Chapter RL 87

APPENDIX I

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

Copies of the USPAP (including advisory opinions) are available from the Appraisal Foundation, 1029 Vermont Avenue, N.W., Suite 900, Washington, D.C. 20005–3517, (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 a high 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 employee or other person to communicate a misleading fraudulent report.[1]

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.

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 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[1]

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 an 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.

ETHICS PROVISION (continued)

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. The written records of an assignment are the workfile.

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. A workfile may also include information stored on electronic, magnetic, or other media as well as a reference indicating the location of other information utilized in the appraisal.

A workfile preserves evidence of the appraiser's consideration of all applicable data and statements required by USPAP and other information as may be required to support the findings and conclusions of the appraiser. For example, the content of a workfile for a Complete Appraisal must reflect consideration of all USPAP requirements applicable to the specific Complete Appraisal assignment. However, the content of a workfile for a Limited Appraisal need only reflect consideration of the USPAP requirements from which there has been no departure and that are applicable to the specific Limited Appraisal assignment.

A photocopy or an electronic copy of the entire actual written appraisal, review, or consulting report sent or delivered to a client satisfies the requirement of a true copy. As an example, a photocopy or electronic copy of the Self–Contained Appraisal Report or the Summary Appraisal Report or Restricted Appraisal Report actually issued by an appraiser for a real property Complete Appraisal or Limited Appraisal assignment satisfies the true copy requirement for that assignment.

Care should be exercised in the selection of the form, style, and type of medium for written records, which may be handwritten and informal, to ensure they are retrievable by the appraiser throughout the prescribed record retention period.

A workfile must be in existence prior to and contemporaneous with the issuance of a written or oral report. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.

A workfile must be made available by the appraiser when required by due process of law. In addition, a workfile in support of a Restricted Appraisal Report must be available for inspection by the client in accordance with the Comment to Standards Rule 2–2 (c) (viii).

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 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 date 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[1]

This provision permits limited departures from 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 an assignment and invoking this provision that the result will not confuse or mislead. The burden of disclosure is also on the appraiser to report any departures from specific guidelines.

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 appraisal or consulting process to be performed is not so limited that the resulting assignment would tend to mislead or confuse the client or the intended users of the report;**
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 clearly identify and explain the departure(s); and**
3. **the client has agreed that the performance of a limited appraisal or consulting service would be appropriate.**

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, 6–6, 6–7, 6–8, 7–1, 8–1, 8–3, 8–5, 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: For the purpose of this provision, intended users of the report might include parties such as lenders, employees of government agencies, partners of a client, and a client's attorney and accountant. In this context, the purpose and intended use of the appraisal or consulting service are critical.

If an appraiser enters into an agreement to perform an appraisal or consulting 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(a)(xi), 2–2(b)(xi), 2–2(c)(xi), 5–2(i), 8–2(m), and 10–2(h) require that the report clearly identify and explain departure(s) from the specific guidelines.

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.

Comment: The purpose of the Jurisdictional Exception is strictly limited to providing a saving or severability clause intended to preserve the balance of USPAP if one or more of its parts are determined as contrary to law or public policy of a jurisdiction. By logical extension, there can be no violation of USPAP by an appraiser disregarding, with proper disclosure, only the part or parts of USPAP that are void and of no force and effect in a particular assignment by operation of legal authority. It is misleading for an appraiser to disregard a part or parts of USPAP as void and of no force and effect in a particular assignment without identifying the part or parts disregarded and the legal authority justifying this action in the appraiser's report.

As used in the Jurisdictional Exception, law means a body of rules with binding legal force established by controlling governmental authority. This broad meaning includes, without limitation, the federal and state constitutions, legislative and court made law, and administrative rules, regulations, and ordinances. Public policy refers to more or less well defined moral and ethical standards of conduct, currently and generally accepted by the community as a whole, and recognized by the courts with the aid of statutes, judicial precedents, and other similar available evidence. Jurisdiction relates to the legal authority to legislate, apply, or interpret law in any form at the federal, state, and local levels of government.

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.[1]

Comment: The purpose of the Supplemental Standards section is to provide a reasonable means to augment USPAP with additional requirements set by clients, employers, governmental and/or professional appraisal organizations. Supplemental Standards cannot diminish the purpose, intent or content of the requirements of USPAP.

By certifying conformity with USPAP for an assignment in which an appraiser satisfied a professional appraisal ethics or practice standard not in USPAP, the appraiser acknowledges that this supplemental standard adds to but does not diminish the purpose, intent or content of USPAP.

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.

Complete Appraisal: the act or process of estimating value or an estimate of value performed without invoking the Departure Provision.

Limited Appraisal: the act or process of estimating value or an estimate of value performed under and resulting from invoking the Departure Provision.

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.

BINDING REQUIREMENT: all or part of a standards rule of USPAP from which departure is not permitted. (See DEPARTURE PROVISION)

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:

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.**

DEFINITIONS (continued)

MARKET VALUE (continued)

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 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 Ethics Provision: Record Keeping) are included to cover court testimony and other oral communications of an appraisal, review or consulting service.

The types of written reports listed below apply to real property appraisals:

Self-Contained Appraisal Report: a written report prepared under Standards Rule 2-2(a) of a Complete or Limited Appraisal performed under Standard 1.

Summary Appraisal Report: a written report prepared under Standards Rule 2-2(b) of a Complete or Limited Appraisal performed under Standard 1.

Restricted Appraisal Report: a written report prepared under Standards Rule 2-2(c) of a Complete or Limited Appraisal performed under Standard 1.

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

SPECIFIC GUIDELINE: all or part of a standards rule of USPAP from which departure is permitted under certain limited conditions. (See DEPARTURE PROVISION)

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.

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,1 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; 2**

(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.[3]

STANDARD 1 (continued)

Standards Rule 1-2 (continued)

(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.

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 in 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 Rules 2-2(a)(x), 2-2(b)(x), and 2-2(c)(x) 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;**[1]

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).

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

Comment: See Standards Rules 2–2(a)(xi), 2.2(b)(xi), and 2– 2(c)(xi) 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:**[1]

(i) **one year for one–to–four family residential property; and**
(ii) **three years for all other property types;**

Comment: 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.

STANDARD 1 (continued)

Standards Rule 1–5 (continued)

(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 the Comments to Standards Rules 2– 2(a)(xi), 2–2(b)(xi), and 2–2(c)(xi) for corresponding reporting requirements.

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.

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.

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

Comment: Departure from this binding requirement is not permitted. The person(s) expected to receive or rely on a Self–Contained or Summary Appraisal Report are the client and intended users. Only the client is expected to receive or rely on the Restricted Appraisal Report.

(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, a typical financing, a known but not yet quantified environmental issue, 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 be prepared under one of the following three options and prominently state which option is used: Self–Contained Appraisal Report, Summary Appraisal Report or Restricted Appraisal Report.[1]

Comment: The essential difference among the three options is in the use and application of the terms describe, summarize and state. Describe is used to connote a comprehensive level of detail in the presentation of information. Summarize is used to connote a more concise presentation of information. State is used to connote the minimal presentation of information.

(a) **The Self–Contained Appraisal Report must:**

(i) **identify and describe the real estate being appraised; 2**
(ii) **state the real property interest being appraised;**

Comment on (i) and (ii): 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. The statement of the real property rights being appraised must be substantiated as needed by copies or summaries of legal descriptions or other documents that set forth any known encumbrances.

(iii) **state the purpose and intended use of the appraisal;**
(iv) **define the value to be estimated;**
(v) **state the effective date of the appraisal and the date of the report;[1]**

Comment on (iii), (iv) and (v): These three requirements call for clear disclosure to the reader of a report the "who, why, what and when" surrounding the appraisal. The purpose and intended use of the appraisal are critical to the identification of any intended users of the report. Intended users of the report might include parties such as lenders, employees of government agencies, partners of a client, and a client's attorney and accountant. 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)].[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 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.

STANDARD 2 (continued)

Standards Rule 2–2(a) (continued)

(vi) state the extent of the process of collecting, confirming, and reporting data;

Comment: This requirement is designed to inform the client and intended users whose expected 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.

Standards Rule 2–2 (a)(vi) only requires that the extent of the process of collecting, confirming, and reporting data be stated, since the full extent of the process should be apparent to the reader in the contents of the report.

(vii) state all assumptions and limiting conditions that affect the analyses, opinions, and conclusions;

Comment: While typical or ordinary assumptions and limiting conditions may be grouped together in an identified section of the report, SR 2–1(c) requires that an extraordinary assumption or limiting condition must be disclosed in conjunction with statements of each opinion or conclusion that is affected.

(viii) describe 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 describe 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 and the intended users of the report will understand it and will not be misled or confused. The substantive content of the report, not its size, determines its compliance.

(ix) describe 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 report to contain 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 described in the depth and detail required by its significance to the appraisal.

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

(xi) describe any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from the specific guidelines of Standard 1;

Comment: This requirement calls far a Self–Contained Appraisal Report to include 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.

When the Departure Provision is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes it clear that the assignment involved something less than, or different from the work required by the specific guidelines. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The reliability of the results of a Complete Appraisal or Limited Appraisal developed under Standard 1 is not affected by the type of report prepared under Standard 2. The extent of the appraisal process performed under Standard 1 is the basis for the reliability of the value conclusion.

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.

(xii) include a signed certification in accordance with Standards Rule 2–3.

Comment: Departure from binding requirements (i) through (xii) above is not permitted.

STANDARD 2 (continued)

Standards Rule 2-2(b) (continued)

(b) The Summary Appraisal Report must:

Comment: The essential difference between the Self-Contained Appraisal Report and the Summary Appraisal Report is the level of detail of presentation. As examples: a two-page narrative section with conclusion in a Self-Contained Appraisal Report might translate to a two paragraph section with the same conclusion in a Summary Appraisal Report; narrative presentation of data in a Self-Contained Appraisal Report might translate to tabular presentation of data in a Summary Appraisal Report.

(i) identify and provide a summary description of the real estate being appraised;[1]

(ii) state the real property interest being appraised;

Comment on (i) and (ii): 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. The statement of the real property rights being appraised must be substantiated as needed by copies or summaries of legal descriptions or other documents that set forth any known encumbrances.

(iii) state the purpose and intended use of the appraisal;

(iv) define the value to be estimated;

(v) state the effective date of the appraisal and the date of the report;2

Comment on (iii), (iv) and (v): These three requirements call for clear disclosure to the reader of a report the "who, why, what and when" surrounding the appraisal. The purpose and intended use of the appraisal are critical to the identification of any intended users of the report. Intended users of the report might include parties such as lenders, employees of government agencies, partners of a client, and a client's attorney and accountant. 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)].[3] 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.

(vi) summarize the extent of the process of collecting, confirming, and reporting data;

Comment: This requirement is designed to inform the client and intended users whose expected 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.

Standards Rule 2-2 (b)(vi) requires that the extent of the process of collecting, confirming, and reporting data be summarized, since the full extent of the process may not be apparent to the reader in the contents of the report.

(vii) state all assumptions and limiting conditions that affect the analyses, opinions, and conclusions;

Comment: While typical or ordinary assumptions and limiting conditions may be grouped together in an identified section of the report, SR 2-1(c) requires that an extraordinary assumption or limiting condition must be disclosed in conjunction with statements of each opinion or conclusion that is affected.

(viii) summarize 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 the summary is sufficient enough that the client and the intended users of the report will understand it and will not be misled or confused. The substantive content of the report, not its size, determines its compliance.

(ix) summarize 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 report to contain 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 summarized in the depth and detail required by its significance to the appraisal.

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

STANDARD 2 (continued)

Standards Rule 2–2(b) (continued)

(xi) summarize any additional information that may be appropriate to show compliance with, or clearly identify and explain permitted departures from the specific guidelines of Standard 1;

Comment: This requirement calls for a Summary Appraisal Report to include 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.

When the Departure Provision is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes it clear that the assignment involved something less than, or different from the work required by the specific guidelines. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The reliability of the results of a Complete Appraisal or Limited Appraisal developed under Standard 1 is not affected by the type of report prepared under Standard 2. The extent of the appraisal process performed under Standard 1 is the basis for the reliability of the value conclusion.

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.

(xii) include a signed certification in accordance with Standards Rule 2–3.

Comment: Departure from binding requirements (i) through (xii) above is not permitted.

(c) The Restricted Appraisal Report must:

Comment: The essential difference between the Self–Contained and Summary Appraisal Reports and the Restricted Appraisal Report is both the level of detail of presentation and a use restriction that limits the reliance on the report to the client and considers anyone else using the report an unintended user.

(i) identify the real estate being appraised;[1]

Comment: Identifying the real estate can be accomplished by a legal description, address, copy of a survey, or property sketch.

(ii) state the real property interest being appraised;
(iii) state the purpose and intended use of the appraisal;

Comment: The intended use of the appraisal must be consistent with the use restriction on the report. (See Standards Rule 2–2(c)(xi) below.)

(iv) state and reference a definition of the value to be estimated;
(v) state the effective date of the appraisal and the date of the report; 2

Comment: 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.

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

Comment: This requirement is designed to inform the client whose expected 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.

Standards Rule 2–2 (c)(vi) requires that the extent of the process of collecting, confirming, and reporting data be described, since the extent of the process will not be apparent to the reader in the contents of the report.

(vii) state all assumptions and limiting conditions that affect the analyses, opinions, and conclusions;

Comment: While typical or ordinary assumptions and limiting conditions may be grouped together in an identified section of the report, SR 2–1(c) requires that an extraordinary assumption or limiting condition must be disclosed in conjunction with statements of each opinion or conclusion that is affected.

STANDARD 2 (continued)

Standards Rule 2–2(c) (continued)

(viii) state the appraisal procedures followed, state the value conclusion and reference the existence of specific file information in support of the conclusion;

Comment: An appraiser must maintain a specific, coherent file in support of a Restricted Appraisal Report. The contents of the file should mirror the contents of a Self–Contained Appraisal Report. The file should be available for inspection by the client, such third parties as may be authorized by due process of law, and a duly authorized professional peer review committee.

(ix) state 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 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.

(x) state the exclusion of any of the usual valuation approaches;

(xi) contain a prominent use restriction that limits reliance on the report to the client and warns that the report that cannot be understood properly without additional information in the workfile of the appraiser, and clearly identify and explain any permitted departures from the specific guidelines of Standard 1;

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

When the Departure Provision is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes it clear that the assignment involved something less than, or different from the work required by the specific guidelines. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

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.

(xii) include a signed certification in accordance with Standards Rule 2–3.

Comment: Departure from binding requirements (i) through (xii) 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.)[1]

— 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.

STANDARD 2 (continued)

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(b).

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(b).

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 in any capacity accepts full responsibility for the appraisal and the contents of the appraisal report.[2]

Comment: Departure from this binding requirement is not permitted.

This requirement is directed to an appraiser acting as an employer or supervisor signing a 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 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.

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.[1]

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 of 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. In accordance with Standards Rule 2–5, any appraiser who signs the appraisal report accepts full responsibility for the appraisal and appraisal report. To avoid confusion 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 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;**

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.

Information that could not have been available to the appraiser on the date of the report being reviewed should not be used by a review appraiser in the development of a review.

The introduction of new information requires separate analyses and opinions by the review appraiser consistent with Standards Rule 3–1 (f).

(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: In real property appraisals, review appraisers are required to form an opinion as to the completeness of the report under review within the context of the reporting requirements for the type of report submitted for review: Self–Contained Appraisal Report (Standards Rule 2–2(a)), Summary Appraisal Report (Standards Rule 2–2(b)) or Restricted Appraisal Report (Standards Rule 2–2(c)).

(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;**

STANDARD 3 (continued)

Standards Rule 3–1 (continued)

(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.**

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, or a statement that the value estimate in the report under review remains reasonable as of a more current effective date, may be expressed, provided the review appraiser:

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.

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;**

(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;**

(d) **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;**

(e) **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.

(f) **apply the appropriate consulting tools and techniques to the data collected;**

STANDARD 4 (continued)

Standards Rule 4–2 (continued)

(g) **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.**

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:[1]

(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.

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;**

(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.

STANDARD 5 (continued)

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.[1]**
- **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 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.

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

Comment: 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: 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;**

STANDARD 6 (continued)

Standards Rule 6–2 (continued)

(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.

Comment: 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.

(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.

STANDARD 6 (continued)

Standards Rule 6–2 (continued)

(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.

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;**

STANDARD 6 (continued)

Standards Rule 6–4(a) (continued)

(iv) **estimate value by capitalization of income. i.e. rentals, expenses, interest rates, capitalization rates and vacancy data.**

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.

(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.

STANDARD 6 (continued)

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;**

(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.

STANDARD 6 (continued)

Standards Rule 6–7 (continued)

(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;**

(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.)[1]**

— **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.

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.

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;

STANDARD 7 (continued)

Standards Rule 7–2 (continued)

(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 marketplace, 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;**

(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 8–2

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;**

(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;**

STANDARD 8 (continued)

Standards Rule 8–2 (continued)

(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.**

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.

STANDARD 8 (continued)

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.**

(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.

STANDARD 9 (continued)

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:**

(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.**

(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 Standards Rule 10-3.**

STANDARD 10 (continued)

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 USPAP

These standards are based on the original Uniform Standards of Professional Appraisal Practice developed in 1986–87 by the Ad Hoc Committee on Uniform Standards and copyrighted in 1987 by The Appraisal Foundation. Prior to the establishment of the ASB in 1989, USPAP had been adopted by major appraisal organizations in North America and became recognized 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. USPAP 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:	
Preamble	April 20, 1990
Ethics Provision	March 21, 1995
Competency Provision	April 20, 1990
Departure Provision	March 22, 1994
Jurisdictional Exception and Supplemental Standards sections	July 19, 1994
Definitions section	July 18, 1995
Standard 1	April 20, 1990
Standard 2	March 22, 1994
Standard 3	November 2, 1994
Standards 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

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 SBC in 1989, USPAP had been adopted by major appraisal organizations in North America and became recognized 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. USPAP 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.

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A paper copy of an electronically transmitted report is not required.

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STATEMENTS ON APPRAISAL STANDARDS

Statements on Appraisal Standards are authorized by the by–laws of The Appraisal Foundation and are specifically for the purpose of clarification, interpretation, explanation or elaboration of the Uniform Standards of Professional Appraisal Practice (USPAP). Statements have the full weight of a Standards Rule and can only be adopted by the Appraisal Standards Board after exposure and comment.

To date the ASB has adopted eight Statements:

SMT –1 Standards Rule 3–1 (f) (Review Appraisal)	July 8, 1991
SMT – 2 Discounted Cash Flow Analysis	July 8, 1991
SMT – 3 Retrospective Value Estimates	July 8, 1991
SMT – 4 Prospective Value Estimates	July 8, 1991
SMT – 5 Confidentiality Rule of the Ethics Provision	September 10, 1991
SMT – 6 Reasonable Exposure Time in Market Value Estimates	September 16, 1992
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STATEMENT ON APPRAISAL STANDARDS NO. 1 (SMT–1)

SUBJECT: Review Appraisal—Clarification of Comment on Standards Rule 3–1 (f)

Standards Rule 3–1(f) and the explanatory comment relating to this rule are stated below:

In reviewing an appraisal, an appraiser must. . .

(f) form an opinion as to whether the analysis, opinion, and conclusions in the report under review are appropriate and reasonable, and develop the reasons for any disagreement.

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

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

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.

THE ISSUE:

If the review appraiser develops an opinion of a different estimate of value from that in the appraisal report under review, how does the review appraiser satisfy the requirements of Standard 1 and what type of report is required?

THE STATEMENT:

The review appraisal is a different product in both the process and report than the appraisal and appraisal report. The review appraisal process is set forth in Standards Rule 3–1. The requirements for reporting the results of an appraisal review are contained in Standards Rule 3–2. A review appraisal that does not include all of the requirements contained in Standards Rule 3–2 is in violation of the USPAP, since departure from this rule is not permitted.

Review appraisers may have additional information available to them—either locally, regionally, or nationally—that was not available to the original appraiser. It is appropriate for the review appraiser to use this information in estimating value. If the review appraiser finds an error due to omission or commission in the original appraisal report, a different opinion and conclusion may be expected. In complying with Standards Rule 3–1, the review appraiser is checking the compliance of the original appraisal with Standard 1. Those items deemed to be in compliance can be extended to the review appraiser's report. Those items not deemed to be in compliance must be explained and handled in conformity with Standard 1 to produce a credible valuation estimate by the review appraiser. The USPAP does not allow departure from Standards Rules 1–1 and 1–5.

STANDARD 3 requires the review appraiser to produce a review appraisal report in conformity with Standards Rule 3–2. The reporting standard for a review appraisal is different than for the appraisal report under review because the reports serve different purposes. The report under review must be capable of standing alone as a self-contained document, whereas the review appraisal report is a supplementary critique intended for use in conjunction with the report under review. If the review appraiser forms an opinion of value different from that in the report being reviewed, it is not necessary that the opinion be set forth in a separate appraisal report prepared in conformity with Standard Rule 2–2. The opinion of value may be set forth in the review appraisal report, provided that the report identifies and discloses all assumptions and limitations affecting both the development and the reporting of the review appraiser's opinion of value with the information and data considered, the appraisal procedures followed, and the reasoning supporting the estimate of value.

<u>**Conclusions**</u>

— The review appraisal is a different product in both the process and report than the appraisal and appraisal report.
— Review appraisers may have additional information available to them. It is appropriate for the review appraiser to use this information in estimating value.
— Those items deemed to be in compliance can be extended to the review appraiser's report.
— Those items not deemed to be in compliance must be explained and handled in conformity with Standard 1.
— The review appraisal report is a supplementary critique intended for use in conjunction with the report under review.
— If the review appraiser forms an opinion of value different from that in the report being reviewed, it is not necessary that the opinion be set forth in a separate appraisal report prepared in conformity with Standard Rule 2–2. The opinion of value may be set forth in the review appraisal report.

Adopted unanimously on July 8, 1991.

Appraisals Standards Board

John J. Leary, Chairman
Sherwood Darington, Vice Chairman
Charles B. Akerson
Daniel A. Dinote, Jr.
John L. Gadd

STATEMENT ON APPRAISAL STANDARDS NO. 2 (SMT–2)

SUBJECT: DISCOUNTED CASH FLOW ANALYSIS

THE ISSUE:

Discounted cash flow (DCF) analysis is an accepted analytical tool and method of valuation within the income capitalization approach to value. DCF is not a new method, but it did not enjoy widespread use until modern computer technology enabled appraisers to automate the process. Because DCF analysis is profit oriented and dependent upon the analysis of uncertain future events, it is vulnerable to misuse. What steps can the appraiser take to avoid misuse of DCF analysis?

THE STATEMENT:

The acceptance of DCF analysis as a method of valuation began in the institutional real estate market and has spread to investment real estate in the general real estate market. DCF techniques may be applied in the valuation or analysis of proposed construction; land development; condominium development or conversion; rehabilitation development; and income–producing real estate of various types. DCF analysis is becoming a requirement of advisors, asset managers, fiduciaries, portfolio managers, syndicators, underwriters and others dealing in investment grade real estate. These users of appraisal services favor the inclusion of DCF analysis as a management tool in projecting cash flow and return expectations, capital requirements, refinancing opportunities and timing of future property dispositions. DCF analysis is regarded as one of the best methods of replicating steps taken to reach investor buy/sell/hold decisions, and is often a part of the exercise of due diligence in the evaluation of an investment.

DCF methodology is based on the principle of anticipation, i.e., value is created by the anticipation of future benefits. DCF analysis reflects investment criteria and requires the appraiser to make empirical and subjective assumptions. DCF analysis can be used for investment value and market value appraisals, as well as for other purposes such an sensitivity tests.

DCF analysis is an additional tool available to the appraiser and is best applied to value estimates in the context of one or more other approaches. This statement focuses on the criteria for proper DCF analysis and does not imply that DCF analysis is or should be the only method employed.

To avoid misuse or misunderstanding when DCF analysis is used in an appraisal assignment to estimate market value, it is the responsibility of the appraiser to ensure that the controlling input is consistent with market evidence and prevailing market attitudes. Market value DCF analyses should be supported by market derived data, and the assumptions should be both market and property specific. Market value DCF analyses are intended to reflect the expectations and perceptions of market participants along with available factual data. They should be judged on the market support for the forecasts when made, not whether specific items in the forecasts are realized. An appraisal report which includes the results of DCF analysis must clearly state the assumptions on which the analysis is based and must set forth the relevant data used in the analysis.

Standards Rule 1–1(b) states that the appraiser must not commit a substantial error of omission or commission that significantly affects the appraisal. Standards Rule 1–1(c) states that the appraiser must 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. These two rules are significantly for DCF analysis because of the potential for the compounding effect of errors in the input, unrealistic assumptions, and programming errors.

Computer printouts showing the results of DCF analysis may be generated by commercial software or by software prepared by the appraiser. Either way, the appraiser is responsible for the entire analysis including the controlling input, the calculations, and the resulting output. The appraiser should cite the name and version of the software and provide a brief description of the methods and assumptions inherent in the software.

Standards Rule 1–4(h) requires realistic forecasts in the appraisal of proposed improvement and development projects. Standards Rule 1–4(c) requires that estimates of anticipated future rent and expenses be based on reasonable clear and appropriate evidence. The explanatory comment to this rule makes specific reference to cash flow projections, the essence of DCF analysis.

DCF accounts for and reflects those items and forces that affect the revenue, expenses and ultimate earning capacity of real estate and represents a forecast of events that would be considered likely within a specific market. For example, in the appraisal of a multi–tenant property, a lease–by–lease analysis addresses contract and market rents, specific escalations, operating expenses, pass–through provisions, market derived or specific concessions, capital expenditures, and any other measurable specific provisions applicable. Revenue growth rate or decline rate assumptions are premised upon analysis of supply/demand factors and other economic conditions and trends within the market area of the subject. Operating expense change rates should reflect both overall expense trends and the specific trend of significant expense items.

Discount rates applied to cash flows and estimates of reversion should be derived from data and information in the real estate and capital markets. Surveys of investor opinion and yield indices are also useful in the rate selection process, but only when the type of and market for the real estate being appraised is consistent with the type of and market for the real estate typically acquired by the investors interviewed in the survey. Considerations used in the selection of rates are risk, inflation, and real rates of return.

When reversion capitalization rates are used, they should reflect investor expectations considering the real estate type, age and condition, cash flow characteristics, and related factors. The projection period is a variable and should be set on the basis of the facts and circumstances of each analysis.

SMT–2: Discounted Cash Flow Analysis (continued)

The results of DCF analysis should be tested and checked for errors and reasonableness. Because of the compounding effects in the projection of income and expenses, even slight input errors can be magnified and can produce unreasonable results. As examples, it is good practice to test whether cash flows are changing at reasonable rates, and to compare the reversion capitalization rate with the inferred entrance capitalization rate to see if the relationship between these rates is reasonable and explainable.

Standards Rule 2 requires the appraiser to communicate each analysis, opinion and conclusion in a manner that is not misleading. Appraisals using the DCF method in the income capitalization approach may contain computerized projects of itemized future cash flow supported by exhaustive printouts that can be misleading. The seeming precision of computer generated projects may give the appearance of certainty to projections that are actually variable within a wide range. In DCF analysis, all the assumptions (growth rates, decline rates, rental rates, discount rates, financing terms, expenses trends, capitalization rates, etc.) directly affect the conclusion and must be clearly and accurately disclosed in the appraisal report.

<u>Conclusions</u>

— DCF analysis is an additional tool available to the appraiser and is best applied to value estimates in the context of one or more other approaches.

— It is the responsibility of the appraiser to ensure that the controlling input is consistent with market evidence and prevailing market attitudes.

— Market value DCF analyses should be supported by market derived data, and the assumptions should be both market and property specific.

— The appraiser should cite the name and version of the software and provide a brief description of the methods and assumptions inherent in the software.

— DCF accounts for and reflects those items and forces that affect the revenue, expenses and ultimate earning capacity of real estate and represents a forecast of events that would be considered likely within a specific market.

— The results of DCF analysis should be tested and checked for errors and reasonableness.

— Standards Rule 1–1(b) states that the appraiser must not commit a substantial error of omission or commission that significantly affects the appraisal.

Adopted unanimously on July 8, 1991.

Appraisals Standards Board

John J. Leary, Chairman
Sherwood Darington, Vice Chairman
Charles B. Akerson
Daniel A. Dinote, Jr.
John L. Gadd

STATEMENT ON APPRAISAL STANDARDS NO. 3 (SMT–3)

A paper copy of an electronically transmitted report is not required.

SUBJECT: Retrospective Value Estimates

THE ISSUE:

Two dates are essential to an appraisal report. Standards Rules 2–2(a)(v), 2–2(b)(v) and 2–2(c)(v) require that each appraisal report specify the effective date of the appraisal and the date of the report. The date of the report indicates the perspective from which the appraiser is examining the market. The effective date of the appraisal establishes the context for the value estimate. Three categories of effective dates—retrospective, current, or prospective—may be used according to the purpose and function of the appraisal assignment. When a retrospective effective date is used, how can the appraisal be prepared and presented in a manner that is not misleading?

THE STATEMENT:

Retrospective appraisals (effective date of the appraisal prior to the date of the report) may be required for property tax matters, estate or inheritance tax matters, condemnation proceedings, suits to recover damages, and similar situations.

Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the report. Since most appraisals require current value estimates, the importance of specifying both the date of the report and effective date of the analysis is sometimes lost.

Prospective appraisals (effective date of the appraisal subsequent to the date of the report) may be required for valuations of property interests related to proposed developments, as the basis for value at the end of a cash flow projection, and for other reasons (See SMT–4 on Prospective Value Estimates.)

The use of clear and concise language and appropriate terminology in appraisal reports helps to eliminate the preparation of misleading reports. To avoid confusion, the appraiser must clearly establish the date to which the value estimate applies. In retrospective value estimates, use of a modifier for the term market value and past verb tenses increases clarity (e.g. ". . . the retrospective market value was . . ." instead of ". . . the market value is . . .").

A retrospective appraisal is complicated by the fact that the appraiser already knows what occurred in the market after the effective date of the appraisal. Data subsequent to the effective date may be considered in estimating a retrospective value as a confirmation of trends that would reasonably be considered by a buyer or seller as of that date. The appraiser should determine a logical cut–off since, at some point distant from the effective date, the subsequent data will not reflect the relevant market. This is a difficult determination to make. Studying the market conditions as of the date of the appraisal assists the appraiser in judging where he or she should make this cut–off. In the absence of evidence in the market that data subsequent to the effective date was consistent with and confirmed market expectations as of the effective date, the effective date should be used as the cut–off date for data considered by the appraiser.

Use of direct excerpts from then current appraisal reports prepared at the time of the retrospective effective date helps the appraiser and the reader understand market conditions as of the retrospective effective date.

<u>**Conclusions**</u>

— A retrospective appraisal is complicated by the fact that the appraiser already knows what occurred in the market after the effective date of the appraisal.
— Data subsequent to the effective date may be considered in estimating a retrospective value as a confirmation of trends.
— The appraiser should determine a logical cut–off.
— Use of direct excerpts from then current appraisal reports prepared at the time of the retrospective effective date helps the appraiser and the reader understand market conditions as of the retrospective effective date.
— In the absence of evidence in the market that data subsequent to the effective date was consistent with and confirmed market expectations as of the effective date, the effective date should be used as the cut–off date.

Adopted unanimously on July 8, 1991.

Appraisals Standards Board

John J. Leary, Chairman
Sherwood Darington, Vice Chairman
Charles B. Akerson
Daniel A. Dinote, Jr.
John L. Gadd

STATEMENT ON APPRAISAL STANDARDS NO. 4 (SMT–4)

A paper copy of an electronically transmitted report is not required.

SUBJECT: Prospective Value Estimates

THE ISSUE:

Two dates are essential to an appraisal report. Standards Rules 2–2(a)(v), 2–2(b)(v) and 2–2(c)(v) require that each appraisal report specify the effective date of the appraisal and the date of the report. The date of the report indicates the perspective from which the appraiser is examining the market. The effective date of the appraisal establishes the context for the value estimate. Three categories of effective dates—retrospective, current, or prospective—may be used according to the purpose and function of the appraisal assignment. When a prospective effective date is used, how can the appraisal be prepared and presented in a manner that is not misleading?

THE STATEMENT:

Retrospective appraisals (effective date of the appraisal prior to the date of the report) may be required for property tax matters, estate or inheritance tax matters, condemnation proceedings, suits to recover damages, and similar situations (See SMT–3 on Retrospective Value Estimates.)

Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the report. Since most appraisals require current value estimates, the importance of specifying both the date of the report and effective date of the analysis is sometimes lost.

Prospective appraisals (effective date of the appraisal subsequent to the date of the report) may be required for valuations of property interests related to proposed developments, as the basis for value at the end of a cash flow project; and for other reasons.

The use of clear and concise language and appropriate terminology in appraisal reports helps to eliminate the preparation of misleading reports. To avoid confusion, the appraiser must clearly establish the date to which the value estimate applies. In prospective value estimates, use of the term market value without a modifier such as forecasted or prospective and without future verb tenses is improper (i.e., "... the prospective market value is expected to be ..." and not "... the market value is ...").

Prospective value estimates are intended to reflect the current expectations and perceptions of market participants along with available factual data. They should be judged on the market support for the forecasts when made, not whether specific items in the forecasts are realized.

When prospective value estimates are required with regard to proposed improvements, Standards Rule 1–4(h) regarding the scope, character and probable time of completion of the proposed improvements and Standards Rule 1–4(c) regarding the basis for anticipated future rent and expenses are relevant. Evidence that proposed improvements can be completed by the effective date of the appraisal is important. Support for estimated income and expenses at the time of completion of proposed improvements and during the rent–up or sell–out period requires the incorporation of sufficient market research in the appraisal and the consideration of existing and future competition. It is appropriate to study comparable projects for evidence of construction periods, development costs, income and expense levels, and absorption. Items such as rental concessions, commissions, tenant finish allowances, add–on factors, and expense pass–throughs, must be studied to estimate realistic income expectancy.

With regard to proposed developments, two prospective value estimates may be required: as of the time the development is to be completed and as of the time the development is projected to achieve stabilized occupancy. These prospective values form a basis for investment decisions and loan underwriting.

In a prospective appraisal, the appraiser analyzes market trends to provide support for forecasted income and expense or sell–out estimates, absorption periods, capitalization rates, and discount rates as of the effective date of the appraisal. Economic trends such as growth in population, employment, and future competition are also analyzed. The overall economic climate and variations in the business cycle should be considered and weighed in the performance of the valuation process. All value conclusions should include reference to the time frame when the analysis was prepared to clearly delineate the market conditions and point of reference from which the appraiser developed the prospective value estimates. It is essential to include a limiting condition citing the market conditions from which the prospective value estimate was made and indicating that the appraiser cannot be held responsible for unforeseeable events that alter market conditions prior to the effective date of the appraisal.

Conclusions

— Prospective value estimates are intended to reflect the current expectations and perceptions of market participants along with available factual data. They should be judged on the market support for the forecasts when made, not whether specific items in the forecasts are realized.

— It is appropriate to study comparable projects for evidence of construction periods, development costs, income and expenses levels, and absorption.

— Items such as rental concessions, commissions, tenant finish allowances, add–on factors, and expense pass–throughs, must be studied to estimate realistic income expectancy.

— All value conclusions should include reference to the time frame when the analysis was prepared to clearly delineate the market conditions and point of reference from which the appraiser developed the prospective value estimate.

— It is essential to include a limiting condition citing the market conditions from which the prospective value estimate was made and indicating that the appraiser cannot be held responsible for unforeseeable events that alter market conditions prior to the effective date of the appraisal.

SMT–4: Prospective Value Estimates (continued)

A paper copy of an electronically transmitted report is not required.

Adopted unanimously on July 8, 1991.

Appraisals Standards Board

John J. Leary, Chairman
Sherwood Darington, Vice Chairman
Charles B. Akerson
Daniel A. Dinote, Jr.
John L. Gadd

STATEMENT ON APPRAISAL STANDARDS NO. 5 (SMT-5)

SUBJECT: Confidentiality Rule of the ETHICS PROVISION

The Confidentiality rule and the explanatory comment relating to this rule are stated below:

> **An appraiser must protect the confidential nature of the appraiser-client relationship.**
>
> Comment: An appraiser must not discuss 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.

THE ISSUE:

The appraiser-client relationship begins with and is governed by a written or oral contract or engagement between the appraiser and the client. What are the confidential aspects of the appraiser-client relationship that the appraiser must protect under the USPAP?

THE STATEMENT:

Fiduciary responsibilities are inherent in professional appraisal practice. The confidential nature of the appraiser's relationship with the client was recognized by the appraisal profession before December 4, 1989, the date of the ETHICS PROVISION amendment to the USPAP, as evidenced by codes of professional ethics of a number of professional appraisal organizations.

The obligation of the appraiser to protect the confidential nature of the appraiser-client relationship is neither absolute nor clearly understood.

Under USPAP, an appraiser must act in good faith with regard to the legitimate interests of the client in the use of the written or oral appraisal report and the disclosure of confidential elements of the appraisal report or disclosure of confidential information given to the appraiser by the client for use in connection with the appraisal.

Obviously, there is no violation of the Confidentiality rule when an appraiser discloses the results of an assignment or confidential factual data obtained from a client to the client and all other persons specifically authorized by the client.

However, the appraiser-client relationship envisioned in the USPAP is not comparable, for example, to the attorney-client relationship because there is no violation of the Confidentiality rule when an appraiser discloses, without the client's permission, the results of an assignment or confidential factual data obtained from a client to third parties authorized under due process of law or to a duly authorized professional peer review committee. Disclosure under these circumstances serves the superior interests of the public and the appraisal profession in uncovering suppression of material information or advocacy through misuse or abuse of the Confidentiality rule.

The results of an assignment prepared for a client are the appraiser's analyses, opinions, and conclusions pertinent to the assignment. These are clearly confidential matters under the USPAP and may only be disclosed to the three groups cited in the comment to the Confidentiality rule.

Under the USPAP, an appraiser may only disclose confidential data obtained from client to the persons within the same three cited groups. Consequently, the meaning of "confidential factual data obtained from the client" is critically important because factual data obtained from a client that is not deemed confidential may be disclosed by an appraiser without the client's permission.

Market data is necessary to the appraisal profession and the quality of work that the public has a right to expect from professionals. To hold that all factual data obtained from the client are confidential simply because they were given to the appraiser for use in connection with the appraisal is an extremely broad and arbitrary construction that unduly burdens the appraiser without a compensating benefit to the public. Less available data tends to diminish the quality of appraisal services.

With regard to factual data supplied to the appraiser by the client, the client is in the best position to decide what data must be considered confidential and to provide an explanation for such a determination. The USPAP recognize that such data are to be treated as confidential only when the client specifically instructs the appraiser that the factual data are confidential. Data furnished by the client to potential buyers or mortgagees without a confidentiality condition do not become confidential when given to the appraiser. All other factual data obtained by the appraiser from any source are not recognized as confidential by the USPAP, unless the appraiser knows of the confidential nature of the data.

When the appraisal report is addressed to the client, any confidential factual data given to the appraiser by the client and relied upon in the appraiser's analyses, opinions, or conclusions may be specifically cited in the report without violation of the Confidentiality rule.

SMT–5: Confidentiality Rule of the Ethics Provision (continued)

Conclusions

— Fiduciary responsibilities are inherent in professional appraisal practice.
— Under USPAP, an appraiser must act in good faith with regard to the legitimate interests of the client.
— The results of an assignment prepared for a client are the appraiser's analyses, opinions, and conclusionspertinent to the assignment. These are clearly confidential matters under USPAP and may only bedisclosed to the three groups cited in the comment to the Confidentiality rule.
— With regard to factual data supplied to the appraiser by the client, the client is in the best position todecide what data must be considered confidential and to provide an explanation for such a determination.
— Data furnished by the client to potential buyers or mortgagees without a confidentiality condition do notbecome confidential when given to the appraiser.

Adopted unanimously on September 10, 1991.

Appraisals Standards Board

John J. Leary, Chairman
Sherwood Darington, Vice Chairman
Charles B. Akerson
Daniel A. Dinote, Jr.
John L. Gadd

STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT–6)

SUBJECT: Reasonable Exposure Time in Market Value Estimates

THE ISSUE:

In the USPAP, the Comment to Standards Rule 1–2(b) states:

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

The Comments to Standards Rules 2–2(a)(v) and 2–2(b)(v) state:

> . . . Defining the value to be estimated requires both an appropriately referenced definition andany comments needed to clearly indicate to the reader how the definition is being applied [SeeStandards Rule 1–2(b)]. . . .

How is this reasonable exposure time estimated? When is it presumed to occur, i.e., prior to or starting from the effective date of the appraisal?

THE STATEMENT:

Reasonable exposure time is one of a series of conditions in most market value definitions. Exposure time is always presumed to precede the effective date of the appraisal.

Exposure time may be defined as follows: The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.

Exposure time is different for various types of real estate and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. This statement focuses on the time component.

The fact that exposure time is always presumed to occur prior to the effective date of the appraisal is substantiated by related facts in the appraisal process; supply/demand conditions as of the effective date of the appraisal; the use of current cost information; the analysis of historical sales information (sold after exposure and after completion of negotiations between the seller and buyer); and the analysis of future income expectancy estimated from the effective date of the appraisal.

<u>Rationale and Method for Estimating Reasonable Exposure Time</u>

The estimate of the time period for reasonable exposure is not intended to be a prediction of a date of sale or a one–line statement. Instead, it is an integral part of the analysis conducted during the appraisal assignment. The estimate may be expressed as a range and can be based on one or more of the following:

* statistical information about days on market;
* information gathered through sales verification; and,
* interviews of market participants

Related information garnered through this process include the identification of typical buyers and sellers for the type of real estate involved and typical equity investment levels and/or financing terms.

The reasonable exposure period is a function of price, time and use, not an isolated estimate of time alone. As an example, an office building could have been on the market for two years at a price of $2,000,000 that informed market participants considered unreasonable. Then, the owner lowers the price to $1,600,000 and starts to receive offers, culminating in a transaction at $1,400,000 six months later. While the actual exposure time was 2.5 years, the <u>reasonable</u> exposure time at a value range of $1,400,000 to $1,600,000 would be six months. The answer to the question "what is reasonable exposure time?" should always incorporate the answers to the question "for what kind of real estate at what value range?" rather than appear as a statement of an isolated time period.

<u>Discussion of Exposure Time in the Appraisal Report</u>

The discussion of reasonable exposure time should appear in an appropriate section of the appraisal report that presents the discussion and analysis of market conditions and be referenced at the statement of the value definition and value conclusion.

<u>Applications to Client Uses of an Appraisal</u>

When an appraisal is commissioned as the result of a mortgage application after a potential seller and buyer enter into a Contract for Sale, not conflict exists between the presumption in the appraisal process that exposure time occurs prior to the effective date of the appraisal and the function (client use) of the appraisal.

When an appraisal is commissioned for employee relocation, asset evaluation, foreclosure, or asset management purposes, the presumption in the appraisal process that exposure time occurs prior to the effective date of the appraisal may conflict with the function of the appraisal as envisioned by the client.

Problems arise when clients attempt to make business decisions or account for assets without understanding the difference between reasonable exposure time and marketing time (see related Advisory Opinion G–7 on <u>Marketing Time Estimates</u>).

SMT–6: Reasonable Exposure Time in Market Value Estimates (continued)

Conclusions

— The reasonable exposure time inherent in the market value concept is always presumed to precede theeffective date of the appraisal.

— Exposure time is different for various types of real estate and under various market conditions.

— The answer to the question "what is reasonable exposure time?" should always incorporate theanswers to the question "for what kind of real estate at what value range?" rather than appear as a statement of an isolated time period.

Adopted unanimously on September 16, 1992.

Appraisals Standards Board

John J. Leary, Chairman
Sherwood Darington, Vice Chairman
Daniel A. Dinote, Jr.
John L. Gadd
Ritch LeGrand

STATEMENT ON APPRAISAL STANDARDS NO. 7 (SMT–7)

SUBJECT: Permitted Departure from Specific Guidelines for Real Property Appraisals

THE ISSUE:

When is it appropriate to invoke the Departure Provision in performing real property appraisals, and what are the reporting requirements when the Departure Provision is utilized?

Throughout the history of real property appraisal practice, a perception has existed that certain types of transactions in the real estate market require something less than or different from a Complete Appraisal. The phrase *something less than or different from* in this context has meant a Limited Appraisal and a condensed report. To distinguish this type of assignment from a Complete Appraisal, different names have been created for this activity, including Letter Opinion of Value, Update of an Appraisal, Recertification of Value, and, more recently, Evaluation of Real Property Collateral.

When legitimate requests are made by a knowledgeable client or client group for a Limited Appraisal for a particular transaction or type of transaction, do the Uniform Standards of Professional Appraisal Practice allow an appraiser to perform such a service? If so, under what conditions?

THE STATEMENT:

Relevant USPAP References

In the DEFINITIONS Section of USPAP, the Comment to the definition of Appraisal Practice states:

> "... The use of other nomenclature by the appraiser (e.g. analysis, counseling, evaluation, study, submission, valuation) does not exempt an appraiser from adherence to these standards."

The DEPARTURE PROVISION of USPAP states:

> "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..."

This provision goes on to permit limited departures from specific guidelines provided the appraiser determines the appraisal process is not so limited as to mislead the client and intended users of the report, the appraiser advises the client of the limitations and discloses the limitations in the report, and the client agrees that the limited service would be appropriate.

The following definitions from the DEFINITIONS section of USPAP are also relevant to the understanding of the response to this issue:

Appraisal: (noun) The act or process of estimating value; an estimate of value.

> **Complete Appraisal:** The act or process of estimating value or an estimate of value performed without invoking the Departure Provision.
>
> **Limited Appraisal:** The act or process of estimating value or an estimate of value performed under and resulting from invoking the Departure Provision.

Binding Requirement: All or part of a standards rule of USPAP from which departure is not permitted.

Specific Guideline: All or part of a standards rule of USPAP from which departure is permitted under certain limited conditions.

Report: Any communication, written or oral, of an appraisal, review or consulting service that is transmitted to the client upon completion of an assignment.

> **Self–Contained Appraisal Report:** A written report prepared under Standards Rule 2–2(a) of a Complete or Limited Appraisal performed under Standard 1.
>
> **Summary Appraisal Report:** A written report prepared under Standards Rule 2–2(b) of a Complete or Limited Appraisal performed under Standard 1.
>
> **Restricted Appraisal Report:** A written report prepared under Standards Rule 2–2(c) of a Complete or Limited Appraisal performed under Standard 1.

In STANDARD 1 (Developing a Real Property Appraisal), the specific guidelines from which an appraiser is permitted to depart are Standards Rules 1–2, 1–3, and 1–4. These standards rules outline most of the operational steps in the valuation process (See Attached Chart).

In STANDARD 2 (Reporting the Results of a Real Property Appraisal), Standards Rule 2–2 is a binding requirement that mandates one of three options for report formats, and all three options state:

> When the Departure Provision is invoked, the assignment is deemed to be a Limited Appraisal.Use of the term Limited Appraisal makes it clear that the assignment involved something lessthan, or different from the work required by the specific guidelines. The report of a LimitedAppraisal must contain a prominent section that clearly identifies the extent of the appraisalprocess performed and the departures taken.

SMT–7: Permitted Departure from Specific Guidelines for Real Property Appraisals (continued)

A paper copy of an electronically transmitted report is not required.

Response to the Issue

The DEPARTURE PROVISION and STANDARD 1 permit the development of two types of appraisal (Complete Appraisal and Limited Appraisal). Appraisers are trained and qualified to identify when a Limited Appraisal is appropriate. At the same time, appraisers must adhere to USPAP in the performance of all types of assignments.

As long as the appraiser determines that the request for something less than or different from a Complete Appraisal would not result in a misleading analysis, then the DEPARTURE PROVISION can be invoked and the assignment can be accepted and performed.

Limited Appraisal

The client or client group that requests a Limited Appraisal is often a frequent user of appraisals and has determined that a Complete Appraisal is not required for the matter at hand, or wants to monitor the validity of a prior Complete Appraisal.

To make the initial determination that the requested Limited Appraisal is appropriate, the appraiser must at least know the level of understanding that the client has of the type of real estate and market conditions involved and the intended use of the appraisal. In addition, the appraiser would have to believe that the valuation method (s) to be

used were of primary relevance to the appraisal of the type of real estate involved in order to conclude that the resulting analysis and report would not be misleading. As examples: for residential real estate or owner–occupied real estate, a limited assignment might consist of only developing a sales comparison approach; for income–producing real estate, only the income capitalization approach might be developed.

It is not always appropriate to expect a single point estimate of value when a Limited Appraisal is authorized and performed. The resulting estimate of value may be expressed as a single point value estimate, a range in value, or a value relationship (e.g. not less than, not more than) from a previous value estimate or established benchmark (e.g. assessed value, collateral value).

Reporting Requirements

Standards Rule 2–2 is a binding requirement that sets forth three options for any written report (Self–Contained Appraisal Report, Summary Appraisal Report, or Restricted Appraisal Report) and content items for each option.

USPAP does not dictate the form, format, or style of appraisal reports. The form, format and style of a report are functions of the needs of users and providers of appraisal services. USPAP also does not mandate that each appraisal report be lengthy and full of disclaimers. In fact, the opposite is true. The comment to Standards Rule 2–2(a)(viii) is significant in this regard and includes the following statements:

> "....Each item must be addressed in the depth and detail required by its significance to the appraisal... The substantive content of the report, not its size, determines its compliance."

Clarification of Nomenclature

Various nomenclature has been developed by clients and client groups for certain appraisal assignments. The development of this Statement on Appraisal Standards is a response to inquiries about several types of appraisal assignments, and it is appropriate to clarify the meaning of these terms for future reference.

The term *Letter Opinion of Value* has been used to describe a one–page letter sent to a client that stated a value estimate and referenced the file information and experience of the appraiser as the basis for the estimate. This type of services does not comply with USPAP, and should be eliminated from appraisal practice. USPAP recognizes that the results of any appraisal assignment may be presented in a letter format provided that the content items in one of the three report options under Standards Rule 2–2 are addressed. The Restricted Report is the minimum report format and replaces the concept of the *Letter Opinion of Value.*

The term *Update of an Appraisal* is defined as an extension of an original Complete or Limited Appraisal and report relied on by a client for a prior business decision. The Update of an Appraisal changes the effective date of the value estimate. See Advisory Opinion G–3 for a further discussion and description of this type of appraisal assignment.

The term *Recertification of Value* has been mistakenly used in lieu of the term *Update of an Appraisal* by some clients. A *Recertification of Value* is a Limited Appraisal performed in order to confirm whether or not the completed improvements and market conditions at the time of completion are consistent with statements in an earlier prospective appraisal that was made based on plans and specifications for proposed improvements. A Recertification of Value does not change the effective date of the value estimate.

The term *Evaluation of Real Property Collateral* is used by financial institutions. When an appraiser accepts an assignment from a financial institution to perform an *Evaluation of Real Property Collateral,* the assignment becomes a Limited Appraisal as outlined in this statement.

Levels of Reliability

While no appraisal conclusion is a guarantee, USPAP allows for different levels of reliability in real property appraisals. The highest level of reliability is a Complete Appraisal performed without invoking the DEPARTURE PROVISION. Limited Appraisals performed under and resulting from invoking the DEPARTURE PROVISION have varying levels of reliability.

Both appraisers and users of appraisal services must realize that, as the degree of departure increases, the corresponding level of reliability of the Limited Appraisal decreases and the user of the appraisal service accepts a higher level of risk.

SMT-7: Permitted Departure from Specific Guidelines for Real Property Appraisals (continued)

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 is not affected by the type of appraisal report prepared under STANDARD 2. The extent of the appraisal process performed under STANDARD 1 is the basis for the reliability of the value conclusion.

When reporting the result of a Limited Appraisal, the appraiser must disclose permitted departures in compliance with Standards Rule 2-2(a)(xi), (b)(xi), or (c)(xi) so that the client and intended users of the report can understand the level of reliability of the Limited Appraisal. Specifically, these rules require that the report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

__Conclusions__

— Appraisers are trained and qualified to identify when a Limited Appraisal is appropriate. At the sametime, appraisers must adhere to USPAP in the performance of all types of assignments.

— As long as the appraiser determines that the request for something less than or different from a CompleteAppraisal would not result in a misleading analysis and report, then the DEPARTURE PROVISION canbe invoked and the assignment can be accepted and performed.

— To make the initial determination that the requested Limited Appraisal is appropriate, the appraisermust at least know the level of understanding that the client has of the type of real estate and marketconditions involved and the intended use of the appraisal.

— It is not always appropriate to expect a single point estimate of value when a Limited Appraisal isauthorized and performed. The resulting estimate of value may be expressed as a single point valueestimate, a range in value, or a value relationship (e.g. not less than, not more than) from a previousvalue estimate or established benchmark (e.g. assessed value, collateral value).

— Standards Rule 2-2 is a binding requirement that sets forth three options for any written report (Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Appraisal Report) and contentitems for each option.

— While no appraisal conclusion is a guarantee, USPAP allows for different levels of reliability in realproperty appraisals. The highest level of reliability is a Complete Appraisal performed without invokingthe DEPARTURE PROVISION.

— Limited Appraisals performed under and resulting from invoking the DEPARTURE PROVISION havevarying levels of reliability.

— Both appraisers and users of appraisal services must realize that, as the degree of departure increases,the corresponding level of reliability of the Limited Appraisal decreases and the user of the appraisalservice accepts a higher level of risk.

— The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 is not affected by the type of appraisal report prepared under STANDARD 2. Theextent of the appraisal process performed under STANDARD 1 is the basis for the reliability of thevalue conclusion.

— When reporting the result of a Limited Appraisal, the appraiser must disclose permitted departures incompliance with Standards 2-2(a)(xi), (b)(xi), or (c)(xi) so that the client and intended users of thereport can understand the level of reliability of the Limited Appraisal.

Adopted unanimously on March 22, 1994.

Appraisals Standards Board

Sherwood Darington, Chairman
Daniel A. Dinote, Jr., Vice Chairman
John J. Leary
Tim Leberman
Ritch LeGrand

RELATIONSHIP BETWEEN USPAP STANDARDS 1–2 AND THE REAL PROPERTY VALUATION PROCESS

THE REAL PROPERTY VALUATION PROCESS	UNIFORM STANDARDS REFERENCES: DEVELOPMENT RULES	UNIFORM STANDARDS REFERENCES: REPORTING RULES
DEFINE THE APPRAISAL PROBLEM Identify and Locate the Real Estate Identify the Property Rights to be Valued Establish Date(s) of Value Estimate(s) Identify the Use of the Appraisal Define Value(s) to be Estimated Identify Limiting Conditions or Limitations	Ethics Provision Competency Provision Departure Provision Definitions Standards Rules 1–1, 1–2	Standards Rule 2–1 Standards Rule 2–2: (a) (i) through (vii) (b) (i) through (vii) (c) (i) through (vii)
PRELIMINARY ANALYSIS AND PLAN: SELECT AND COLLECT DATA General (Market): Market Analysis; Demand Components; Supply Components; Trends; Forecasts Subject Property: Property Analysis; Site/Improvements; Size; Age and Condition; Location; Legal (Title, Use) Competitive Properties: Comparison Analysis; Sales; Rentals; Costs; Elements of Comparison; Units of Comparison	Standards Rule 1–3	Standards Rule 2–2: (a) (viii) (b) (viii) (c) (viii)
ESTIMATE HIGHEST AND BEST USE Land as if Vacant and Available Property as Improved (Existing or Proposed)	Standards Rule 1–3	Standards Rule 2–2: (a) (ix), (b) (ix), (c) (ix)
ESTIMATE LAND/SITE VALUE (AS DEFINED) Sales Comparison; Income Capitalization; Subdivision/Development	Standards Rule 1–4(a)	Standards Rule 2–2: (a) (x) and (xi) (b) (x) and (xi) (c) (x) and (xi)
ESTIMATE IMPROVED PROPERTY VALUE (AS DEFINED) Cost; Sales Comparison; Income Capitalization	Standards Rule 1–4	
RECONCILE VALUE INDICATORS; REACH DEFINED VALUE ESTIMATE	Standards Rule 1–5	
REPORT ESTIMATE(S) OF VALUE(S) AS DEFINED	Standard 2	Standards Rule 2–3

STATEMENT ON APPRAISAL STANDARDS NO. 8 (SMT–8)

SUBJECT: Electronic Transmission of Reports

THE ISSUE:

The Record Keeping section of the **ETHICS PROVISION** states that written records of assignments include true copies of written reports. The term *written records* also includes information stored on electronic, magnetic, or other media. Standards 2, 3, 5, 6, 8 and 10 specify the reporting requirements for reports. What constitutes an acceptable electronic transmission of appraisal, consultation or review appraisal reports?

THE STATEMENT:

Relevant USPAP References

The requirement that a report must "clearly and accurately set forth the appraisal in a manner that will not be misleading" appears in Standards Rules 2–1(a), 5–1(a), 6–7(a), 8–1(a) and 10–1(a).

Standards Rule 3–2(c) requires that an appraiser must set forth the opinions, reasons, and conclusions required in Standards Rule 3–1(c), (d), (e) and (f).

Standards Rules 2–2(a)(xii), (b)(xii), (c)(xii); 3–2(e); 5–2(j); 6–7(1); 8–2(n); and 10–2(j) require each written report to contain a signed certification. Suggested specific content items for a certification are included in Standards Rules 2–3, 3–2(e), 5–3, 6–8, 8–3 and 10–3.

Effective January 1, 1996, the Explanatory Comment to the Record Keeping section of the **ETHICS PROVISION** will state: "... A workfile may also include information stored on electronic, magnetic or other media ..."

Transmission Standards

Technology now permits a report to be transmitted to the client by electronic means, thereby making the additional submission of a paper copy unnecessary. An electronically transmitted report is a written report and must meet the USPAP reporting requirements.

Submission of a report by modem or other computer to computer link constitutes electronic transmission subject to the requirements of this Statement. For clarification, submission of a paper copy report by facsimile with a hand written mark for the signature does not constitute electronic transmission as discussed in this Statement.

Integrity of Report Transmission

Report transmission addresses data integrity, not the format of the report. However, every transmitted report must meet minimum USPAP reporting content requirements, including a signed certification.

Appraisers must take reasonable steps to protect the data integrity of transmitted reports. The following steps should be used depending on the client and type of report to be transmitted:

* Enter into a written agreement with the client that clearly states the responsibilities and obligations of the appraisers and the client;
* Use computer software that provides, at a minimum, the following security measures:
  — Identifies transmission errors during the transmission process;
  — Confirms date, time and quantity of data transmitted by the appraiser and the date, time and quantity of data received by the client (whichcould be different from transmission dates); and
  — Protects signature integrity.

Signed Certification

Any software program used to electronically transfer a report must provide, at minimum, a digital signature security feature for all appraisers signing a report. The appraiser(s) should ensure the signature(s) are protected and that only the appraiser(s) maintain control of the signature. This control may be maintained by passwords (e.g. PIN numbers), hardware devices (e.g. secure cards) or other means. Electronically affixing a signature to a report carries the same level of authenticity and responsibility as an ink signature on a paper copy report.

The definition of signature in a signed certification under USPAP is as follows:

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

Comment: A signature can be represented by a hand written mark, a digitized image controlled by a personalized identification number, or other media, where the appraiser has sole personalized control of affixing the signature.

SMT-8: Electronic Transmission of Reports (continued)

Record Keeping

The Record Keeping section of the **ETHICS PROVISION** applies to all reports and permits storage on electronic, magnetic or other media. A true electronic and/or paper copy of the transmission must be retained by the appraiser. A paper copy of an electronically transmitted report is not required.

Conclusions

- An electronically transmitted report is a written report and must meet the USPAP reporting requirements.
- Appraisers must take reasonable steps to protect the data integrity of transmitted reports.
- Any software program used to electronically transfer a report must provide, at a minimum, a digital signature security feature for all appraisers signing a report.
- Electronically affixing a signature to a report carries the same level of authenticity and responsibility as an ink signature on a paper copy report.

The Record Keeping section of the **ETHICS PROVISION** applies to all reports and permits storage on electronic, magnetic or other media. A true electronic and/or paper copy of the transmission must be retained by the appraiser.

Adopted unanimously on July 18, 1995.

Appraisals Standards Board

Sherwood Darington, Chairman
Tim Leberman, Vice-Chair
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