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 16, 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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<u>IMPORTANT NOTE:</u> 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: <u>This is text proposed for insertion.</u>

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.

DEFINITIONS

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

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

ETHICS RULE

Conduct:

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

An appraiser:

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

- **must not knowingly permit an employee or other person to communicate a report or assignment results that are misleading or fraudulent ~~report~~;**

- **must not communicate all or any portion of assignment results, except in a report, without clearly and conspicuously disclosing that the communication is preliminary (e.g., draft, preliminary, for discussion only, etc.);**

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

- **must not engage in criminal conduct;**

- **must not willfully or knowingly violate the requirements of the RECORD KEEPING RULE; and**

- **must not perform an assignment in a grossly negligent manner.**

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

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.

DEFINITIONS

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

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

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

COMPETENCY RULE

Being Competent

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

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

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

For assignments with retrospective opinions and conclusions, the appraiser must meet the requirements of this COMPETENCY RULE at the time the service is performed ~~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 a 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.

DEFINITIONS

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

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

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

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

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

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

SCOPE OF WORK RULE

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

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

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

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

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

- modify the assignment conditions to expand the scope of work to include gathering the information; or

- use ~~an extraordinary~~ a specific assumption about such information, if 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:

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

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

STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT

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

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

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

Standards Rule 3-1

In developing an appraisal review, the reviewer must:

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

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

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

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

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

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

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

Standards Rule 3-2

In developing an appraisal review, the reviewer must:

(a) identify the client and other intended users;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Standards Rule 3-3</u>

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

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

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

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

(iii) develop the reasons for any disagreement.

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

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

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

(ii) develop the reasons for any disagreement.

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

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

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

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

Comment: These requirements apply to:

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

These requirements apply whether the reviewer's own opinion:

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

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

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

STANDARD 4: APPRAISAL REVIEW, REPORTING

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

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

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

Standards Rule 4-1

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

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

(b) contain sufficient information to enable the intended users of the appraisal review to understand the report properly; and

(c) clearly and accurately disclose all assumptions, extraordinary assumptions, and hypothetical conditions used in the assignment.

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

Standards Rule 4-2

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

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

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

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

(b) state the intended use of the appraisal review;

(c) state the purpose of the appraisal review;

(d) state information sufficient to identify:

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

(ii) the date of the work under review;

(iii) the effective date of the opinions or conclusions in the work under review; and

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

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

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

(f) clearly and conspicuously:

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

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

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

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

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

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

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

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

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

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

(iv) clearly and conspicuously:

- **state all extraordinary assumptions and hypothetical conditions connected with the reviewer's opinion of value or review opinion related to the work under review; and**

- **state that their use might have affected the assignment results.**

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

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

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

Standards Rule 4-3

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

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

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

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

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

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

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

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

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

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

Standards Rule 4-4

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

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.

STANDARD 5: MASS APPRAISAL, DEVELOPMENT

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

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

A mass appraisal includes:

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

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

Standards Rule 5-1

In developing a mass appraisal, an appraiser must:

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

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

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

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

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

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

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

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

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

Standards Rule 5-2

In developing a mass appraisal, an appraiser must:

(a) identify the client and other intended users;[54]

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

(b) identify the intended use of the appraisal;[55]

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

[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.*

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

(i) in terms of cash; or

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

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

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

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

(d) identify the effective date of the appraisal;[56]

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

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

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

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

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

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

Ordinarily, proposed improvements are not appraised for ad valorem tax 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.

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

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

(i) location of the market area;

(ii) physical, legal, and economic attributes;

(iii) time frame of market activity; and

(iv) property interests reflected in the market;

(g) in appraising real property or personal property:

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

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

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

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

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

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

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

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

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

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

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

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

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

Standards Rule 5-3

When necessary for credible assignment results, an appraiser must:

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

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

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

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

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

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

Standards Rule 5-4

In developing a mass appraisal, an appraiser must:

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

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

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

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

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

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

Standards Rule 5-5

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

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

(i) the cost new of the improvements;

(ii) accrued depreciation;

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

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

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

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

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

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

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

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

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

(d) identify the need for and extent of any physical inspection.[61]

<u>Standards Rule 5-6</u>

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

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

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

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

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

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

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

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

<u>Standards Rule 5-7</u>

In reconciling a mass appraisal an appraiser must:

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

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

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

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

STANDARD 6: MASS APPRAISAL, REPORTING

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

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

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

Standards Rule 6-1

Each written report of a mass appraisal must:

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

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

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

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

Comment: The report must clearly and conspicuously:

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

Standards Rule 6-2

Each written report of a mass appraisal must:

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

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

(ii) state the intended use of the appraisal;[63]

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

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

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

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

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

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[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*.

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

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

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

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

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

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

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

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

When any portion of the work involves significant mass appraisal assistance, the appraiser must describe the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant mass appraisal assistance in the certification, in accordance with Standards Rule 6-3.[67]

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

Comment: The appraiser must provide sufficient information to enable the client and intended users to have confidence that the process and procedures used conform to accepted methods and result in credible value conclusions. In the case 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*.

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

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

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

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

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

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

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

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

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

Standards Rule 6-3

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

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

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

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

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

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

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

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

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

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

Standards Rule 7-2

In developing a personal property appraisal, an appraiser must:

(a) identify the client and other intended users;

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

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

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

(i) in terms of cash; or

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

(iii) in other precisely defined terms; and

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

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

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

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

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

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

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

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

(iv) the ownership interest to be valued;

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

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

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

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

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

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

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

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

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

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

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

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

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

Standards Rule 7-5

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

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

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

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

Standards Rule 8-2

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

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

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

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

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

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

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

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

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

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

(ii) state the intended use of the appraisal;

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

(iv) state the property interest appraised;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xi) clearly and conspicuously:

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

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

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

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

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

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

(ii) state the intended use of the appraisal;

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

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

(iv) state the property interest appraised;

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

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

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

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

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

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

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

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

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

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

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

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

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

(xi) clearly and conspicuously:

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

(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.

Standards Rule 8-3

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

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

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

— **my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.**

— **my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.**

— **I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)**

— **no one provided significant personal property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant personal property appraisal assistance must be stated.)**

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

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

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

The names of individuals providing significant personal property appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards Rule 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.

ADVISORY OPINION 37 (AO-37)

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

SUBJECT: Computer Assisted Valuation Tools

APPLICATION: Real Property

THE ISSUE:

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

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

BACKGROUND:

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

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

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

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

These are only examples; there are numerous others. The analytical methods the appraiser relies upon may be different from assignment to assignment. These types of analytical tools are distinct from discounted cash flow tools[1] and related technology in that these contain a database used to answer specific requests for information. The appraiser must be able to support the chosen parameters that are used as inputs to the tool.

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

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

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

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

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

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

ADVICE FROM THE ASB ON THE ISSUE:

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

> "Sales and listings must be properties that compete with the subject property, determined by applying the criteria that would be used by a prospective buyer of the subject property."

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

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

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

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

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

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

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

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

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

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

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

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

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

SUMMARY:

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

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