



THE APPRAISAL FOUNDATION

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Standards and Appraiser Qualifications*

APPRAISAL STANDARDS BOARD

TO: All Interested Parties

FROM: Margaret Hambleton, Chair  
Appraisal Standards Board

RE: **Second Exposure Draft of Proposed Changes for the 2018-19 Edition of the  
*Uniform Standards of Professional Appraisal Practice***

DATE: August 16, 2016

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The goal of the *Uniform Standards of Professional Appraisal Practice* (USPAP) is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. With this goal in mind, the Appraisal Standards Board (ASB) regularly solicits and receives comments and suggestions for improving USPAP. Proposed changes are intended to improve USPAP understanding and enforcement, and thereby achieve the goal of promoting and maintaining public trust in appraisal practice.

The ASB is currently considering changes for the 2018-19 edition of USPAP. **All interested parties are encouraged to comment in writing to the ASB before the deadline of October 14, 2016.** Respondents should be assured that each member of the ASB will thoroughly read and consider all comments. Comments are also invited at the ASB public meeting on October 21, 2016, in Washington, DC.

Written comments on this exposure draft can be submitted by mail, email and facsimile.

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**IMPORTANT NOTE:** All written comments will be posted for public viewing, exactly as submitted, on the website of The Appraisal Foundation. Names may be redacted upon request.

**The Appraisal Foundation reserves the right not to post written comments that contain offensive or inappropriate statements.**

If you have any questions regarding the attached exposure draft, please contact Aida Dedajic, Standards Administrator at The Appraisal Foundation, via e-mail at [aida@appraisalfoundation.org](mailto:aida@appraisalfoundation.org) or by calling (202) 624-3058.

### **Background**

On April 13, 2016, the ASB issued the First Exposure Draft of proposed changes for the 2018-19 edition of USPAP. That exposure draft addressed:

- Definition of report
- Definition of assignment
- Extraordinary assumption
- STANDARD 3, *Appraisal Review, Development and Reporting*
- STANDARD 6 – Dividing into STANDARD 5, *Mass Appraisal, Development* and STANDARD 6, *Mass Appraisal, Reporting*
- Standards Rules 7-2(c), SR 7-5, and 8-2(v)
- Standards Rule 8-3
- Advisory Opinion 37, *Computer Assisted Valuation Tools*

The ASB has reviewed all of the comments received in response to the First Exposure Draft, and believes it is fulfilling its work plan and addressing the needs of appraisers and users of appraisal services by incorporating that feedback into the changes proposed for the 2018-19 edition of USPAP as contained in this Second Exposure Draft.

Of paramount importance to the Board when considering any potential revisions to USPAP is the issue of public trust. This umbrella of public trust, therefore, remains the primary consideration of the ASB in putting forth the concepts contained in this document.

The Board currently intends to adopt any revisions for the 2018-19 edition of USPAP at its public meeting in early 2017. Any such revisions to USPAP would become effective on January 1, 2018.

## **Executive Summary**

### **Second Exposure Draft of Proposed Changes for the 2018-19 USPAP**

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To assist readers of this exposure draft, this Executive Summary is intended to be a *brief* discussion of each section in the document. Because some readers may not have a specific interest in every section of the document, this Executive Summary will allow readers to direct their focus on their specific interest(s).

For detailed information on proposed revisions and the reasons for the proposals, we strongly encourage readers to thoroughly review the rationale for each section, along with the specific changes being proposed. After doing so, we respectfully request readers to submit any relevant comments.

#### **Section 1 – Definition of Report and Edits to the ETHICS RULE and the RECORD KEEPING RULE**

The ASB is attempting to resolve issues related to the definition of report being tied to completion of the assignment. The Board is also attempting to clarify requirements for communicating assignment results outside the parameters of a report, by proposing revisions to the Conduct section of the ETHICS RULE. The Board is also proposing revisions to the RECORD KEEPING RULE to address an appraiser's obligations to maintain such communications. The Board is proposing language to make it clearer that the workfile must be sufficient for the appraiser to produce an Appraisal Report or an Appraisal Review Report.

#### **Section 2 – Definitions of Assignment, Intended Use, and Intended User, and related edits to the COMPETENCY RULE**

The Board is proposing revising the definition of assignment to remove the portion of the definition involving the agreement to provide services. The Board is also proposing clarifying the definitions of intended use and intended user by substituting "during the assignment" for the current language, "at the time of assignment." Lastly, the Board is proposing revisions to the COMPETENCY RULE to address the appraiser's obligations prior to accepting an assignment.

#### **Section 3 – Definitions of Assumption and Extraordinary Assumption**

The Board is proposing retention of the terms assumption and extraordinary assumption, but is proposing revisions to the definitions.

#### **Section 4 – STANDARD 3 – Dividing into STANDARD 3, *Appraisal Review, Development* and STANDARD 4, *Appraisal Review, Reporting***

The Board is proposing revising the definition of appraisal review, as well as dividing the existing STANDARD 3 into two standards, for greater consistency with the other standards in USPAP.

#### **Section 5 – STANDARD 6 – Dividing into STANDARD 5, *Mass Appraisal, Development* and STANDARD 6, *Mass Appraisal, Reporting***

The Board is proposing revisions to the existing STANDARD 6, including dividing it into two standards for improved consistency in USPAP. The Board is also proposing changes to the current mass appraisal reporting standard to reflect changes previously made to the other reporting standards when the Self-Contained Appraisal Report option was eliminated.

#### **Section 6 – Removing the term Market Value from STANDARDS 7 and 8**

The Board is proposing removing the term market value from the personal property development and reporting standards, as the expression Market Value is seldom used in this discipline. If the proposed revisions are ultimately adopted, when necessary for credible results, these proposed changes may result in additional analyses and reporting requirements for the personal property appraiser.

#### **Section 7 – Edits to the Personal Property Certification in Standards Rule 8-3**

The Board is proposing changes to allow personal property appraisers, in assignments involving different types of items, to sign the certification without making them accountable for the assignment results of items which they did not appraise.

#### **Section 8 – Advisory Opinion 37, *Computer Assisted Valuation Tools***

The Board is proposing a new advisory opinion addressing technology-based tools commonly used in the appraisal profession. The Board is also considering whether or not an update of Advisory Opinion 18, *Use of an Automated Model (AVM)*, is necessary, or whether AO-18 should be retired.

#### **Section 9 – Illustration in Advisory Opinion 21, *USPAP Compliance***

The Board is proposing a revision to the graphics depicted in AO-21, to more clearly illustrate the relationship between appraisal practice and valuation services.

#### **Section 10 – Edits to Advisory Opinion 31, *Assignments Involving More than One Appraiser***

The Board is proposing edits to AO-31 to help clarify guidance related to significant appraisal assistance.

#### **Section 11 - Edits to Advisory Opinion 1, *Sales History***

The Board is proposing edits to AO-1 to help clarify guidance related to an appraiser's proper analysis and reporting related to a subject property's prior and pending sales and current listings.

**Second Exposure Draft of Proposed Changes for the  
2018-19 edition of the *Uniform Standards of Professional Appraisal Practice***

**Issued: August 16, 2016  
Comment Deadline: October 14, 2016**

Each section of this exposure draft begins with a rationale for the proposed changes to USPAP. The rationale is identified as such and does not have line numbering. Where proposed changes to USPAP are noted, the exposure draft contains line numbers. This difference is intended to distinguish for the reader those parts that explain the changes to USPAP from the proposed changes themselves.

When commenting on various aspects of the exposure draft, it is very helpful to reference the line numbers, fully explain the reasons for concern or support, provide examples or illustrations, and suggest any alternatives or additional issues that the ASB should consider.

Unless otherwise noted, where text is proposed to be deleted from USPAP, that text is shown as strikethrough. For example: ~~This is strikethrough text proposed for deletion.~~ Text that is proposed to be added to USPAP is underscored. For example: This is text proposed for insertion.

This exposure draft includes proposed revisions to USPAP and creation of a new Advisory Opinion. After considering the responses received during the exposure period the ASB will deliberate over the various proposals. The Board intends to issue a Third Exposure Draft later this year.

For ease in identifying the various issues being addressed, the exposure draft is presented in sections.

NOTE: Footnotes are not shown in the proposed revisions presented in this document. Any revisions adopted to USPAP will incorporate updates to applicable footnotes in the 2018-19 USPAP publication.

If the proposed revisions are adopted, it will necessitate administrative edits throughout USPAP.

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<b>Section 1:     Definition of Report and Edits to the ETHICS RULE and the RECORD KEEPING RULE</b>
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## **RATIONALE**

The ASB has heard concerns about the definition of report for some time. Enforcement officials and others have voiced concerns about appraisers who issue multiple documents (some with a signed certification) in an assignment and then attempt to disavow responsibility for prior iterations because they were not transmitted “upon completion of the assignment” as specified in the current USPAP definition of report. This claim has been made even in cases where the earlier version was submitted as a report with a signed certification and later revised.

The determining factor in the current definition of report in USPAP is “upon completion of the assignment.” Given that definition, any communication transmitted to the client prior to completion of the assignment is not a report. If a communication, intended to be a report, is superseded by a subsequent document, then by the current definition, the first document was not a report (because it was not transmitted upon completion of the assignment).

When an assignment is complete depends on various factors and upon the perspective of a given party. Appraisers usually consider an assignment complete when they sign or communicate the report to the client, whereas clients have commented that an assignment is not complete until they review and approve or accept a report. In studying the overall concept of reporting, the ASB concluded that it is important to address all communications of assignment results regardless of where an appraiser is in the process.

The ASB has received many comments that emphasized the importance of preliminary communications in complex assignments. These comments came from appraisers in all disciplines. USPAP does not currently address communications of assignment results prior to completion of the assignment, thus such communications have no requirements other than to comply with the general requirements in the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE. The RECORD KEEPING RULE requires retention of all reports; however, anything transmitted prior to completion of the assignment is not a report.

The ASB is proposing linking the definition of a report to when the report is communicated with a signed certification. By signing a certification, the appraiser is representing to the client that the document is a report. With the proposed revisions to the definition, any communication of a portion of an appraiser’s opinions or analyses performed as part of an appraisal or appraisal review assignment is not a report, thus not subject to reporting Standards, unless it includes a signed certification. However, when communicating portions of opinions or analyses performed as part of an assignment, the appraiser would still be required to comply with the ETHICS RULE, the COMPETENCY RULE and the JURISDICTIONAL EXCEPTION RULE.

A number of stakeholders have expressed concern that this proposal could result in an increased number of clients requesting a draft prior to the appraiser submitting the final report. Over the years there have been reports of mortgage lenders using their appraiser’s preliminary findings in

order to shop for an appraisal that will allow them to make their loan. This act is expressly prohibited by federal lending laws and its enforcement is outside the purview of the ASB.

The changes now proposed by the ASB would place an obligation on appraisers to make it clear that the document they are submitting is not a report, but rather a preliminary document. If a client relies upon one of these preliminary documents, the document communicated to the client and the copy in the workfile would be clearly marked as being preliminary in nature and subject to change.

Currently, USPAP does not specifically require that preliminary communications be retained. This decision is left to the discretion of the appraiser or applicable laws, regulations, or requirements of professional appraisal organizations. The ASB received stakeholder input from some associations and jurisdictions indicating that they have set requirements with regard to preliminary communications and document retention. As with all services an appraiser provides, it is the appraiser's responsibility to be aware of and comply with all applicable standards, guidelines, and requirements in addition to those required by USPAP. This exposure draft also includes a proposed addition to the RECORD KEEPING RULE that would require retention of a copy of any communication of assignment results unless and until it is superseded.

In order to maintain public trust, the ASB is also proposing that all communications of preliminary assignment results be clearly identified as such (e.g., draft, preliminary, subject to change, etc.); to do otherwise could be misleading. A change proposed to the Conduct section of the ETHICS RULE specifically addresses this.

In addition, there is a proposed edit to the RECORD KEEPING RULE regarding the workfile content that is required in support of an oral report. Like any other appraisal or appraisal review assignment, an assignment with an oral report requires a scope of work that is sufficient to produce credible assignment results. Currently, there is a requirement that the workfile for a Restricted Appraisal Report be sufficient to produce an Appraisal Report. The proposed edit clarifies that an oral report's additional workfile requirements (i.e., summaries of oral reports or testimony or a transcript of testimony and the certification) are not a substitute for the requirement to include "all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with USPAP..." The ASB proposes to make it a clear requirement that the workfile for an oral report, which per the Standards Rules must address the substantive matters covered in an Appraisal Report or Appraisal Review Report, is consistent with that of a Restricted Appraisal Report. This edit also includes a minor formatting change.

## DEFINITIONS

- 1 **REPORT:** any written communication, ~~written or oral~~, of an appraisal or appraisal review that is
- 2 transmitted with a signed certification to the client or a party authorized by the client; upon
- 3 completion of an assignment or any oral communication of an appraisal or appraisal review that is
- 4 transmitted to the client or a party authorized by the client in an assignment for which a written
- 5 report is not transmitted.



6        Comment: Most reports are written and most clients mandate written reports. Oral  
7        report requirements (see the RECORD KEEPING RULE) are included to cover  
8        court testimony and other oral communications of an appraisal or appraisal review.

## ETHICS RULE

### 9    Conduct:

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

12    **An appraiser:**

- 13        •    **must not perform an assignment with bias;**
- 14        •    **must not advocate the cause or interest of any party or issue;**
- 15        •    **must not accept an assignment that includes the reporting of predetermined opinions**  
16        **and conclusions;**
- 17        •    **must not misrepresent his or her role when providing valuation services that are**  
18        **outside of appraisal practice;**
- 19        •    **must not communicate assignment results with the intent to mislead or to defraud;**
- 20        •    **must not use or communicate a report or assignment results known by the appraiser**  
21        **to be misleading or fraudulent;**
- 22        •    **must not knowingly permit an employee or other person to communicate a report or**  
23        **assignment results that are misleading or fraudulent-report;**
- 24        •    **must not communicate all or any portion of assignment results, except in a report,**  
25        **without clearly and conspicuously disclosing that the communication is preliminary**  
26        **(e.g., draft, preliminary, subject to change, etc.);**
- 27        •    **must not use or rely on unsupported conclusions relating to characteristics such as**  
28        **race, color, religion, national origin, gender, marital status, familial status, age,**  
29        **receipt of public assistance income, handicap, or an unsupported conclusion that**  
30        **homogeneity of such characteristics is necessary to maximize value;**
- 31        •    **must not engage in criminal conduct;**
- 32        •    **must not willfully or knowingly violate the requirements of the RECORD KEEPING**  
33        **RULE; and**
- 34        •    **must not perform an assignment in a grossly negligent manner.**

Comment: Development standards (1-1, 3-1, 6-1, 7-1 and 9-1) address the requirement that “an appraiser must not render appraisal services in a careless or negligent manner.” The above requirement deals with an appraiser being grossly negligent in performing an assignment which would be a violation of the Conduct section of the ETHICS RULE.

**If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in each subsequent report certification:**

- **any current or prospective interest in the subject property or parties involved; and**
- **any services regarding the subject property performed by the appraiser within the three-year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.**

Comment: Disclosing the fact that the appraiser has previously appraised the property is permitted except in the case when an appraiser has agreed with the client to keep the mere occurrence of a prior assignment confidential. If an appraiser has agreed with a client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignments that fall within the three-year period.

## **RECORD KEEPING RULE**

**An appraiser must prepare a workfile for each appraisal or appraisal review assignment. A workfile must be in existence prior to the issuance of any report or other communication of assignment results. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.**

**The workfile must include:**

- **the name of the client and the identity, by name or type, of any other intended users;**
- **true copies of all written reports, documented on any type of media. (A true copy is a replica of the report transmitted to the client. A photocopy or an electronic copy of the entire report transmitted to the client satisfies the requirement of a true copy.);**
- **summaries of all 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 USPAP, or references to the location(s) of such other data, information, and documentation; and**
- **true copies of all preliminary communications of assignment results transmitted to clients or parties authorized by the client, documented on any type of media, unless**

69 and until such communication is superseded by a subsequent communication or  
70 report.

- 71 • ~~a workfile in support of a Restricted Appraisal Report must be sufficient for the~~  
72 ~~appraiser to produce an Appraisal Report.~~

73 A workfile in support of a Restricted Appraisal Report or an oral appraisal report must be  
74 sufficient for the appraiser to produce an Appraisal Report. A workfile in support of an oral  
75 appraisal review report must be sufficient for the appraiser to produce an Appraisal Review  
76 Report.

77 An appraiser must retain the workfile for a period of at least five years after preparation or  
78 at least two years after final disposition of any judicial proceeding in which the appraiser  
79 provided testimony related to the assignment, whichever period expires last.

80 An appraiser must have custody of the workfile, or make appropriate workfile retention,  
81 access, and retrieval arrangements with the party having custody of the workfile. This  
82 includes ensuring that a workfile is stored in a medium that is retrievable by the appraiser  
83 throughout the prescribed record retention period.

84 An appraiser having custody of a workfile must allow other appraisers with workfile  
85 obligations related to an assignment appropriate access and retrieval for the purpose of:

- 86 • submission to state appraiser regulatory agencies;  
87 • compliance with due process of law;  
88 • submission to a duly authorized professional peer review committee; or  
89 • compliance with retrieval arrangements.

90 Comment: A workfile must be made available by the appraiser when required by a state  
91 appraiser regulatory agency or due process of law.

92 An appraiser who willfully or knowingly fails to comply with the obligations of this  
93 RECORD KEEPING RULE is in violation of the ETHICS RULE.

## **Section 2: Definitions of Assignment, Intended Use, and Intended User, and related edits to the COMPETENCY RULE**

### **RATIONALE**

The USPAP definitions of intended use and intended user include the phrase, “on the basis of communication with the client at the time of the assignment.” Because the USPAP definition of assignment includes both: (1) the agreement; and (2) the valuation service, there have been many questions about the timeframe referred to by “at the time of the assignment.”

This is important because appraisers cite USPAP in support of differing opinions about what must be done in the event of changes during a valuation service. For some, the USPAP definitions of intended use and intended user seem to prohibit changes after a specific point in the appraisal process. Others believe that the SCOPE OF WORK RULE permits the appraiser flexibility in how to respond to new information. One of the reasons for the differing interpretations is confusion about whether “at the time of the assignment” means the time of the agreement or the period of time during which the valuation service is being performed.

To clarify, the ASB is proposing to revise the USPAP definition of assignment so that the term will refer only to the valuation service.

A modification to the USPAP definitions of intended use and intended user is also being proposed for clarity and consistency.

In addition, the ASB is proposing different wording for the phrase, “at the time of the assignment,” where it occurs in the Being Competent section of the COMPETENCY RULE.

These proposed changes would confirm that the appraiser has flexibility to modify the scope of work based upon information or conditions discovered during a valuation service. The SCOPE OF WORK RULE states, in part: “Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.” Advisory Opinion 36, *Identification and Disclosure of Client, Intended Use, and Intended Users*, offers more detail, as follows: “If, during the assignment, an appraiser becomes aware of a change in the intended use, the appraiser must consider whether the extent of the development process and report content initially planned are still appropriate. If they are not, the appraiser must make the necessary changes.” USPAP does not prescribe business practices and does not specify the timeframe when changes may be made. USPAP neither requires nor prohibits an appraiser from changing or renegotiating an agreement if a client makes changes to assignment elements after the appraiser has begun work. What USPAP does require is the appraiser take responsibility to ensure that the scope of work for each assignment is sufficient to produce credible assignment results.

If these changes to USPAP are adopted, other minor edits for the purpose of clarity may be made to USPAP, the Advisory Opinions and Frequently Asked Questions prior to publication of the next edition.

## DEFINITIONS

**ASSIGNMENT:** ~~1) An agreement between an appraiser and a client to provide a valuation service; 2) the a valuation service that is provided by an appraiser as a consequence of an agreement with a client such an agreement.~~

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

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

## COMPETENCY RULE

### Being Competent

Prior to agreeing to perform an assignment, an~~The appraiser must determine, prior to accepting an assignment,~~ that he or she can perform the assignment competently. Competency requires:

1. the ability to properly identify the problem to be addressed;
2. the knowledge and experience to complete the assignment competently; and
3. recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.

Comment: Competency may apply to factors such as, but not limited to, an appraiser's familiarity with a specific type of property or asset, a market, a geographic area, an intended use, specific laws and regulations, or an analytical method. If such a factor is necessary for an appraiser to develop credible assignment results, the appraiser is responsible for having the competency to address that factor or for following the steps outlined below to satisfy this COMPETENCY RULE.

For assignments with retrospective opinions and conclusions, the appraiser must meet the requirements of this COMPETENCY RULE at the time ~~of~~ the assignment is performed, rather than the effective date.

### Section 3: Definitions of Assumption and Extraordinary Assumption

#### RATIONALE:

After receiving comments from stakeholders about difficulties in understanding and explaining the term, extraordinary assumption, the ASB explored the idea of replacing the term and refining its definition. It was also suggested that the ASB review the term and definition of assumption to help distinguish common, ordinary assignment conditions from those, which require clear and conspicuous disclosure. However, many comments in response to the First Exposure Draft indicated that clarifications of the definitions would be more helpful than introducing new terminology. The ASB is therefore proposing the following revisions to the DEFINITIONS without changing the terms themselves.

An extraordinary assumption requires the appraiser to give clear and cautionary notice to the client and other intended users because of a significant element of uncertainty in the appraiser's opinions and conclusions. This uncertainty is due to an identified factor, which the appraiser cannot reasonably be expected to prove true or false. Identifying an extraordinary assumption serves as a red flag that is required to be disclosed clearly and conspicuously in the report since if the extraordinary assumption is found to be untrue, it could affect the appraiser's assignment results.

In contrast, in every appraisal under ordinary conditions the appraiser makes assumptions that are based upon customary facts and circumstances.

#### DEFINITIONS

122 **ASSUMPTION:** that which is ~~taken to be true~~. generally accepted as true and that the appraiser  
123 has no reason to doubt, but which, if found to be false, could alter the appraiser's opinions and  
124 conclusions.

125 **EXTRAORDINARY ASSUMPTION:** an assignment-specific assumption, ~~directly related to a~~  
126 ~~specific assignment~~, as of the effective date of the assignment results, regarding the subject  
127 property, relevant conditions external to the subject property, or the integrity of the data used in  
128 the analysis, about which the appraiser has reasonable cause for uncertainty and which, if found to  
129 be false, could alter the appraiser's opinions or conclusions affect the assignment results.

130 Comment: Extraordinary assumptions ~~presume as fact otherwise uncertain information~~  
131 ~~about physical, legal, or economic characteristics of the subject property; or about~~  
132 ~~conditions external to the property, such as market conditions or trends; or about the~~  
133 ~~integrity of data used in an analysis.~~ require clear and conspicuous disclosure in reports  
134 because they presume as fact otherwise uncertain information.

**Section 4: STANDARD 3 – Dividing into STANDARD 3, *Appraisal Review, Development* and STANDARD 4, *Appraisal Review, Reporting***

**RATIONALE:**

The ASB is proposing splitting STANDARD 3 into separate development and reporting standards like those for real property appraisal (STANDARDS 1 and 2), personal property appraisal (STANDARDS 7 and 8), and business appraisal (STANDARDS 9 and 10). In addition, the ASB is proposing a change to the definition of appraisal review; the proposed change to the definition would result in a definition that is parallel to the definition of appraisal.

Dividing STANDARD 3 into two standards adds to the overall consistency of USPAP and the end result would be a document that is easier to understand. With this division, STANDARD 3, *Appraisal Review, Development*, would include what is now Standards Rules 3-1, 3-2, and 3-3. STANDARD 4, *Appraisal Review, Reporting*, would include what is now Standards Rules 3-4, 3-5, 3-6, and 3-7. In addition, the wording at the beginning of each of these standards has been edited to be consistent with the other standards.

The ASB is proposing the following edit to the definition of Appraisal Review:

135 **APPRAISAL REVIEW:** (noun) the act or process of developing and communicating an opinion  
136 about the quality of another appraiser's work that was performed as part of an appraisal or appraisal  
137 review assignment; (adjective) of or pertaining to an opinion about the quality of another  
138 appraiser's work that was performed as part of an appraisal or appraisal review assignment.

139 Comment: The subject of an appraisal review assignment may be all or part of a  
140 report, workfile, or a combination of these.

Due to the extent of the proposed changes to STANDARD 3 and the proposed addition of STANDARD 4, the specific edits are not shown in underscore and strikethrough. Changes to STANDARD 6 and a proposed new STANDARD 5 are included in another section of this exposure draft. If those revisions are adopted, the references in STANDARD 3 will be edited accordingly.

**STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT**

**In developing an appraisal review, an appraiser must identify the problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete research and analyses necessary to produce a credible appraisal review.**

Comment: STANDARD 3 is directed toward the substantive aspects of developing a credible opinion of the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment. The requirements set forth in STANDARD 3 generally follow the appraisal review development process in the order of topics addressed and can be used by appraisers and the users of appraisal services as a convenient checklist.

In this Standard, the term "reviewer" is used to refer to an appraiser performing an appraisal review.

**Standards Rule 3-1**

**In developing an appraisal review, the reviewer must:**

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

Comment: Changes and developments in economics, finance, law, technology, and society can have a substantial impact on the appraisal profession. 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. Each appraiser must continuously improve his or her skills to remain proficient in appraisal review.

The reviewer must have the knowledge and experience needed to identify and perform the scope of work necessary to produce credible assignment results. Aspects of competency for an appraisal review, depending on the review assignment's scope of work, may include, without limitation, familiarity with the specific type of property or asset, market, geographic area, analytic method, and applicable laws, regulations and guidelines.

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

Comment: A reviewer must use sufficient care to avoid errors that would significantly affect his or her opinions and conclusions. Diligence is required to identify and analyze the factors, conditions, data, and other information that would have a significant effect on the credibility of the assignment results.



- (c) **not render appraisal review services in a careless or negligent manner, such as making a series of errors that, although individually might not significantly affect the results of an appraisal review, in the aggregate affects the credibility of those results.**

Comment: Perfection is impossible to attain, and competence does not require perfection. However, an appraiser must not render appraisal review services in a careless or negligent manner. This Standards Rule requires a reviewer to use due diligence and due care.

### **Standards Rule 3-2**

**In developing an appraisal review, the reviewer must:**

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

Comment: A reviewer must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased. A reviewer must not advocate for a client's objectives.

The intended use refers to the use of the reviewer's opinions and conclusions by the client and other intended users; examples include, without limitation, quality control, audit, qualification, or confirmation.

- (c) **identify the purpose of the appraisal review, including whether the assignment includes the development of the reviewer's own opinion of value or review opinion related to the work under review;**

Comment: The purpose of an appraisal review assignment relates to the reviewer's objective; examples include, without limitation, to determine if the results of the work under review are credible for the intended user's intended use, or to evaluate compliance with relevant USPAP requirements, client requirements, or applicable regulations.

In the review of an appraisal assignment, the reviewer may provide an opinion of value for the property that is the subject of the work under review.

In the review of an appraisal review assignment, the reviewer may provide an opinion of quality of the work that is the subject of the appraisal review assignment.

- (d) **identify the work under review and the characteristics of that work which are relevant to the intended use and purpose of the appraisal review, including:**

- (i) **any ownership interest in the property that is the subject of the work under review;**

208 (ii) the date of the work under review and the effective date of the opinions or  
209 conclusions in the work under review;

210 (iii) the appraiser(s) who completed the work under review, unless the identity is  
211 withheld by the client; and

212 (iv) the physical, legal, and economic characteristics of the property, properties,  
213 property type(s), or market area in the work under review.

214 Comment: The subject of an appraisal review assignment may be all or part of a  
215 report, a workfile, or a combination of these, and may be related to an appraisal or  
216 appraisal review assignment.

217 (e) identify any extraordinary assumptions necessary in the review assignment;

218 Comment: An extraordinary assumption may be used in a review assignment only  
219 if:

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

225 (f) identify any hypothetical conditions necessary in the review assignment; and

226 Comment: A hypothetical condition may be used in a review assignment only if:

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

232 (g) determine the scope of work necessary to produce credible assignment results in  
233 accordance with the SCOPE OF WORK RULE.

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

236 Information that should have been considered by the original appraiser can be used  
237 by the reviewer in developing an opinion as to the quality of the work under review.

238 Information that was not available to the original appraiser in the normal course of  
239 business may also be used by the reviewer; however, the reviewer must not use

such information in the reviewer's development of an opinion as to the quality of the work under review.

**Standards Rule 3-3**

**In developing an appraisal review, a reviewer must apply the appraisal review methods and techniques that are necessary for credible assignment results.**

**(a) When necessary for credible assignment results in the review of analyses, opinions, and conclusions, the reviewer must:**

**(i) develop an opinion as to whether the analyses are appropriate within the context of the requirements applicable to that work;**

**(ii) develop an opinion as to whether the opinions and conclusions are credible within the context of the requirements applicable to that work; and**

**(iii) develop the reasons for any disagreement.**

Comment: Consistent with the reviewer's scope of work, the reviewer is required to develop an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the analysis in the work under review, given law, regulations, or intended user requirements applicable to the work under review.

**(b) When necessary for credible assignment results in the review of a report, the reviewer must:**

**(i) develop an opinion as to whether the report is appropriate and not misleading within the context of the requirements applicable to that work; and**

**(ii) develop the reasons for any disagreement.**

Comment: Consistent with the reviewer's scope of work, the reviewer is required to develop an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the report, given law, regulations, or intended user requirements applicable to that work.

**(c) When the assignment includes the reviewer developing his or her own opinion of value or review opinion, the following apply:**

**(i) The requirements of STANDARDS 1, 6, 7, or 9 apply to the reviewer's opinion of value for the property that is the subject of the appraisal review assignment.**

**(ii) The requirements of STANDARD 3 apply to the reviewer's opinion of quality for the work that is the subject of the appraisal review assignment.**

271 Comment: These requirements apply to:

- 272 • The reviewer's own opinion of value when the subject of the review is the
- 273 product of an appraisal assignment; or
- 274 • The reviewer's own opinion regarding the work reviewed by another when
- 275 the subject of the review is the product of an appraisal review assignment.

276 These requirements apply whether the reviewer's own opinion:

- 277 • concurs with the opinions and conclusions in the work under review; or
- 278 • differs from the opinion and conclusions in the work under review.

279 When the assignment includes the reviewer developing his or her own opinion of

280 value or review opinion, the following apply:

- 281 • The reviewer's scope of work in developing his or her own opinion of value
- 282 or review opinion may be different from that of the work under review.
- 283 • The effective date of the reviewer's opinion of value may be the same or
- 284 different from the effective date of the work under review.
- 285 • The reviewer is not required to replicate the steps completed by the original
- 286 appraiser. Those items in the work under review that the reviewer concludes
- 287 are credible can be extended to the reviewer's development process on the
- 288 basis of an extraordinary assumption. Those items not deemed to be
- 289 credible must be replaced with information or analysis developed in
- 290 conformance with STANDARD 1, 3, 6, 7, or 9, as applicable, to produce
- 291 credible assignment results.

#### 292 **STANDARD 4: APPRAISAL REVIEW, REPORTING**

293 **In reporting the results of an appraisal review, an appraiser must communicate each**

294 **analysis, opinion, and conclusion in a manner that is not misleading.**

295 Comment: STANDARD 4 addresses the content and level of information required

296 in a report that communicates the results of an appraisal review.

297 STANDARD 4 does not dictate the form, format, or style of appraisal review

298 reports. The form, format, and style of a report are functions of the needs of

299 intended users and appraisers. The substantive content of a report determines its

300 compliance.

#### 301 **Standards Rule 4-1**

302 **Each written or oral Appraisal Review Report must be separate from the work under review**

303 **and must:**

- (a) clearly and accurately set forth the appraisal review in a manner that will not be misleading;
- (b) contain sufficient information to enable the intended users of the appraisal review to understand the report properly; and
- (c) clearly and accurately disclose all assumptions, extraordinary assumptions, and hypothetical conditions used in the assignment.

Comment: An Appraisal Review Report communicates the results of an appraisal review, which can have as its subject another appraiser's work in an appraisal or appraisal review assignment.

#### **Standards Rule 4-2**

The report content and level of information in the Appraisal Review Report is specific to the needs of the client, other intended users, the intended use, and requirements applicable to the assignment. The reporting requirements set forth in this Standard are the minimum for an Appraisal Review Report. An appraiser must supplement a report form, when necessary, to ensure that any intended user of the appraiser review is not misled and that the report complies with the applicable content requirements set forth in this Standards Rule.

**The content of an Appraisal Review Report must be consistent with the intended use of the appraisal review and, at a minimum:**

- (a) state the identity of the client, unless the client has specifically requested otherwise; state the identity of any intended users by name or type;

Comment: An appraiser must use care when identifying the client to avoid violations of the Confidentiality section of the ETHICS RULE. If a client requests that their identity be withheld from the report, the appraiser may comply with this request. In these instances, the appraiser must document the identity of the client in the workfile and must state in the report that the identity of the client has been withheld at the client's request.

- (b) state the intended use of the appraisal review;
- (c) state the purpose of the appraisal review;
- (d) state information sufficient to identify:
- (i) the work under review, including any ownership interest in the property that is the subject of the work under review;
  - (ii) the date of the work under review;
  - (iii) the effective date of the opinions or conclusions in the work under review; and

(iv) the appraiser(s) who completed the work under review, unless the identity is withheld by the client.

Comment: If the identity of the appraiser(s) in the work under review is withheld by the client, that fact must be stated in the appraisal review report.

(e) state the date of the appraisal review report;

(f) clearly and conspicuously:

- state all extraordinary assumptions and hypothetical conditions; and
- state that their use might have affected the assignment results.

(g) state the scope of work used to develop the appraisal review;

Comment: Because intended users' reliance on an appraisal review may be affected by the scope of work, the appraisal review report must enable them to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

When any portion of the work involves significant appraisal or appraisal review assistance, the reviewer must state the extent of that assistance. The name(s) of those providing the significant assistance must be stated in the certification, in accordance with Standards Rule 4-3.

(h) state the reviewer's opinions and conclusions about the work under review, including the reasons for any disagreement;

Comment: The report must provide sufficient information to enable the client and intended users to understand the rationale for the reviewer's opinions and conclusions.

(i) when the scope of work includes the reviewer's development of an opinion of value or review opinion related to the work under review, the reviewer must:

(i) state which information, analyses, opinions, and conclusions in the work under review that the reviewer accepted as credible and used in developing the reviewer's opinion and conclusions;

(ii) if applicable, state the effective date of the reviewer's opinion of value;

(iii) at a minimum, summarize any additional information relied on and the reasoning for the reviewer's opinion of value or review opinion related to the work under review;

(iv) clearly and conspicuously:

- state all extraordinary assumptions and hypothetical conditions connected with the reviewer's opinion of value or review opinion related to the work under review; and
- state that their use might have affected the assignment results.

Comment: The reviewer may include his or her own opinion of value or review opinion related to the work under review within the appraisal review report itself without preparing a separate report. However, data and analyses provided by the reviewer to support a different opinion or conclusion must match, at a minimum, except for the certification requirements, the reporting requirements for an:

- Appraisal Report for a real property appraisal (Standards Rule 2-2(a));
- Appraisal Report for a personal property appraisal (Standards Rule 8-2(a));
- Appraisal Review Report for an appraisal review (Standards Rule 4-2);
- Mass Appraisal Report for mass appraisal (Standards Rule 6-8); and
- Appraisal Report for business appraisal (Standards Rule 10-2(a)).

(j) include a signed certification in accordance with Standards Rule 4-3.

#### **Standards Rule 4-3**

**Each written Appraisal Review 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 the work under review and no (or the specified) personal interest with respect to the parties involved.
- I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of the work under review within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of the work under review 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 this review or from its use.

- my compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results or assignment results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal 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 have (or have not) made a personal inspection of the subject of the work under review. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the subject of the work under review.) (For reviews of a business or intangible asset appraisal assignment, the inspection portion of the certification is not applicable.)
- no one provided significant appraisal or appraisal review assistance to the person signing this certification. (If there are exceptions, the name of each individual(s) providing appraisal or appraisal review assistance must be stated.)

Comment: A signed certification is an integral part of the Appraisal Review Report. A reviewer who signs any part of the appraisal review report, including a letter of transmittal, must also sign the certification.

Any reviewer who signs a certification accepts responsibility for all elements of the certification, for the assignment results, and for the contents of the Appraisal Review Report.

Appraisal review is distinctly different from the cosigning activity addressed in Standards Rules 2-3, 6-9, 8-3, and 10-3. 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 accept responsibility as a cosigner of that work.

When a signing appraiser has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser is required to have a reasonable basis for believing that those individuals performing the work are competent. The signing appraiser also must have no reason to doubt that the work of those individuals is credible.

The names of individuals providing significant appraisal or appraisal review assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards Rule 4-2(g).



444 **Standards Rule 4-4**

445 **To the extent that it is both possible and appropriate, an oral Appraisal Review Report must**  
446 **address the substantive matters set forth in Standards Rule 4-2.**

447 Comment: See the RECORD KEEPING RULE for corresponding requirements.

<b>Section 5:     Dividing STANDARD 6, <i>Mass Appraisal</i>, into STANDARD 5, <i>Mass Appraisal, Development</i> and STANDARD 6, <i>Mass Appraisal, Reporting</i></b>
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## **RATIONALE**

Appraisal practice is a continually evolving process. One of the ASB's responsibilities is to periodically review each of the standards in order to determine whether or not it properly addresses the current development methods and report content for the particular discipline.

In the First Exposure Draft of proposed revisions for the 2018-19 edition of USPAP, the ASB exposed the fact that it is examining STANDARD 6 and the concept of splitting STANDARD 6 into two standards, one for development and one for reporting. The development standard was exposed as a newly proposed STANDARD 5.

As part of the examination of the current STANDARD 6, the ASB received input from a working group of mass appraisers, including ad valorem appraisers. The working group was charged with reviewing STANDARD 6 for possible edits or revisions. The group was also asked to offer an opinion as to whether or not STANDARD 6 should be split into separate development and reporting standards like those for real property appraisal (STANDARDS 1 and 2), personal property appraisal (STANDARDS 7 and 8), and business appraisal (STANDARDS 9 and 10).

The mass appraisal working group was in favor of dividing STANDARD 6 into separate development and reporting standards, and this concept continues to be exposed in this exposure draft. The First Exposure Draft also included wording changes relating to reporting that makes the mass appraisal reporting standard more consistent with the other reporting standards. For example, the requirement to summarize rather than describe is being proposed as being more appropriate for mass appraisal reporting. This is also consistent with the requirements for an Appraisal Report.

Changes in the Standards Rule numbers and required additions to make the separate standards similar to the other paired standards are not shown in strikethrough and underscore format. The proposed STANDARD 5, *Mass Appraisal, Development*, includes what is currently Standards Rules 6-1, 6-2, 6-3, 6-4, 6-5, 6-6, and 6-7.

The proposed STANDARD 6, *Mass Appraisal, Reporting*, includes the current Standards Rules 6-8 and 6-9, which are renumbered as Standards Rules 6-2 and 6-3. Proposed significant changes made within Standards Rule 6-2 (current Standards Rule 6-8) are in strikethrough and underscore format.

Standards Rule 6-1 contains wording and requirements similar to the other reporting standards (Standards Rules 2-1, 8-1, and 10-1). In addition, the wording at the beginning of each of these two standards has been inserted or edited to be consistent with the others.

The proposed new STANDARD 5 and STANDARD 6 follow; there were no changes made in the content from what was contained in the First Exposure Draft. The ASB received few comments on the proposed changes, but all that were received were positive.

If the ASB adopts the proposed changes to STANDARD 6, Advisory Opinion 32, *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*, (AO-32), will also require edits. Further, as AO-32 has not been reviewed or updated since its inception, some additional changes to AO-32 may be proposed. All such changes will be exposed prior to acceptance by the ASB.

## STANDARD 5: MASS APPRAISAL, DEVELOPMENT

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

Comment: STANDARD 5 applies to all mass appraisals of real or personal property regardless of the purpose or use of such appraisal. STANDARD 5 is directed toward the substantive aspects of developing credible analyses, opinions, and conclusions in the mass appraisal of properties. The jurisdictional exceptions applicable to public mass appraisals prepared for ad valorem taxation do not apply to mass appraisals prepared for other purposes.

A mass appraisal includes:

- 1) identifying properties to be appraised;
- 2) defining market area of consistent behavior that applies to properties;
- 3) identifying characteristics (supply and demand) that affect the creation of value in that market area;
- 4) developing a model structure that reflects the relationship among the characteristics affecting value in the market area;
- 5) calibrating the model structure to determine the contribution of the individual characteristics affecting value;
- 6) applying the conclusions reflected in the model to the characteristics of the property(ies) being appraised; and
- 7) reviewing the mass appraisal results.

The JURISDICTIONAL EXCEPTION RULE may apply to several sections of STANDARD 5 because ad valorem tax administration is subject to various state, county, and municipal laws.

### **Standards Rule 5-1**

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

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

Comment: Mass appraisal provides for a systematic approach and uniform application of appraisal methods and techniques to obtain estimates of value that allow for statistical review and analysis of results.

This requirement recognizes that the principle of change continues to affect the manner in which appraisers perform mass appraisals. Changes and developments

in the real property and personal property fields have a substantial impact on the appraisal profession.

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 mass appraisal.

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

Comment: An appraiser must use sufficient care to avoid errors that would significantly affect his or her opinions and conclusions. Diligence is required to identify and analyze the factors, conditions, data, and other information that would have a significant effect on the credibility of the assignment results.

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

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 Standards Rule requires an appraiser to use due diligence and due care.

## **Standards Rule 5-2**

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

- (a) **identify the client and other intended users;**

Comment: It is the appraiser's responsibility to identify the client and other intended users. In ad valorem mass appraisal, the assessor, or party responsible for certification of the assessment or tax role is required to apply the relevant law or statute and identify the client and other intended users (if any).

- (b) **identify the intended use of the appraisal;**

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

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

- (i) **in terms of cash; or**

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

519           Comment: For certain types of appraisal assignments in which a legal definition of  
520           market value has been established and takes precedence, the JURISDICTIONAL  
521           EXCEPTION RULE may apply.

- 522    **(d)     identify the effective date of the appraisal;**  
523    **(e)     identify the characteristics of the properties that are relevant to the type and**  
524           **definition of value and intended use, including:**  
525                **(i)     the group with which a property is identified according to similar market**  
526                **influence;**  
527                **(ii)    the appropriate market area and time frame relative to the property being**  
528                **valued; and**  
529                **(iii)   their location and physical, legal, and economic characteristics;**

530           Comment: The properties must be identified in general terms, and each individual  
531           property in the universe must be identified, with the information on its identity  
532           stored or referenced in its property record.

533           When appraising proposed improvements, an appraiser must examine and have  
534           available for future examination, plans, specifications, or other documentation  
535           sufficient to identify the extent and character of the proposed improvements.

536           Ordinarily, proposed improvements are not appraised for ad valorem tax purposes.  
537           Appraisers, however, are sometimes asked to provide opinions of value of proposed  
538           improvements so that developers can estimate future property tax burdens.  
539           Sometimes units in condominiums and planned unit developments are sold with an  
540           interest in un-built community property, the pro rata value of which, if any, must  
541           be considered in the analysis of sales data.

- 542    **(f)     identify the characteristics of the market that are relevant to the purpose and**  
543           **intended use of the mass appraisal including:**  
544                **(i)     location of the market area;**

- 545           (ii)     **physical, legal, and economic attributes;**
- 546           (iii)    **time frame of market activity; and**
- 547           (iv)     **property interests reflected in the market;**
- 548   (g)     **in appraising real property or personal property:**
- 549           (i)     **identify the appropriate market area and time frame relative to the property**  
550               **being valued;**
- 551           (ii)    **when the subject is real property, identify and consider any personal property,**  
552               **trade fixtures, or intangibles that are not real property but are included in the**  
553               **appraisal;**
- 554           (iii)   **when the subject is personal property, identify and consider any real property**  
555               **or intangibles that are not personal property but are included in the appraisal;**
- 556           (iv)    **identify known easements, restrictions, encumbrances, leases, reservations,**  
557               **covenants, contracts, declarations, special assessments, ordinances, or other**  
558               **items of similar nature; and**
- 559           (v)     **identify and analyze whether an appraised fractional interest, physical**  
560               **segment, or partial holding contributes pro rata to the value of the whole;**
- 561               Comment: The above requirements do not obligate the appraiser to value  
562               the whole when the subject of the appraisal is a fractional interest, physical  
563               segment, or a partial holding. However, if the value of the whole is not  
564               identified, the appraisal must clearly reflect that the value of the property  
565               being appraised cannot be used to develop the value opinion of the whole  
566               by mathematical extension.
- 567   (h)     **analyze the relevant economic conditions at the time of the valuation, including**  
568               **market acceptability of the property and supply, demand, scarcity, or rarity;**
- 569   (i)     **identify any extraordinary assumptions and any hypothetical conditions necessary in**  
570               **the assignment; and**
- 571               Comment: An extraordinary assumption may be used in an assignment only if:
- 572               • it is required to properly develop credible opinions and conclusions;
  - 573               • the appraiser has a reasonable basis for the extraordinary assumption;
  - 574               • use of the extraordinary assumption results in a credible analysis; and
  - 575               • the appraiser complies with the disclosure requirements set forth in
  - 576               USPAP for extraordinary assumptions.

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.

- (j) **determine the scope of work necessary to produce credible assignment results in accordance with the SCOPE OF WORK RULE.**

### **Standards Rule 5-3**

**When necessary for credible assignment results, an appraiser must:**

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

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

- (b) **in appraising personal property: identify and analyze the effects on use and value of industry trends, value-in-use, and trade level of personal property. Where applicable, analyze the current use and alternative uses to encompass what is profitable, legal, and physically possible, as relevant to the type and definition of value and intended use of the appraisal. Personal property has several measurable marketplaces; therefore, the appraiser must define and analyze the appropriate market consistent with the type and definition of value.**

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

### **Standards Rule 5-4**

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



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

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

- 619 (b) **employ recognized techniques for specifying property valuation models; and**

620 Comment: The formal development of a model in a statement or equation is called  
621 model specification. Mass appraisers must develop mathematical models that, with  
622 reasonable accuracy, represent the relationship between property value and supply  
623 and demand factors, as represented by quantitative and qualitative property  
624 characteristics. The models may be specified using the cost, sales comparison, or  
625 income approaches to value. The specification format may be tabular,  
626 mathematical, linear, nonlinear, or any other structure suitable for representing the  
627 observable property characteristics. Appropriate approaches must be used in  
628 appraising a class of properties. The concept of recognized techniques applies to  
629 both real and personal property valuation models.

- 630 (c) **employ recognized techniques for calibrating mass appraisal models.**

631 Comment: Calibration refers to the process of analyzing sets of property and market  
632 data to determine the specific parameters of a model. The table entries in a cost  
633 manual are examples of calibrated parameters, as well as the coefficients in a linear  
634 or nonlinear model. Models must be calibrated using recognized techniques,  
635 including, but not limited to, multiple linear regression, nonlinear regression, and  
636 adaptive estimation.

637 **Standards Rule 5-5**

638 **In developing a mass appraisal, when necessary for credible assignment results, an appraiser**  
639 **must:**

- 640 (a) **collect, verify, and analyze such data as are necessary and appropriate to develop:**  
641 (i) **the cost new of the improvements;**  
642 (ii) **accrued depreciation;**  
643 (iii) **value of the land by sales of comparable properties;**  
644 (iv) **value of the property by sales of comparable properties;**

- (v) **value by capitalization of income or potential earnings (i.e., rentals, expenses, interest rates, capitalization rates, and vacancy data);**

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

- (b) **base estimates of capitalization rates and projections of future rental rates and/or potential earnings capacity, expenses, interest rates, and vacancy rates on reasonable and appropriate evidence;**

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

- (c) **identify and, as applicable, analyze terms and conditions of any available leases; and**  
(d) **identify the need for and extent of any physical inspection.**

**Standards Rule 5-6**

**When necessary for credible assignment results in applying a calibrated mass appraisal model an appraiser must:**

- (a) **value improved parcels by recognized methods or techniques based on the cost approach, the sales comparison approach, and income approach;**  
(b) **value sites by recognized methods or techniques; such techniques include but are not limited to the sales comparison approach, allocation method, abstraction method, capitalization of ground rent, and land residual technique;**

- (c) **when developing the value of a leased fee estate or a leasehold estate, analyze the effect on value, if any, of the terms and conditions of the lease;**

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

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

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

- (e) **when analyzing anticipated public or private improvements, located on or off the site, analyze the effect on value, if any, of such anticipated improvements to the extent they are reflected in market actions.**

#### **Standards Rule 5-7**

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

- (a) **reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability and relevance of the approaches, methods and techniques used; and**

- (b) **employ recognized mass appraisal testing procedures and techniques to ensure that standards of accuracy are maintained.**

Comment: It is implicit in mass appraisal that, even when properly specified and calibrated mass appraisal models are used, some individual value conclusions will not meet standards of reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, models produce value conclusions that meet attainable standards of accuracy. This responsibility requires appraisers to evaluate the performance of models, using techniques that may include but are not limited to, goodness-of-fit statistics, and model performance statistics such as appraisal-to-sale ratio studies, evaluation of hold-out samples, or analysis of residuals.

## **STANDARD 6: MASS APPRAISAL, REPORTING**

**A written report of a mass appraisal must clearly communicate the elements, results, opinions, and value conclusions of the appraisal.**

Comment: STANDARD 6 addresses the content and level of information required in a report that communicates the results of a mass appraisal.

STANDARD 6 does not dictate the form, format, or style of mass appraisal reports. The form, format, and style of a report are functions of the needs of intended users and appraisers. The substantive content of a report determines its compliance.

### **Standards Rule 6-1**

**Each written report of a mass appraisal 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;**

Comment: Documentation for a mass appraisal for ad valorem taxation may be in the form of (1) property records, (2) sales ratios and other statistical studies, (3) appraisal manuals and documentation, (4) market studies, (5) model building documentation, (6) regulations, (7) statutes, and (8) other acceptable forms.

- (c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment;**

Comment: The report must clearly and conspicuously:

- state all extraordinary assumptions and hypothetical conditions; and
- state that their use might have affected the assignment results.

### **Standards Rule 6-2**

**Each written report of a mass appraisal must:**

- (a) state the identity of the client, unless the client has specifically requested otherwise; state the identity of any intended users by name or type;**

Comment: An appraiser must use care when identifying the client to avoid violations of the Confidentiality section of the ETHICS RULE. If a client requests that the client's identity be withheld from the report, the appraiser may comply with this request. In these instances, the appraiser must document the identity of the

742 client in the workfile and must state in the report that the identity of the client has  
743 been withheld at the client's request.

744 (b) **state the intended use of the appraisal;**

745 (c) **disclose any assumptions or limiting conditions that result in deviation from**  
746 **recognized methods and techniques or that affect analyses, opinions, and conclusions;**

747 (d) **~~set forth~~ state the effective date of the appraisal and the date of the report;**

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

752 The effective date of the appraisal establishes the context for the value opinion,  
753 while the date of the report indicates whether the perspective of the appraiser on  
754 the market and property as of the effective date of the appraisal was prospective,  
755 current, or retrospective.

756 (e) **state the type and definition of value and cite the source of the definition;**

757 Comment: Stating the type and definition of value also requires any comments  
758 needed to clearly indicate to intended users how the definition is being applied.

759 When reporting an opinion of market value, state whether the opinion of value is:

- 760
  - In terms of cash or of financing terms equivalent to cash; or
  - Based on non-market financing with unusual conditions or incentives.761

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

765 (f) **~~identify~~ state the properties appraised including the property rights;**

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

771 (g) **~~describe~~ summarize the scope of work used to develop the appraisal; exclusion of the**  
772 **sales comparison approach, cost approach, or income approach must be explained;**

773 Comment: Because intended users' reliance on an appraisal may be affected by the  
774 scope of work, the report must enable them to be properly informed and not misled.  
775 Sufficient information includes disclosure of research and analyses performed and  
776 might also include disclosure of research and analyses not performed.

777 When any portion of the work involves significant mass appraisal assistance, the  
778 appraiser must describe the extent of that assistance. The signing appraiser must  
779 also state the name(s) of those providing the significant mass appraisal assistance  
780 in the certification, in accordance with Standards Rule 6-3.

- 781 (h) ~~describe and justify~~ summarize and support the model specification(s) considered,  
782 data requirements, and the model(s) chosen;

783 Comment: The appraiser must provide sufficient information to enable the client  
784 and intended users to have confidence that the process and procedures used  
785 conform to accepted methods and result in credible value conclusions. In the case  
786 of mass appraisal for ad valorem taxation, stability and accuracy are important to  
787 the credibility of value opinions. The report must include a summary of the  
788 rationale for each model, the calibration techniques to be used, and the performance  
789 measures to be used.

- 790 (i) ~~describe~~ summarize the procedure for collecting, validating, and reporting data;

791 Comment: The report must describe the sources of data and the data collection and  
792 validation processes. Reference to detailed data collection manuals or electronic  
793 records must be made, as appropriate, including where they may be found for  
794 inspection.

- 795 (j) ~~describe~~ summarize calibration methods considered and chosen, including the  
796 mathematical form of the final model(s); summarize how value conclusions were  
797 reviewed; and, if necessary, state the availability and location of individual value  
798 conclusions;

- 799 (k) when an opinion of highest and best use, or the appropriate market or market level  
800 was developed, ~~discuss~~ summarize how that opinion was determined;

801 Comment: The mass appraisal report must reference case law, statute, or public  
802 policy that describes highest and best use requirements. When actual use is the  
803 requirement, the report must discuss how use-value opinions were developed. The  
804 appraiser's reasoning in support of the highest and best use opinion must be  
805 provided in the depth and detail required by its significance to the appraisal.

- 806 (l) identify the appraisal performance tests used and the performance measures  
807 attained;

808 (m) ~~describe~~ summarize the reconciliation performed, in accordance with Standards Rule  
809 5-7; and

810 (n) include a signed certification in accordance with Standards Rule 6-3.

811 **Standards Rule 6-3**

812 Each written mass appraisal report must contain a signed certification that is similar in  
813 content to the following form:

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

- 815 — the statements of fact contained in this report are true and correct.
- 816 — the reported analyses, opinions, and conclusions are limited only by the
- 817 reported assumptions and limiting conditions, and are my personal, impartial,
- 818 and unbiased professional analyses, opinions, and conclusions.
- 819 — I have no (or the specified) present or prospective interest in the property that
- 820 is the subject of this report, and I have no (or the specified) personal interest
- 821 with respect to the parties involved.
- 822 — I have performed no (or the specified) services, as an appraiser or in any other
- 823 capacity, regarding the property that is the subject of this report within the
- 824 three-year period immediately preceding acceptance of this assignment.
- 825 — I have no bias with respect to any property that is the subject of this report or
- 826 to the parties involved with this assignment.
- 827 — my engagement in this assignment was not contingent upon developing or
- 828 reporting predetermined results.
- 829 — my compensation for completing this assignment is not contingent upon the
- 830 reporting of a predetermined value or direction in value that favors the cause
- 831 of the client, the amount of the value opinion, the attainment of a stipulated
- 832 result, or the occurrence of a subsequent event directly related to the intended
- 833 use of this appraisal.
- 834 — my analyses, opinions, and conclusions were developed, and this report has
- 835 been prepared, in conformity with the *Uniform Standards of Professional*
- 836 *Appraisal Practice*.
- 837 — I have (or have not) made a personal inspection of the properties that are the
- 838 subject of this report. (If more than one person signs the report, this
- 839 certification must clearly specify which individuals did and which individuals
- 840 did not make a personal inspection of the appraised property.)
- 841 — no one provided significant mass appraisal assistance to the person signing this
- 842 certification. (If there are exceptions, the name of each individual providing
- 843 significant mass appraisal assistance must be stated.)

844 Comment: The above certification is not intended to disturb an elected or appointed  
845 assessor's work plans or oaths of office. A signed certification is an integral part

of the appraisal report. An appraiser, who signs any part of the mass appraisal report, including a letter of transmittal, must also sign this certification.

In an assignment that includes only assignment results developed by the real property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes personal property assignment results not developed by the real property appraiser(s), any real property appraiser(s) who signs a certification accepts full responsibility for the real property elements of the certification, for the real property assignment results, and for the real property contents of the appraisal report.

In an assignment that includes only assignment results developed by the personal property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes real property assignment results not developed by the personal property appraiser(s), any personal property appraiser(s) who signs a certification accepts full responsibility for the personal property elements of the certification, for the personal property assignment results, and for the personal property contents of the appraisal report.

When a signing appraiser(s) has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent. The signing appraiser(s) also must have no reason to doubt that the work of those individuals is credible.

The names of individuals providing significant mass appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards Rule 6-2(g).



## **Section 6: Removing the Term Market Value from STANDARDS 7 and 8**

### **RATIONALE**

After receiving positive feedback from the First Exposure Draft, the ASB is continuing to propose a revision to Standards Rules 7-2(c), 7-5, 8-2(a)(v), 8-2(a)(viii) and 8-2(b)(viii). As currently written, these Standards Rules include requirements that are limited to developing and reporting opinions of market value.

Since the type of value in personal property appraisals is rarely market value, these references to market value may be confusing and may lead to limitations in the scope of personal property appraisal development and reporting.

The ASB is proposing to remove the market value references in the Standards Rules noted above in order to clarify that certain tasks are not limited to market value assignments but are required whenever necessary for credible assignment results.

This change has resulted in a new requirement that the personal property appraiser ascertain and state in every appraisal whether the opinion of value is in terms of cash or of financing terms equivalent to cash or if it is based on non-market financing or financing with unusual conditions or incentives.

This requirement will be met if the appraisal includes a definition of value that clearly specifies the terms and if, when an opinion of value is not in terms of cash or based on financing terms equivalent to cash, the appraiser summarizes the terms of such financing and explains their contributions to or negative influence on value.

The proposed change has resulted in a second new requirement related to the reporting of an appraiser's analysis of agreements of sale, validated offers or third-party offers to sell, options, listings or prior sales of the subject property. If it is necessary for credible assignment results that an analysis of such agreements of sales, validated offers or third-party offers to sell, options, listings or prior sales of the subject property be performed, the appraiser must perform it and must also include a summary of the analysis in the report, regardless of the type of value.

### **Standards Rule 7-2**

874 **In developing a personal property appraisal, an appraiser must:**

875 **(a) identify the client and other intended users;**

876 **(b) identify the intended use of the appraiser's opinions and conclusions;**

877 Comment: An appraiser must not allow the intended use of an assignment or a  
878 client's objectives to cause the assignment results to be biased.

879 (c) **identify the type and definition of value, and ~~If the value opinion to be developed is~~**  
880 **~~market value~~, ascertain whether the value is to be ~~the most probable price~~:**

881 (i) **in terms of cash; or**

882 (ii) **in terms of financial arrangements equivalent to cash; or**

883 (iii) **in other precisely defined terms; and**

884 (iv) **if the opinion of value is to be based on non-market financing or financing with**  
885 **unusual conditions or incentives, the terms of such financing must be clearly**  
886 **identified and the appraiser's opinion of their contributions to or negative**  
887 **influence on value must be developed by analysis of relevant market data;**

888 Comment: When reasonable exposure time is a component of the definition  
889 for the value opinion being developed, the appraiser must also develop an  
890 opinion of reasonable exposure time linked to that value opinion.

891 (d) **identify the effective date of the appraiser's opinions and conclusions;**

892 (e) **identify the characteristics of the property that are relevant to the type and definition**  
893 **of value and intended use of the appraisal, including:**

894 (i) **sufficient characteristics to establish the identity of the item including the**  
895 **method of identification;**

896 (ii) **sufficient characteristics to establish the relative quality of the item (and its**  
897 **component parts, where applicable) within its type;**

898 (iii) **all other physical and economic attributes with a material effect on value;**

899 Comment: Some examples of physical and economic characteristics include  
900 condition, style, size, quality, manufacturer, author, materials, origin, age,  
901 provenance, alterations, restorations, and obsolescence. The type of  
902 property, the type and definition of value, and intended use of the appraisal  
903 determine which characteristics have a material effect on value.

904 (iv) **the ownership interest to be valued;**

905 (v) **any known restrictions, encumbrances, leases, covenants, contracts,**  
906 **declarations, special assessments, ordinances, or other items of a similar**  
907 **nature if relevant to the assignment; and**

908 (vi) **any real property or intangible items that are not personal property but which**  
909 **are included in the appraisal;**

910 Comment on (i)–(vi): The information used by an appraiser to identify the  
911 property characteristics must be from sources the appraiser reasonably  
912 believes are reliable.

913 An appraiser may use any combination of a property inspection and  
914 documents or other resources to identify the relevant characteristics of the  
915 subject property.

916 When appraising proposed modifications, an appraiser must examine and  
917 have available for future examination, documentation sufficient to identify  
918 the extent and character of the proposed modifications.

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

921 **(f) identify any extraordinary assumptions necessary in the assignment;**

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

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

928 **(g) identify any hypothetical conditions necessary in the assignment; and**

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

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

935 **(h) determine the scope of work necessary to produce credible assignment results in**  
936 **accordance with the SCOPE OF WORK RULE.**

#### **Standards Rule 7-5**

937 **When necessary for credible assignment results ~~developing an opinion of market value~~, an**  
938 **appraiser must, if such information is available to the appraiser in the normal course of**  
939 **business:**

(a) analyze all agreements of sale, validated offers or third-party offers to sell, options, and listings of the subject property current as of the effective date of the appraisal if warranted by the intended use of the appraisal; and

(b) analyze all prior sales of the subject property that occurred within a reasonable and applicable time period if relevant given the intended use of the appraisal and property type.

Comment: The data needed for the required analyses in Standards Rule 7-5(a) and 7-5(b) may not be available or relevant in all assignments. See the Comments to Standards Rules 8-2(a)(ix) and 8-2(b)(viii) for corresponding reporting requirements.

### **Standards Rule 8-2**

**Each written personal property appraisal report must be prepared under one of the following options and prominently state which option is used: Appraisal Report or Restricted Appraisal Report.**

Comment: When the intended users include parties other than the client, an Appraisal Report must be provided. When the intended users do not include parties other than the client, a Restricted Appraisal Report may be provided.

The essential difference between these two options is in the content and level of information provided. The appropriate reporting option and the level of information necessary in the report are dependent on the intended use and intended users.

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 an Appraisal Report or Restricted Appraisal Report in order to satisfy disclosure requirements does not become an intended user of the appraisal unless the appraiser identifies such party as an intended user as part of the assignment.

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

- 972 (i) **state the identity of the client, unless the client has specifically requested**  
973 **otherwise; state the identity of any intended users by name or type;**

974 Comment: An appraiser must use care when identifying the client to avoid  
975 violations of the Confidentiality section of the ETHICS RULE. If a client requests  
976 that the client's identity be withheld from the report, the appraiser may comply with  
977 this request. In these instances, the appraiser must document the identity of the  
978 client in the workfile and must state in the report that the identity of the client has  
979 been withheld at the client's request.

980 Types of intended users of the report might include parties such as lenders,  
981 employees of government agencies, partners of a client, and a client's attorney and  
982 accountant.

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

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

- 987 (iv) **state the property interest appraised;**

- 988 (v) **state the type and definition of value and cite the source of the definition;**

989 Comment: Stating the definition of value also requires any comments needed to  
990 clearly indicate to the intended users how the definition is being applied.

991 When reporting an opinion of ~~market~~ value, state whether the opinion of value is:

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

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

998 When an opinion of reasonable exposure time has been developed in compliance  
999 with Standards Rule 7-2(c), the opinion must be stated in the report.

- 1000 (vi) **state the effective date of the appraisal and the date of the report;**

1001 Comment: The effective date of the appraisal establishes the context for the value  
1002 opinion, while the date of the report indicates whether the perspective of the

1003 appraiser on the market and property as of the effective date of the appraisal was  
1004 prospective, current, or retrospective.

1005 **(vii) summarize the scope of work used to develop the appraisal;**

1006 Comment: Because intended users' reliance on an appraisal may be affected by the  
1007 scope of work, the report must enable them to be properly informed and not misled.  
1008 Sufficient information includes disclosure of research and analyses performed and  
1009 might also include disclosure of research and analyses not performed.

1010 When any portion of the work involves significant personal property appraisal  
1011 assistance, the appraiser must summarize the extent of that assistance. The name(s)  
1012 of those providing the significant personal property appraisal assistance must be  
1013 stated in the certification, in accordance with Standards Rule 8-3.

1014 **(viii) summarize the information analyzed, the appraisal methods and techniques**  
1015 **employed, and the reasoning that supports the analyses, opinions, and**  
1016 **conclusions; exclusion of the sales comparison approach, cost approach, or**  
1017 **income approach must be explained;**

1018 Comment: An Appraisal Report must include sufficient information to indicate that  
1019 the appraiser complied with the requirements of STANDARD 7. The amount of  
1020 detail required will vary with the significance of the information to the appraisal  
1021 and with the significance of a particular object or group of objects to the overall  
1022 assignment results.

1023 ~~When reporting an opinion of market value, a summary the results of the analysis~~  
1024 ~~of the subject sales, offers, options, and listings in accordance with Standards Rule~~  
1025 ~~7-5 is necessary. When the appraiser has developed an analysis of agreements of~~  
1026 ~~sale, validated offers or third-party offers to sell, options, listings or prior sales of~~  
1027 ~~the subject property in accordance with Standards Rule 7-5, the appraiser must~~  
1028 ~~report a summary of the results of the analysis.~~ If such information was  
1029 unobtainable, a statement on the efforts undertaken by the appraiser to obtain the  
1030 information is required. If such information is irrelevant, a statement  
1031 acknowledging the existence of the information and citing its lack of relevance is  
1032 required.

1033 The appraiser must provide sufficient information to enable the client and intended  
1034 users to understand the rationale for the opinion and conclusions, including  
1035 reconciliation of the data and approaches, in accordance with Standards Rule 7-6.

1036 **(ix) state, as appropriate to the class of personal property involved, the use of the**  
1037 **property existing as of the date of value and the use of the property reflected**  
1038 **in the appraisal;**

1039 Comment: In the context of personal property, value can be a function of the current  
1040 and alternative use of the subject property, the choice of the appropriate market or  
1041 market level for the type of item, the type and definition of value, and intended use  
1042 of the report.

1043 (x) **when an opinion of the appropriate market or market level was developed by**  
1044 **the appraiser, summarize the support and rationale for that opinion;**

1045 (xi) **clearly and conspicuously:**

- 1046 • **state all extraordinary assumptions and hypothetical conditions;**
- 1047 **and**
- 1048 • **state that their use might have affected the assignment results; and**

1049 (xii) **include a signed certification in accordance with Standards Rule 8-3.**

1050 (b) **The content of a Restricted Appraisal Report must be consistent with the intended**  
1051 **use of the appraisal and, at a minimum:**

1052 (i) **state the identity of the client, unless the client has specifically requested**  
1053 **otherwise; and state a prominent use restriction that limits use of the report to**  
1054 **the client and warns that the rationale for how the appraiser arrived at the**  
1055 **opinions and conclusions set forth in the report may not be understood**  
1056 **properly without additional information in the appraiser's workfile;**

1057 Comment: An appraiser must use care when identifying the client to avoid  
1058 violations of the Confidentiality section of the ETHICS RULE. If a client requests  
1059 that the client's identity be withheld from the report, the appraiser may comply with  
1060 this request. In these instances, the appraiser must document the identity of the  
1061 client in the workfile and must state in the report that the identity of the client has  
1062 been withheld at the client's request.

1063 The Restricted Appraisal Report is for client use only. Before entering into an  
1064 agreement, the appraiser should establish with the client the situations where this  
1065 type of report is to be used and should ensure that the client understands the  
1066 restricted utility of the Restricted Appraisal Report.

1067 (ii) **state the intended use of the appraisal;**

1068 Comment: The intended use of the appraisal must be consistent with the limitation  
1069 on use of the Restricted Appraisal Report option in this Standards Rule (i.e., client  
1070 use only).

1071 (iii) **state information sufficient to identify the property involved in the appraisal;**

1072           **(iv)    state the property interest appraised;**

1073           **(v)     state the type of value and cite the source of its definition;**

1074           Comment: When an opinion of reasonable exposure time has been developed in  
1075           compliance with Standards Rule 7-2(c), the opinion must be stated in the report.

1076           **(vi)    state the effective date of the appraisal and the date of the report;**

1077           Comment: The effective date of the appraisal establishes the context for the value  
1078           opinion, while the date of the report indicates whether the perspective of the  
1079           appraiser on the market and property as of the effective date of the appraisal was  
1080           prospective, current, or retrospective.

1081           **(vii)   state the scope of work used to develop the appraisal;**

1082           Comment: Because the client's reliance on an appraisal may be affected by the  
1083           scope of work, the report must enable them to be properly informed and not misled.  
1084           Sufficient information includes disclosure of research and analyses performed and  
1085           might also include disclosure of research and analyses not performed.

1086           When any portion of the work involves significant personal property appraisal  
1087           assistance, the appraiser must state the extent of that assistance. The name(s) of  
1088           those providing the significant personal property appraisal assistance must be stated  
1089           in the certification, in accordance with Standards Rule 8-3.

1090           **(viii)   state the appraisal methods and techniques employed, state the value  
1091           opinion(s) and conclusion(s) reached, and reference the workfile; exclusion of  
1092           the sales comparison approach, cost approach, or income approach must be  
1093           explained;**

1094           Comment: An appraiser must maintain a specific, coherent workfile in support of a  
1095           Restricted Appraisal Report. The contents of the workfile must include sufficient  
1096           information to indicate that the appraiser complied with the requirements of  
1097           STANDARD 7 and for the appraiser to produce an Appraisal Report.

1098           ~~When reporting an opinion of market value,~~ Information analyzed in compliance  
1099           with Standards Rule 7-5 is significant information that must be disclosed in a  
1100           Restricted Appraisal Report. If such information was unobtainable, a statement on  
1101           the efforts undertaken by the appraiser to obtain the information is required. If such  
1102           information is irrelevant, a statement acknowledging the existence of the  
1103           information and citing its lack of relevance is required.



1104           **(ix) state, as appropriate to the class of personal property involved, the use of the**  
1105           **property existing as of the date of value and the use of the property reflected**  
1106           **in the appraisal;**

1107           Comment: In the context of personal property, value can be a function of the current  
1108           and alternative use of the subject property, the choice of the appropriate market or  
1109           market level for the type of item, the type and definition of value, and intended use  
1110           of the report.

1111           **(x) when an opinion of the appropriate market or market level was developed by**  
1112           **the appraiser, state that opinion;**

1113           **(xi) clearly and conspicuously:**

- 1114                     • state all extraordinary assumptions and hypothetical conditions; and  
1115                     • state that their use might have affected the assignment results; and

1116           **(xii) include a signed certification in accordance with Standards Rule 8-3.**

## **Section 7: Edits to the Personal Property Certification in Standards Rule 8-3**

### **RATIONALE**

The ASB is reviewing Standards Rule 8-3. As currently written, when appraisers of multiple personal property specialties collaborate in a personal property assignment, each appraiser signing the certification is responsible for all aspects of the appraisal.

This is contrary to current practice and could be misleading or confusing to the clients and users of personal property appraisal services.

The ASB is continuing to propose the addition of a paragraph to the Comment to Standards Rule 8-3. This would allow personal property appraisers to sign the certification in an assignment involving different types of items without making them accountable for the assignment results of items which they did not appraise. The Comment also adds a reporting requirement that discloses the role of each appraiser in the assignment.

In assignments of this type, because it is likely that the appraisers are not competent to appraise items outside of their specialty, this change will foster public trust in personal property appraisals.

The proposed addition to the Comment to Standards Rule 8-3 follows.

### **Standards Rule 8-3**

1117 **Each written personal property appraisal report must contain a signed certification that is**  
1118 **similar in content to the following form:**

1119 **I certify that, to the best of my knowledge and belief:**

- 1120       —     **the statements of fact contained in this report are true and correct.**
- 1121       —     **the reported analyses, opinions, and conclusions are limited only by the**  
1122       **reported assumptions and limiting conditions and are my personal,**  
1123       **impartial, and unbiased professional analyses, opinions, and conclusions.**
- 1124       —     **I have no (or the specified) present or prospective interest in the property**  
1125       **that is the subject of this report and no (or the specified) personal interest**  
1126       **with respect to the parties involved.**
- 1127       —     **I have performed no (or the specified) services, as an appraiser or in any**  
1128       **other capacity, regarding the property that is the subject of this report within**  
1129       **the three-year period immediately preceding acceptance of this assignment.**
- 1130       —     **I have no bias with respect to the property that is the subject of this report**  
1131       **or to the parties involved with this assignment.**
- 1132       —     **my engagement in this assignment was not contingent upon developing or**  
1133       **reporting predetermined results.**
- 1134       —     **my compensation for completing this assignment is not contingent upon the**  
1135       **development or reporting of a predetermined value or direction in value that**

1136 favors the cause of the client, the amount of the value opinion, the attainment  
1137 of a stipulated result, or the occurrence of a subsequent event directly related  
1138 to the intended use of this appraisal.  
1139 — my analyses, opinions, and conclusions were developed, and this report has  
1140 been prepared, in conformity with the *Uniform Standards of Professional*  
1141 *Appraisal Practice*.  
1142 — I have (or have not) made a personal inspection of the property that is the  
1143 subject of this report. (If more than one person signs this certification, the  
1144 certification must clearly specify which individuals did and which individuals  
1145 did not make a personal inspection of the appraised property.)  
1146 — no one provided significant personal property appraisal assistance to the  
1147 person signing this certification. (If there are exceptions, the name of each  
1148 individual providing significant personal property appraisal assistance must  
1149 be stated.)

1150 Comment: A signed certification is an integral part of the appraisal report. An  
1151 appraiser who signs any part of the appraisal report, including a letter of transmittal,  
1152 must also sign this certification. In an assignment that includes only assignment  
1153 results developed by the personal property appraiser(s) from the same personal  
1154 property specialty, any appraiser(s) who signs a certification accepts full  
1155 responsibility for all elements of the certification, for the assignment results, and  
1156 for the contents of the appraisal report. In an assignment involving appraisers with  
1157 expertise in different specialties (e.g., antiques, fine art, machinery and equipment),  
1158 an appraiser who signs the certification may accept responsibility only for the  
1159 elements of the certification, assignment results, and report contents specific to the  
1160 appraiser's specialty. The role of each appraiser signing the certification must be  
1161 stated in the report.

1162 In an assignment that includes real property, business or intangible asset assignment  
1163 results not developed by the personal property appraiser(s), any personal property  
1164 appraiser(s) who signs a certification accepts full responsibility for the personal  
1165 property elements of the certification, for the personal property assignment results,  
1166 and for the personal property contents of the appraisal report.

1167 When a signing appraiser(s) has relied on work done by appraisers and others who  
1168 do not sign the certification, the signing appraiser is responsible for the decision to  
1169 rely on their work. The signing appraiser(s) is required to have a reasonable basis  
1170 for believing that those individuals performing the work are competent. The signing  
1171 appraiser(s) also must have no reason to doubt that the work of those individuals is  
1172 credible.

1173 The names of individuals providing significant personal property appraisal  
1174 assistance who do not sign a certification must be stated in the certification. It is  
1175 not required that the description of their assistance be contained in the certification,

1176 but disclosure of their assistance is required in accordance with Standards Rule 8-  
1177 2(a)(vii) or 8-2(b)(vii) as applicable.

## **Section 8:     Advisory Opinion 37, *Computer Assisted Valuation Tools***

### **RATIONALE**

In the Discussion Draft issued on January 15, 2016, the ASB indicated it was reviewing Advisory Opinion 18, *Use of an Automated Valuation Model (AVM)*. AO-18 was adopted by the ASB in 1997 and first appeared in the 1998 edition of USPAP. The Board concluded that AO-18 does not address the newer technologies that are now commonly used by appraisers.

In response, the ASB proposed retiring AO-18, and replacing it with Advisory Opinion 37, *Computer Assisted Valuation Tools*. Comments subsequent to the First Exposure Draft indicated general agreement that AO-18 was outdated. Some characterized AO-18 as still having some relevant advice and suggested it be updated rather than retired. After receiving feedback, the Board decided to stress the distinctions between AVMs and other technologies: 1. The output of an AVM is a number that is usually used to form a value estimate. 2. The output of tools such as regression analysis are most often used as analytical tools within one or more approaches to value.

In order to provide more thorough advice, the ASB is proposing a new advisory opinion to address tools other than AVMs: Advisory Opinion 37, *Computer Assisted Valuation Tools*. Based on the comments received, the ASB is reviewing AO-18 and may expose proposed changes later in the year rather than proposing it be retired as previously exposed.

The proposed Advisory Opinion has also been expanded to include relevant USPAP references; illustrations have also been added to provide practical guidance.

## **ADVISORY OPINION 37 (AO-37)**

1178 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or*  
1179 *interpret existing standards. Advisory Opinions are issued to illustrate the applicability of*  
1180 *appraisal standards in specific situations and to offer advice from the ASB for the resolution of*  
1181 *appraisal issues and problems.*

1182 **SUBJECT: Computer Assisted Valuation Tools**

1183 **APPLICATION: Real Property**

1184 **THE ISSUE:**

1185 Appraisers rely upon market data as the basis for their opinions and conclusions. This data is used  
1186 by appraisers to analyze and report on market trend information (e.g., median sale prices, rent  
1187 trends, marketing time, etc.), or the impact different features have on their subject's value (i.e.,  
1188 appropriate adjustments).

1189 Appraisers have access to technology that enables them to automate some aspects of the appraisal  
1190 process. Regression analysis is a common example, but there are others as well. These tools  
1191 generate information that once had to be calculated by hand. The information generated by this  
1192 technology can enable appraisers to produce appraisals and appraisal reviews with greater  
1193 credibility, but its misuse can have the opposite effect. What steps should an appraiser take to  
1194 comply with USPAP when using information generated by these types of resources?

1195 **BACKGROUND:**

1196 This Advisory Opinion addresses an appraiser's obligations when relying upon adjustments, trend  
1197 analyses, or other information generated by software or various online services. Two such  
1198 examples of these tools are:

1199       • **Regression Analysis Tools:** Regression analysis is a statistical process used for  
1200       determining relationships among variables. For example, an appraiser may wish to  
1201       determine if the market recognizes a relationship between the size of a property and  
1202       its price per square foot.

1203       • **Multiple Listing Services:** These services publish listings of properties for sale in a  
1204       given marketplace. Typically, these services have a function that can provide  
1205       subscribers with an analysis of past sale trends, such as average prices, sales  
1206       volume, days on market, etc.

1207 Automated Valuation Models (AVMs) and Discounted Cash Flow Analysis (DCF) are addressed  
1208 separately in other advisory opinions.

Stand-alone software or various online services can be useful tools that allow appraisers to enhance their appraisals. Some residential lenders are increasingly requiring appraisers to provide additional support for their adjustments. Appraisers sometimes meet this request by providing a regression analysis, or a software generated matched-pair analysis. There are software packages available to appraisers that make this relatively simple. Some residential form-filling software vendors include these functions as an integral part of their product. Many modern Multiple Listing Services now have integrated analytical tools to accommodate the needs of their appraiser members.

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

### **Relevant USPAP and Advisory References**

- The Conduct section of the ETHICS RULE states, in part:
  - *An appraiser 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 communicate assignment results with the intent to mislead or to defraud. An appraiser must not use or communicate a report that is known by the appraiser to be misleading or fraudulent.*
- The COMPETENCY RULE states, in part:
  - Competency requires: (1) the ability to properly identify the problem to be addressed; and (2) the knowledge and experience to complete the assignment competently; and (3) recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.*
- The Comment to the COMPETENCY RULE states, in part:
  - Competency may apply to factors such as, but not limited to, an appraiser's familiarity with a specific type of property or asset, a market, a geographic area, an intended use, specific laws and regulations, or an analytical method.*
- The SCOPE OF WORK RULE includes:
  - *The scope of work must include the research and analyses that are necessary to develop credible assignment results.*
  - *Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal or appraisal review assignment.*
  - *An appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results*

- 1242           – *An appraiser must not allow the intended use of an assignment or a client’s objectives*  
1243           *to cause the assignment results to be biased.*
- 1244           • *Standards Rule 1-1(a): An appraiser must be aware of, understand, and correctly employ*  
1245           *those recognized methods and techniques that are necessary to produce a credible*  
1246           *appraisal.*
- 1247           • *Standards Rule 1-1(b): An appraiser must not commit a substantial error of omission or*  
1248           *commission that significantly affects an appraisal.*
- 1249           • *Standards Rule 1-1(c): An appraiser must not render appraisal services in a careless or*  
1250           *negligent manner, such as by making a series of errors that, although individually might*  
1251           *not significantly affect the results of an appraisal, in the aggregate affect the credibility of*  
1252           *those results.*
- 1253           • *Standards Rule 1-6(b): An appraiser must reconcile the applicability and relevance of the*  
1254           *approaches, methods and techniques used to arrive at the value conclusion(s).*
- 1255           • *STANDARD 2: In reporting the results of a real property appraisal, an appraiser must*  
1256           *communicate each analysis, opinion, and conclusion in a manner that is not misleading.*
- 1257           • *STANDARD 3: In developing an appraisal review assignment, an appraiser acting as a*  
1258           *reviewer must identify the problem to be solved, determine the scope of work necessary to*  
1259           *solve the problem, and correctly complete research and analyses necessary to produce a*  
1260           *credible appraisal review. In reporting the results of an appraisal review assignment, an*  
1261           *appraiser acting as a reviewer must communicate each analysis, opinion, and conclusion*  
1262           *in a manner that is not misleading.*
- 1263           • *Advisory Opinion 18, Use of an Automated Valuation Model.*
- 1264           • *Advisory Opinion 33, Discounted Cash Flow Analysis.*

1265   **Competency**

1266   The COMPETENCY RULE specifically states that competency may apply to an analytical  
1267   method. Technology that performs statistical analyses is simple to use but still requires some  
1268   degree of competence. At a minimum, the appraiser must have a basic understanding of how the  
1269   technology works and be able to use that tool properly. The appraiser does not need to know, or  
1270   be able to explain, the algorithms or intricacies of its statistical or mathematical formulae.  
1271   However, the appraiser should be able to describe the overall process and be able to verify that the  
1272   tool being used is consistent in producing results that accurately reflect prevailing market behavior  
1273   for the subject property.

1274   A calculation of both the mean (average) and median of a given data sometimes yield different  
1275   results. Either may be appropriate for use but it is the appraiser’s responsibility to make that



determination. Proper application of these results must also be consistent. For example, it would not be appropriate to compare the mean sale price of office space in one year to the median sale price of office space from a different year. Likewise, an appraiser should not employ terminology (e.g., standard deviation, coefficient of variation, etc.) without understanding what that terminology means.

## **Data**

The credibility of any analysis that incorporates output from computer assisted valuation tools depends on the quality of its data and how well the tool is designed to analyze that data. When using one of the tools in an appraisal or appraisal review assignment, the appraiser must have reason to believe it appropriately uses data that are relevant.

The size of the database does not necessarily mean that the output is directly applicable. A sample of dozens of sales may appear to yield a well-supported correlation between size and price per acre. But if the sales would not otherwise be deemed comparable, they should not be included as part of the sample. The sales may be credible comparisons if the analysis takes into account the differences, but it is the appraiser's responsibility to determine if the data is comparable as is, or if some adjustments are necessary prior to generating a relationship.

## **Use of Computer Assisted Valuation Tools**

Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or commission that significantly affects an appraisal. Output from computer assisted valuation tools is typically used only as a portion of the analysis the appraiser relies upon to develop assignment results. A single error, which on the surface may appear minor, could have a compounding effect that could have a noteworthy impact on the results of the assignment.

When using computer assisted valuation tools, the appraiser is responsible both for selecting the appropriate input parameters and also for being proficient in the use of the technology to ensure the correct input of those parameters. If either of these criteria is not met, the information provided may not provide credible results. Depending on how the appraiser relies upon this data, inappropriate information may impact the results of the assignment.

Statistical tools may be employed to support adjustments. Because of the number of independent variables required for analysis of both residential and non-residential properties, a useful statistical tool is multiple linear regression. The number of variables requires the utilization of an adequate sample size of transactions to isolate. Multiple linear regression may also be a valuable analytical tool in quantifying and supporting adjustments.

Appraisers must also have at least a basic understanding of statistics. For example, regression analysis is based upon complex calculations. Appraisers do not need to be able to duplicate those calculations, but must understand how to use the results. They must be able to recognize a graph that shows a strong relationship between the variables and one that does not. Reliance on a weak correlation of the data will directly impact the credibility of the conclusion drawn using that information.

1314 The appraiser must also be aware of what information is used as the input and how to properly  
1315 apply the output. The appraiser may have developed a credible adjustment for market conditions  
1316 in one appraisal, but the appraiser must consider whether or not the data upon which that  
1317 adjustment was supported is based upon data that is suitable for comparison to the subject of  
1318 another appraisal.

1319 A regression analysis that correlates the sale prices per acre of land sales to the size of each lot  
1320 may either be based upon the unadjusted or adjusted sale prices. If unadjusted, the appraiser may  
1321 need to perform additional analysis before applying the result to the subject.

1322 When using any of these analytical tools, the appraiser is responsible for the accuracy of the results.  
1323 Thus, the appraiser must have confidence that the technology uses data that is relevant and that the  
1324 output is mathematically correct and sufficiently reliable for use in the assignment.

1325 Regardless of the tool chosen, the appraiser is responsible for the entire analysis, including the  
1326 controlling input, the calculations, and the resulting output. An appraiser should use sufficient care  
1327 to avoid errors that would significantly affect his or her opinions and conclusions. Diligence is  
1328 required to identify and analyze the factors, conditions, data, and other information that would  
1329 have a significant effect on the credibility of the assignment results.

1330 When using a computer assisted valuation tool, an appraiser must not simply rely on the output of  
1331 data programs which claim to give support for adjustments without an understanding that the  
1332 output is credible. Reliance on this data without understanding the results of the output could place  
1333 credibility of assignment results in doubt.

### 1334 **Reporting Requirements**

1335 Standards Rule 2-2(a)(viii) states, in part:

1336 *The content of an Appraisal Report must be consistent with the intended use of the*  
1337 *appraisal and, at a minimum: summarize the information analyzed, the appraisal methods*  
1338 *and techniques employed, and the reasoning that supports the analyses, opinions, and*  
1339 *conclusions.*

1340 This could be accomplished by summarizing the analysis in the report; the summary might be  
1341 supported by graphs, charts, etc. that are generated by the tools.

### 1342 **Illustrations:**

1343 Q: An appraiser used a regression analysis model that suggests a relationship between the size  
1344 of a residence and the price per square foot of similar residences in a specific market. This  
1345 relationship has not been confirmed by the actions of market participants. Can the appraiser  
1346 use the regression analysis as support for the GLA adjustment in the appraisal?

1347 A: No, because the appraiser does not know how the regression analysis model works,  
1348 has not independently tested the conclusions it provides, and has no reason to  
1349 believe the database is reliable.

1350 Q: A stand-alone program will calculate the replacement cost of the office building that is  
1351 being appraised. The software's output is notably different from the actual costs in the  
1352 spreadsheet submitted. On which cost estimate should the appraiser rely?

1353 A: Standard Rule 1-4(b)(ii) requires that the appraiser "analyze such comparable cost  
1354 data as are available to estimate the cost new of the improvements." Therefore, the  
1355 appraiser should not simply accept one cost calculation or another without careful  
1356 analysis.

1357 The appraiser should double-check and reconsider the factual data being input.  
1358 Likewise, the appraiser should review the cost contract submitted to verify that it  
1359 also is based upon the same assumptions (e.g., all items included, any personal  
1360 property included, arm's-length transaction, etc.) and that the calculations are  
1361 correct. After doing so, the appraiser can determine whether the proposed cost or  
1362 the software's output is more credible.

1363 Q: An appraiser has purchased a software package that has multiple functions, such as market  
1364 analysis, deriving adjustments for physical characteristics, automatically inputting  
1365 information from the local MLS, and more. He uses the program to develop an adjustment  
1366 for an in-ground pool. The program provides that amount and reports the standard  
1367 deviation. The appraiser is not familiar with this term. He assumes that a large number is  
1368 better so he decides to employ that adjustment. Is the appraiser correct in deciding that the  
1369 output was credible?

1370 A: No. The COMPETENCY RULE requires that an appraiser have the knowledge to  
1371 complete the assignment competently. An appraiser must have at least a basic  
1372 understanding of statistics in order to rely upon the output. By relying upon  
1373 unfamiliar terminology, the appraiser is not complying with the COMPETENCY  
1374 RULE.

1375 **SUMMARY:**

- 1376 • Computer assisted valuation tools that are available to the appraiser are often applied in  
1377 developing value opinions in concert with one or more other approaches.
- 1378 • The information generated by these types of valuation tools is merely a calculation that once  
1379 had to be calculated by hand; it is not a substitute for an appraiser's judgment.
- 1380 • A number of intended users and intended uses now require reporting of additional and more  
1381 specific data, which, until now, would have been prohibitively difficult for an appraiser to  
1382 provide in the routine course of business.
- 1383 • Appraisers may find analytic tools useful for supporting their adjustments.

- 1384 • Regardless of the tool chosen, the appraiser is responsible for the entire analysis including the  
1385 controlling input, the calculations, and the resulting output.
- 1386 • Appraisers must be proficient in the use of their chosen technology to ensure that they have  
1387 correctly selected and input appropriate parameters.
- 1388 • If the appropriate parameters are not correctly entered into the program, the information  
1389 provided may neither meet the requirements of the assignment nor provide credible assignment  
1390 results.
- 1391 • Reliance upon inappropriate information may create assignment results that are not credible.
- 1392 • Appraisers must have an understanding of statistical analysis and not employ terminology  
1393 and/or methodology with which they are not familiar.
- 1394 • An appraiser must exercise care to ensure compliance with STANDARDS 1 and 2.
- 1395 • It is the responsibility of the appraiser to ensure that the controlling input is consistent with  
1396 market evidence and prevailing market attitudes.
- 1397 • The appraiser is also responsible for the resulting output.
- 1398 • Output should be tested and checked for errors and reasonableness.

## **Section 9: Illustration in Advisory Opinion 21, USPAP Compliance**

### **RATIONALE**

In the Discussion Draft issued on January 15, 2016, the ASB proposed the addition of a new graphic to AO-21 in order to help clarify the relationship between Valuation Services and Appraisal Practice.

The new graphic is shaded to show at a glance which elements of USPAP are applicable to which type of task. In addition, the new graphic supplements the current Advisory Opinion by giving some more examples.

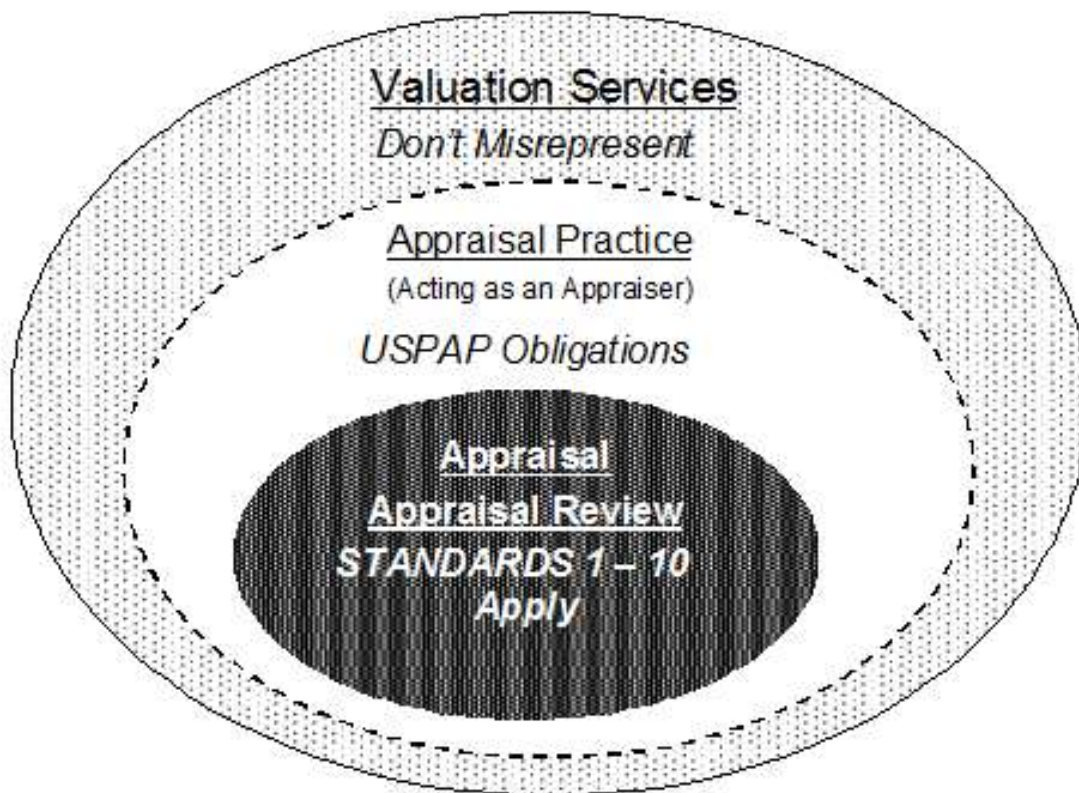
The responses to the Discussion Draft were helpful. The ASB agrees with many of the suggested additions and clarifications to the examples and agrees also that the “oval” graphic should be retained as well. If adopted, the new graphic will replace the chart beneath the “ovals.” The chart to be deleted is shown with strikethrough markings. The new graphic is shown in this exposure draft without underscored text.

### **Exposure Draft**

*Proposed new portion begins on page 143 (line 129) of the 2016-2017 Advisory Opinions.*

### **Relationships and Application**


The relationship between valuation services and appraisal practice is illustrated ~~as follows:~~ in either of the following two graphics:



Valuation Services (large light-shaded oval): When providing valuation services, the obligation for an individual recognized in some circumstances as an appraiser is not to misrepresent his or her role.

Appraisal Practice (dotted-line oval): Within valuation services is appraisal practice (i.e., valuation services provided by an individual acting as an appraiser). All services performed as part of appraisal practice must comply with USPAP. The portions of USPAP that apply generally to appraisal practice include the DEFINITIONS, the PREAMBLE, the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.

Appraisal and Appraisal Review (dark-shaded oval within Appraisal Practice oval): Within appraisal practice, there are requirements that apply to developing and communicating appraisal or appraisal review assignments in addition to those that apply to all appraisal practice. These requirements are described by the Standards, the SCOPE OF WORK RULE, and the RECORD KEEPING RULE.

 [Delete this chart](#)

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

Valuation Services		
Appraisal Practice Valuation services performed by an individual acting as an appraiser		Valuation services when <b>not</b> acting as an appraiser
Appraisal and Appraisal Review (Development and Reporting)	Other valuation services when acting as an appraiser	
All Rules apply Standards apply. Which ones apply varies by assignment.		
	Three Rules apply: ETHICS RULE COMPETENCY RULE JURISDICTIONAL EXCEPTION RULE  No Standards apply in these assignments  Compliance with the RECORD KEEPING RULE and SCOPE OF WORK RULE is not required in these assignments .	When performing these services, do not misrepresent your role: i.e., clearly communicate that you are not acting as an appraiser.

### Some Examples

Appraisal and Appraisal Review (Development and Reporting)	Other valuation services when acting as an appraiser	Valuation services when not acting as an appraiser
Appraisal with Appraisal Report	Researching market data (when acting as appraiser)	Brokerage
Appraisal with Restricted Appraisal Report	Consulting (when acting as an appraiser)	Consulting (when acting as an advocate)
Appraisal with oral appraisal report	Ad valorem tax consulting (when acting as an appraiser)	Ad valorem tax consulting (when acting as an advocate)
Expert witness testimony	Analyzing specific elements of value (e.g., reproduction cost or functional utility)	Auctioning
Appraisal Review with report	Litigation support (when acting as an appraiser)	Litigation support (when acting as an advocate)
Selecting comparable sales data	Providing raw sales data	Property management
*Calculation engagement, Limited scope appraisal, Valuation engagement or Evaluation	Teaching appraisal courses	Mortgage underwriting
Purchase price allocation	Mechanical computation	Leasing (agent)
	Developing educational texts	

\*Note: These terms are commonly used by appraisers to describe appraisals with a narrow scope of work. Regardless of the label used in the assignment, these opinions of value are appraisals as defined in USPAP. An appraiser may perform these assignments under USPAP by complying with the Rules and applicable Standards.



## **Section 10: Edits to Advisory Opinion 31, *Assignments Involving More than One Appraiser***

### **RATIONALE**

In the Discussion Draft issued January 15, 2016, the ASB indicated it was reviewing AO-31 with a focus on the concept of “significant appraisal assistance.” The ASB asked for comments on a potential definition of significant appraisal assistance, including pros and cons, as well as examples of appraisal assistance.

Potential changes to the certification requirements in Standards Rule 8-3 regarding appraisals involving appraisers from multiple personal property specialties were cited in the Discussion Draft as an area where edits or additional examples were also needed in AO-31.

The majority of comments indicated that while a definition of significant appraisal assistance was not needed, additional examples of what constituted significant appraisal assistance were. Therefore, in the Second Exposure Draft, the ASB is proposing an additional section in AO-31 titled “Significant Appraisal Assistance,” and a new illustration of significant appraisal assistance. The ASB is also proposing an illustration addressing additional certification requirements to Standards Rule 8-3.

Proposed revisions to STANDARD 3 and STANDARD 6, and to proposed new STANDARD 4 and STANDARD 5 are included in other sections of this exposure draft. If those are adopted, the references to the Standards will be edited accordingly in this AO.

### **ADVISORY OPINION 31 (AO-31)**

1399 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or*  
1400 *interpret existing standards. Advisory Opinions are issued to illustrate the applicability of*  
1401 *appraisal standards in specific situations and to offer advice from the ASB for the resolution of*  
1402 *appraisal issues and problems.*

1403 **SUBJECT: Assignments Involving More than One Appraiser**

1404 **APPLICATION: Real Property, Personal Property, Intangible Property**

1405 **THE ISSUE:**

1406 What are the specific USPAP obligations when an appraisal or appraisal review assignment  
1407 involves more than one appraiser?

1408 **BACKGROUND:**

1409 Many appraisal assignments involve participation by more than one appraiser. Typical scenarios  
1410 include, but are not limited to:

- 1411 • Two appraisers working together as equals on an assignment.
- 1412 • A staff appraiser whose work is reviewed and/or directed by a more senior appraiser.
- 1413 • A person who is being trained as an appraiser (“trainee”) and requires supervision and
- 1414 direction by an appraiser already fully qualified to complete the assignment.
- 1415 • An independent appraiser/contractor performing work for an appraisal firm.
- 1416 • Two or more appraisers from different appraisal disciplines working on an assignment.

1417 When assignments involve more than one appraiser there are often questions about the proper way  
 1418 to deal with USPAP requirements relating to record keeping, signatures and certifications.

1419 It is important to realize that USPAP does not define an “appraiser” in terms of state licensing or  
 1420 certification requirements. USPAP defines an appraiser as one who is expected to perform  
 1421 valuation services competently and in a manner that is independent, impartial, and  
 1422 objective. Expectation is the crucial element in determining when one is acting as an appraiser. As  
 1423 a result, one could be a trainee by state licensing requirements and also identified as an appraiser  
 1424 by USPAP definition. Reference to applicable state law should be made to clarify the specific  
 1425 definition of appraiser and trainee in a jurisdiction.

## 1426 **ADVICE FROM THE ASB ON THE ISSUE**

### 1427 **Relevant USPAP References**

- 1428 • SCOPE OF WORK RULE, which requires that the appraiser disclose the scope of work
- 1429 performed
- 1430 • RECORD KEEPING RULE
- 1431 • Standards Rules 2-2(a)(vii), 2-2(b)(vii), 3-5(g), 6-8(j), 8-2(a)(vii), 8-2(b)(vii), 10-2(a)(viii)
- 1432 and 10-2(b)(viii), which specify the reporting requirements when any portion of the work
- 1433 involves significant assistance
- 1434 • Standards Rules 2-3, 3-6, 6-9, 8-3 and 10-3, which identify the requirements for an
- 1435 appraiser who is signing the certification and also for instances when appraisers provide
- 1436 significant assistance but do not sign the certification

### 1437 **Record Keeping Requirements**

1438 The RECORD KEEPING RULE requires:

1439 *An appraiser must prepare a workfile for each appraisal or appraisal review assignment.*  
 1440 *A workfile must be in existence prior to the issuance of any report.*

1441 The Rule also mandates that workfiles be retained for a specified time, and states:

1442 *An appraiser must have custody of the workfile, or make appropriate workfile retention,*  
1443 *access and retrieval arrangements with the party having custody of the workfile.*

1444 *An appraiser having custody of a workfile must allow other appraisers with workfile*  
1445 *obligations related to an assignment appropriate access and retrieval for the purpose of:*

- 1446 • *submission to state appraiser regulatory agencies;*
- 1447 • *compliance with due process of law;*
- 1448 • *submission to a duly authorized professional peer review committee; or*
- 1449 • *compliance with retrieval arrangements.*

1450 When an assignment is performed by more than one appraiser, each appraiser is subject to the  
1451 same obligations regarding the workfile for the assignment, whether or not the appraiser signs the  
1452 certification. These obligations may be met by creating a copy of the workfile for every appraiser  
1453 involved in the assignment. Alternatively, the appraisers might agree to an access arrangement  
1454 whereby the workfile is stored in a single location but access is provided to all appraisers involved.  
1455 In whatever manner this USPAP requirement is met, all appraisers involved with the assignment  
1456 must meet it.

#### 1457 **Certifications/Signatures**

1458 A signed certification is required for all appraisal and appraisal review reports. An appraiser who  
1459 signs any part of a report, including a letter of transmittal, must also sign the certification.

1460 A signed certification provides important disclosures about aspects of the assignment. It provides  
1461 evidence that the appraiser is aware of the ethical obligations of acting as an appraiser. In single-  
1462 discipline appraisals, the certification also attests that the analyses, opinions, and conclusions  
1463 expressed are those of the signatory. The certification is also where significant appraisal assistance  
1464 from others not signing the certification must be acknowledged. Any appraiser who provides  
1465 significant appraisal or appraisal review assistance in the assignment must sign the certification or  
1466 be identified in the certification. When more than one appraiser is involved in an assignment,  
1467 USPAP allows for certification in a variety of ways, including:

- 1468 • all appraisers could sign a certification accepting responsibility for the entirety of the  
1469 analyses and the report if they are all competent to do so; or
- 1470 • one appraiser could sign a certification and provide the name of each individual who  
1471 provided significant appraisal or appraisal review assistance. In such a case, the exact  
1472 nature of the assistance must be reported, but this need not be in the certification; or
- 1473 • for assignments involving multiple disciplines (e.g., real property appraisal and personal  
1474 property appraisal), an appraiser could sign a certification accepting responsibility only for

1475 the elements of the certification, assignment results and report contents applicable to the  
1476 appraiser's discipline; or

1477 • for personal property assignments involving appraisers with multiple specialties (e.g.,  
1478 antiques, fine art, gems and jewelry, machinery and equipment) an appraiser could sign a  
1479 certification accepting responsibility only for the elements of the certification, assignment  
1480 results, and report contents specific to the appraiser's specialty.

### 1481 **Significant Professional Assistance**

1482 USPAP does not define what constitutes significant appraisal assistance in an appraisal or appraisal  
1483 review assignment. To be significant, that assistance provided must be substantial enough to have  
1484 affected the development of the assignment results. Assistance is related to the appraisal process  
1485 and requires appraisal competency. Therefore, only those acting as an appraiser sign the  
1486 certification, or are identified as providing significant appraisal assistance in the certification.  
1487 Examples of significant appraisal assistance include, but are not limited to, identification (research  
1488 and selection) of comparable properties and data, inspection of the subject property and  
1489 comparable properties, estimating accrued depreciation, or forecasting income and expenses.

1490 An appraiser often uses assistance that does not constitute significant appraisal  
1491 assistance. Although it is the responsibility of the appraiser to determine the role of any individual  
1492 providing assistance, tasks such as, but not limited to, writing down measurements the appraiser  
1493 provides when measuring a structure, taking photographs of the subject property, and providing  
1494 clerical duties are not considered significant appraisal assistance.

### 1495 **Illustrations**

#### 1496 *Workfile Obligations When Trainee Signs the Report*

1497 1. Jennifer is currently being trained as an appraiser (a trainee) working toward her state  
1498 license as a real property appraiser. Her work includes completing and co-signing  
1499 appraisal reports with her supervising appraiser. Must she keep a copy of the workfile for  
1500 every assignment she works on?

1501 If Jennifer acted as an appraiser in the assignment, USPAP provides two options: 1)  
1502 she can maintain custody of the workfile, either the original or a copy; or 2) she can  
1503 make appropriate access arrangements for the retention period, for example, with her  
1504 employer or supervising appraiser.

1505 Some common scenarios in such an assignment may include the trainee appraiser and  
1506 the supervising appraiser each keeping a copy of the workfile. Or, the supervising  
1507 appraiser may retain custody of the workfile and provide for access by the trainee  
1508 appraiser. Both of these arrangements meet the record keeping requirements.

#### 1509 *Certification Requirements When Trainee Does Not Sign the Report*

1510 2. Using the same scenario from Illustration 1 except only the senior appraiser signs the report  
1511 and **not** the trainee appraiser, what certification requirements must each appraiser meet to  
1512 comply with USPAP?

1513 USPAP states that when a signing appraiser relies on work done by others who do not  
1514 sign the certification, the signing appraiser is responsible for the decision to rely on the  
1515 trainee appraiser's work.

1516 The name of the trainee appraiser who provided significant assistance, but does not  
1517 sign the certification, must be stated in the certification. It is not required that the  
1518 description of the assistance appear in the certification, but the extent of the assistance  
1519 must be set forth in the report as required in STANDARDS 2, 3, 6, 8 and 10. The degree  
1520 of this description is identified by the applicable reporting option for the assignment.  
1521 For example, in an Appraisal Report the extent of the significant assistance must be  
1522 summarized.

1523 *Possession of Workfiles*

1524 3. An appraiser is an employee of an appraisal firm. The firm has announced that the office  
1525 is moving to another city. All appraisers not moving to the new location have been asked  
1526 to turn over their workfiles to the company. The appraiser believes that he is required to  
1527 keep the workfiles. Who is correct?

1528 The RECORD KEEPING RULE does not mandate that an appraiser have possession  
1529 of assignment workfiles. Employment contracts and other employment arrangements  
1530 often require appraisers to leave their workfiles with an employer should the appraiser  
1531 leave that firm, or in other situations. However, if an appraiser must relinquish actual  
1532 possession of the workfiles, the appraiser must establish appropriate access  
1533 arrangements for the length of the retention period. In the circumstances described,  
1534 another solution may be for the appraiser to obtain permission from the employer to  
1535 make copies of his or her workfiles.

1536 4. Jonathan is a trainee appraiser who has been working with the same supervising appraiser  
1537 for some time. Recently, his supervising appraiser told him that since he was only a  
1538 trainee, he had no right to access workfiles on appraisals where he had provided significant  
1539 professional assistance. Is the supervising appraiser correct? Do trainees have any rights  
1540 regarding access to workfiles?

1541 The supervising appraiser is not correct. USPAP places workfile retention requirements  
1542 on the **appraiser**. Jonathan, since he is acting as an appraiser, is an appraiser as defined  
1543 in USPAP. In assignments where more than one appraiser is involved (e.g. a trainee  
1544 appraiser and a supervising appraiser) each appraiser shares responsibility for  
1545 complying with the RECORD KEEPING RULE.

1546 Supervising appraisers should be aware that all appraisers, including trainee appraisers,  
1547 must maintain access to workfiles for a minimum of five years. A supervising appraiser  
1548 must not impede a trainee appraiser's ability to access a workfile under the following  
1549 conditions:

- 1550 • submission to state appraiser regulatory agencies;
- 1551 • compliance with due process of law;
- 1552 • submission to a duly authorized professional peer review committee; or
- 1553 • compliance with retrieval arrangements.

1554 Denying access to a workfile that the trainee worked on is a violation of the ETHICS  
1555 RULE.

1556 *An individual appraiser employed by a group or organization that conducts itself*  
1557 *in a manner that does not conform to these Standards should take steps that are*  
1558 *appropriate under the circumstances to ensure compliance with the Standards.*

1559 *Acknowledging Significant Appraisal Assistance*

1560 5. Matthew, an appraiser, is working with a more senior appraiser on a complex appraisal  
1561 assignment. His only task has been to develop the income approach based on information  
1562 provided by the senior appraiser. What is the appropriate way to acknowledge Matthew's  
1563 role in the assignment?

1564 Since Matthew's work is limited to part of the assignment, signing a certification  
1565 accepting responsibility for the entire assignment would not be appropriate. USPAP  
1566 requires that Matthew be named in the certification, and the nature of his significant  
1567 assistance be reported.

1568 6. Margaret is performing a specific portion of a complex appraisal assignment, but is not  
1569 competent to complete the entire assignment. As part of her training, she read the report  
1570 and discussed it with the senior appraiser. Having now expanded her knowledge of the  
1571 assignment, she wants to sign the certification along with the senior appraiser on the  
1572 project. Is this appropriate?

1573 No. By signing the certification, she would be accepting full responsibility for all  
1574 elements of the certification, for the assignment results, and for the contents of the  
1575 appraisal report. Although she was competent to perform her assigned task, reading  
1576 the report and discussing it with the senior appraiser does not confer  
1577 competence. Therefore, she cannot accept full responsibility for the assignment results  
1578 or sign the certification.

1579 7. I am an appraiser trainee in a large firm. We recently transmitted a report to a client for  
1580 an appraisal in which I provided significant professional assistance. The report stated that  
1581 I assisted in *all aspects* of the process and I was named in the certification. The client's  
1582 reviewer sent me a request that said, "If you assisted in all aspects of the appraisal you  
1583 should sign it because you are an appraiser." The principal appraiser who signed the report  
1584 feels it looks better if only he signs because I am unlicensed. For this assignment, there is  
1585 no law or regulation that prohibits me from signing the certification. What should I do?

1586 The unlicensed appraiser should discuss the situation with the principal appraiser in  
1587 this instance as USPAP allows for certification in a variety of ways. The principal  
1588 appraiser elected to acknowledge the significant professional assistance of the appraiser  
1589 trainee in the certification rather than allowing her to sign. The exact nature of the  
1590 assistance must also be reported but it does not have to be stated in the certification.  
1591 The specific portions of the assignment that the appraiser trainee completed should  
1592 have been summarized in the report, rather than just a statement simply indicating the  
1593 appraiser trainee assisted in all aspects of the assignment.

## Section 11: Edits to Advisory Opinion 1, *Sales History*

### RATIONALE

In its Discussion Draft released in January 2016, the ASB noted that it was reviewing Advisory Opinion 1, *Sales History* (AO-1) with a focus on the proper application of the requirement to analyze and report sales history and related information in the appraisal of real property. This review was based on concerns expressed by various stakeholders that the term analyze is being construed as merely reciting facts and data points, as opposed to critically examining relevant factors in respect to the particular assignment at hand.

The ASB has reviewed additional stakeholder input on the issue of whether or not further clarification of the term analyze was warranted. Suggestions regarding potential clarification options for analyze included:

- Addition of the term analyze to the DEFINITIONS section of USPAP
- Additional illustrations/examples of what it means to properly analyze various factors in an appraisal assignment
- Amending AO-1 and any applicable FAQs to better clarify what the term analyze both means and requires

The ASB's discussions and input from numerous stakeholders indicated that a separate specific USPAP definition for the term analyze was not necessary; as used in USPAP, the meaning of analyze is its plain English definition. Based on this input, the ASB is proposing to revise AO-1 to better clarify both the term and appropriate application via a number of updated, simplified examples that can be applied in a variety of scenarios.

Due to the extent of the edits, the underscore/strikethrough formatting was not applied to this section.

The revised Advisory Opinion 1, *Sales History* follows.

### ADVISORY OPINION 1 (AO-1)

1594 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or*  
1595 *interpret existing standards. Advisory Opinions are issued to illustrate the applicability of*  
1596 *appraisal standards in specific situations and to offer advice from the ASB for the resolution of*  
1597 *appraisal issues and problems.*

1598 **SUBJECT: Sales History**

1599 **APPLICATION: Real Property**

1600 **THE ISSUE:**



1601 The *Uniform Standards of Professional Appraisal Practice* (USPAP) contain sales history  
1602 requirements that obligate appraisers of real property to analyze and report pending and recent  
1603 agreements, options, listings, and sales involving the property being appraised. Because of  
1604 differences in federal law and regulations, state laws and operating practices relating to the  
1605 disclosure and confidentiality of real property sales data, the ways in which appraisers comply  
1606 with the sales history requirements vary according to the jurisdiction and the availability of  
1607 information. This lack of consistency has raised questions regarding the applicability and relevance  
1608 of the sales history requirements.

1609 How can the appraiser best comply with the sales history provisions of the applicable appraisal  
1610 standards in the face of obstacles that are beyond the control of the appraiser?

1611 **ADVICE FROM THE ASB ON THE ISSUE:**

1612 **Relevant USPAP & Advisory References**

- 1613       • Advisory Opinion 24 which addresses the “normal course of business”

1614 **Analysis and Reporting Requirements**

1615 This Advisory Opinion offers advice and guidance for compliance with the requirements to  
1616 analyze and report sales history and related information in the appraisal of real property.

1617 USPAP Standards Rules 1-5(a) and (b) require an appraiser, when the value opinion to be  
1618 developed is market value, and if such information is available to the appraiser in the normal course  
1619 of business, to analyze (1) all agreements of sale, options, or listings of the subject property current  
1620 as of the effective date of the appraisal and (2) all sales of the subject property that occurred within  
1621 three (3) years prior to the effective date of the appraisal. USPAP Standards Rules 2-2(a)(viii) and  
1622 (b)(viii) call for the written appraisal report to contain a summary of the results of those analyses.  
1623 It should be noted that even in a Restricted Appraisal Report, it is necessary to include a  
1624 “summary,” not just a statement. Standards Rules 2-2(a)(viii) and (b)(viii) further require that, if  
1625 sales history information is unobtainable, the written appraisal report must include a commentary  
1626 on the efforts taken by the appraiser to obtain the information.

1627 Laws, regulations and guidelines issued by government agencies, or government sponsored  
1628 enterprises, also contain requirements that require the appraiser to analyze and report sales history  
1629 information, and these requirements vary according to jurisdiction. Some clients might also  
1630 require analyses beyond what is required by USPAP. For example, while USPAP does not  
1631 specifically require that a report include an affirmative statement regarding the lack of prior sales,  
1632 it is often a client requirement to do so.

1633 The requirement for the appraiser to analyze and report sales history and related information is  
1634 fundamental to the appraisal process. Just as the appraiser must analyze the details of pending and  
1635 recent sales of comparable properties, the appraiser must also take into account the various factors  
1636 associated with all pending and recent sales of the subject property itself. This is not to say that

the agreed price in a pending or recent sale of the subject property is necessarily representative of value as defined in the report, but the appraiser's failure to analyze and report these facts may exclude important information from the sales comparison approach. Information pertaining to the current market status and the sales history of the subject property may also be useful information for the determination of highest and best use or the analysis of market trends.

Analysis of sales, offerings, etc., as referenced in Standards Rule 1-5, requires more than just stating the known facts about the transaction. Each pertinent factor should be examined individually, methodically, and in detail, to ascertain whether it has relevance to, or potential impact on, the transaction and potentially other assignment results, including the opinion of market value (if applicable). By examining (or evaluating) the specific details of all agreements of sale, options, or current listings on the subject property, and all sales that occurred within the prior three years, the appraiser gains valuable (or important) insights into market trends, property and buyer characteristics.

### **Illustrations**

Following are examples of summaries of analyses that might be included in an appraisal report in compliance with the applicable standards.

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

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

2. For a property that is currently offered for sale (a current listing) wording similar to one of the following examples might be utilized in the appraisal report:

A. The subject property is listed for sale at \$350,000. As of the effective date it had been listed for 112 days; it was initially listed at \$369,900 and reduced to its current price after 60 days on the market. Based on a comparison with other current listings, the subject appears to be competitively priced.

B. The subject property is listed for sale at \$379,000. As of the effective date it had been listed for 174 days; it was initially listed at \$399,900 and reduced to its current price after approximately 60 days on the market. Based on a comparison with other current listings, the subject appears to be inferior to similarly priced properties.

C. The subject property is listed for sale at \$339,000. As of the effective date it had been listed for 4 days. Based on a comparison with other current listings, the subject appears to be superior to similarly priced properties.

1673 According to the public records, there have been no other transfers of the subject property  
1674 within the past three years.

1675 3. For a property that is currently under contract (a pending sale) the summary of the analysis  
1676 might be similar to one of the following examples:

1677 A. The subject property is under contract to sell for \$525,000. The contract provided to the  
1678 appraiser contains no atypical terms or conditions. There are no reported seller  
1679 concessions. This appears to be an arm's-length transaction.

1680 B. The subject property is under contract to sell for \$525,000. The contract provided to the  
1681 appraiser includes a provision for the seller to retain possession of the premises for 30 days  
1682 after the closing. In effect, the buyer is making a concession approximately equivalent to  
1683 one month's rent. Otherwise, there are no atypical terms or conditions. There are no  
1684 reported seller concessions. This appears to be an arm's-length transaction, and assuming  
1685 that the parties were acting in their own best interests (per definition of market value), the  
1686 price was likely affected by the concession.

1687 C. The subject property is under contract to sell for \$525,000. The contract provided to the  
1688 appraiser contains no atypical terms or conditions. The contract states that the buyer will  
1689 pay 2% of the sale price (\$10,500) toward the buyer's closing costs. This appears to be an  
1690 arm's-length transaction, and assuming that the parties were acting in their own best  
1691 interests (per definition of market value), the price was likely affected by the concession.

1692 4. For a property that is not for sale but was acquired by the current owner during the past three  
1693 years, the summary to be included in the appraisal report might appear as follows:

1694 A. The subject property previously sold for \$400,000 on (*insert sale date*). Based on  
1695 discussions with the owner and a review of MLS and public records, the prior sale appears  
1696 to have been an arm's-length transaction and was not impacted by any concessions.

1697 B. The subject property (land only) previously sold for \$100,000 on (*insert sale date*) prior to  
1698 construction of the now existing improvements. Based on discussions with the owner and  
1699 a review MLS and public records, the prior sale appears to have been an arm's-length  
1700 transaction and was not impacted by any concessions.

1701 C. The subject property previously sold for \$250,000 on (*insert sale date*). Based on  
1702 discussions with the owner and a review of MLS and public records, the prior sale was a  
1703 bank-owned (REO) property. In this market, REO properties are typically marketed for a  
1704 quick sale and usually sell at a discount. The prior sale is not considered to have been an  
1705 arm's-length transaction.

1706 **Note: Although not required by USPAP, many clients might expect the appraiser to reconcile**  
1707 **any significant differences between the prior sale prior and the appraiser's current opinion**  
1708 **of market value. Appraisers must be aware of and meet client requirements.**

1709 **Special Circumstances**

1710 In cases where pertinent information is not available to the appraiser in the normal course of  
1711 business, wording in the sales histories would likely differ from the examples shown above. The  
1712 following examples are offered for purposes of illustration only.

1713 **Illustrations**

1714 1. In cases where the property being appraised is known to be the subject of a pending transaction,  
1715 but the appraiser is not privy to the terms of the pending transaction and the parties to the  
1716 transaction have declined to disclose the terms of the transaction to the appraiser, the summary  
1717 to be included in the appraisal report might include wording similar to the following:

1718 The property being appraised is known to be the subject of a pending purchase and sale  
1719 agreement, but the appraiser was unable to obtain the terms of the contract. The current  
1720 owner confirmed that the property is under contract for sale but declined to disclose the  
1721 details of the agreement.

1722 2. In jurisdictions where reliable price information cannot be found in the public records and  
1723 where the appraiser is unable to obtain complete information regarding a prior sale in the  
1724 normal course of business, it would be appropriate to include in the appraisal report a comment  
1725 similar to the following:

1726 The subject property was sold by John Jones to the current owner on June 1, 20XX, for an  
1727 unknown price. Sale prices are not a matter of public record in this state. The appraiser  
1728 attempted to obtain the purchase price and other terms of the transaction without success.  
1729 The parties to the transaction declined to discuss the terms or conditions of the sale.

1730 According to the public records, there have been no other transfers of the subject property  
1731 within the past three years.

1732 3. In many cases, a property may require analyses of multiple items under Standards Rule 1-5  
1733 (e.g., both a prior sale and a current listing) and in those cases, each of the analyses must be  
1734 summarized in the report.