



THE APPRAISAL FOUNDATION

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APPRAISAL STANDARDS BOARD

TO: All Interested Parties

FROM: Margaret Hambleton, Chair
Appraisal Standards Board

RE: **First Exposure Draft of proposed changes for the 2018-19 edition of the
*Uniform Standards of Professional Appraisal Practice***

DATE: April 13, 2016

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 June 10, 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 June 17, 2016, in Indianapolis, Indiana.

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

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The Appraisal Foundation
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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 or by calling (202) 624-3058.

Background

The ASB issued a Discussion Draft in January 2016, identifying potential areas of change for the 2018-19 edition of USPAP. The Discussion Draft addressed:

- Communication of Assignment Results and definition of *report*
- STANDARD 6, *Mass Appraisal, Development and Reporting*
- Definition of *assignment*
- Review of terms, assumption and extraordinary assumption
- STANDARD 3, *Appraisal Review, Development and Reporting*
- Review of Standards Rules 7-2(c), SR 7-5, and 8-2(v)
- Review of Standards Rule 8-3
- Review of Advisory Opinions
- Other edits to improve clarity and enforceability of USPAP

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

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

**Issued: April 13, 2016
Comment Deadline: June 10, 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 ~~strikeout~~. For example: ~~This is strikeout text proposed for deletion.~~ Text that is proposed to be added to USPAP is underlined. For example: This is text proposed for insertion.

This exposure draft includes proposed revisions to USPAP and creation of a new Advisory Opinion to replace the retirement of another. After the considering the responses received during the exposure period the ASB will deliberate over the various proposals. The Board intends to issue a subsequent exposure draft this summer.

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

NOTE: If proposed revisions are adopted, it will necessitate administrative edits throughout USPAP. For example, in Section 1 on page 7, line 37 would need to be modified to reflect the newly adopted Standards. Another example is the term extraordinary assumption would be replaced if a new term is adopted.

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Section 1: Definition of Report

RATIONALE

The ASB has heard concerns about the definition of report for some time. Enforcement officials and others have complained about appraisers who issue multiple reports in an assignment and 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.

Whether an assignment is complete or not depends on the facts and matters at hand and also 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 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 definition, 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.

The ASB received many comments that emphasized the importance of preliminary communications in complex assignments. These comments came from appraisers of all disciplines. 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 Appraisal Standards Board.

The changes now proposed by the ASB would give appraisers the ability to make it clear that the document they are submitting is not a report, but rather a preliminary document for discussion. If a client relies upon one of these preliminary documents, the document in their file will be clearly marked as being preliminary in nature.

USPAP does not specifically address whether preliminary communications must be retained. This decision is left to the discretion of the appraiser, regulations, laws, 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.

In order to maintain public trust, the ASB is proposing that all communications of preliminary assignment results be clearly identified as such (e.g., draft, preliminary, for discussion only, etc.) To do otherwise would be misleading. A change proposed to the Conduct Section of the ETHICS RULE specifically addresses this.

1 **DEFINITIONS**

2 **REPORT:** any written communication, ~~written or oral~~, of an appraisal or appraisal review with a
3 signed certification that is transmitted to the client or a party authorized by the client, upon
4 completion of an assignment or any oral communication of an appraisal or appraisal review that
5 is transmitted to the client or a party authorized by the client in lieu of a written report.

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
9 review.

10 **ETHICS RULE**

11 **Conduct:**

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

14 **An appraiser:**

- 15 • **must not perform an assignment with bias;**
- 16 • **must not advocate the cause or interest of any party or issue;**
- 17 • **must not accept an assignment that includes the reporting of predetermined**
18 **opinions and conclusions;**
- 19 • **must not misrepresent his or her role when providing valuation services that are**
20 **outside of appraisal practice;**
- 21 • **must not communicate assignment results with the intent to mislead or to defraud;**
- 22 • **must not use or communicate a report or assignment results known by the appraiser**
23 **to be misleading or fraudulent;**

- 24 • **must not knowingly permit an employee or other person to communicate a report or**
25 **assignment results that are misleading or fraudulent report;**
- 26 • **must not communicate all or any portion of assignment results, except in a report,**
27 **without clearly and conspicuously disclosing that the communication is preliminary**
28 **(e.g., draft, preliminary, for discussion only, etc.);**
- 29 • **must not use or rely on unsupported conclusions relating to characteristics such as**
30 **race, color, religion, national origin, gender, marital status, familial status, age,**
31 **receipt of public assistance income, handicap, or an unsupported conclusion that**
32 **homogeneity of such characteristics is necessary to maximize value;**
- 33 • **must not engage in criminal conduct;**
- 34 • **must not willfully or knowingly violate the requirements of the RECORD**
35 **KEEPING RULE; and**
- 36 • **must not perform an assignment in a grossly negligent manner.**

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

Section 2: Definition of Assignment

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 time frame 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 provided.

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 “Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.” Advisory Opinion 36 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 time frame 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.

42 **DEFINITIONS**

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

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

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

52 **COMPETENCY RULE**

53 **Being Competent**

54 **Prior to agreeing to provide a valuation service, an** ~~The appraiser must determine, prior to~~
55 ~~accepting an assignment, that he or she can perform the assignment competently.~~

56 **Competency requires:**

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

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

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

Section 3: Extraordinary Assumption

RATIONALE:

Appraisers and regulators have commented about difficulty in understanding and explaining the term extraordinary assumption. Some appraisers have asked that the ASB find a different term so clients, unfamiliar with USPAP, do not have to be told that, despite what it says in a thesaurus, *extraordinary* does not mean “strange” or “bizarre.” It is important that clients and other intended users understand what is meant by the term so the required clear and conspicuous disclosure from the appraiser is not misleading.

The ASB is proposing *specific assumption* as a new term for this concept with a revised definition.

No Requirement to Use a Term or Label

While the ASB believes that the new term and revised definition would help clarify the meaning, appraisers would not be required to use this label. The Standards Rules currently require appraisers to “clearly and conspicuously state all extraordinary assumptions and hypothetical conditions” but do not require use of specific terms. Thus, appraisers could continue using the “extraordinary assumption” terminology on pre-printed forms such as the 1004.

Replacing the Definition of Assumption with General Assumption

In the recent Discussion Draft, the ASB requested comments on the idea of adding *general assumption* to the DEFINITIONS. The term, general assumption, is being proposed (in place of assumption) to help distinguish common, ordinary assignment conditions from more significant specific assumptions.

A number of stakeholders have pointed out that any assumption, if found to be false, could impact the appraiser’s opinions and conclusions. Therefore, clarification of this concern is incorporated into the new definition of *general assumption*.

If the change is adopted, *general assumption* will be substituted where assumption (but not extraordinary assumption) appears in USPAP.

Replacing “Extraordinary” with “Specific” Assumption

A specific assumption rises to the level that the appraiser wants to give clear cautionary notice to the client and other intended users. At issue is a significant element of uncertainty in the appraiser’s opinions and conclusions in an appraisal due to an identified factor, which the appraiser cannot reasonably be expected to prove true or false. Identifying a specific assumption serves as a red flag that is required to be disclosed clearly and conspicuously in the report

because if the specific assumption is found to be untrue, it could affect the appraiser's assignment results.

If the change is adopted, *specific assumption* will be substituted in USPAP wherever extraordinary assumption currently appears.

70 **DEFINITIONS**

71 ~~**ASSUMPTION:** that which is taken to be true.~~

72 ~~**EXTRAORDINARY ASSUMPTION:** an assumption, directly related to a specific~~
73 ~~assignment, as of the effective date of the assignment results, which, if found to be false,~~
74 ~~could alter the appraiser's opinions or conclusions.~~

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

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

83 ~~**SPECIFIC ASSUMPTION:** an assumption about which the appraiser has reasonable~~
84 ~~grounds for uncertainty and which, if found to be false, could alter the appraiser's~~
85 ~~opinions or conclusions in an assignment as of its effective date.~~

86 ~~Comment: Specific assumptions presume as fact otherwise uncertain~~
87 ~~information about physical, legal, or economic characteristics of the~~
88 ~~subject property; or about conditions external to the property, such as~~
89 ~~market conditions or trends; or about the integrity of data used in an~~
90 ~~analysis.~~

SCOPE OF WORK RULE

Lines 421-425 in the 2016-17 edition of USPAP

91 Assignment conditions include general assumptions, ~~extraordinary~~ specific
92 assumptions, hypothetical conditions, laws and regulations, jurisdictional
93 exceptions, and other conditions that affect the scope of work. Laws include
94 constitutions, legislative and court-made law, administrative rules, and
95 ordinances. Regulations include rules or orders, having legal force, issued by an
96 administrative agency.

Lines 440-448 in the 2016-17 edition of USPAP

97 **An appraiser must not allow assignment conditions to limit the scope of work to such a**
98 **degree that the assignment results are not credible in the context of the intended use.**

99 Comment: If relevant information is not available because of assignment
100 conditions that limit research opportunities (such as conditions that place
101 limitations on inspection or information gathering), an appraiser must withdraw
102 from the assignment unless the appraiser can:

- 103 • modify the assignment conditions to expand the scope of work to include
104 gathering the information; or
- 105 • use ~~an extraordinary~~ a specific assumption about such information, if
106 credible assignment results can still be developed.

Additional Edits

If these changes are adopted, then corresponding edits will also be made to the Standards Rules, Advisory Opinions and Frequently Asked Questions.

Section 4: STANDARD 3

RATIONALE:

The ASB is examining STANDARD 3 to determine whether it should be split into separate development and reporting standards like the Standards 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 considering a change to the definition of appraisal review; the proposed change to the definition would result in a definition that is more parallel to the definition of appraisal.

This proposed restructuring does not materially change the current development or reporting requirements. However, separating the USPAP requirements for developing an appraisal review opinion from the requirements for communicating that opinion would result in a clearer expression of those requirements. This would also be more consistent with the remainder of USPAP. Similarly, the proposed change to the definition would separate appraisal review development from reporting in the same way it is separated for appraisal.

Although at first glance it may appear that dividing the appraisal review requirements into two Standards is adding a layer of complexity, when looked at in concert with the rest of USPAP, it adds to the overall consistency and the end result would be a document that is easier to understand.

Note: If the proposed revisions are adopted, the ASB would also make any corresponding edits to Advisory Opinion 20, *An Appraisal Review Assignment That Includes the Reviewer's Own Opinion of Value*.

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

107 **APPRAISAL REVIEW:** (noun) the act or process of developing ~~and communicating~~ an
108 opinion about the quality of another appraiser's work that was performed as part of an appraisal
109 or appraisal review assignment; (adjective) an opinion about the quality of another appraiser's
110 work that was performed as part of an appraisal or appraisal review assignment.

111 Comment: The subject of an appraisal review assignment may be all or part of a
112 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. Some of the language has been edited for consistency with the other development and reporting standards.

113 **STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT**

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

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

123 In this Standard, the term “reviewer” is used to refer to an appraiser performing
124 an appraisal review.

125 **Standards Rule 3-1**

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

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

129 Comment: Changes and developments in economics, finance, law, technology,
130 and society can have a substantial impact on the appraisal profession. To keep
131 abreast of these changes and developments, the appraisal profession is constantly
132 reviewing and revising appraisal methods and techniques and devising new
133 methods and techniques to meet new circumstances. Each appraiser must
134 continuously improve his or her skills to remain proficient in appraisal review.

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

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

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

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

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

155 **Standards Rule 3-2**

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

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

158 (b) **identify the intended use of the reviewer's opinions and conclusions;**

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

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

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

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

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

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

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

- 180 (i) **any ownership interest in the property that is the subject of the work under**
181 **review;**
- 182 (ii) **the date of the work under review and the effective date of the opinions or**
183 **conclusions in the work under review;**
- 184 (iii) **the appraiser(s) who completed the work under review, unless the identity is**
185 **withheld by the client; and**
- 186 (iv) **the physical, legal, and economic characteristics of the property, properties,**
187 **property type(s), or market area in the work under review.**

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

- 191 (e) **identify any extraordinary assumptions necessary in the review assignment;**

192 Comment: An extraordinary assumption may be used in a review assignment only
193 if:

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

- 199 (f) **identify any hypothetical conditions necessary in the review assignment; and**

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

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

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

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

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

213 Information that was not available to the original appraiser in the normal course
214 of business may also be used by the reviewer; however, the reviewer must not use
215 such information in the reviewer's development of an opinion as to the quality of
216 the work under review.

217 **Standards Rule 3-3**

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

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

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

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

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

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

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

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

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

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

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

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

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

248 Comment: These requirements apply to:

- 249 • The reviewer’s own opinion of value when the subject of the review is the
250 product of an appraisal assignment; or
- 251 • The reviewer’s own opinion regarding the work reviewed by another when
252 the subject of the review is the product of an appraisal review assignment.

253 These requirements apply whether the reviewer’s own opinion:

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

256 When the assignment includes the reviewer developing his or her own opinion of
257 value or review opinion, the following apply:

- 258 • The reviewer’s scope of work in developing his or her own opinion of
259 value or review opinion may be different from that of the work under
260 review.
- 261 • The effective date of the reviewer’s opinion of value may be the same or
262 different from the effective date of the work under review.
- 263 • The reviewer is not required to replicate the steps completed by the
264 original appraiser. Those items in the work under review that the reviewer
265 concludes are credible can be extended to the reviewer’s development
266 process on the basis of an extraordinary assumption. Those items not
267 deemed to be credible must be replaced with information or analysis
268 developed in conformance with STANDARD 1, 3, 6, 7, or 9, as
269 applicable, to produce credible assignment results.

270 **STANDARD 4: APPRAISAL REVIEW, REPORTING**

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

273 Comment: STANDARD 4 addresses the content and level of information required
274 in a report that communicates the results of an appraisal review.

275 STANDARD 4 does not dictate the form, format, or style of appraisal review
276 reports. The form, format, and style of a report are functions of the needs of
277 intended users and appraisers. The substantive content of a report determines its
278 compliance.

279 **Standards Rule 4-1**

280 **Each written or oral Appraisal Review Report must be separate from the work under**
281 **review and must:**

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

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

291 **Standards Rule 4-2**

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

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

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

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

- 308 (b) **state the intended use of the appraisal review;**

- 309 (c) **state the purpose of the appraisal review;**

- 310 (d) **state information sufficient to identify:**

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

- 313 (ii) **the date of the work under review;**
314 (iii) **the effective date of the opinions or conclusions in the work under review;**
315 **and**
316 (iv) **the appraiser(s) who completed the work under review, unless the identity is**
317 **withheld by the client.**

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

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

321 (f) **clearly and conspicuously:**

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

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

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

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

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

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

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

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

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

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

347 (iv) clearly and conspicuously:

348 • state all extraordinary assumptions and hypothetical conditions
349 connected with the reviewer’s opinion of value or review opinion
350 related to the work under review; and

351 • state that their use might have affected the assignment results.

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

- 357 • Appraisal Report for a real property appraisal (Standards Rule 2-2(a));
- 358 • Appraisal Report for a personal property appraisal (Standards Rule 8-
359 2(a));
- 360 • Appraisal Review Report for an appraisal review (Standards Rule 3-5);
- 361 • Mass Appraisal Report for mass appraisal (Standards Rule 6-8); and
- 362 • Appraisal Report for business appraisal (Standards Rule 10-2(a)).

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

364 **Standards Rule 4-3**

365 Each written Appraisal Review Report must contain a signed certification that is similar in
366 content to the following form:

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

- 368 — the statements of fact contained in this report are true and correct.
- 369 — the reported analyses, opinions, and conclusions are limited only by the
370 reported assumptions and limiting conditions and are my personal,
371 impartial, and unbiased professional analyses, opinions, and conclusions.
- 372 — I have no (or the specified) present or prospective interest in the property
373 that is the subject of the work under review and no (or the specified)
374 personal interest with respect to the parties involved.
- 375 — I have performed no (or the specified) services, as an appraiser or in any
376 other capacity, regarding the property that is the subject of the work under
377 review within the three-year period immediately preceding acceptance of this
378 assignment.

- 379 — **I have no bias with respect to the property that is the subject of the work**
380 **under review or to the parties involved with this assignment.**
- 381 — **my engagement in this assignment was not contingent upon developing or**
382 **reporting predetermined results.**
- 383 — **my compensation is not contingent on an action or event resulting from the**
384 **analyses, opinions, or conclusions in this review or from its use.**
- 385 — **my compensation for completing this assignment is not contingent upon the**
386 **development or reporting of predetermined assignment results or**
387 **assignment results that favors the cause of the client, the attainment of a**
388 **stipulated result, or the occurrence of a subsequent event directly related to**
389 **the intended use of this appraisal review.**
- 390 — **my analyses, opinions, and conclusions were developed and this review**
391 **report was prepared in conformity with the *Uniform Standards of***
392 ***Professional Appraisal Practice*.**
- 393 — **I have (or have not) made a personal inspection of the subject of the work**
394 **under review. (If more than one person signs this certification, the**
395 **certification must clearly specify which individuals did and which**
396 **individuals did not make a personal inspection of the subject of the work**
397 **under review.) (For reviews of a business or intangible asset appraisal**
398 **assignment, the inspection portion of the certification is not applicable.)**
- 399 — **no one provided significant appraisal or appraisal review assistance to the**
400 **person signing this certification. (If there are exceptions, the name of each**
401 **individual(s) providing appraisal or appraisal review assistance must be**
402 **stated.)**

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

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

409 Appraisal review is distinctly different from the cosigning activity addressed in
410 Standards Rules 2-3, 6-9, 8-3, and 10-3. To avoid confusion between these
411 activities, a reviewer performing an appraisal review must not sign the work
412 under review unless he or she intends to accept responsibility as a cosigner of that
413 work.

414 When a signing appraiser has relied on work done by appraisers and others who
415 do not sign the certification, the signing appraiser is responsible for the decision
416 to rely on their work. The signing appraiser is required to have a reasonable basis
417 for believing that those individuals performing the work are competent. The

418 signing appraiser also must have no reason to doubt that the work of those
419 individuals is credible.

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

425 **Standards Rule 4-4**

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

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

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

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.

For the 2018-19 edition of USPAP the ASB is examining STANDARD 6. This examination included the formation of 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 the Standards 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. The group also presented several potential changes to STANDARD 6. All of these potential changes are being considered by the ASB. However, for this exposure draft, only basic changes related to the division of STANDARD 6 and some minor wording changes relating to reporting are being exposed. These proposed edits would make the mass appraisal reporting standard more consistent with the other standards. For example, the requirement to summarize rather than describe is being proposed as being more appropriate to mass appraisal reporting. This is also consistent with the other reporting standards and the requirements for an Appraisal Report.

The proposed new STANDARD 5 and STANDARD 6 follow. Due to the changes in the Standards Rule numbers and required additions to make the separate standards similar to the other paired Standards, this material is not in strikeout and underline format.

429 **STANDARD 5: MASS APPRAISAL, DEVELOPMENT**

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

433 Comment: STANDARD 5 applies to all mass appraisals of real or personal
434 property regardless of the purpose or use of such appraisal.⁵³ STANDARD 5 is
435 directed toward the substantive aspects of developing credible analyses, opinions,
436 and conclusions in the mass appraisal of properties. The jurisdictional exceptions
437 applicable to public mass appraisals prepared for ad valorem taxation do not apply
438 to mass appraisals prepared for other purposes.

439 A mass appraisal includes:

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

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

454 **Standards Rule 5-1**

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

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

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

⁵³ See Advisory Opinion 32, *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*.

461 This requirement recognizes that the principle of change continues to affect the
462 manner in which appraisers perform mass appraisals. Changes and developments
463 in the real property and personal property fields have a substantial impact on the
464 appraisal profession.

465 To keep abreast of these changes and developments, the appraisal profession is
466 constantly reviewing and revising appraisal methods and techniques and devising
467 new methods and techniques to meet new circumstances. For this reason it is not
468 sufficient for appraisers to simply maintain the skills and the knowledge they
469 possess when they become appraisers. Each appraiser must continuously improve
470 his or her skills to remain proficient in mass appraisal.

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

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

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

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

482 **Standards Rule 5-2**

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

484 **(a) identify the client and other intended users;⁵⁴**

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

489 **(b) identify the intended use of the appraisal;⁵⁵**

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

⁵⁴ See Advisory Opinion 36, *Identification and Disclosure of Client, Intended Use, and Intended Users*.

⁵⁵ See Advisory Opinion 36, *Identification and Disclosure of Client, Intended Use, and Intended Users*.

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

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

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

496 (iii) **in such other terms as may be precisely defined; and**

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

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

504 (d) **identify the effective date of the appraisal;**⁵⁶

505 (e) **identify the characteristics of the properties that are relevant to the type and**
506 **definition of value and intended use,**⁵⁷ **including:**

507 (i) **the group with which a property is identified according to similar market**
508 **influence;**

509 (ii) **the appropriate market area and time frame relative to the property being**
510 **valued; and**

511 (iii) **their location and physical, legal, and economic characteristics;**

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

515 When appraising proposed improvements, an appraiser must examine and have
516 available for future examination, plans, specifications, or other documentation
517 sufficient to identify the extent and character of the proposed improvements.⁵⁸

518 Ordinarily, proposed improvements are not appraised for ad valorem tax
519 purposes. Appraisers, however, are sometimes asked to provide opinions of value

⁵⁶ See Advisory Opinion 34, *Retrospective and Prospective Value Opinions*.

⁵⁷ See Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*, if applicable.

⁵⁸ See Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*, if applicable.

520 of proposed improvements so that developers can estimate future property tax
521 burdens. Sometimes units in condominiums and planned unit developments are
522 sold with an interest in un-built community property, the pro rata value of which,
523 if any, must be considered in the analysis of sales data.

524 **(f) identify the characteristics of the market that are relevant to the purpose and**
525 **intended use of the mass appraisal including:**

526 **(i) location of the market area;**

527 **(ii) physical, legal, and economic attributes;**

528 **(iii) time frame of market activity; and**

529 **(iv) property interests reflected in the market;**

530 **(g) in appraising real property or personal property:**

531 **(i) identify the appropriate market area and time frame relative to the property**
532 **being valued;**

533 **(ii) when the subject is real property, identify and consider any personal**
534 **property, trade fixtures, or intangibles that are not real property but are**
535 **included in the appraisal;**

536 **(iii) when the subject is personal property, identify and consider any real**
537 **property or intangibles that are not personal property but are included in the**
538 **appraisal;**

539 **(iv) identify known easements, restrictions, encumbrances, leases, reservations,**
540 **covenants, contracts, declarations, special assessments, ordinances, or other**
541 **items of similar nature; and**

542 **(v) identify and analyze whether an appraised fractional interest, physical**
543 **segment, or partial holding contributes pro rata to the value of the whole;**

544 Comment: The above requirements do not obligate the appraiser to value
545 the whole when the subject of the appraisal is a fractional interest,
546 physical segment, or a partial holding. However, if the value of the whole
547 is not identified, the appraisal must clearly reflect that the value of the
548 property being appraised cannot be used to develop the value opinion of
549 the whole by mathematical extension.

550 **(h) analyze the relevant economic conditions at the time of the valuation, including**
551 **market acceptability of the property and supply, demand, scarcity, or rarity;**

552 (i) **identify any extraordinary assumptions and any hypothetical conditions necessary**
553 **in the assignment; and**

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

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

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

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

566 (j) **determine the scope of work necessary to produce credible assignment results in**
567 **accordance with the SCOPE OF WORK RULE.⁵⁹**

568 **Standards Rule 5-3**

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

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

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

582 (b) **in appraising personal property: identify and analyze the effects on use and value of**
583 **industry trends, value-in-use, and trade level of personal property. Where**
584 **applicable, analyze the current use and alternative uses to encompass what is**

⁵⁹ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

585 **profitable, legal, and physically possible, as relevant to the type and definition of**
586 **value and intended use of the appraisal. Personal property has several measurable**
587 **marketplaces; therefore, the appraiser must define and analyze the appropriate**
588 **market consistent with the type and definition of value.**

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

594 **Standards Rule 5-4**

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

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

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

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

603 Comment: The formal development of a model in a statement or equation is
604 called model specification. Mass appraisers must develop mathematical models
605 that, with reasonable accuracy, represent the relationship between property value
606 and supply and demand factors, as represented by quantitative and qualitative
607 property characteristics. The models may be specified using the cost, sales
608 comparison, or income approaches to value. The specification format may be
609 tabular, mathematical, linear, nonlinear, or any other structure suitable for
610 representing the observable property characteristics. Appropriate approaches must
611 be used in appraising a class of properties. The concept of recognized techniques
612 applies to both real and personal property valuation models.

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

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

620 **Standards Rule 5-5**

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

623 **(a) collect, verify, and analyze such data as are necessary and appropriate to develop:**

624 **(i) the cost new of the improvements;**

625 **(ii) accrued depreciation;**

626 **(iii) value of the land by sales of comparable properties;**

627 **(iv) value of the property by sales of comparable properties;**

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

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

646 **(b) base estimates of capitalization rates and projections of future rental rates and/or**
647 **potential earnings capacity, expenses, interest rates, and vacancy rates on**
648 **reasonable and appropriate evidence;⁶⁰**

649 Comment: This requirement calls for an appraiser, in developing income and
650 expense statements and cash flow projections, to weigh historical information and
651 trends, current market factors affecting such trends, and reasonably anticipated

⁶⁰ See Advisory Opinion 33, *Discounted Cash Flow Analysis*.

652 events, such as competition from developments either planned or under
653 construction.

654 (c) **identify and, as applicable, analyze terms and conditions of any available leases; and**

655 (d) **identify the need for and extent of any physical inspection.**⁶¹

656 **Standards Rule 5-6**

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

659 (a) **value improved parcels by recognized methods or techniques based on the cost**
660 **approach, the sales comparison approach, and income approach;**

661 (b) **value sites by recognized methods or techniques; such techniques include but are**
662 **not limited to the sales comparison approach, allocation method, abstraction**
663 **method, capitalization of ground rent, and land residual technique;**

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

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

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

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

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

680 **Standards Rule 5-7**

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

⁶¹ See Advisory Opinion 2, *Inspection of Subject Property*.

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

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

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

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

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

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

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

705 **Standards Rule 6-1**

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

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

709 (b) **contain sufficient information to enable the intended users of the appraisal to**
710 **understand the report properly;**

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

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

717 Comment: The report must clearly and conspicuously:

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

720 **Standards Rule 6-2**

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

722 (i) **state the identity of the client, unless the client has specifically requested otherwise;**
723 **state the identity of any intended users by name or type;⁶²**

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

730 (ii) **state the intended use of the appraisal;⁶³**

731 (iii) **disclose any assumptions or limiting conditions that result in deviation from**
732 **recognized methods and techniques or that affect analyses, opinions, and**
733 **conclusions;**

734 (iv) **state the effective date of the appraisal and the date of the report;**

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

739 The effective date of the appraisal establishes the context for the value opinion,
740 while the date of the report indicates whether the perspective of the appraiser on
741 the market and property as of the effective date of the appraisal was prospective,
742 current, or retrospective.⁶⁴

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

⁶² See Advisory Opinion 36, *Identification and Disclosure of Client, Intended Use, and Intended Users*.

⁶³ See Advisory Opinion 36, *Identification and Disclosure of Client, Intended Use, and Intended Users*.

⁶⁴ See Advisory Opinion 34, *Retrospective and Prospective Value Opinions*.

744 Comment: Stating the type and definition of value also requires any comments
745 needed to clearly indicate to intended users how the definition is being applied.⁶⁵

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

- 747 • In terms of cash or of financing terms equivalent to cash; or
- 748 • Based on non-market financing with unusual conditions or incentives.

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

752 **(vi) state the properties appraised including the property rights;**

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

758 **(vii) summarize the scope of work used to develop the appraisal;⁶⁶ exclusion of the sales
759 comparison approach, cost approach, or income approach must be explained;**

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

765 When any portion of the work involves significant mass appraisal assistance, the
766 appraiser must describe the extent of that assistance. The signing appraiser must
767 also state the name(s) of those providing the significant mass appraisal assistance
768 in the certification, in accordance with Standards Rule 6-3.⁶⁷

769 **(vii) summarize and support the model specification(s) considered, data requirements,
770 and the model(s) chosen;**

771 Comment: The appraiser must provide sufficient information to enable the client
772 and intended users to have confidence that the process and procedures used
773 conform to accepted methods and result in credible value conclusions. In the case
774 of mass appraisal for ad valorem taxation, stability and accuracy are important to

⁶⁵ See Advisory Opinion 34, *Retrospective and Prospective Value Opinions*.

⁶⁶ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*

⁶⁷ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

775 the credibility of value opinions. The report must include a summary of the
776 rationale for each model, the calibration techniques to be used, and the
777 performance measures to be used.

778 **(viii) summarize the procedure for collecting, validating, and reporting data;**

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

783 **(ix) summarize calibration methods considered and chosen, including the mathematical**
784 **form of the final model(s); summarize how value conclusions were reviewed; and, if**
785 **necessary, state the availability and location of individual value conclusions;**

786 **(x) when an opinion of highest and best use, or the appropriate market or market level**
787 **was developed, summarize how that opinion was determined;**

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

793 **(xi) identify the appraisal performance tests used and the performance measures**
794 **attained;**

795 **(xii) summarize the reconciliation performed, in accordance with Standards Rule 5-7;**
796 **and**

797 **(xiii) include a signed certification in accordance with Standards Rule 6-3.**

798 **Standards Rule 6-3**

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

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

- 802 — the statements of fact contained in this report are true and correct.
- 803 — the reported analyses, opinions, and conclusions are limited only by the
- 804 reported assumptions and limiting conditions, and are my personal,
- 805 impartial, and unbiased professional analyses, opinions, and conclusions.

- 806 — I have no (or the specified) present or prospective interest in the property
807 that is the subject of this report, and I have no (or the specified) personal
808 interest with respect to the parties involved.
- 809 — I have performed no (or the specified) services, as an appraiser or in any
810 other capacity, regarding the property that is the subject of this report
811 within the three-year period immediately preceding acceptance of this
812 assignment.
- 813 — I have no bias with respect to any property that is the subject of this report
814 or to the parties involved with this assignment.
- 815 — my engagement in this assignment was not contingent upon developing or
816 reporting predetermined results.
- 817 — my compensation for completing this assignment is not contingent upon the
818 reporting of a predetermined value or direction in value that favors the cause
819 of the client, the amount of the value opinion, the attainment of a stipulated
820 result, or the occurrence of a subsequent event directly related to the
821 intended use of this appraisal.
- 822 — my analyses, opinions, and conclusions were developed, and this report has
823 been prepared, in conformity with the *Uniform Standards of Professional*
824 *Appraisal Practice*.
- 825 — I have (or have not) made a personal inspection of the properties that are the
826 subject of this report. (If more than one person signs the report, this
827 certification must clearly specify which individuals did and which individuals
828 did not make a personal inspection of the appraised property.)⁶⁸
- 829 — no one provided significant mass appraisal assistance to the person signing
830 this certification. (If there are exceptions, the name of each individual
831 providing significant mass appraisal assistance must be stated.)

832 Comment: The above certification is not intended to disturb an elected or
833 appointed assessor's work plans or oaths of office. A signed certification is an
834 integral part of the appraisal report. An appraiser, who signs any part of the mass
835 appraisal report, including a letter of transmittal, must also sign this certification.

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

⁶⁸ See Advisory Opinion 2, *Inspection of Subject Property*.

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

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

859 The names of individuals providing significant mass appraisal assistance who do
860 not sign a certification must be stated in the certification. It is not required that the
861 description of their assistance be contained in the certification, but disclosure of
862 their assistance is required in accordance with Standards Rule 6-2(vii).⁶⁹

⁶⁹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

Section 6: Standards Rules 7-2(c), SR 7-5, and 8-2(v)

RATIONALE

The ASB is proposing to revise 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.

863 **Standards Rule 7-2**

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

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

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

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

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

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

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

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

874 (iv) **if the opinion of value is to be based on non-market financing or financing**
875 **with unusual conditions or incentives, the terms of such financing must be**
876 **clearly identified and the appraiser’s opinion of their contributions to or**
877 **negative influence on value must be developed by analysis of relevant market**
878 **data;**

879 Comment: When reasonable exposure time is a component of the
880 definition for the value opinion being developed, the appraiser must also
881 develop an opinion of reasonable exposure time linked to that value
882 opinion.

883 (d) **identify the effective date of the appraiser’s opinions and conclusions;**

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

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

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

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

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

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

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

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

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

905 An appraiser may use any combination of a property inspection and
906 documents or other resources to identify the relevant characteristics of the
907 subject property.

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

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

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

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

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

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

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

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

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

930 **Standards Rule 7-5**

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

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

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

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

944 **Standards Rule 8-2**

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

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

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

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

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

964 A party receiving a copy of an Appraisal Report or Restricted Appraisal Report in
965 order to satisfy disclosure requirements does not become an intended user of the
966 appraisal unless the appraiser identifies such party as an intended user as part of
967 the assignment.

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

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

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

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

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

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

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

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

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

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

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

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

999 When an opinion of reasonable exposure time has been developed in
1000 compliance with Standards Rule 7-2(c), the opinion must be stated in the
1001 report.

1002 **(vi) state the effective date of the appraisal and the date of the report;**

1003 Comment: The effective date of the appraisal establishes the context for
1004 the value opinion, while the date of the report indicates whether the

1005 perspective of the appraiser on the market and property as of the effective
1006 date of the appraisal was prospective, current, or retrospective.

1007 **(vii) summarize the scope of work used to develop the appraisal;**

1008 Comment: Because intended users' reliance on an appraisal may be
1009 affected by the scope of work, the report must enable them to be properly
1010 informed and not misled. Sufficient information includes disclosure of
1011 research and analyses performed and might also include disclosure of
1012 research and analyses not performed.

1013 When any portion of the work involves significant personal property
1014 appraisal assistance, the appraiser must summarize the extent of that
1015 assistance. The name(s) of those providing the significant personal
1016 property appraisal assistance must be stated in the certification, in
1017 accordance with Standards Rule 8-3.

1018 **(viii) summarize the information analyzed, the appraisal methods and techniques
1019 employed, and the reasoning that supports the analyses, opinions, and
1020 conclusions; exclusion of the sales comparison approach, cost approach, or
1021 income approach must be explained;**

1022 Comment: An Appraisal Report must include sufficient information to
1023 indicate that the appraiser complied with the requirements of STANDARD
1024 7. The amount of detail required will vary with the significance of the
1025 information to the appraisal and with the significance of a particular object
1026 or group of objects to the overall assignment results.

1027 The appraiser must provide sufficient information to enable the client and
1028 intended users to understand the rationale for the opinion and conclusions,
1029 including reconciliation of the data and approaches, in accordance with
1030 Standards Rule 7-6.

1031 ~~When reporting an opinion of market value, a summary of the results of~~
1032 ~~the analysis of the subject sales, offers, options, and listings in accordance~~
1033 ~~with Standards Rule 7-5 is necessary. In accordance with Standards Rule~~
1034 ~~7-5, when the appraiser has developed an analysis of agreements of sale,~~
1035 ~~validated offers or third-party offers to sell, options, listings or prior sales~~
1036 ~~of the subject property, the appraiser must report a summary of the results~~
1037 ~~of the analysis. If such information was unobtainable, a statement on the~~
1038 ~~efforts undertaken by the appraiser to obtain the information is required. If~~
1039 ~~such information is irrelevant, a statement acknowledging the existence of~~
1040 ~~the information and citing its lack of relevance is required.~~

1041 (ix) **state, as appropriate to the class of personal property involved, the use of the**
1042 **property existing as of the date of value and the use of the property reflected**
1043 **in the appraisal;**

1044 Comment: In the context of personal property, value can be a function of
1045 the current and alternative use of the subject property, the choice of the
1046 appropriate market or market level for the type of item, the type and
1047 definition of value, and intended use of the report.

1048 (x) **when an opinion of the appropriate market or market level was developed by**
1049 **the appraiser, summarize the support and rationale for that opinion;**

1050 (xi) **clearly and conspicuously:**

- 1051 • **state all extraordinary assumptions and hypothetical**
1052 **conditions; and**
- 1053 • **state that their use might have affected the assignment results;**
1054 **and**

1055 (xii) **include a signed certification in accordance with Standards Rule 8-3.**

1056 (b) **The content of a Restricted Appraisal Report must be consistent with the intended**
1057 **use of the appraisal and, at a minimum:**

1058 (i) **state the identity of the client, unless the client has specifically requested**
1059 **otherwise; and state a prominent use restriction that limits use of the report**
1060 **to the client and warns that the rationale for how the appraiser arrived at the**
1061 **opinions and conclusions set forth in the report may not be understood**
1062 **properly without additional information in the appraiser’s workfile;**

1063 Comment: An appraiser must use care when identifying the client to avoid
1064 violations of the Confidentiality section of the ETHICS RULE. If a client
1065 requests that the client’s identity be withheld from the report, the appraiser
1066 may comply with this request. In these instances, the appraiser must
1067 document the identity of the client in the workfile and must state in the
1068 report that the identity of the client has been withheld at the client’s
1069 request.

1070 The Restricted Appraisal Report is for client use only. Before entering into
1071 an agreement, the appraiser should establish with the client the situations
1072 where this type of report is to be used and should ensure that the client
1073 understands the restricted utility of the Restricted Appraisal Report.

1074 (ii) **state the intended use of the appraisal;**

1075 Comment: The intended use of the appraisal must be consistent with the
1076 limitation on use of the Restricted Appraisal Report option in this
1077 Standards Rule (i.e., client use only).

1078 **(iii) state information sufficient to identify the property involved in the appraisal;**

1079 **(iv) state the property interest appraised;**

1080 **(v) state the type of value and cite the source of its definition;**

1081 Comment: When an opinion of reasonable exposure time has been
1082 developed in compliance with Standards Rule 7-2(c), the opinion must be
1083 stated in the report.

1084 **(vi) state the effective date of the appraisal and the date of the report;**

1085 Comment: The effective date of the appraisal establishes the context for
1086 the value opinion, while the date of the report indicates whether the
1087 perspective of the appraiser on the market and property as of the effective
1088 date of the appraisal was prospective, current, or retrospective.

1089 **(vii) state the scope of work used to develop the appraisal;**

1090 Comment: Because the client's reliance on an appraisal may be affected by
1091 the scope of work, the report must enable them to be properly informed
1092 and not misled. Sufficient information includes disclosure of research and
1093 analyses performed and might also include disclosure of research and
1094 analyses not performed.

1095 When any portion of the work involves significant personal property
1096 appraisal assistance, the appraiser must state the extent of that assistance.
1097 The name(s) of those providing the significant personal property appraisal
1098 assistance must be stated in the certification, in accordance with Standards
1099 Rule 8-3.

1100 **(viii) state the appraisal methods and techniques employed, state the value
1101 opinion(s) and conclusion(s) reached, and reference the workfile; exclusion of
1102 the sales comparison approach, cost approach, or income approach must be
1103 explained;**

1104 Comment: An appraiser must maintain a specific, coherent workfile in
1105 support of a Restricted Appraisal Report. The contents of the workfile
1106 must include sufficient information to indicate that the appraiser complied
1107 with the requirements of STANDARD 7 and for the appraiser to produce
1108 an Appraisal Report.

1109 ~~When reporting an opinion of market value, information~~ analyzed in
1110 compliance with Standards Rule 7-5 is significant information that must
1111 be disclosed in a Restricted Appraisal Report. If such information was
1112 unobtainable, a statement on the efforts undertaken by the appraiser to
1113 obtain the information is required. If such information is irrelevant, a
1114 statement acknowledging the existence of the information and citing its
1115 lack of relevance is required.

1116 (ix) **state, as appropriate to the class of personal property involved, the use of the**
1117 **property existing as of the date of value and the use of the property reflected**
1118 **in the appraisal;**

1119 Comment: In the context of personal property, value can be a function of
1120 the current and alternative use of the subject property, the choice of the
1121 appropriate market or market level for the type of item, the type and
1122 definition of value, and intended use of the report.

1123 (x) **when an opinion of the appropriate market or market level was developed by**
1124 **the appraiser, state that opinion;**

1125 (xi) **clearly and conspicuously:**

- 1126 • **state all extraordinary assumptions and hypothetical**
- 1127 **conditions; and**
- 1128 • **state that their use might have affected the assignment results;**
- 1129 **and**

1130 (xii) **include a signed certification in accordance with Standards Rule 8-3.**

Section 7: Standards Rule 8-3

RATIONALE

The ASB is reviewing Standard 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 appraisers.

In this exposure draft, the ASB is proposing the addition of clarifying language to the Comment to Standard 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 they did not appraise. The comment also adds a reporting requirement that discloses the role each appraiser has in the assignment.

In an assignment of this type, as 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.

1131 **Standards Rule 8-3**

1132 **Each written personal property appraisal report must contain a signed certification that is**
1133 **similar in content to the following form:**

1134 **I certify that, to the best of my knowledge and belief:**

- 1135 — **the statements of fact contained in this report are true and correct.**
- 1136 — **the reported analyses, opinions, and conclusions are limited only by the**
- 1137 **reported assumptions and limiting conditions and are my personal,**
- 1138 **impartial, and unbiased professional analyses, opinions, and conclusions.**
- 1139 — **I have no (or the specified) present or prospective interest in the property**
- 1140 **that is the subject of this report and no (or the specified) personal interest**
- 1141 **with respect to the parties involved.**
- 1142 — **I have performed no (or the specified) services, as an appraiser or in any**
- 1143 **other capacity, regarding the property that is the subject of this report**
- 1144 **within the three-year period immediately preceding acceptance of this**
- 1145 **assignment.**
- 1146 — **I have no bias with respect to the property that is the subject of this report**
- 1147 **or to the parties involved with this assignment.**
- 1148 — **my engagement in this assignment was not contingent upon developing or**
- 1149 **reporting predetermined results.**

- 1150 — **my compensation for completing this assignment is not contingent upon the**
1151 **development or reporting of a predetermined value or direction in value**
1152 **that favors the cause of the client, the amount of the value opinion, the**
1153 **attainment of a stipulated result, or the occurrence of a subsequent event**
1154 **directly related to the intended use of this appraisal.**
1155 — **my analyses, opinions, and conclusions were developed, and this report has**
1156 **been prepared, in conformity with the *Uniform Standards of Professional***
1157 ***Appraisal Practice.***
1158 — **I have (or have not) made a personal inspection of the property that is the**
1159 **subject of this report. (If more than one person signs this certification, the**
1160 **certification must clearly specify which individuals did and which**
1161 **individuals did not make a personal inspection of the appraised property.)**
1162 — **no one provided significant personal property appraisal assistance to the**
1163 **person signing this certification. (If there are exceptions, the name of each**
1164 **individual providing significant personal property appraisal assistance**
1165 **must be stated.)**

1166 Comment: A signed certification is an integral part of the appraisal report. An
1167 appraiser who signs any part of the appraisal report, including a letter of
1168 transmittal, must also sign this certification. In an assignment that includes only
1169 assignment results developed by the personal property appraiser(s) from the same
1170 personal property specialty, any appraiser(s) who signs a certification accepts full
1171 responsibility for all elements of the certification, for the assignment results, and
1172 for the contents of the appraisal report. In an assignment involving appraisers with
1173 expertise in different personal property specialties (e.g., antiques, fine art,
1174 machinery and equipment), an appraiser who signs the certification may accept
1175 responsibility only for the elements of the certification, assignment results, and
1176 report contents specific to the appraiser's discipline. When appraisers from
1177 different personal property specialties sign the certification, the role of each
1178 appraiser signing the certification must be stated in the report.

1179 In an assignment that includes real property, business or intangible asset
1180 assignment results not developed by the personal property appraiser(s), any
1181 personal property appraiser(s) who signs a certification accepts full responsibility
1182 for the personal property elements of the certification, for the personal property
1183 assignment results, and for the personal property contents of the appraisal report.

1184 When a signing appraiser(s) has relied on work done by appraisers and others
1185 who do not sign the certification, the signing appraiser is responsible for the
1186 decision to rely on their work. The signing appraiser(s) is required to have a
1187 reasonable basis for believing that those individuals performing the work are
1188 competent. The signing appraiser(s) also must have no reason to doubt that the
1189 work of those individuals is credible.

1190 The names of individuals providing significant personal property appraisal
1191 assistance who do not sign a certification must be stated in the certification. It is
1192 not required that the description of their assistance be contained in the
1193 certification, but disclosure of their assistance is required in accordance with
1194 Standards Rule 8-2(a)(vii) or 8-2(b)(vii) as applicable.

Section 8 Advisory Opinion 37, Computer Assisted Valuation Tools

RATIONALE

Advisory Opinion 18, *Use of an Automated Valuation Model (AVM)*, was adopted by the ASB in 1997 and first appeared in the 1998 edition of USPAP. It was added to provide guidance in the application of AVM software. AVMs enabled real property appraisers to analyze large pools of sales data in ways that were previously not practical. Today, not only are there newer and more advanced valuation tools, but AVMs themselves have evolved in ways that make much of AO-18 obsolete.

In an effort to keep its guidance current, the ASB is proposing retiring AO-18, and replacing it with Advisory Opinion 37, *Computer Assisted Valuation Tools*. AO-37 is intended to provide guidance in the use of computer assisted valuation tools now used by appraisers. The ASB has intentionally tried to keep the advice as broad as possible, in anticipation that additional new tools are likely to be developed in the future.

1195 **ADVISORY OPINION 37 (AO-37)**

1196 *This communication by the Appraisal Standards Board (ASB) does not establish new standards*
1197 *or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of*
1198 *appraisal standards in specific situations and to offer advice from the ASB for the resolution of*
1199 *appraisal issues and problems.*

1200 **SUBJECT: Computer Assisted Valuation Tools**

1201 **APPLICATION: Real Property**

1202 **THE ISSUE:**

1203 Appraisers typically rely upon market data as the basis for their opinions and conclusions. This
1204 data is used by appraisers to analyze and report on market trend information (e.g., median sale
1205 prices, rent trends, marketing time, etc.), the impact different features have on their subject's
1206 value (i.e., appropriate adjustments), and even market value itself (e.g., using sales of vacant land
1207 to develop a value per acre of their subject site).

1208 Appraisers have access to technology that enables them to automate some aspects of the
1209 appraisal process. They can generate information that once had to be calculated by hand. The
1210 information generated by this technology can enable appraisers to produce appraisals and
1211 appraisal reviews with greater credibility, but its misuse can have the opposite effect. What steps
1212 should an appraiser take to comply with USPAP when using information generated by these
1213 types of resources?

1214 **BACKGROUND:**

1215 This Advisory Opinion addresses an appraiser’s obligations when relying upon values, prices,
1216 adjustments, trends, or other information generated by software or various online services.
1217 Examples of these tools include:

1218 • Automated Valuation Models (AVM): These provide real estate property value estimates
1219 using mathematical modeling combined with a large database. Although these services
1220 are now available directly to consumers on the Internet, some services provide data useful
1221 to appraisers.

1222 • Regression Analysis Tools: Regression analysis is a statistical process used for
1223 determining relationships among variables. For example, an appraiser may wish to
1224 determine if the market recognizes a relationship between the size of a property and its
1225 price per square foot.

1226 • Multiple Listing Services: These services publish listings of properties for sale in a given
1227 marketplace. Typically, these services can provide subscribers with an analysis of past
1228 sale trends, such as average prices, sales volume, days on market, etc.

1229 These are only examples; there are numerous others. The analytical methods the appraiser relies
1230 upon may be different from assignment to assignment. These types of analytical tools are distinct
1231 from discounted cash flow tools¹ and related technology in that these contain a database used to
1232 answer specific requests for information. The appraiser must be able to support the chosen
1233 parameters that are used as inputs to the tool.

1234 Stand-alone software or various online services can be useful tools that allow appraisers to
1235 enhance their appraisals. Some residential lenders are increasingly requiring appraisers to
1236 provide additional support for their adjustments. Appraisers sometimes meet this request by
1237 providing a regression analysis. There are software packages available to appraisers that make
1238 this analysis relatively simple. Some residential form-filling software vendors include this
1239 function as an integral part of their product.

1240 For example, since 2009, Freddie Mac and Fannie Mae have required that appraisal reports
1241 include a completed Market Conditions Addendum (Freddie Mac Form 71 / Fannie Mae Form
1242 1004MC). The instructions, read, in part:

1243 “The appraiser must use the information required on this form as the basis for his/her
1244 conclusions, and must provide support for those conclusions, regarding housing trends
1245 and overall market conditions as reported in the Neighborhood section of the appraisal
1246 report form.”

1247 Many modern Multiple Listing Services now have integrated analytical tools to accommodate
1248 the needs of their appraiser members in preparing this form.

¹ See Advisory Opinion 33, *Discounted Cash Flow Analysis*

1249 Trend analysis, regression analysis, matched pair analysis, graphing, highest and best use
1250 analysis, and automatic cost approach calculations are examples of tasks which can be less
1251 cumbersome with the advancements in computer software.

1252 **ADVICE FROM THE ASB ON THE ISSUE:**

1253 The COMPETENCY RULE specifically states that competency may apply to an analytical
1254 method. Technology that performs various statistical analyses is simple to use but still requires
1255 some degree of competence. The instructions to Form 71/1004MC read:

1256 “Sales and listings must be properties that compete with the subject property, determined
1257 by applying the criteria that would be used by a prospective buyer of the subject
1258 property.”

1259 Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or
1260 commission that significantly affects an appraisal. When using computer assisted valuation tools,
1261 the appraiser is responsible both for selecting the appropriate input parameters and also for being
1262 proficient in the use of the technology to ensure the correct input of those parameters. If either of
1263 these criteria is not met, the information provided may not provide credible results. Depending
1264 on how the appraiser relies upon this data, inappropriate information may impact the results of
1265 the assignment.

1266 Appraisers must also have at least a basic understanding of statistical analysis. A calculation of
1267 both the mean (average) and median of a given data set typically yield different results. Either
1268 may be appropriate for use but it is the appraiser’s responsibility to make that determination.
1269 Proper application of these results must also be consistent. For example, it would not be
1270 appropriate to compare the mean sale price of office space in one year to the median sale price of
1271 office space from a different year. Likewise, an appraiser should not employ terminology (e.g.,
1272 standard deviation, coefficient of variation, etc.) without understanding what that terminology
1273 means.

1274 Regression analysis is based upon complex calculations. An appraiser need not be able to
1275 duplicate those calculations, but must understand how to use the results. He or she must be able
1276 to recognize a graph that shows a strong relationship between the variables and one that does not.
1277 Reliance on a weak correlation of the data will directly impact the credibility of the conclusion
1278 drawn using that information.

1279 Much like data obtained from a Multiple Listing Service, the appraiser must also be aware of
1280 what information is used as the input and how to properly apply the output. A regression analysis
1281 that correlates the sale prices per acre of land sales to the size of each lot may either be based
1282 upon the unadjusted or adjusted sale prices. If unadjusted, the appraiser may need to perform
1283 additional analysis before applying the result to the subject.

1284 Automated Valuation Models (AVM) are somewhat different than other data analysis tools in
1285 that the output is specific to a single property. Although an AVM does provide a value estimate,

1286 that output is not, by itself, an appraisal. An AVM's output may become a basis for appraisal or
1287 appraisal review if the appraiser believes the output to be credible for use in a specific
1288 assignment. In this case, the appraiser must exercise care to ensure compliance with
1289 STANDARD 1 and STANDARD 2.

1290 An appraiser can use an AVM as a tool in the development of an appraisal or appraisal review.
1291 However, the appropriate use of an AVM is, like any tool, dependent upon the skill of the user
1292 and the tool's suitability to the task at hand.

1293 When using any of these analytical tools, the appraiser is responsible for the accuracy of the
1294 results. Thus, the appraiser must have confidence that the technology uses data that is relevant
1295 and that the output is mathematically correct and sufficiently reliable for use in the assignment.

1296 Regardless of the tool chosen, the appraiser is responsible for the entire analysis including the
1297 controlling input, the calculations, and the resulting output. An appraiser should use sufficient
1298 care to avoid errors that would significantly affect his or her opinions and conclusions. Diligence
1299 is required to identify and analyze the factors, conditions, data, and other information that would
1300 have a significant effect on the credibility of the assignment results.

1301 Through the use of technology a fully documented workfile can be created in a few minutes.
1302 While it may not always be necessary to include any charts, lists, graphs, etc. the tools generate,
1303 doing so may be required by Standards Rule 2-2(a)(viii), which stipulates, in part:

1304 *The content of an Appraisal Report must be consistent with the intended use of the*
1305 *appraisal and, at a minimum: summarize the information analyzed, the appraisal*
1306 *methods and techniques employed, and the reasoning that supports the analyses,*
1307 *opinions, and conclusions.*

1308 Likewise, the RECORD KEEPING RULE requires that the workfile include:

1309 *...all other data, information, and documentation necessary to support the appraiser's*
1310 *opinions and conclusions and to show compliance with USPAP, or references to the*
1311 *location(s) of such other data, information, and documentation.*

1312 **SUMMARY:**

- 1313 • The information generated by these types of valuation tools is merely a calculation that
1314 once had to be calculated by hand. It is not a substitute for an appraiser's judgment.
- 1315 • A number of intended users and intended uses now require reporting of additional and
1316 more specific data, which, until now, would have been prohibitively difficult for an
1317 appraiser to provide in the routine course of business.
- 1318 • Appraisers may find analytic tools useful for supporting their adjustments.

- 1319 • Regardless of the tool chosen, the appraiser is responsible for the entire analysis
1320 including the controlling input, the calculations, and the resulting output.
- 1321 • It is the responsibility of the appraiser to ensure that the input parameters are appropriate.
- 1322 • Appraisers must be proficient in the use of their chosen technology to ensure that they
1323 have correctly selected and input appropriate parameters.
- 1324 • If the appropriate parameters are not correctly entered into the program, the information
1325 provided may not either meet the needs of the assignment or provide credible results.
- 1326 • Reliance upon inappropriate information may create assignment results that are not
1327 credible.
- 1328 • Appraisers must have a basic understanding of statistical analysis and not employ
1329 terminology and/or methodology with which they are not familiar.
- 1330 • Automated Valuation Models generate output specific to a single property.
- 1331 • An AVM's output may become a basis for an appraisal or appraisal review if the
1332 appraiser believes the output to be credible for use in that assignment.
- 1333 • An appraiser must exercise care to ensure compliance with STANDARDS 1 and 2 and
1334 the RECORD KEEPING RULE, if the output is used for an assignment result.