (iii) consider and analyze the probable outcome of each alternative.

Comment: An important step in feasibility analysis is to complete a market analysis.

The appraiser should compare the following criteria from the client's project to the results of the market analysis: the project budget (all construction costs, fees, carrying costs, and ongoing property operating expenses); the time sequence of activities (planning, construction and marketing); the type and cost of financing obtainable; and cash flow forecasts over the development and/or holding period; and yield expectations. The appraiser should have enough data to estimate whether the project will develop according to the expectations of the client and is economically feasible in accordance with the client's explicitly defined financial objectives.

<sup>1</sup> See Statement on Appraisal Standards Number 2 on page 55.

## STANDARD 5

In reporting the results of a real estate or real property consulting service, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.

Comment: Standard 5 is identical in intent and purpose to the appraisal reporting requirements in Standard 2. An appraiser must explain logically and convincingly the reasoning that leads to his or her conclusions. The flow of information should be orderly and progressive, leading from the broadest to the most specific level of analysis possible. Those topics most critical to the consulting conclusions should receive the most detailed emphasis.

In many business situations involving consulting services, the role of the appraiser carries with it an implied impartiality. For this reason, an appraiser must exercise extreme caution in undertaking assignments that involve the achievement of the specific goals of a client. A clear and complete disclosure of the role being performed by the appraiser must be part of any written report that results from the acceptance of such an assignment. The disclosure must be stated in any letter of transmittal, statement of assumptions and limiting conditions, and executive summary. In this connection, the appropriate use of the Certification in S.R. 5-3 is also required, but it is not sufficient in and of itself. A timely and complete disclosure is required in any oral report.

### Standards Rule 5-1

Each written or oral consulting report must:

- (a) clearly and accurately set forth the consulting service in a manner that will not be misleading;
- (b) contain sufficient information to enable the person(s) who receive or rely on the report to understand it properly;
- (c) clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects the consulting service and indicate its impact on the final conclusion or recommendation (if any).

Comment: Departure from binding requirements (a), (b), and (c) is not permitted. A consulting report must be sufficiently comprehensive so the client can visualize the problem and follow the reasoning through each step of the analytical process. It is essential that throughout the report the data, analyses, assumptions and conclusions are logical and adequately supported. Basic analytical and statistical principles, logical reasoning, and sound professional judgment are essential ingredients of the report.

### Standards Rule 5-2

Each written consulting report must comply with the following specific reporting guidelines:

- (a) define the problem to be considered;
- (b) state the purpose of the consulting service;
- (c) identify and describe the real estate and/or property under consideration (if any);
- (d) set forth the effective date of the consulting service and the date of the report;
- (e) describe the overall range of work and the extent of the data collection process;

STANDARD 5 (continued)

Standards Rule 5-2 (continued)

- (f) set forth all assumptions and limiting conditions that affect the analyses, opinions, and conclusions;
- (g) set forth the information considered, the consulting procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;
- (h) set forth the appraiser's final conclusions or recommendations (if any);
- (i) set forth any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the requirements to Standard 4;
- (j) include a signed certification in accordance with Standards Rule 5-3.

Comment: The appraiser must set forth all of the assumptions and limiting conditions under which the consulting service is made, and support their validity. Specific assumptions or conditions imposed by the client must be clearly set forth as part of the identification of the objective of the consulting service. The appraiser must investigate the validity of such assumptions or conditions and give reasons for finding them realistic.

It is improper to omit any of the requirements from a consulting report transmitted to the client without good cause. Any departure from normal procedures and the effect of any unusual factors or conditions in connection with the problem must be explained. A misleading or fraudulent report violates the ETHICS PROVISION as well as this Standard.

**Standards Rule 5-3**

**Each written consulting report must contain a certification that is similar in content to the following form:**

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

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no (or the specified) present or prospective interest in the property (if any) that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not (or is) contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report. (If the compensation is contingent, the basis of such contingency must be disclosed in this certification and in any letter of transmittal and executive summary.)
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have (or have not) made a personal inspection of the property (if any) that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the property.)<sup>1</sup>
- no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

<sup>1</sup> See Advisory Opinion G-2 on page 73.

**STANDARD 5 (continued)**

**Standards Rule 5-3 (continued)**

Comment: Departure from this binding requirement is not permitted.

**Standards Rule 5-4**

**To the extent that it is both possible and appropriate, each oral consulting report (including expert testimony) must address the substantive matters set forth in Standards Rule 5-2.**

## STANDARD 6

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

Comment: Standard 6 is directed toward the substantive aspects of developing and communicating competent analyses, opinions, and conclusions in the appraisal of a universe of properties. Mass appraisals are used primarily for purposes of ad valorem taxation. But depending upon the purpose of the appraisal and the availability of statistical data, mass appraisal procedures may also be appropriate for the valuation of any universe of properties, but only when written reports are made and the results of statistical testing are fully disclosed and explained. The reporting and jurisdictional exceptions applicable to public mass appraisals prepared for purposes of ad valorem taxation do not apply to mass appraisals prepared for other purposes.

Mass appraisals can be prepared with or without computer assistance and are often developed by teams of people. The validity of mass appraisal conclusions is frequently tested or contested by single-property appraisals. Single-property appraisals should conform to Standards 1 and 2 for real property and Standards 7 and 8 for personal property. In the context of Standard 6, the terms appraisal and mass appraisal both refer to the appraisal of a universe of properties, whether real property, personal property, or both.

The Jurisdictional Exception on Page 6 may apply to several sections of Standard 6 because ad valorem tax administration is subject to various state, county, and municipal laws.

### Standards Rule 6-1

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

- (a) **be aware of, understand, and correctly employ those generally accepted methods and techniques necessary to produce a credible appraisal;**

Comment: Departure from this binding requirement is not permitted. Mass appraisal uses:

1. Division of tasks,
2. Standardized data collection and analysis,
3. Properly specified and calibrated valuation models, and
4. Standards and measurements of the accuracy of the data collected and values produced.

This rule recognizes that the principle of change continues to affect the manner in which appraisers perform mass appraisals. Changes and developments in the real estate field have a substantial impact on the appraisal profession. Revisions in appraisal theory and practice result from:

changes in the cost and manner of constructing and marketing commercial, industrial, residential, and other types of real estate;  
changes in the legal framework in which real property rights and interests are created, conveyed, mortgaged, and taxed;  
corresponding changes in appraisal theory and practice; and,  
social and economic changes.

To keep abreast of these changes and developments, the appraisal profession is constantly reviewing and revising appraisal methods and techniques and devising new methods and techniques to meet new circumstances. For this reason it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Mass appraisers must continuously improve their skills to remain proficient.

STANDARD 6 (continued)

Standards Rule 6-1 (continued)

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

Comment: Departure from this binding requirement is not permitted. Standards Rule 6-1(b) is identical in purpose to Standards Rule 1-1(b).

- (c) not render a mass appraisal in a careless or negligent manner;

Comment: Departure from this binding requirement is not permitted. Standards Rule 6-1(c) is identical in purpose to Standards Rule 1-1(c).

Standards Rule 6-2

In developing a mass appraisal, an appraiser must observe the following specific appraisal guidelines:

- (a) consider the purpose and intended use of the appraisal;
- (b) identify any special limiting conditions;

Comment: Although appraisers in ad valorem taxation should not be held accountable for limitations beyond their control, they are required by this guideline to identify cost constraints and to take appropriate steps to secure sufficient funding to produce appraisals that comply with these standards.

Expenditure levels for assessment administration are a function of a number of factors. Fiscal constraints may impact data completeness and accuracy, valuation methods, and valuation accuracy. While appraisers should seek adequate funding and disclose the impact of fiscal constraints on the mass appraisal process, they are not responsible for constraints beyond their control.

- (c) identify the effective date of the appraisal;
- (d) define the value being considered; if the value to be estimated is market value, the appraiser must clearly indicate whether the estimate 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; if an estimate of value is based on below-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly set forth, their contributions to or negative influence on value must be described and estimated, and the market data supporting the valuation estimate must be described and explained;

Comment: For certain types of appraisal assignments in which a legal definition of market value has been established and takes precedence, the Jurisdictional Exception may apply.

- (e) identify the real estate and personal property, as applicable;

Comment: The universe of properties should be identified in general terms and each individual property in the universe should be identified with the information on its identity stored or referenced in its property record.

STANDARD 6 (continued)

Standards Rule 6-2 (continued)

(f) in appraising real property:

- (i) identify and consider any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal;

Comment: This guideline requires the appraiser to recognize the inclusion of items that are not real property in the overall value estimate. Expertise in personal property (see Standard 7) or business (see Standard 9) appraisal may be required to allocate each overall value to its various components. Separate valuation of such items is required when they are significant to the overall value.

- (ii) consider whether an appraised physical segment contributes pro rata to the value of the whole;

Comment: This guideline does not require the appraiser to value the whole when the subject of the appraisal is a physical segment. However, if the value of the whole is not considered, the appraisal must clearly recognize that the value of the property being appraised cannot be used to estimate the value of the whole by mathematical extension.

(g) identify the property interest(s);

- (i) consider known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of similar nature;
- (ii) consider whether an appraised fractional interest or partial holding contributes pro rata to the value of the whole;

Comment: This guideline does not require the appraiser to value the whole when the subject of the appraisal is a fractional interest or a partial holding. However, if the value of the whole is not considered, the appraisal must clearly reflect that the value of the property being appraised cannot be used to estimate the value of the whole by mathematical extension.

(h) in appraising real property, consider the effect on use and value of the following factors: existing land-use regulations, reasonably probable modifications of such regulations, economic supply and demand, the physical adaptability of the property, neighborhood trends, and the highest and best use of the property; and

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

(i) recognize that land is appraised as though vacant and available for development to its highest and best use and that the appraisal of improvements is based on their actual contribution to the site.

Comment: This guideline may be modified to reflect the fact that, in various market situations, a site may have a contributory value that differs from the value as if vacant.

STANDARD 6 (continued)

Standards Rule 6-3

In developing a mass appraisal, an appraiser must:

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

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

- (b) **employ generally accepted techniques for specifying property valuation models; and**

Comment: The formal development of a model in a statement or equation is called model specification. Mass appraisers must develop mathematical models that, with reasonable accuracy, represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. The models may be specified using the cost, sales comparison, or income approaches to value. The specification format may be tabular, mathematical, linear, non-linear, or any other structure suitable for representing the relationship between market value and observable property characteristics. The appropriate approaches should be used in appraising a class of properties. The concepts of accepted techniques apply to both real and personal property valuation models.

- (c) **employ generally accepted techniques for calibrating mass appraisal models.**

Comment: Departure from binding requirements (a) through (c) is not permitted. Calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model. The table entries in a cost manual are examples of calibrated parameters, as well as the coefficients in a linear or non-linear model. Models should be calibrated using generally accepted techniques, including, but not limited to, multiple linear regression, non-linear regression, and adaptive estimation.

Standards Rule 6-4

In developing a mass appraisal, an appraiser must observe the following specific appraisal guidelines, when applicable:

- (a) **collect, verify, analyze, and reconcile such data as are necessary and appropriate to:**
- (i) **estimate cost new of the improvements;**
  - (ii) **estimate accrued depreciation;**
  - (iii) **estimate value by sales of comparable properties;**
  - (iv) **estimate value by capitalization of income. i.e. rentals, expenses, interest rates, capitalization rates and vacancy data.**

## STANDARD 6 (continued)

### Standards Rule 6-4 (continued)

Comment: This rule requires appraisers engaged in mass appraisal to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals. For real property, systems for routinely collecting and maintaining ownership, geographic, sales, income and expense, cost, and property characteristics data should be established. Geographic data should be contained in a complete set of cadastral maps compiled according to current standards of detail and accuracy. Sales data should be collected, confirmed, screened, adjusted, and filed according to current standards of practice. The sales file should contain, for each sale, property characteristics data that are contemporaneous with the date of sale. Property characteristics data should be appropriate to the mass appraisal models being used. The property characteristics data file should contain data contemporaneous with the date of appraisal. It may contain historical data on sales. The data collection program should incorporate a quality control program, including checks and audits of the data to ensure current and consistent records.

- (b) **base projections of future rental rates, expenses, interest rates, capitalization rates, and vacancy rates on reasonable and appropriate evidence.**

Comment: This guideline requires an appraiser, in developing income and expense statements and cash flow projections, to weigh historical information and trends, current market factors affecting such trends, and reasonably anticipated events, such as competition from developments either planned or under construction.

- (c) **consider and analyze terms and conditions of any available leases.**
- (d) **consider the need for and extent of any physical inspection.**

### Standards Rule 6-5

**In applying a calibrated mass appraisal model an appraiser must:**

- (a) **value improved parcels by accepted methods or techniques based on the cost approach, the sales comparison approach, and income approach, as applicable;**
- (b) **value sites by generally accepted methods or techniques; such techniques include but are not limited to the sales comparison approach, allocation method, abstraction method, capitalization of ground rent, and land residual technique;**
- (c) **when estimating the value of a leased fee estate or a leasehold estate, consider and analyze the effect on value, if any, of the terms and conditions of the lease;**

Comment: In ad valorem taxation the appraiser may be required by rules or law to appraise the property as if in fee simple, as though unencumbered by existing leases. In such cases, market rent would be used in the appraisal, ignoring the effect of the individual, actual contract rents.

- (d) **consider and analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or component parts of a property; the value of the whole should not be estimated by adding together the individual values of the various parcels, divided interests, or component parts; and**

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

## STANDARD 6 (continued)

### Standards Rule 6-5 (continued)

- (e) consider and analyze the effect on value, if any, of anticipated public or private improvements, located on or off the site, to the extent that market actions reflect such anticipated improvements as of the effective appraisal date; appraise proposed improvements only after examining and having available for future examination;
  - (i) plans, specifications, or other documentation sufficient to identify the scope and character of the proposed improvements;
  - (ii) evidence indicating the probable time of completion of the proposed improvements; and
  - (iii) reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion.

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

### Standards Rule 6-6

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

- (a) consider and reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used; and
- (b) employ generally accepted mass appraisal testing procedures and techniques to ensure that standards of accuracy are maintained.

Comment: Departure from binding requirements (a) and (b) is not permitted. It is implicit in mass appraisal that, even when properly specified and calibrated mass appraisal models are used, some individual value estimates will not meet standards of reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, models produce value estimates that meet attainable standards of accuracy. This responsibility requires appraisers to evaluate the performance of models, using techniques including, but not limited to, goodness-of-fit statistics, hold-out samples, analysis of residuals, and appraisal-to-sale ratio data. They also should review individual value estimates before they are used.

### Standards Rule 6-7

**A written summary report of a mass appraisal for ad valorem taxation or a written report of a mass appraisal for any other purpose should clearly communicate the elements, results, opinions, and value conclusions of the appraisal.**

**Documentation for a mass appraisal for ad valorem taxation may be in the form of (1) property records (2) reports, (3) manuals, (4) regulations, (5) statutes, and (6) other acceptable forms.**

**Each written report of a mass appraisal for any purpose other than ad valorem taxation must:**

- (A) clearly and accurately set forth the appraisal in a manner that will not be misleading;
- (B) contain sufficient information to enable the person(s) who receive or rely on the report to understand it properly;

STANDARD 6 (continued)

Standards Rule 6-7 (continued)

- (C) clearly and accurately disclose any extra ordinary assumptions or limiting condition that directly affects the appraisal and indicate its impact on value.

Furthermore, each written report of a mass appraisal for any purpose other than for ad valorem taxation, and, when provided, a written summary report of a mass appraisal for ad valorem taxation must:

- (a) state the purpose and intended use of the appraisal;
- (b) disclose any assumptions or limiting conditions that result in deviation from generally accepted methods and techniques or that affect analyses, opinions, and conclusions;

Comment: One limiting condition that must be disclosed is whether or not any physical inspection was made.

- (c) set forth the effective date of the appraisal;

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

- (d) define the value to be estimated;
- (e) identify the properties appraised including the property rights;

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

- (f) describe and justify the model specification(s) considered, data requirements, and the models chosen;

Comment: The user and affected parties must have confidence that the process and procedures used conform to accepted methods and result in credible value estimates. In the case of mass appraisal for ad valorem taxation, stability and accuracy are important to the credibility of value estimates. The summary report should include a discussion of the rationale for each model, the calibration techniques to be used, and the performance measures to be used.

- (g) describe the procedure for collecting, validating, and reporting data;

Comment: The summary report should describe the sources of data and the data collection and validation processes. Reference to detailed data collection manuals should be made, including where they may be found for inspection.

- (h) describe calibration methods considered and chosen, including the mathematical form of the final model(s); describe how value estimates were reviewed; and, if necessary, describe the availability of individual value estimates;

STANDARD 6 (continued)

Standards Rule 6-7 (continued)

- (i) in the case of real property, discuss how highest and best use was determined;
- Comment: The mass appraisal summary report should reference case law, statute or public policy that describes highest and best use requirements. When actual use is the requirement, the report should discuss how use-values were estimated.
- (j) identify the appraisal performance tests used and set forth the performance measures attained;
- (k) provide any additional information necessary to more fully explain the appraisal including departures permitted by the Departure Provision; and
- (l) contain a signed certification by the appraiser in a manner consistent with applicable laws, rules or regulations and generally accepted appraisal practices for mass appraisals prepared for ad valorem taxation; and for mass appraisals prepared for other purposes, contain a signed certification in accordance with Standards Rule 6-8.

Comment: Departure from binding requirements (a) through (l) is not permitted.

Standards Rule 6-8

Each written mass appraisal for purposes other than ad valorem taxation must contain a signed certification that is similar in content to the following form:

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

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)<sup>1</sup>
- no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

Comment: Departure from this binding requirement is not permitted.

<sup>1</sup> See Advisory Opinion G-2 on page 73.

## STANDARD 7

In developing a personal property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.

Comment: Standard 7 is directed toward the same substantive aspects set forth in Standard 1, but addresses the appraisal of personal property.

### Standards Rule 7-1

In developing a personal property appraisal, an appraiser must:

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

Comment: Departure from this binding requirement is not permitted. This rule recognizes that the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in personal property practice have a substantial impact upon the appraisal profession. Important changes in the cost and manner of producing and marketing personal property and changes in the legal framework in which property rights and interests are created, conveyed, and financed have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession reviews and revises appraisal methods and techniques and devises methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in personal property appraisal.

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

Comment: Departure from this binding requirement is not permitted. In performing appraisal services an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are considered. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

- (c) **not render appraisal services in a careless or negligent manner, such as a series of errors that, considered individually, may not significantly affect the results of an appraisal, but which, when considered in the aggregate, would be misleading.**

Comment: Departure from this binding requirement is not permitted. Perfection is impossible to attain and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This rule requires an appraiser to use due diligence and due care. The fact that the carelessness or negligence of an appraiser has not caused an error that significantly affects his or her opinions or conclusions and thereby seriously harms a client or third party does not excuse such carelessness or negligence.

## STANDARD 7 (continued)

### Standards Rule 7-2

In developing a personal property appraisal, an appraiser must consider the purpose and intended use of the appraisal and observe the following specific appraisal guidelines:

- (a) **adequately identify the property to be valued, including the method of identification;**

Comment: This guideline is an essential element in all appraisals. An adequate identification of property should accurately describe property as understood within its market.

- (b) **define the purpose and intended use of the appraisal, including all general and specific limiting conditions;**

- (c) **identify the effective date of the appraisal;**

- (d) **select and define the value to be considered consistent with the purpose of the appraisal;**

Comment: If the value to be estimated is market value, the appraiser must clearly indicate whether the estimate is the most probable price:

1. in terms of cash; or
2. in terms of financial arrangements equivalent to cash; or
3. in such other terms as may be precisely defined; if an estimate of value is based on submarket financing or financing with unusual conditions or incentives, the terms of such financing must be clearly set forth, their contributions to or negative influence on value must be described and estimated, and the market data supporting the valuation estimate must be described and explained;

- (e) **collect, verify, analyze and reconcile such data as are available, adequately identified and described, to indicate a value conclusion;**

- (f) **value the property by an appropriate appraisal method or technique;**

- (g) **all pertinent information in items (a) through (f) above shall be used in the development of a personal property appraisal.**

### Standards Rule 7-3

In developing a personal property appraisal, an appraiser must consider the purpose and intended use of the appraisal and observe the following specific appraisal guidelines:

- (a) **consider the effect of highest and best use by measuring and analyzing the current use and alternative uses to encompass what is profitable, possible, legal and physically possible, as relevant to the purpose and intended use of the appraisal;**

- (b) **personal property has several measurable marketplaces, and the appraiser must identify, define, and analyze the appropriate market consistent with the purpose of the appraisal;**

Comment: The appraiser must recognize that there are distinct levels of trade and each may have its own market value. For example, a property may have distinct value at a wholesale level of trade, a retail level of trade, or a value under varying auction conditions. Therefore, the appraiser must consider the subject property within the correct market context.

- (c) **consider the market conditions at the time of the valuation including market acceptability of the property as well as supply, demand, scarcity or rarity;**

**STANDARD 7 (continued)**

**Standards Rule 7-3 (continued)**

- (d) **consider a sufficient quantity of data and any prior sales of the subject within a sufficient period of occurrence to reach an appropriate estimate of value;**
- (e) **consider the cost, income, and sales comparison approaches and their degree of applicability in the valuation of personal property. The selection of valuation approaches to be used should be based on the availability of data and the purpose of the appraisal;**
- (f) **consider the effects on value caused by attributes such as condition, style, quality, manufacturer, author, materials, origin, age, provenance, alterations and restorations;**
- (g) **identify any real estate, real property, trade fixtures or intangible items that are not personal property but are included in the appraisal.**

Comment: Additional expertise in real property (see Standard 1) or business (see Standard 9) appraisal may be required in valuation assignments that involve more than personal property.

- (h) **all pertinent information in items (a) through (f) above shall be used in the development of a personal property appraisal.**

## STANDARD 8

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

### Standards Rule 8-1

Each written or oral personal property appraisal report must:

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

Comment: Departure from this binding requirement is not permitted. Since most reports are used and relied upon by third parties, communications considered adequate by the appraiser's client may not be sufficient. An appraiser must take extreme care to make certain that his or her reports will not be misleading to various users of the appraisal report.

- (b) **contain sufficient information to enable the person(s) who receive or rely on the report to understand it properly;**

Comment: Departure from this binding requirement is not permitted. A failure to observe this rule could cause a client or other users of the report to make a serious error even though each analysis, opinion, and conclusion in the report is clearly and accurately stated. To avoid this problem and the dangers it presents to clients and other users of reports, this rule requires an appraiser to include in each report sufficient information to enable the reader to understand it properly. All reports, both written and oral, must clearly and accurately present the analyses, opinions, and conclusions of the appraiser in sufficient depth and detail to address adequately the significance of the specific appraisal problem.

- (c) **clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects the appraisal, and indicate its impact on value.**

Comment: Departure from this binding requirement is not permitted. Third party use of an appraisal is subject to the defined purpose and intended use of an appraisal, including assumptions and limiting conditions. In a written report, the disclosure would be required in conjunction with statements of each opinion or conclusion that is affected.

### Standards Rule 8-1

Each written personal property appraisal report must comply with the following specific reporting guidelines by providing or including:

- (a) **descriptive identification of the personal property being appraised;**

- (b) **identification of the ownership interest being appraised;**

Comment on (a) and (b): These two guidelines are essential elements in any report. Identifying the property rights being appraised requires a direct statement substantiated as needed setting forth any known encumbrances.

- (c) **a statement of the purpose and intended use of the appraisal;**

- (d) **a definition of the value being considered that is consistent with the purpose of the appraisal;**

STANDARD 8 (continued)

Standards Rule 8-2 (continued)

- (e) **the effective date of the appraisal and the date of the report;**

Comment on (c), (d), and (e): These three guidelines require clear disclosure to the reader of a report setting forth the “why, what and when” surrounding the appraisal. The purpose of the appraisal is used generically to include both the task involved and the rationale for the appraisal (purpose and intended use). Defining the value to be estimated requires both an appropriately referenced definition and any comments needed to clearly indicate to the reader how the definition is being applied (See Standards Rule 7-2). The effective date of the appraisal establishes the context for the value estimate, while the date of the report indicates whether the perspective of the appraiser on the market conditions as of the effective date of the appraisal was prospective, current, or retrospective. Reiteration of the date of the report and the effective date of the appraisal at various stages in the report is important for clarity.

- (f) **a description of the extent of the process of collecting, confirming, and reporting data;**

Comment: This guideline is intended to provide the reader with an understanding of the appraisal process and protect third parties whose reliance on an appraisal report may be affected by the appraiser’s investigation; i.e., the process of collecting, confirming and reporting data.

- (g) **all assumptions and limiting conditions that affect the analyses, opinions, conclusions and valuations;**

- (h) **the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, conclusions and valuations;**

Comment: This guideline calls for the appraiser to summarize the data considered and the procedures that were followed. The appraiser must be certain that these points are covered in sufficient depth and detail so that the client, and the various users of the appraisal report, will understand it and will not be misled or confused. The substantive content of the report, not its size, determines its compliance with this specific reporting guideline.

- (i) **where appropriate, comparable sales data, auction results, offers from reputable firms or other statistics; if not included in the narrative of the report, they must be referenced in the report and maintained with the field notes. (See ETHICS PROVISION, Record Keeping.)**

- (j) **where appropriate, an explanation and support of the analysis of the highest and best use;**

- (k) **where appropriate, an explanation and support of the analysis of the appropriate market;**

- (l) **an explanation and support of the exclusion of any of the usual valuation approaches;**

- (m) **any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the requirements of Standard 7.**

- (n) **a signed certification in accordance with Standards Rule 8-3.**

## STANDARD 8 (continued)

### Standards Rule 8-3

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

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

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)
- no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

Comment: Departure from this binding requirement is not permitted.

### Standards Rule 8-4

To the extent that it is both possible and appropriate, each oral personal property appraisal report (including expert testimony) must address the substantive matters set forth in Standards Rule 8-2 and state conformity with Standards Rule 8-3.

### Standards Rule 8-5

An appraiser who signs a personal property appraisal report prepared by another, even under the label of "review appraiser", must accept full responsibility for the contents of the report.

Comment: Departure from this binding requirement is not permitted.

This requirement is directed to the employer or supervisor signing the report of an employee or subcontractor. The employer or supervisor signing the report is as responsible as the individual preparing the appraisal for the content and conclusions of the appraisal and the report. Using a conditional label next to the signature of the employer or supervisor or signing a form report on the line over the words "review appraiser" does not exempt that individual from adherence to these standards.

This requirement does not address the responsibilities of a review appraiser, the subject of Standards Rule 3.

## STANDARD 9

In developing a business or intangible asset appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and procedures that are necessary to produce a credible appraisal.

Comment: Standard 9 is directed toward the same substantive aspects set forth in Standard 1, but addresses business and intangible asset appraisal.

### Standards Rule 9-1

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

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

Comment: Departure from this binding requirement is not permitted. Changes and developments in the economy and in investment theory have a substantial impact on the business appraisal profession. Important changes in the financial arena, securities regulation, tax law and major new court decisions may result in corresponding changes in business appraisal practice.

- (b) not commit a substantial error of omission or commission that significantly affects an appraisal;

Comment: Departure from this binding requirement is not permitted. In performing appraisal services an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent to reasonably ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are considered. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

- (c) not render appraisal services in a careless or negligent manner, such as a series of errors that, considered individually, may not significantly affect the results of an appraisal, but which, when considered in the aggregate, would be misleading.

Comment: Departure from this binding requirement is not permitted. Perfection is impossible to attain and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This rule requires an appraiser to use diligence and care. The fact that the carelessness or negligence of an appraiser has not caused an error that significantly affects his or her opinions or conclusions and thereby seriously harms a client does not excuse such carelessness or negligence.

### Standards Rule 9-2

In developing a business or intangible asset appraisal, an appraiser must observe the following specific appraisal guidelines:

- (a) adequately identify the business enterprise, assets, or equity under consideration, define the purpose and the intended use of the appraisal, consider the elements of the appraisal investigation, consider any special limiting conditions, and identify the effective date of the appraisal;
- (b) define the value being considered.

## STANDARD 9 (continued)

### Standards Rule 9-2 (continued)

- (i) if the appraisal concerns a business enterprise or equity interests, consider any buy-sell agreements, investment letter stock restrictions, restrictive corporate charter or partnership agreement clauses, and any similar features or factors that may have an influence on value.
- (ii) if the appraisal concerns assets, the appraiser must consider whether the assets are:
  - (1) appraised separately; or
  - (2) appraised as parts of a going concern.

Comment: The value of assets held by a business enterprise may change significantly depending on whether the basis of valuation is acquisition or replacement, continued use in place, or liquidation.

- (iii) if the appraisal concerns equity interests in a business enterprise, consider the extent to which the interests do or do not contain elements of ownership control.

Comment: Special attention should be paid to the attributes of the interest being appraised including the rights and benefits of ownership. The elements of control in a given situation may be affected by law, distribution of ownership interests, contractual relationships, and many other factors. As a consequence, the degree of control or lack of it depends on a broad variety of facts and circumstances which must be evaluated in the specific situation. Equity interests in a business enterprise are not necessarily worth the pro rata share of the business enterprise value as a whole.

Conversely, if the value of the whole is not considered, the value of the business enterprise is not necessarily a direct mathematical extension of the value of the fractional interests.

### Standards Rule 9-3

**In developing a business or intangible asset appraisal relating to an equity interest with the ability to cause liquidation of the enterprise, an appraiser must investigate the possibility that the business enterprise may have a higher value in liquidation than for continued operation as a going concern absent contrary provisions of law of a competent jurisdiction. If liquidation is the indicated basis of valuation, any real estate or personal property to be liquidated must be valued under the appropriate standard.**

Comment: Departure from this binding requirement is not permitted. This rule requires the appraiser to recognize that continued operation of a business is not always the best premise of value as liquidation may result in a higher value. It should be noted, however, that this should be considered only when the business equity being appraised is in a position to cause liquidation. If liquidation is the appropriate premise of value, then assets such as real estate and tangible personal property must be appraised under Standard 1 and Standard 7, respectively.

### Standards Rule 9-4

**In developing a business or intangible asset appraisal, an appraiser must observe the following specific appraisal guidelines when applicable:**

- (a) consider all appropriate valuation methods and procedures.
- (b) collect and analyze relevant data regarding:

## STANDARD 9 (continued)

### Standards Rule 9-4 (continued)

- (i) the nature and history of the business;
- (ii) financial and economic conditions affecting the business enterprise, its industry, and the general economy;
- (iii) past results, current operations, and future prospects of the business enterprise;
- (iv) past sales of capital stock or other ownership interests in the business enterprise being appraised;
- (v) sales of similar businesses or capital stock of publicly held similar businesses;
- (vi) prices, terms, and conditions affecting past sales of similar business assets;

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

In certain circumstances, the business appraiser may also collect and analyze data regarding functional and/or economic utility or obsolescence of the business assets.

Economic obsolescence is a major consideration when assets are considered as parts of a going concern. It may also be one of the criteria in deciding that liquidation is the appropriate premise for valuation.

### Standards Rule 9-5

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

- (a) **select and employ one or more approaches that apply to the specific appraisal assignments.**

Comment: This rule requires the appraiser to use all relevant approaches for which sufficient reliable data are available. However, it does not mean that the appraiser must use all approaches in order to comply with the rule if certain approaches are not applicable.

- (b) **consider and reconcile the indications of value resulting from the various approaches to arrive at the value conclusion.**

Comment: Departure from this binding requirement is not permitted. The appraiser must evaluate the relative reliability of the various indications of value. The appraiser should consider quality and quantity of data leading to each of the indications of value. The value conclusion is the result of the appraiser's judgment and not necessarily the result of a mathematical process.

## STANDARD 10

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

### Standards Rule 10-1

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

- (a) clearly and accurately set forth the appraisal in a manner that will not be misleading.

Comment: Departure from this binding requirement is not permitted.

- (b) contain sufficient information to enable the intended user(s) to understand it. Any specific limiting conditions concerning information should be noted.

Comment: Departure from this binding requirement is not permitted. Any specific limiting conditions should be noted in the engagement letter as well as in the report itself. A failure to observe this rule could cause the intended users of the report to make a serious error even though each analysis, opinion, and conclusion in the report is clearly and accurately stated.

- (c) clearly and accurately disclose any extraordinary assumption that directly affects the appraisal and indicate its impact on value.

Comment: Departure from this binding requirement is not permitted. This rule requires a clear and accurate disclosure of any extraordinary assumptions or conditions that directly affect an analysis, opinion, or conclusion. Examples of such extraordinary assumptions or conditions might include items such as the execution of a pending lease agreement, atypical financing, infusion of additional working capital or making other capital additions, or compliance with regulatory authority rules. The report should indicate whether the extraordinary assumption or condition has a positive, negative or neutral impact on value.

### Standards Rule 10-2

Each written business or intangible asset appraisal report must comply with the following specific reporting guidelines:

- (a) identify and describe the business enterprise, assets or equity being appraised.
- (b) state the purpose and intended use of the appraisal.
- (c) define the value to be estimated.
- (d) set forth the effective date of the appraisal and the date of the report.

Comment: If the appraisal concerns equity, it is not enough to identify the entity in which the equity is being appraised without also identifying the nature of the equity, for example: the number of shares of common or preferred stock. The purpose may be to express an opinion of value but the intended use of the appraisal must also be stated.

The report date is when the report is submitted; the appraisal date or date of value is the effective date of the value conclusion.

- (e) describe the extent of the appraisal process employed;
- (f) set forth all assumptions and limiting conditions that affect the analyses, opinions, and conclusions.

## STANDARD 10 (continued)

### Standards Rule 10-2 (continued)

- (g) set forth the information considered, the appraisal procedures followed, and the reasoning that supports the analyses, opinions and conclusions.
- (h) set forth any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from, the requirements of Standard 9.
- (i) set forth the rationale for the valuation methods and procedures considered and employed.
- (j) include a certification in accordance with S.R. 10-3.

### Standards Rule 10-3

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

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

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

Comment: Departure from this binding requirement is not permitted.

### Standards Rule 10-4

To the extent that it is both possible and appropriate, each oral business or intangible asset appraisal report (including expert testimony) must address the substantive matters set forth in Standards Rule 10-2 and state conformity with Standards Rule 10-3.

### Standards Rule 10-5

An appraiser who signs a business or intangible asset appraisal report prepared by another, even under the label "review appraiser", must accept full responsibility for the contents of this report.

Comment: Departure from this binding requirement is not permitted. This requirement is directed to the employer or supervisor signing the report of an employee or subcontractor. The employer or supervisor signing the report is as responsible as the individual preparing the appraisal for the content and conclusions of the appraisal and the report. Using a conditional label next to the signature of the employer or supervisor or signing a form report on the line over the words "review appraiser" does not exempt that individual from adherence to these Standards.

This requirement does not address the responsibilities of a review appraiser, the subject of Standard 3.

ORIGIN AND HISTORY OF THE  
UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL  
PRACTICE

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

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

**Effective Date of Original Uniform Standards:**

**April 27, 1987**

**Amendments by the Appraisal Standards Board to Date:**

**Ethics Provision**

**December 4, 1989**

**Preamble through Standard 2**

**April 20, 1990**

**Standards 3, 4 and 5**

**June 5, 1990**

**Standard 6**

**September 10, 1991**

**Standards 7 and 8**

**March 3, 1992**

**Standards 9 and 10**

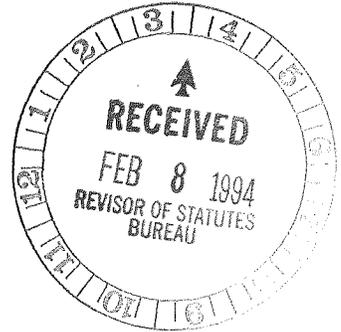
**September 16, 1992**

(END OF TEXT OF RULE)

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 2/9/94

Agency Patricia McCormack  
Patricia McCormack, Deputy Secretary  
Department of Regulation  
and Licensing



**CORRESPONDENCE/MEMORANDUM**

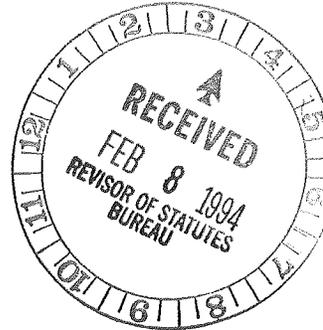
**STATE OF WISCONSIN**

**DATE:** February 8, 1994

**TO:** Gary Poulson  
Assistant Revisor of Statutes

**FROM:** Pamela Haack, Administrative Assistant  
Department of Regulation and Licensing

**SUBJECT:** Final Rulemaking Order



**Agency: DEPARTMENT OF REGULATION AND LICENSING**

**Clearinghouse Rule: 93-151**

Attached is a copy and a certified copy of a final order adopting rules.  
Would you please publish these rules in the code.

Please stamp or sign a copy of this letter to acknowledge receipt.

Thank you.