

WISCONSIN LEGISLATIVE COUNCIL STAFF

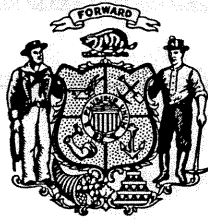
LCRC
FORM 2

JUN 20 2000

RULES CLEARINGHOUSE

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CLEARINGHOUSE REPORT TO AGENCY

[THIS REPORT HAS BEEN PREPARED PURSUANT TO S. 227.15, STATS. THIS IS A REPORT ON A RULE AS ORIGINALLY PROPOSED BY THE AGENCY; THE REPORT MAY NOT REFLECT THE FINAL CONTENT OF THE RULE IN FINAL DRAFT FORM AS IT WILL BE SUBMITTED TO THE LEGISLATURE. THIS REPORT CONSTITUTES A REVIEW OF, BUT NOT APPROVAL OR DISAPPROVAL OF, THE SUBSTANTIVE CONTENT AND TECHNICAL ACCURACY OF THE RULE.]

CLEARINGHOUSE RULE 00-097

AN ORDER to repeal RL 86.01 (6); and to repeal and recreate chapter RL 87, Appendix I, relating to the uniform standards of professional appraisal practice.

Submitted by **DEPARTMENT OF REGULATION AND LICENSING**

05-18-00 RECEIVED BY LEGISLATIVE COUNCIL.

06-15-00 REPORT SENT TO AGENCY.

RS:DD:jal;rv

LEGISLATIVE COUNCIL RULES CLEARINGHOUSE REPORT

This rule has been reviewed by the Rules Clearinghouse. Based on that review, comments are reported as noted below:

1. STATUTORY AUTHORITY [s. 227.15 (2) (a)]

Comment Attached YES NO

2. FORM, STYLE AND PLACEMENT IN ADMINISTRATIVE CODE [s. 227.15 (2) (c)]

Comment Attached YES NO

3. CONFLICT WITH OR DUPLICATION OF EXISTING RULES [s. 227.15 (2) (d)]

Comment Attached YES NO

4. ADEQUACY OF REFERENCES TO RELATED STATUTES, RULES AND FORMS
[s. 227.15 (2) (e)]

Comment Attached YES NO

5. CLARITY, GRAMMAR, PUNCTUATION AND USE OF PLAIN LANGUAGE [s. 227.15 (2) (f)]

Comment Attached YES NO

6. POTENTIAL CONFLICTS WITH, AND COMPARABILITY TO, RELATED FEDERAL
REGULATIONS [s. 227.15 (2) (g)]

Comment Attached YES NO

7. COMPLIANCE WITH PERMIT ACTION DEADLINE REQUIREMENTS [s. 227.15 (2) (h)]

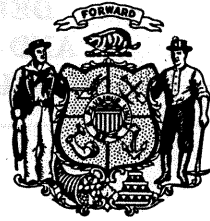
Comment Attached YES NO

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CLEARINGHOUSE RULE 00-097

Comments

[NOTE: All citations to "Manual" in the comments below are to the Administrative Rules Procedures Manual, prepared by the Revisor of Statutes Bureau and the Legislative Council Staff, dated September 1998.]

2. Form, Style and Placement in Administrative Code

a. Is the portion of the department's analysis that describes the key features of the 2000 edition of the Uniform Standards of Professional Appraisal Practice prepared by the department or by the Appraisal Standards Board? If the latter, that should be indicated in the analysis.

b. The "key features" summary references consecutive line numbers to the text of the uniform standards. Those line numbers are not included in the rule. Therefore, the utility of the key features analysis is severely compromised. Consequently, no attempt was made in reviewing the rule to determine whether the analysis of the key features accurately reflects the uniform standards contained in Appendix 1. The line numbers should be included in the final version of the rule.

c. Does the "key features" analysis give appraisers adequate notice of the changes in the uniform standards?

5. Clarity, Grammar, Punctuation and Use of Plain Language

If the key features analysis is not the product of the Appraisal Standards Board, it is suggested that in the first paragraph, first sentence, the word "released" should replace the phrase "that occurred." The last sentence of that paragraph implies that the effective date is "based on the input of professional organizations, educators, regulators, and state enforcement agencies." Presumably, the 2000 edition is based on that input. In the second paragraph, last sentence, it is suggested that "version" replace "action."

AUG 03 2000

STATE OF WISCONSIN
DEPARTMENT OF REGULATION AND LICENSING

IN THE MATTER OF RULE-MAKING : PROPOSED ORDER OF THE
PROCEEDINGS BEFORE THE : DEPARTMENT OF REGULATION
DEPARTMENT OF REGULATION : AND LICENSING ADOPTING RULES
AND LICENSING : (CLEARINGHOUSE RULE 00-097

TO: Senator Judy Robson, Senate Co-Chairperson
Joint Committee for the Review of Administrative Rules
Room 15 South, State Capitol
Madison, Wisconsin 53702

PLEASE TAKE NOTICE that the DEPARTMENT OF REGULATION AND LICENSING is submitting in final draft form rules relating to the Uniform Standards of Professional Appraisal Practice (USPAP).

Please stamp or sign a copy of this letter to acknowledge receipt. If you have any questions concerning the final draft form or desire additional information, please contact Pamela Haack at 266-0495.



Tommy G. Thompson
Governor

Marlene A. Cummings
Secretary

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Administrative Rules in Final Draft Form

Department of Regulation and Licensing

Relating to: Uniform Standards of Professional Practice (USPAP)

Rule: Chapter RL 87, Appendix I

Clearinghouse Rule: No. 00-097

STATE OF WISCONSIN
DEPARTMENT OF REGULATION AND LICENSING

IN THE MATTER OF RULE-MAKING : REPORT TO THE LEGISLATURE
PROCEEDINGS BEFORE THE : ON CLEARINGHOUSE RULE 00-097
DEPARTMENT OF REGULATION : (s. 227.19 (3), Stats.)
AND LICENSING :

I. THE PROPOSED RULE:

The proposed rule, including the analysis and text, is attached.

II. REFERENCE TO APPLICABLE FORMS:

No new or revised forms are required by these rules.

III. FISCAL ESTIMATES:

These rules will have no significant impact upon state or local units of government.

IV. STATEMENT EXPLAINING NEED:

In this rule-making order the Department of Regulation and Licensing repeals s. RL 86.01 (6) and repeals and recreates the Uniform Standards of Professional Appraisal Practice ("USPAP") which is contained in ch. RL 87, Appendix I.

Section RL 86.01 (6) states that a certified or licensed appraiser shall not offer to perform, nor perform, services which he or she is not competent to perform through education or experience. This provision is being repealed because it is not consistent with the Competency Rule contained in USPAP. The Competency Rule states that 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; or alternatively:

Disclose the lack of knowledge and/or experience to the client before accepting the assignment; and

Take all steps necessary or appropriate to complete the assignment competently; and

Describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.

The Uniform Standards of Professional Appraisal Practice set forth in ch. RL 87, Appendix I, is being repealed and recreated to include revisions contained in the 2000 edition of USPAP. Under s. 458.24, Stats., the department is required to periodically review the "Uniform Standards of Professional Appraisal Practice" and, if appropriate, revise its rules to reflect revision to the Standards.

V. NOTICE OF PUBLIC HEARING:

A public hearing was held on June 28, 2000. There were no appearances at the public hearing, nor were any written comments received.

VI. RESPONSE TO LEGISLATIVE COUNCIL STAFF RECOMMENDATIONS:

The comments provided in the analysis were taken from the 2000 edition of USPAP.

VII. FINAL REGULATORY FLEXIBILITY ANALYSIS:

These rules will have no significant economic impact on small businesses, as defined in s. 227.114 (1) (a), Stats.

g:\rules\app1leg.doc
7/31/2000

STATE OF WISCONSIN
DEPARTMENT OF REGULATION AND LICENSING

IN THE MATTER OF RULE-MAKING : PROPOSED ORDER OF THE
PROCEEDINGS BEFORE THE : DEPARTMENT OF REGULATION AND
DEPARTMENT OF REGULATION : LICENSING ADOPTING RULES
AND LICENSING : (CLEARINGHOUSE RULE 00-)

PROPOSED ORDER

An order of the Department of Regulation and Licensing to repeal RL 86.01 (6); and to repeal and recreate chapter RL 87, Appendix I, relating to the Uniform Standards of Professional Appraisal Practice (USPAP).

Analysis prepared by the Department of Regulation.

ANALYSIS

Statutes authorizing promulgation: ss. 227.11 (2) and 458.24, Stats.

Statutes interpreted: ss. 458.24 and 458.26 (3) (b), Stats.

In this proposed rule-making order the Department of Regulation and Licensing repeals s. RL 86.01 (6) and repeals and recreates the Uniform Standards of Professional Appraisal Practice ("USPAP") which is contained in ch. RL 87, Appendix I.

Section RL 86.01 (6) states that a certified or licensed appraiser shall not offer to perform, nor perform, services which he or she is not competent to perform through education or experience. This provision is being repealed because it is not consistent with the Competency Rule contained in USPAP. The Competency Rule states that 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; or alternatively:

- Disclose the lack of knowledge and/or experience to the client before accepting the assignment; and
- Take all steps necessary or appropriate to complete the assignment competently; and
- Describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.

The Uniform Standards of Professional Appraisal Practice set forth in ch. RL 87, Appendix I, is being repealed and recreated to include revisions contained in the 2000 edition of USPAP. Under s. 458.24, Stats., the department is required to periodically review the "Uniform Standards of Professional Appraisal Practice" and, if appropriate, revise its rules to reflect revision to the Standards.

KEY FEATURES OF THE 2000 EDITION OF THE UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE (USPAP).

The 2000 edition of USPAP is the result of exposure drafts that occurred on April 27, April 28, June 25 and August 11, 1999. On the basis of written responses and substantial public testimony at Appraisal Standards Board (ASB) public hearings, the ASB formally adopted the 2000 edition of USPAP on September 15, 1999. Based on the input of professional organizations, educators, regulators, and state enforcement agencies, the effective date of the 2000 edition of USPAP is January 1, 2000.

Format: Consecutive line numbers have been added to the text beginning with the Preamble and concluding at the end of STATEMENT 9 (SMT-9). Consecutive line numbers have also been added to each Advisory Opinion. The line numbers are intended to facilitate references to the document, including the identification of changes from the previous action.

ETHICS RULE: The Confidentiality section has been changed to include the appraiser's obligation to "act in good faith with regard to the legitimate interests of the client in the use of confidential information and in the communication of assignment results" (Lines 135-136). The term "confidential factual data" has been replaced with "confidential information" (Line 138). The comment in the Confidentiality section has been modified to clarify that the section does not apply when confidential elements have been removed through redaction or the process of aggregation (Lines 144-146). The definition of confidential information was clarified by removing the reference to "publicly available" information. The revised definition focuses on information received from and identified by the client as being confidential when given to the appraiser.

COMPETENCY RULE: The COMPETENCY RULE has been changed to acknowledge that different kinds of competency in addition to "geographic" competency may be necessary in an assignment. These include, but are not limited to, "an appraiser's familiarity with a specific type of property, a market, a geographic area, or an analytical method" (Lines 198-199). When these or potentially other forms of competency are necessary for developing credible results, appraisers are responsible for having the requisite competency to complete the assignment properly, or they must follow the steps outlined in the Rule.

DEFINITIONS: Modifications were made to the definitions of CONFIDENTIAL INFORMATION (Line 395), PERSONAL PROPERTY (Line 439) and REPORT (Line 451.) The definition of REVIEW was replaced with a definition of APPRAISAL REVIEW (Line 358). One new definition was added: ASSIGNMENT RESULTS (Line 367).

STANDARD 1: Standards Rule 1-2(f) was modified to identify more specifically the parties associated with the appraiser's scope of work obligations. Accordingly, the phrase "third party" was replaced with the "client, an intended user, or the appraiser's peers' in the same or a similar assignment" (Line 620).

STANDARD 2: Standards Rule 2-4 was changed to clarify what compliance with the Rule means and to permit departure when the appraiser is not able to comply (Line 1201-1202). References to “the extent that is both possible and appropriate” and “including expert testimony” have been deleted.

STANDARD 3: Changes to STANDARD 3 restructure the requirements for better organization, consistency, and understandability in appraisal review, clarify a number of concepts in the Standard, and incorporate personal property valuation into the Standard’s text. As mentioned above, the term REVIEW was replaced with a definition of APPRAISAL REVIEW. Throughout the document, the phrases “review,” “review appraisal,” and “review appraiser” have been updated to “appraisal review” or “reviewer” for consistency with the revisions to STANDARD 3. The Comment section of the Standard clarifies the nature of appraisal review and scope of work obligations (Lines 1231-1256). Standards Rules 3-1 and 3-2 (Lines 1258-1429) have been expanded to achieve better clarity and consistency with the other development and reporting standards. Standards Rule 3-3 (Lines 1431-1439) was added to clarify how the Standard applies to oral appraisal review reports. STATEMENT 1 (STM-1), which concerned clarifications to the Comment on Standards Rule 3-1(g) in previous editions, was retired (see below).

STANDARDS 7 AND 8: With the exception of Standards Rule 8-5, STANDARDS 7 and 8 were comprehensively updated to include terminology familiar to personal property appraisers, to ensure consistency, where appropriate, with the structure and concepts adopted in other parts of the document, and to assist personal property appraisers and users of personal property appraisals in understanding and applying the Standards in practice.

STANDARDS 9 AND 10: With the exception of Standards Rules 10-1(c) and 10-5, STANDARDS 9 and 10 were comprehensively updated to include terminology familiar to business appraisers, to ensure consistency, where appropriate, with the structure and concepts adopted in other parts of the document, and to assist business appraisers and users of business and intangible asset appraisals in understanding and applying the Standards in practice.

STATEMENT 1: As the subject matter of this Statement was incorporated into the changes associated with STANDARD 3, STM-1 was retired. However, its number and place in the document have been retained for editorial consistency (Lines 3323-3329).

STATEMENTS 3, 4, 6, 7 and 9: These Statements have been edited to add references and/or text consistent with the terminology used in the context of STANDARD 8. For example, previous references to “real estate” have been eliminated and replaced with “property” or “appraisals” (Lines 3440-3576, 3686-4120, 4215-4938.)

ADVISORY OPINIONS: Advisory Opinion 8 (AO-8) was updated to reflect current Financial Accounting Standards Board (FASB) references to “fair value.” Advisory

Opinion 19 (AO-19), "Unacceptable Assignment Conditions in Real Property Appraisal Assignments," was added.

Note: Administrative edits were made to all sections of the document to improve consistency.

TEXT OF RULE

SECTION 1. RL 86.01 (6) is repealed.

SECTION 2. Chapter RL 87, Appendix 1, is repealed and recreated to read:

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

as promulgated by the
**Appraisal Standards Board of
The Appraisal Foundation**

PREAMBLE

The purpose of these Standards is to establish requirements for professional appraisal practice, which includes appraisal, appraisal review, and consulting, as defined. The intent of these Standards is to promote and maintain a high level of public trust in professional appraisal practice.

These Standards are for appraisers and users of appraisal services. To maintain a high level of professional practice, appraisers observe these Standards. However, these Standards do not in themselves establish which individuals or assignments must comply; neither The Appraisal Foundation nor its Appraisal Standards Board is a government entity with the power to make, judge, or enforce law. Individuals comply with these Standards either by choice or by requirement placed upon them, or upon the service they provide, by law, regulation, or agreement with the client or intended users to comply.

It is essential that professional appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading. These *Uniform Standards of Professional Appraisal Practice* (USPAP) 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 RULE setting forth the requirements for integrity, impartiality, objectivity, independent judgment, and ethical conduct. In addition, these Standards include a COMPETENCY RULE that places an immediate responsibility on the appraiser prior to acceptance of an assignment as well as during the performance of an assignment. DEFINITIONS applicable to these Standards are also included. The Standards contain binding requirements, as well as specific requirements to which the DEPARTURE RULE may apply under certain conditions. The DEPARTURE RULE does not apply to the PREAMBLE, ETHICS RULE, COMPETENCY RULE, JURISDICTIONAL EXCEPTION RULE, SUPPLEMENTAL STANDARDS RULE, or DEFINITIONS Section.

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

Comment: Comments are an integral part of the Uniform Standards and are extensions of the Rules, Definitions, and Standards Rules. Comments provide interpretation from the Appraisal Standards Board concerning the background or application of certain Rules, Definitions, or Standards Rules. Comments also establish the context of certain requirements and the conditions that apply only in specific situations or type of assignments.

Footnotes referring to Advisory Opinions do not incorporate the Advisory Opinions into the *Uniform Standards of Professional Appraisal Practice*.

ETHICS RULE

To promote and preserve the public trust inherent in professional appraisal practice, an appraiser must observe the highest standards of professional ethics. This ETHICS RULE is divided into four sections: Conduct, Management, Confidentiality, and Record Keeping.

Comment This rule specifies the personal obligations and responsibilities of the individual appraiser. However, it should also be noted that groups and organizations engaged in appraisal practice share the same ethical obligations.

Compliance with these standards is required when either the service or the appraiser is obligated by law or regulation, or by an agreement with the client or intended users, to comply.

Conduct

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

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

An appraiser must not communicate assignment results in a misleading or fraudulent manner. An appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report.¹

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

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

Management

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

Comment: Disclosure of fees, commissions, or things of value connected to the procurement of an assignment must 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.

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

- 1. the reporting of a predetermined value, or**

2. a direction in value that favors the cause of the client, or
3. the amount of the value opinion, or
4. the attainment of a stipulated result, or
5. the occurrence of a subsequent event directly related to the value opinion.

Whenever an opinion of real property value is a necessary part of developing a real property consulting assignment performed by an appraiser with contingent compensation, the consulting appraiser must:

1. make arrangements with the client such that the consulting appraiser's compensation for developing the real property appraisal is on a basis that complies with this ETHICS RULE; or
2. retain (or suggest that the client retain) another appraiser to perform the real property appraisal under compensation arrangements that do not violate this ETHICS RULE; and
3. properly certify the real property consulting report, including therein a clear disclosure of the separate compensation arrangements for the appraisal portion and the real property consulting portion of the assignment.

Comment: The purpose of this rule is to ensure that appraisers properly understand how they may comply with USPAP when performing a real property consulting assignment in which a real property appraisal is necessary and compensation for performing the assignment is contingent on the attainment of a stipulated result or the occurrence of a subsequent event (such as in connection with a real property tax appeal).

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

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

Confidentiality

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

An appraiser must act in good faith with regard to the legitimate interests of the client in the use of confidential information and in the communication of assignment results.

An appraiser must not disclose confidential information or assignment results prepared for a client to anyone other than: 1) the client and persons specifically authorized by the client; 2) state enforcement agencies and such third parties as may be authorized by due process of law; and 3) a duly authorized professional peer review committee. It is unethical for a member of a duly authorized professional peer review committee to disclose confidential information presented to the committee.

Comment: When all confidential elements of confidential information are removed through redaction or the process of aggregation, client authorization is not required for the disclosure of the remaining information, as modified.

Record Keeping

An appraiser must prepare a workfile for each assignment. The workfile must include the name of the client and the identity, by name or type, of any other intended users; true copies of any written reports, documented on any type of media; summaries of any oral reports or testimony, or a transcript of testimony, including the appraiser's signed and dated certification; all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with this rule and all other applicable Standards, or references to the location(s) of such other documentation.

An appraiser must retain the workfile 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, and have custody of his or her workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile.

Comment: 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 required by the specific Limited Appraisal assignment.

A photocopy or an electronic copy of the entire actual written appraisal, 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, Summary Appraisal Report, or Restricted Use 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 state enforcement agencies or due process of law. In addition, a workfile in support of a Restricted Use Appraisal Report must be available for inspection by the client in accordance with the Comment to Standards Rule 2-2(c)(ix), 8-2(c)(ix) and 10-2(b)(ix).

COMPETENCY RULE

Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently; 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: Competency applies to factors such as, but not limited to, an appraiser's familiarity with a specific type of property, a market, a geographic area, or an analytical method. If such a factor is necessary for an appraiser to develop credible appraisal assignment results, the appraiser is responsible for having the competency to address that factor, or for following the steps outlined above to satisfy this Competency Rule.

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 RULE requires an appraiser to have both the knowledge and the experience required to perform a specific appraisal service competently.

If an appraiser is offered the opportunity to perform an appraisal service but lacks the necessary knowledge or experience to complete it competently, the appraiser must disclose his or her lack of knowledge or experience to the client before accepting the assignment and then take the necessary or appropriate steps to complete the appraisal service competently. This may be accomplished in various ways including, but not limited to, personal study by the appraiser; association with an appraiser reasonably believed to have the necessary knowledge or experience; or retention of others who possess the required knowledge or experience.

In an assignment where geographic competency is necessary, an appraiser preparing an appraisal in an unfamiliar location must spend sufficient time to understand the nuances of the local market and the supply and demand factors relating to the specific property type and the location involved. Such understanding will not be imparted solely from a consideration of specific data such as demographics, costs, sales, and rentals. The necessary understanding of local market conditions provides the bridge between a sale and a comparable sale or a rental and a comparable rental. If an appraiser is not in a position to spend the necessary amount of time in a market area to obtain this understanding, affiliation with a qualified local appraiser may be the appropriate response to ensure development of credible assignment results.

Although this rule 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 rule.

DEPARTURE RULE3

This rule permits exceptions from sections of the Uniform Standards that are classified as specific requirements rather than binding requirements. The burden of proof is on the appraiser to decide before accepting an assignment and invoking this rule that the scope of work applied will result in opinions or conclusions that are credible. The burden of disclosure is also on the appraiser to report any departures from specific requirements.

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

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

Comment: Not all specific requirements are *applicable* to every assignment. When a specific requirement is *not applicable* to a given assignment, the specific requirement is irrelevant and therefore no departure is needed.

A specific requirement is *applicable* when:

- it addresses factors or conditions that are present in the given assignment, or
- it addresses analysis that is typical practice in such an assignment.

A specific requirement is *not applicable* when:

- it addresses factors or conditions that are not present in the given assignment, or
- it addresses analysis that is not typical practice in such an assignment, or
- it addresses analysis that would not provide meaningful results in the given assignment.

Of those specific requirements that are *applicable* to a given assignment, some may be *necessary* in order to result in opinions or conclusions that are credible. When a specific requirement is *necessary* to a given assignment, departure is not permitted.

Departure is permitted from those specific requirements that are *applicable* to a given assignment, but *not necessary* in order to result in opinions or conclusions that are credible.

A specific requirement is considered to be both *applicable* and *necessary* when:

- it addresses factors or conditions that are present in the given assignment, or
- it addresses analysis that is typical practice in such an assignment, and
- lack of consideration for those factors, conditions, or analyses would significantly affect the credibility of the results.

Typical practice for a given assignment is measured by:

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

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 requirements, Standards Rules 2-2(a)(xi), 2-2(b)(xi), 2-2(c)(xi), 5-2(i), 8-2(a)(xi), 8-2(b)(xi), 8-2(c)(xi), 10-2(a)(x) and 10-2(b)(x) require that the report clearly identify and explain departure(s) from the specific requirements.

Departure from the following development and reporting rules is not permitted: Standards Rules 1-1, 1-2, 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, 7-2, 7-5, 8-1, 8-2, 8-3, 8-5, 9-1, 9-2, 9-3, 9-5, 10-1, 10-2, 10-3, and 10-5. This restriction on departure is reiterated throughout the document with the reminder: "This Standards Rule contains binding requirements from which departure is not permitted."

The DEPARTURE RULE does not apply to the PREAMBLE, ETHICS RULE, COMPETENCY RULE, JURISDICTIONAL EXCEPTION RULE, SUPPLEMENTAL STANDARDS RULE, or DEFINITIONS Section.

JURISDICTIONAL EXCEPTION RULE

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 RULE 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 to be 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 in the appraiser's report the part or parts disregarded and the legal authority justifying this action.

As used in the JURISDICTIONAL EXCEPTION RULE, 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 RULE

These Uniform Standards provide the common basis for all appraisal practice. Supplemental standards applicable to assignments 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. An appraiser and client must ascertain whether any supplemental standards in addition to these Uniform Standards apply to the assignment being considered.⁴

Comment: The purpose of the SUPPLEMENTAL STANDARDS RULE is to provide a reasonable means to augment USPAP with additional requirements set by clients, employers, governmental entities, 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 developing an opinion of value; an opinion of value. (adjective) of or pertaining to appraising and related functions—e.g., appraisal practice, appraisal services.

Complete Appraisal: the act or process of developing an opinion of value or an opinion of value developed without invoking the DEPARTURE RULE.

Limited Appraisal: the act or process of developing an opinion of value or an opinion of value developed under and resulting from invoking the DEPARTURE RULE.

Comment: An opinion of value may be expressed as a single point, as a range, or as a relationship (e.g., not more than, not less than) to a previous value opinion or established benchmark (e.g., assessed value, collateral value).

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

Comment: These three terms are intentionally generic, and not mutually exclusive. For example, an opinion of value may be required as part of an appraisal, appraisal review, or consulting assignment. 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.

APPRAISAL REVIEW: the act or process of developing and communicating an opinion about the quality of another appraiser's work.

Comment: The subject of an appraisal review assignment may be all or part of an appraisal report, the work file, or a combination of these.

ASSIGNMENT: an appraisal, appraisal review, or consulting service provided as a consequence of an agreement between an appraiser and a client.

ASSIGNMENT RESULTS: an appraiser's opinions and conclusions developed specific to an assignment.

Comment: Assignment results are an appraiser's:

- opinions or conclusions developed in an appraisal assignment, such as, value;
- opinions of adequacy, relevancy or reasonableness developed in an appraisal review assignment;
- or
- opinions, conclusions or recommendations developed in a consulting assignment.

ASSUMPTION: that which is taken to be true.

BIAS: a preference or inclination used in the development or communication of an appraisal, appraisal review, or consulting assignment that precludes an appraiser's impartiality.

BINDING REQUIREMENTS: all or part of a Standards Rule of USPAP from which departure is not permitted. (See DEPARTURE RULE.)

BUSINESS ENTERPRISE: an entity 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: the party or parties who engage an appraiser (by employment or contract) in a specific assignment.

Comment: The client identified by the appraiser in an appraisal, appraisal review, or consulting assignment (or in the assignment workfile) is the party or parties with whom the appraiser has an appraiser-client relationship in the related assignment, and may be an individual, group, or entity.

CONFIDENTIAL INFORMATION: information received from a client, not available from any other source, which the client identifies as confidential when providing it to an appraiser.

Comment: Information available to the appraiser from other sources does not become confidential when given to the appraiser by the client.

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 an opinion of value.

EXTRAORDINARY ASSUMPTION: an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.

Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property or about conditions external to the property, such as market conditions or trends, or the integrity of data used in an analysis.

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

HYPOTHETICAL CONDITION: that which is contrary to what exists, but is supposed for the purpose of analysis.

Comment: Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property or about conditions external to the property, such as market conditions or trends, or the integrity of data used in an analysis.

INTANGIBLE PROPERTY (INTANGIBLE ASSETS): nonphysical 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.

INTENDED USE: the use or uses of an appraiser's reported appraisal, appraisal review, or consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.

INTENDED USER: the client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or consulting report, by the appraiser based on communication with the client at the time of the assignment.

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 market conditions for a specific type of property.

MASS APPRAISAL: the process of valuing a universe of properties as of a given date using 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 tangible objects that are considered by the general public as being “personal”—e.g., furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible 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, 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 requirements (see the Record Keeping section of the ETHICS RULE) are included to cover court testimony and other oral communications of an appraisal, appraisal review, or consulting service.

The types of written reports listed below apply to real property, personal property and business valuation appraisal assignments, as indicated.

Appraisal Report: a written report prepared under Standards Rule 10-2(a).

Self-Contained Appraisal Report: a written report prepared under Standards Rule 2-2(a) or 8-2(a).

Summary Appraisal Report: a written report prepared under Standards Rule 2-2(b) or 8-2(b).

Restricted Use Appraisal Report: a written report prepared under Standards Rule 2-2(c), 8-2(c) or 10-2(b).

SCOPE OF WORK: the amount and type of information researched and the analysis applied in an assignment. Scope of work includes, but is not limited to, the following:

- the degree to which the property is inspected or identified;
- the extent of research into physical or economic factors that could affect the property;
- the extent of data research; and
- the type and extent of analysis applied to arrive at opinions or conclusions.

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 handwritten mark, a digitized image controlled by a personalized identification number, or other media, where the appraiser has sole personalized control of affixing the signature.

SPECIFIC REQUIREMENTS: all or part of a Standards Rule of USPAP from which departure is permitted under certain limited conditions. (See DEPARTURE RULE.)

SUPPLEMENTAL STANDARDS: an assignment performance requirement that adds to the requirements in USPAP.

WORKFILE: documentation necessary to support an appraiser's analysis, opinions, and conclusions.

STANDARD 1 REAL PROPERTY APPRAISAL, DEVELOPMENT

In developing a real property appraisal, an appraiser must identify the problem to be solved and the scope of work necessary to solve the problem, and correctly complete research and analysis necessary to produce a credible appraisal.

Comment: STANDARD 1 is directed toward the substantive aspects of developing a competent appraisal of real property. The requirements set forth in STANDARD 1 follow the appraisal development 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 (This Standards Rule contains binding requirements from which departure is not permitted.)

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: 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 as well as changes in the legal framework in which real property rights and interests are created, conveyed, and mortgaged have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect 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: In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 1-2(f), to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, where necessary, analyzed. 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 by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.**

Comment: 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 an intended user does not excuse such carelessness or negligence.

Standards Rule 1-2 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a real property appraisal, an appraiser must:

- (a) **identify the client and other intended users;**
(b) **identify the intended use of the appraiser's opinions and conclusions;**

Comment: Identification of the intended use is necessary for the appraiser and the client to decide:

- the appropriate scope of work to be completed, and
- the level of information to be provided in communicating the appraisal.

An appraiser must not allow a client's objectives or intended use to cause an analysis to be biased.

- (c) **identify the purpose of the assignment, including the type and definition of the value to be developed; and, if the value opinion to be developed is market value,⁶ ascertain whether the value is to be the most probable price:**

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

Comment: When the purpose of an assignment is to develop an opinion of market value, the appraiser must also develop an opinion of reasonable exposure time linked to the value opinion.⁷

- (d) **identify the effective date of the appraiser's opinions and conclusions;**⁸
- (e) **identify the characteristics of the property that are relevant to the purpose and intended use of the appraisal,**⁹ including:
- (i) **its location and physical, legal, and economic attributes;**
 - (ii) **the real property interest to be valued;**
 - (iii) **any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal;**
 - (iv) **any known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature; and**
 - (v) **whether the subject property is a fractional interest, physical segment, or partial holding?**

Comment on (i)–(v): If the necessary subject property information is not available because of assignment conditions that limit research opportunity (such as conditions that preclude an on-site inspection or the gathering of information from reliable third-party sources), an appraiser must:

- obtain the necessary information before proceeding, or
- where possible, in compliance with Standards Rule 1-2(g), use an extraordinary assumption about such information.

An appraiser may use any combination of a property inspection and documents, such as a physical legal description, address, map reference, copy of a survey or map, property sketch,

or photographs, to identify the relevant characteristics of the subject property. Identification

of the real property interest appraised can be based on a review of copies or summaries of title descriptions or other documents that set forth any known encumbrances. The information used by an appraiser to identify the property characteristics must be from sources the appraiser reasonably believes are reliable.

An appraiser is not required to value the whole when the subject of the appraisal is a fractional interest, a physical segment, or a partial holding.

- (f) **identify the scope of work necessary to complete the assignment;**¹⁰

Comment: The scope of work is acceptable when it is consistent with:

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

An appraiser must have sound reasons in support of the scope-of-work decision, and be prepared to support the decision to exclude any information or procedure that would appear to be relevant to the client, an intended user, or the appraiser's peers in the same or a similar assignment.

An appraiser must not allow assignment conditions or other factors to limit the extent of research or analysis to such a degree that the resulting opinions and conclusions developed in an assignment are not credible in the context of the intended use of the appraisal.

(g) identify any extraordinary assumptions necessary in the assignment;

Comment: An extraordinary assumption may be used in an assignment only if:

- it is required to properly develop credible opinions and conclusions;
- the appraiser has a reasonable basis for the extraordinary assumption;
- use of the extraordinary assumption results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

(h) identify any hypothetical conditions necessary in the assignment.

Comment: A hypothetical condition may be used in an assignment only if:

- use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- use of the hypothetical condition results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

Standards Rule 1-3 (This Standards Rule contains specific requirements from which departure is permitted. See the DEPARTURE RULE.)

When the value opinion to be developed is market value, and given the scope of work identified in accordance with Standards Rule 1-2(f), an appraiser must:

(a) identify and analyze the effect on use and value of existing land use regulations, reasonably probable modifications of such land use regulations, economic demand, the physical adaptability of the real estate, and market area trends;

Comment: An appraiser must avoid making an unsupported assumption or premise about market area trends, effective age, and remaining life.

(b) develop an opinion of the highest and best use of the real estate.

Comment: An appraiser must analyze the relevant legal, physical, and economic factors to the extent necessary to support the appraiser's highest and best use conclusion(s). The appraiser must 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.

Standards Rule 1-4 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a real property appraisal, an appraiser must collect, verify, and analyze all information applicable to the appraisal problem, given the scope of work identified in accordance with Standards Rule 1-2(f).

- (a) **When a sales comparison approach is applicable, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion.**
- (b) **When a cost approach is applicable, an appraiser must:**
 - (i) **develop an opinion of site value by an appropriate appraisal method or technique;**
 - (ii) **analyze such comparable cost data as are available to estimate the cost new of the improvements (if any); and**
 - (iii) **analyze such comparable data as are available to estimate the difference between cost new and the present worth of the improvements (accrued depreciation).**
- (c) **When an income approach is applicable, an appraiser must:**
 - (i) **analyze such comparable rental data as are available to estimate the market rental of the property;**
 - (ii) **analyze such comparable operating expense data as are available to estimate the operating expenses of the property;**
 - (iii) **analyze such comparable data as are available to estimate rates of capitalization and/or rates of discount; and**
 - (iv) **base projections of future rent and expenses on reasonably clear and appropriate evidence.¹¹**

Comment: An appraiser must, in developing income and expense statements and cash flow projections, weigh historical information and trends, current supply and demand factors affecting such trends, and anticipated events such as competition from developments under construction.

- (d) **When developing an opinion of the value of a leased fee estate or a leasehold estate, an appraiser must analyze the effect on value, if any, of the terms and conditions of the lease(s).**
- (e) **An appraiser must analyze the effect on value, if any, of the assemblage of the various estates or component parts of a property and refrain from valuing 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 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 value a part. The value of any such part must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

- (f) **An appraiser must 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.**
- (g) **An appraiser must analyze 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: Competency in personal property appraisal (see STANDARD 7) or business valuation (see STANDARD 9) may be required when it is necessary to allocate the overall value to the property components. A separate valuation, developed in compliance with the Standard pertinent to the type of property involved, is required when the value of a nonrealty item or combination of such items is significant to the overall value.

(h) When appraising proposed improvements,¹² an appraiser must examine and have 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: Development of a value opinion for a subject property with proposed improvements as of a current date involves the use of the hypothetical condition that the described improvements have been completed as of the date of value when, in fact, they have not.

The evidence required to be examined and maintained may include such items as contractors' 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 Standards Rule 4-6).

Standards Rule 1-5 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a real property appraisal, an appraiser must:

- (a) analyze any current Agreement of Sale, option, or listing of the property, if such information is available to the appraiser in the normal course of business;**
- (b) analyze any prior sales of the property that occurred within the following minimum time periods¹³:**
 - (i) one year for one-to-four-family residential property; and**
 - (ii) three years for all other property types;**
- (c) reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used.**

Comment: See the Comments to Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-2(c)(ix) for corresponding reporting requirements.

STANDARD 2 REAL PROPERTY APPRAISAL, REPORTING

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 addresses the content and level of information required in a report that communicates the results of a real property appraisal.

STANDARD 2 does not dictate the form, format, or style of real property appraisal reports. The form, format, and style of a report are functions of the needs of users and appraisers. The substantive content of a report determines its compliance.

Standards Rule 2-1 (This Standards Rule contains binding requirements from which departure is not permitted.)

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;**
- (b) contain sufficient information to enable the intended users of the appraisal to understand the report properly;**
- (c) clearly and accurately disclose any extraordinary assumption, hypothetical condition, or limiting condition that directly affects the appraisal and indicate its impact on value.**

Comment: Examples of extraordinary assumptions or hypothetical conditions might include items such as the execution of a pending lease agreement, atypical financing, a known but not yet quantified environmental issue, or completion of onsite or offsite improvements. In a written report the disclosure is required in conjunction with statements of each opinion or conclusion that is affected.

Standards Rule 2-2 (This Standards Rule contains binding requirements from which departure is not permitted.)

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 Use Appraisal Report.¹⁴

Comment: When the intended users include parties other than the client, either a Self-Contained Appraisal Report or a Summary Appraisal Report must be provided. When the intended users do not include parties other than the client, a Restricted Use Appraisal Report may be provided.

The essential difference among these three options is in the content and level of information provided.

An appraiser must use care when characterizing the type of report and level of information communicated upon completion of an assignment. An appraiser may use any other label in addition to, but not in place of, the label set forth in this Standard for the type of report provided.

The report content and level of information requirements set forth in this Standard are minimums for each type of report. An appraiser must supplement a report form, when necessary, to ensure that any intended user of the appraisal is not misled and that the report complies with the applicable content requirements set forth in this Standards Rule.

A party receiving a copy of a Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report in order to satisfy disclosure requirements does not become an intended user of the appraisal unless the client identifies such party as an intended user as part of the assignment.

(a) The content of a Self-Contained Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:

(i) state the identity of the client and any intended users, by name or type;¹⁵

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances where the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile, but may omit the client's identity in 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.

(ii) state the intended use of the appraisal;¹⁶

(iii) describe information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;¹⁷

Comment: The real estate involved in the appraisal can be specified, for example, by a legal description, address, map reference, copy of a survey or map, property sketch and/or photographs or the like. The information can include a property sketch and photographs in addition to written comments about the legal, physical, and economic attributes of the real estate relevant to the purpose and intended use of the appraisal.

(iv) state the real property interest appraised;

Comment: The statement of the real property rights being appraised must be substantiated, as needed, by copies or summaries of title descriptions or other documents that set forth any known encumbrances.

(v) state the purpose of the appraisal, including the type and definition of value and its source;

Comment: Stating the definition of value requires the definition itself, an appropriate reference to the source of the definition, and any comments needed to clearly indicate to the reader how the definition is being applied.¹⁸

When the purpose of the assignment is to develop an opinion of market value, state whether the opinion of value is:

- in terms of cash or on financing terms equivalent to cash, or
- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

(vi) state the effective date of the appraisal and the date of the report;19

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use 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 or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.

(vii) describe sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;20

Comment: This requirement is to ensure that the client and intended users whose expected reliance on an appraisal may be affected by the extent of the appraiser's investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.

(viii) state all assumptions, hypothetical conditions, and limiting conditions that affected the analyses, opinions, and conclusions;

Comment: Typical or ordinary assumptions and limiting conditions may be grouped together in an identified section of the report. An extraordinary assumption or hypothetical condition must be disclosed in conjunction with statements of each opinion or conclusion that was affected.

(ix) describe the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;

Comment: The appraiser must be certain the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions.

When the purpose of an assignment is to develop an opinion of market value, a summary of the results of analyzing the information required in Standards Rule 1-5 is required. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

(x) state the use of the real estate existing as of the date of value, and the use of the real estate reflected in the appraisal; and, when the purpose of the assignment is market value, describe the support and rationale for the appraiser's opinion of the highest and best use of the real estate;

Comment: The report must 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., as in insurance valuation or "value in use" appraisals. If the purpose of the assignment is market value, the appraiser's support and rationale for the opinion of highest and best use is required. The appraiser's reasoning in support of the opinion must be provided in the depth and detail required by its significance to the appraisal.

- (xi) **state and explain any permitted departures from specific requirements of STANDARD 1, and the reason for excluding any of the usual valuation approaches;**

Comment: A Self-Contained Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 1, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.

When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. 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 a 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.

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

- (b) **The content of a Summary Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:**

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

- (i) **state the identity of the client and any intended users, by name or type;²¹**

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances where the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile, but may omit the client's identity in 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.

- (ii) **state the intended use of the appraisal;²²**

- (iii) **summarize information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;²³**

Comment: The real estate involved in the appraisal can be specified, for example, by a legal description, address, map reference, copy of a survey or map, property sketch, and/or photographs or the like. The summarized information can include a property sketch and photographs in addition to written comments about the legal, physical, and economic attributes of the real estate relevant to the purpose and intended use of the appraisal.

(iv) state the real property interest appraised;

Comment: The statement of the real property rights being appraised must be substantiated, as needed, by copies or summaries of title descriptions or other documents that set forth any known encumbrances.

(v) state the purpose of the appraisal, including the type and definition of value and its source;

Comment: Stating the definition of value requires the definition itself, an appropriate reference to the source of the definition, and any comments needed to clearly indicate to the reader how the definition is being applied.²⁴

When the purpose of the assignment is to develop an opinion of market value, state whether the opinion of value is:

- in terms of cash or on financing terms equivalent to cash, or
- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

(vi) state the effective date of the appraisal and the date of the report;²⁵

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use 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 or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.

(vii) summarize sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal; ²⁶

Comment: This requirement is to ensure that the client and intended users whose expected reliance on an appraisal may be affected by the extent of the appraiser's investigation are properly informed and are not misled as to the scope of work. The appraiser has the burden of proof to support the scope of work decision and the level of information included in a report.

(viii) state all assumptions, hypothetical conditions, and limiting conditions that affected the analyses, opinions, and conclusions;

Comment: Typical or ordinary assumptions and limiting conditions may be grouped together in an identified section of the report. An extraordinary assumption or hypothetical condition must be disclosed in conjunction with statements of each opinion or conclusion that was affected.

(ix) summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;

Comment: The appraiser must be certain that the information provided is sufficient for the client and intended users to adequately understand the rationale for the opinion and conclusions.

When the purpose of an assignment is to develop an opinion of market value, a summary of the results of analyzing the information required in Standards Rule 1-5 is required. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a acknowledging the existence of the information and citing its lack of relevance is required.

- (x) **state the use of the real estate existing as of the date of value, and the use of the real estate reflected in the appraisal; and, when the purpose of the assignment is market value, summarize the support and rationale for the appraiser's opinion of the highest and best use of the real estate;**

Comment: The report must 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., as in insurance valuation or “value in use” appraisals. If the purpose of the assignment is market value, a summary of the appraiser's support and rationale for the opinion of highest and best use is required. The appraiser's reasoning in support of the opinion must be provided in the depth and detail required by its significance to the appraisal.

- (xi) **state and explain any permitted departures from specific requirements of STANDARD 1, and the reason for excluding any of the usual valuation approaches;**

Comment: A Summary Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 1, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.

When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. 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 a 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.

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

(c) **The content of a Restricted Use Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:**

- (i) **state the identity of the client, by name or type;**²⁷

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances where the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile, but may omit the client's identity in the report.

(ii) state the intended use of the appraisal;28

Comment: The intended use of the appraisal must be consistent with the limitation on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e., client use only).

(iii) state information sufficient to identify the real estate involved in the appraisal;29

Comment: The real estate involved in the appraisal can be specified, for example, by a legal description, address, map reference, copy of a survey or map, property sketch, and/or photographs, or the like.

(iv) state the real property interest appraised;

(v) state the purpose of the appraisal, including the type of value, and refer to the definition of value pertinent to the purpose of the assignment;30

(vi) state the effective date of the appraisal and the date of the report;31

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

(vii) state the extent of the process of collecting, confirming, and reporting data or refer to an assignment agreement retained in the appraiser's workfile, which describes the scope of work to be performed;32

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

Comment: Typical or ordinary assumptions and limiting conditions may be grouped together in an identified section of the report. An extraordinary assumption or hypothetical condition must be disclosed in conjunction with statements of each opinion or conclusion that was affected.

(ix) state the appraisal procedures followed, and the value opinion(s) and conclusion(s), and reference the workfile;

Comment: An appraiser must maintain a specific, coherent workfile in support of a Restricted Use Appraisal Report. The contents of the workfile must be sufficient for the appraiser to produce a Summary Appraisal Report. The file must be available for inspection by the client (or the client's representatives, such as those engaged to complete an appraisal review), state enforcement agencies, such third parties as may be authorized by due process of law, and a duly authorized professional peer review committee. The review of a Restricted Use Appraisal Report in compliance with STANDARD 3 is not possible without the reviewer having benefit of the information retained in the workfile.

When the purpose of the assignment is to develop an opinion of market value, information analyzed in compliance with Standards Rule 1-5 is significant information that must be disclosed in a Restricted Use Appraisal Report. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

- (x) state the use of the real estate existing as of the date of value, and the use of the real estate reflected in the appraisal; and, when the purpose of the assignment is market value, state the appraiser's opinion of the highest and best use of the real estate;

Comment: The report must contain a statement of the property uses both as is and as reflected in the appraisal, and 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 of highest and best use is required, the appraiser's reasoning in support of the opinion must be stated in the depth and detail required by its significance to the appraisal or documented in the workfile and referenced in the report.

- (xi) state and explain any permitted departures from applicable specific requirements of STANDARD 1; state the exclusion of any of the usual valuation approaches; and state a prominent use restriction that limits use of the report to the client and warns that the appraiser's opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraiser's workfile;

Comment: When the DEPARTURE RULE 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 that could have and would have been completed if departure had not been invoked. 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 Restricted Use Appraisal Report is for client use only. Before entering into an agreement, the appraiser should establish with the client the situations where this type of report is to be used, and should ensure that the client understands the restricted utility of the Restricted Use Appraisal Report.

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

Standards Rule 2-3 (This Standards Rule contains binding requirements from which departure is not permitted.)

Each written real property appraisal report 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, impartial, and 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 no (or the specified) personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 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.)³³
- 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.)

Standards Rule 2-4 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

An oral real property appraisal report must, at a minimum, address the substantive matters set forth in Standards Rule 2-2(b).

Comment: 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 the Record Keeping section of the ETHICS RULE for corresponding requirements.

Standards Rule 2-5 (This Standards Rule contains binding requirements from which departure is not permitted.)

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.³⁴

Comment: An appraiser acting as an employer or supervisor signing a report of an employee or subcontractor 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 an appraiser functioning as a reviewer, the subject of STANDARD 3.

STANDARD 3 REAL PROPERTY AND PERSONAL PROPERTY APPRAISAL REVIEW, DEVELOPMENT AND REPORTING

In performing an appraisal review assignment involving a real property or personal property appraisal, an appraiser acting as a reviewer must develop and report a credible opinion as to the quality of another appraiser's work and must clearly disclose the scope of work performed in the assignment.³⁵

Comment: Appraisal review is the act or process of developing and communicating an opinion about the quality of all or part of a completed work or service performed by another appraiser in a real property or personal property appraisal assignment. The reviewer's opinion about quality must encompass the completeness, adequacy, relevance, appropriateness, and reasonableness of the work under review, developed in the context of the requirements applicable to that work.

The COMPETENCY RULE applies to the reviewer, who must correctly employ those recognized methods and techniques necessary to develop credible appraisal review opinions and also avoid material errors of commission or omission. A misleading or fraudulent appraisal review report violates the ETHICS RULE.

Appraisal review requires the reviewer to prepare a separate report or a file memorandum setting forth the scope of work and the results of the appraisal review.

The appraisal review requirements in this Standard do not apply to:

- the activity of "review" or "audit" in the context of other professions, such as accounting;
- an appraiser's study of work prepared by other types of experts, such as engineers or other consultants, or to work prepared by an appraiser in a consulting assignment under STANDARDS 4 and 5; and
- review of an appraiser's work by non-appraisers, such as in "administrative reviews."

Appraisal reviewing is also distinctly different from the co-signing activity addressed in Standards Rules 2-5 and 8-5. To avoid confusion between these activities, a reviewer performing an appraisal review must not sign the work under review unless he or she intends to take the responsibility of a co-signer of that work.

Standards Rule 3-1 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing an appraisal review, the reviewer must:

- (a) identify the reviewer's client and intended users, the intended use of the reviewer's opinions and conclusions, and the purpose of the assignment;³⁶**

Comment: The intended use is in the context of the client's use of the reviewer's opinions and conclusions; for example, without limitation, quality control, audit, qualification, or confirmation. The purpose of the assignment relates to the reviewer's objective; for example, without limitation, to evaluate compliance with relevant USPAP requirements, a client's requirements, or applicable regulations.

A reviewer must ascertain whether the purpose of the assignment includes the development of his or her own opinion of value about the subject property of the work under review.

If the purpose of the assignment includes the reviewer developing his or her own opinion of value about the subject property of the work under review, that opinion is an appraisal whether it:

- concurs with the opinion of value in the work under review, as of the date of value in that work or a different date of value; or
- differs from the opinion of value in the work under review, as of the date of value in that work or a different date of value.

(b) identify the:

- (i) subject of the appraisal review assignment,**
- (ii) date of the review,**
- (iii) property and ownership interest appraised (if any) in the work under review,**
- (iv) date of the work under review and the effective date of the opinion in the work under review, and**
- (v) appraiser(s) that completed the work under review;**

Comment: The subject of an appraisal review assignment may be all or part of an appraisal report, the work file, or a combination of these.

(c) identify the scope of work to be performed;

Comment: A reviewer must take appropriate steps to identify the precise extent of the review process to be completed in an assignment. A reviewer must have sound reasons in support of the scope-of-work decision, and the resulting opinions and conclusions developed in the assignment must be credible and consistent with the intended use of the review.

In making the scope-of-work decision, the reviewer must identify any extraordinary assumptions necessary in the assignment. An extraordinary assumption may be used in an appraisal review assignment only if:

- it is required to properly develop credible opinions and conclusions;
- the reviewer has a reasonable basis for the extraordinary assumption;
- use of the extraordinary assumption results in a credible analysis; and
- the reviewer complies with the disclosure requirements sets forth in SR 3-2(d) for extraordinary assumptions.

The appraisal review must be conducted in the context of market conditions as of the effective date of the opinion in the work being reviewed. Information available to the reviewer that could not have been available to the appraiser as of or subsequent to the date of the work being reviewed must not be used by a reviewer in the development of an opinion as to the quality of the work under review.

When the purpose of the assignment includes a requirement for the reviewer to develop his or her own opinion of value, the following apply:

- the reviewer's scope of work in developing his or her value opinion must not be less than the scope of work (Complete or Limited) applicable to the original appraisal assignment. However, the reviewer is not required to replicate the steps completed by the original appraiser. Those items in the work under review that the reviewer concludes are credible and in compliance with the applicable development standard (STANDARD 1 or 7) can be extended to the reviewer's value opinion development process on the basis of an extraordinary assumption by the reviewer. Those items not deemed to be credible or in compliance must be replaced with information or analysis by the reviewer, developed in conformance with STANDARD 1 or 7 as applicable, to produce a credible value opinion.
- the reviewer may use additional information available to him or her—either locally, regionally, or nationally—that was not available to the original appraiser in the development of his or her value opinion.

(d) develop an opinion as to the completeness of the material under review within the scope of work applicable in the assignment;

Comment: The reviewer is required to develop an opinion as to the completeness of the work under review within the context of the requirements applicable to that work.

(e) develop an opinion as to the apparent adequacy and relevance of the data and the propriety of any adjustments to the data;

(f) develop an opinion as to the appropriateness of the appraisal methods and techniques used and develop the reasons for any disagreement;

(g) develop an opinion as to whether the analyses, opinions, and conclusions in the work under review are appropriate and reasonable, and develop the reasons for any disagreement.

Standards Rule 3-2 (This Standards Rule contains binding requirements from which departure is not permitted.)

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

Comment: This Rule addresses the content and level of information required in a report that communicates the results of an appraisal review. An appraisal review report is a supplementary critique intended for use in conjunction with the work under review.

The reviewer must ensure that the client and any intended user of the assignment results will understand the review report and not be misled. A separate report or letter is one method. Another appropriate method is a form or checklist prepared and signed by the reviewer and attached to the work under review. It is possible that a stamped impression on an appraisal report under review, signed or initialed by the reviewer, may be used to reference a work file documenting the review.

STANDARD 3 does not dictate the form, format, or style of appraisal review reports, which are functions of the needs of users and appraisers. The substantive content of a report determines its compliance.

In reporting the results of an appraisal review, the reviewer appraiser must:37

- (a) state the identity of the client, by name or type, and intended users; the intended use of the assignment results; and the purpose of the assignment;
- (b) state the information that must be identified in accordance with Standards Rule 3-1(b);
- (c) state the nature, extent, and detail of the review process undertaken (i.e., the scope of work identified in accordance with Standards Rule 3-1(c));
- (d) state the opinions, reasons, and conclusions required in Standards Rule 3-1(d–g), given the scope of work identified in compliance with Standards Rule 3-1(c);

Comment: When the purpose of an appraisal review assignment includes the reviewer expressing his or her own opinion of value, the reviewer must:

- 1. state which information, analyses, opinions, and conclusions in the material under review the reviewer accepted as credible and used in developing the reviewer's opinion of value;
- 2. state any additional data relied upon, and the reasoning and basis for the reviewer's opinion of value; and
- 3. state any assumption, extraordinary assumption, and limiting condition connected with the reviewer's opinion of value and, in accordance with Standards Rules 2-1 or 8-1 and 2-2 or 8-2(a), (b), or (c)(viii), as applicable, indicate the impact on value of any extraordinary assumption.

The reviewer may include his or her own value opinion within the appraisal review report itself without preparing a separate appraisal report. However, changes to the report content by the reviewer to support a separate value conclusion must match, at a minimum, the reporting requirements (Self-Contained, Summary or Restricted Use Appraisal Report) of the report under review.

- (e) include all known pertinent information; and

Comment: The reviewer must be certain that the information provided is sufficient for the client and intended users to adequately understand the rationale for the reviewer's opinion and conclusions.

- (f) 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 reviewer 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, impartial, and 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 no (or the specified) personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.

- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this review.
- 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.)

Standards Rule 3-3 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

An oral appraisal review report must address the substantive matters set forth in Standards Rule 3-2.

Comment: Testimony of a reviewer concerning his or her appraisal review opinions and conclusions is an oral report in which the reviewer must comply with the requirements of this Standards Rule.

See the Record Keeping section of the ETHICS RULE for corresponding requirements.

**STANDARD 4 REAL PROPERTY/REAL ESTATE CONSULTING,
DEVELOPMENT**

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 developing an opinion of 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. Although 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 (This Standards Rule contains binding requirements from which departure is not permitted.)

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 by making a series of errors that, although individually might not significantly affect the results, in the aggregate affect the credibility of those results.**

Comment: Standards Rule 4-1 is identical in scope and purpose to Standards Rule 1-1.

Standards Rule 4-2 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

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

- (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), identify any extraordinary assumptions, hypothetical conditions, and special limiting conditions, and identify the effective date of the consulting service;38
- (c) collect, verify, and reconcile such data as may be required to complete the consulting service; all pertinent information shall be included;

- (i) if the market value of a specific property is pertinent to the consulting assignment, an appraisal in conformance with Standard 1 must be included in the data collection;

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

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

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

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

The appraiser must assess the overall scope 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 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In performing real estate or real property consulting services, an appraiser must observe the following specific requirements 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 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In performing a market analysis, an appraiser must observe the following specific requirements 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 submarket. 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 under way; 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.

Standards Rule 4-5 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a cash flow and/or investment analysis, an appraiser must observe the following specific requirements when applicable:³⁹

- (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: Because 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 RULE and COMPETENCY RULE are especially important to Standards Rule 4-5 with regard to hypothetical conditions and technical proficiency.

Standards Rule 4-6 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a feasibility analysis, an appraiser must observe the following specific requirements 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 with 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 REAL PROPERTY/REAL ESTATE CONSULTING, REPORTING

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 Standards Rule 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 (This Standards Rule contains binding requirements from which departure is not permitted.)

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 intended users of the consulting service to understand the report properly;**
- (c) clearly and accurately disclose any extraordinary assumption, hypothetical condition, or limiting condition that directly affects the consulting service and indicate its impact on the final conclusion or recommendation (if any).**

Comment: A consulting report must be sufficiently comprehensive so that 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 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

Each written consulting report must comply with the following specific reporting requirements:40

- (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 scope of work and the extent of the data collection process;
- (f) set forth all assumptions, hypothetical conditions, 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 of STANDARD 4; and
- (j) include a signed certification in accordance with Standards Rule 5-3.

Comment: The appraiser must set forth all of the assumptions, hypothetical conditions, 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 RULE as well as this Standard.

Standards Rule 5-3 (This Standards Rule contains binding requirements from which departure is not permitted.)

Each written consulting report 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 (if any) that is the subject of this report, and I have no (or the specified) personal interest with respect to the parties involved.
- I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- 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*.