00-0976

— I have (or have not) made a personal inspection of the property (if any) that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the property.)41

— no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

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

To the extent that it is both possible and appropriate, each oral consulting report (including expert testimony) must address the substantive matters set forth in Standards Rule 5-2.

STANDARD 6 MASS APPRAISAL, DEVELOPMENT AND REPORTING

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

Comment: STANDARD 6 is directed toward the substantive aspects of developing and communicating competent analyses, opinions, and conclusions in the appraisal of a universe of properties. Mass appraisals are used primarily for purposes of ad valorem taxation. But depending upon the purpose of the appraisal and the availability of statistical data, mass appraisal procedures may also be appropriate for the valuation of any universe of properties, but only when written reports are made and the results of statistical testing are fully disclosed and explained. The reporting and jurisdictional exceptions applicable to public mass appraisals prepared for purposes of ad valorem taxation do not apply to mass appraisals prepared for other purposes.

Mass appraisals can be prepared with or without computer assistance and are often developed by teams of people. The validity of mass appraisal conclusions is frequently tested or contested by single-property appraisals. Single-property appraisals should conform to STANDARDS 1 and 2 for real property and STANDARDS 7 and 8 for personal property. In the context of STANDARD 6, the terms appraisal and mass appraisal both refer to the appraisal of a universe of properties, whether real property, personal property, or both.

The JURISDICTIONAL EXCEPTION RULE may apply to several sections of STANDARD 6 because ad valorem tax administration is subject to various state, county, and municipal laws.

Standards Rule 6-1 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a mass appraisal, an appraiser must:

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

Comment: Mass appraisal uses:

1. **Division of tasks,**
2. Standardized data collection and analysis,
3. Properly specified and calibrated valuation models, and
4. Standards and measurements of the accuracy of the data collected and values produced.

This requirement recognizes that the principle of change continues to affect the manner in which appraisers perform mass appraisals. Changes and developments in the real estate field have a substantial impact on the appraisal profession. Revisions in appraisal theory and practice result from:

- changes in the cost and manner of constructing and marketing commercial, industrial, residential, and other types of real estate;
- changes in the legal framework in which real property rights and interests are created, conveyed, mortgaged, and taxed;
- corresponding changes in appraisal theory and practice; and
- social and economic changes.

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

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

Comment: Standards Rule 6-1(b) is identical in purpose to Standards Rule 1-1(b).

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

Comment: Standards Rule 6-1(c) is identical in purpose to Standards Rule 1-1(c).

Standards Rule 6-2 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a mass appraisal, an appraiser must observe the following specific appraisal requirements:

(a) **consider the purpose and intended use of the appraisal;**42

(b) **identify any special limiting conditions;**

Comment: Although appraisers in ad valorem taxation should not be held accountable for limitations beyond their control, they are required by this specific requirement to identify cost constraints and to take appropriate steps to secure sufficient funding to produce appraisals that comply with these standards.

Expenditure levels for assessment administration are a function of a number of factors. Fiscal constraints may impact data completeness and accuracy, valuation methods, and valuation accuracy. Although appraisers should seek adequate funding and disclose the impact of fiscal constraints on the mass appraisal process, they are not responsible for constraints beyond their control.

(c) **identify the effective date of the appraisal;**

(d) **define the value being developed; 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.

(e) **identify the real estate and personal property, as applicable;**

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

(f) in appraising real property:

(i) identify and consider any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal;

Comment: This requirement obligates the appraiser to recognize the inclusion of items that are not real property in the overall value conclusion. Expertise in personal property (see STANDARD 7) or business (see STANDARD 9) appraisal may be required to allocate each overall value to its various components. Separate valuation of such items is required when they are significant to the overall value.

(ii) consider whether an appraised physical segment contributes pro rata to the value of the whole;

Comment: This requirement does not obligate the appraiser to value the whole when the subject of the appraisal is a physical segment. However, if the value of the whole is not considered, the appraisal must clearly recognize that the value of the property being appraised cannot be used to develop the value opinion of the whole by mathematical extension.

(g) identify the property interest(s);

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

(ii) consider whether an appraised fractional interest or partial holding contributes pro rata to the value of the whole;

Comment: This requirement does not obligate the appraiser to value the whole when the subject of the appraisal is a fractional interest or a partial holding. However, if the value of the whole is not considered, the appraisal must clearly reflect that the value of the property being appraised cannot be used to develop the value opinion of the whole by mathematical extension.

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

Comment: This 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 should develop the concept to the extent required for a proper solution to the appraisal problem.

(i) recognize that land is appraised as though vacant and available for development to its highest and best use and that the appraisal of improvements is based on their actual contribution to the site.

Comment: <u>This requirement may be modified to reflect the fact that, in various market situations, a site may have a contributory value that differs from the value as if vacant.</u>

Standards Rule 6-3 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a mass appraisal, an appraiser must:

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

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

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

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

(c) employ generally accepted techniques for calibrating mass appraisal models.

Comment: 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 should be calibrated using generally accepted techniques, including, but not limited to, multiple linear regression, nonlinear regression, and adaptive estimation.

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

In developing a mass appraisal, an appraiser must observe the following specific requirements, when applicable:

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

- **(i) estimate cost new of the improvements;**
- **(ii) estimate accrued depreciation;**
- **(iii) estimate value by sales of comparable properties;**
- **(iv) estimate value by capitalization of income—i.e., rentals, expenses, interest rates, capitalization rates, and vacancy data.**

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

(b) base projections of future rental rates, expenses, interest rates, capitalization rates, and vacancy rates on reasonable and appropriate evidence.

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

(c) consider and analyze terms and conditions of any available leases.

(d) consider the need for and extent of any physical inspection.

Standards Rule 6-5 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In applying a calibrated mass appraisal model an appraiser must:

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

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

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

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

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

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

(e) consider and analyze the effect on value, if any, of anticipated public or private improvements, located on or off the site, to the extent that market actions reflect such anticipated improvements as of the effective appraisal date; appraise proposed improvements only after examining and having available for future examination:

(i) plans, specifications, or other documentation sufficient to identify the scope and character of the proposed improvements;

(ii) evidence indicating the probable time of completion of the proposed improvements; and

(iii) reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion.

Comment: Ordinarily, proposed improvements are not appraised for ad valorem tax purposes. Appraisers, however, are sometimes asked to provide opinions of value of proposed improvements so that developers can estimate future property tax burdens. Sometimes condominiums and units in planned unit developments are sold with an interest in unbuilt community property, the pro rata value of which, if any, should be considered in the analysis of sales data.

Standards Rule 6-6 (This Standards Rule contains binding requirements from which departure is not permitted.)

In reconciling a mass appraisal an appraiser must:

(a) consider and reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used; and

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

Comment: It is implicit in mass appraisal that, even when properly specified and calibrated mass appraisal models are used, some individual value estimates will not meet standards of reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, models produce value estimates that meet attainable standards of accuracy. This responsibility requires appraisers to evaluate the performance of models, using techniques including, but not limited to, goodness-of-fit statistics, hold-out samples, analysis of residuals, and appraisal-to-sale ratio data. Appraisers also should review individual value estimates before they are used.

Standards Rule 6-7 (This Standards Rule contains binding requirements from which departure is not permitted.)

A written summary report of a mass appraisal for ad valorem taxation or a written report of a mass appraisal for any other purpose should clearly communicate the elements, results, opinions, and value conclusions of the appraisal.

Documentation for a mass appraisal for ad valorem taxation may be in the form of (1) property records,
(2) reports, (3) manuals, (4) regulations, (5) statutes, and (6) other acceptable forms.

Each written report of a mass appraisal for any purpose other than ad valorem taxation must:

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

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

(c) clearly and accurately disclose any extraordinary assumptions, hypothetical conditions, or limiting conditions that directly affects the appraisal and indicate its impact on value.

Furthermore, each written report of a mass appraisal for any purpose other than for ad valorem taxation, and, when provided, a written summary report of a mass appraisal for ad valorem taxation must:

(a) state the purpose and intended use of the appraisal;43

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

Comment: <u>One limiting condition that must be disclosed is whether or not any physical inspection was made.</u>

(c) set forth the effective date of the appraisal;

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

(d) define the value;

(e) identify the properties appraised including the property rights;

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

(f) describe and justify the model specification(s) considered, data requirements, and the models chosen;

Comment: The user and affected parties must have confidence that the process and procedures used conform to accepted methods and result in credible value estimates. In the case of mass appraisal for ad valorem taxation, stability and accuracy are important to the credibility of value opinions. The summary report should include a discussion of the rationale for each model, the calibration techniques to be used, and the performance measures to be used.

(g) describe the procedure for collecting, validating, and reporting data;

Comment: The summary report should describe the sources of data and the data collection and validation processes. Reference to detailed data collection manuals should be made, including where they may be found for inspection.

(h) describe calibration methods considered and chosen, including the mathematical form of the final model(s); describe how value estimates were reviewed; and, if necessary, describe the availability of individual value estimates.

(i) in the case of real property, discuss how highest and best use was determined;

Comment: The mass appraisal summary report should reference case law, statute, or public policy that describes highest and best-use requirements. When actual use is the requirement, the report should discuss how use-value opinions were developed.

(j) identify the appraisal performance tests used and set forth the performance measures attained;

(k) provide any additional information necessary to explain the appraisal, more fully, including departures permitted by the DEPARTURE RULE; and

(l) contain a signed certification by the appraiser in a manner consistent with applicable laws, rules, or regulations and generally accepted appraisal practices for mass appraisals prepared for ad valorem taxation; and, for mass appraisals prepared for other purposes, contain a signed certification in accordance with Standards Rule 6-8.

Standards Rule 6-8 (This Standards Rule contains binding requirements from which departure is not permitted.)

Each written mass appraisal for purposes other than ad valorem taxation must contain a signed certification that is similar in content to the following form:

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

- **the statements of fact contained in this report are true and correct.**
- **the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, 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 no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.**
- **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 property that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)[44]**

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

STANDARD 7 PERSONAL PROPERTY APPRAISAL, DEVELOPMENT

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

Comment: STANDARD 7 is directed toward the substantive aspects of developing a competent appraisal of personal property. The requirements set forth in STANDARD 7 follow the appraisal development process in the order of topics addressed and can be used by appraisers and the users of appraisal services as a convenient checklist.

Standards Rule 7-1 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a personal property appraisal, an appraiser must:

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

Comment: This rule recognizes that the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in personal property practice have a substantial impact upon the appraisal profession. Important changes in the cost and manner of acquiring, producing and marketing personal property and changes in the legal framework in which property rights and interests are created, marketed, conveyed, and financed have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession reviews and revises appraisal methods and techniques and develops methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in personal property appraisal.

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

Comment: In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 7-2(f), to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, where necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

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

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

Standards Rule 7-2 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a personal property appraisal, an appraiser must:

(a) identify the client and other intended users;[45]

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

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

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

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

(c) identify the purpose of the assignment (the type and definition of the value to be developed); 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 the purpose of an assignment is to develop an opinion of value in a specified market or at a specified market level based on the potential sale of the property, the appraiser must also develop an opinion of reasonable exposure time linked to the 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 purpose 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 and the purpose 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; and**

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

Comment on (i)–(vi): If the necessary subject property information is not available because of conditions limiting the appraiser's ability to inspect or research the subject property, (such as lighting conditions at an on-site inspection, time constraints, lack of attainable information from reliable third-party sources), an appraiser must:

- obtain the necessary information before proceeding, or
- where possible, in compliance with Standards Rule 7-2(g), use an extraordinary assumption about such information.

An appraiser may use any combination of a property inspection and documents or other resources to identify the relevant characteristics of the subject property. The information used by an appraiser to identify the property characteristics must be from sources the appraiser reasonably believes are reliable.

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 the scope of work necessary to complete the assignment;**

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

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

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

An appraiser must not allow assignment conditions or other factors to limit the extent of research or analysis to such a degree that the resulting opinions and conclusions developed in an assignment are not credible in the context of the purpose and intended use of the appraisal (See burden of proof phrase in DEPARTURE RULE).

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

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

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

See burden of proof phrase in DEPARTURE RULE.

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

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

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

See burden of proof phrase in DEPARTURE RULE.

Standards Rule 7-3 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a personal property appraisal, an appraiser must collect, verify, analyze, and reconcile all information pertinent to the appraisal problem, given the scope of work identified in accordance with Standards Rule 7-2(f).

(a) Where applicable, identify the effect of highest and best use by measuring and analyzing the current use and alternative uses to encompass what is profitable, legal, and physically possible, as relevant to the purpose and intended use of the appraisal;

(b) Personal property has several measurable marketplaces, therefore the appraiser must define, and analyze the appropriate market consistent with the purpose of the appraisal;

Comment: The appraiser must recognize that there are distinct levels of trade and each may 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 varying auction conditions. Therefore, the appraiser must analyze the subject property within the correct market context.

(c) Analyze the relevant economic conditions at the time of the valuation, including market acceptability of the property as well as supply, demand, scarcity, or rarity.

Standards Rule 7-4 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

In developing a personal property appraisal, an appraiser must collect, verify, and analyze all information applicable to the appraisal problem and the type of property, given the scope of work identified in accordance with Standards Rule 7-2(f).

(a) When a sales comparison approach is applicable, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion.

(b) When a cost approach is applicable, an appraiser must:

(i) analyze such comparable cost data as are available to estimate the cost new of the property; and

(ii) analyze such comparable data as are available to estimate the difference between cost new and the present worth of the property (accrued depreciation).

(c) When an income approach is applicable, an appraiser must:

(i) **analyze such comparable data as are available to estimate the market income of the property;**

(ii) **analyze such comparable operating expense data as are available to estimate the operating expenses of the property;**

(iii) **analyze such comparable data as are available to estimate rates of capitalization and/or rates of discount; and**

(iv) **base projections of future income and expenses on reasonably clear and appropriate evidence.**

Comment: An appraiser must, in developing income and expense statements and cash flow projections, weigh historical information and trends, current supply and demand factors affecting such trends, and competition.

(d) **When developing an opinion of the value of a lease or leased property, an appraiser must analyze the effect on value, if any, of the terms and conditions of the lease(s).**

(e) **An appraiser must analyze the effect on value, if any, of the assemblage of the various component parts of a property and refrain from valuing the whole solely by adding together the individual values of the various component parts.**

Comment: Although the value of the whole may be equal to the sum of the separate parts, it also may be greater than or less than the sum of such parts. Therefore, the value of the whole must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

A similar procedure must be followed when the value of the whole has been established and the appraiser seeks to value a part. The value of any such part must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

(f) **An appraiser must analyze the effect on value, if any, of anticipated modifications to the subject property, to the extent that market actions reflect such anticipated modifications as of the effective appraisal date.**

(g) **An appraiser must analyze the effect on value of any real property or intangible items that are not personal property but are included in the appraisal.**

Comment: Competency in real property appraisal (see STANDARD 1) or business valuation (see STANDARD 9) may be required when it is necessary to allocate the overall value to the property components. In addition, competency in other types of personal property outside of the appraiser's specialty area may be necessary (see STANDARD 7 and the COMPETENCY RULE). A separate valuation, developed in compliance with the Standard pertinent to the type of property involved, is required when the value of an item or combination of items is significant to the overall value.

(h) **When appraising proposed modifications, an appraiser must examine and have available for future examination:**

(i) **plans, specifications, or other documentation sufficient to identify the scope and character of the proposed modifications;**

(ii) evidence indicating the probable time of completion of the proposed modifications; and

(iii) reasonably clear and appropriate evidence supporting implementation costs, anticipated earnings, and output, as applicable.

Comment: Development of a value opinion for a subject property with proposed modifications as of a current date involves the use of the hypothetical condition that the described modifications have been completed as of the date of value when, in fact, they have not.

The evidence required to be examined and maintained may include such items as vendor's or contractors' estimates relating to cost and the time required to complete the proposed modifications, market, and feasibility studies; operating cost data; and the history of recently completed similar developments. The appraisal may require a complete feasibility analysis (see Standards Rule 4-6).

Standards Rule 7-5 (This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a personal property appraisal, an appraiser must:

(a) analyze any current agreement of sale, validated offer or third-party offer to sell, option, or listing of the property, if such information is available to the appraiser in the normal course of business;

(b) analyze any prior sales of the property that occurred within a reasonable and applicable time period, given the purpose of the assignment and the type of property involved.

(c) reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used.

Comment: See the Comments to Standards Rules 8-2(a)(ix), 8-2(b)(ix), and 8-2(c)(ix) for corresponding reporting requirements.

STANDARD 8 PERSONAL PROPERTY APPRAISAL, REPORTING

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

Comment: STANDARD 8 addresses the content and level of information required in a report that communicates the results of a personal property appraisal.

STANDARD 8 does not dictate the form, format, or style of personal property appraisal reports, which are functions of the needs of users and appraisers. The substantive content of a report determines its compliance.

Standards Rule 8-1 (This Standards Rule contains binding requirements from which departure is not permitted.)

Each written or oral personal property appraisal report must:

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

Comment: <u>Since many reports are used and relied upon by third parties, communications considered adequate by the appraiser's client may not be sufficient. An appraiser must take extreme care to make certain that his or her reports will not be misleading to intended users of the appraisal report.</u>

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

Comment: The person(s) expected to receive or rely on a Self-Contained or Summary Appraisal Report are the client and intended users. Only the client is expected to receive or rely on the Restricted Use Appraisal Report.

(c) clearly and accurately disclose any extraordinary assumption, hypothetical condition, or limiting condition that directly affects the appraisal and indicate its impact on value.

Comment: In a written report the disclosure is required in conjunction with statements of each opinion or conclusion that is affected.

Standards Rule 8-2 (This Standards Rule contains binding requirements from which departure is not permitted.)

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

Comment: When the intended users include parties other than the client, either a Self-Contained Appraisal Report or a Summary Appraisal Report must be provided. When the intended users do not include parties other than the client, a Restricted Use Appraisal Report may be provided. The essential difference among these three options is in the content and level of information provided.

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

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

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

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

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

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

(ii) state the intended use of the appraisal;[46]

(iii) describe 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 purpose of the appraisal (the type and definition of value) and its source;

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

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

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

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

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

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

Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.

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

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

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

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

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

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

When the purpose of an assignment is to develop an opinion of any market value, a summary of the results of analyzing the information required in Standards Rule 7-5 is required. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

(x) **state, 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; and, when the purpose of the assignment is any market value, describe the support and rationale for the appraiser's opinion of the highest and best use of the property;**

Comment: The report must contain the appraiser's opinion as to the highest and best use of the property, unless an opinion as to highest and best use is unnecessary—e.g., as in insurance valuation or "value in use" appraisals. If the purpose of the assignment is market value, a summary of the appraiser's support and rationale for the opinion of highest and best use is required. The appraiser's reasoning in support of the opinion must be provided in the depth and detail required by its significance to the appraisal. In the context of personal property, highest and best use may equate to the choice of the appropriate market or market level for the type of item and the purpose and intended use of the report.

(xi) **state and explain any permitted departures from specific requirements of STANDARD 7, and the reason for excluding any of the usual valuation approaches;**

Comment: A Self-Contained Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.

When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 7 is not affected by the type of report prepared under STANDARD 8. The extent of the appraisal process performed under STANDARD 7 is the basis for the reliability of the value conclusion.

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

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

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

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

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

(ii) state the intended use of the appraisal;

(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 purpose of the appraisal (the type and definition of value) and its source;

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

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

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

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

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

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

Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.

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

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

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

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

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

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

When the purpose of an assignment is to develop an opinion of any market value, a summary of the results of analyzing the information required in Standards Rule 7-5 is required. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

(x) **state, 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; and, when the purpose of the assignment is any market value, summarize the support and rationale for the appraiser's opinion of the highest and best use of the property;**

Comment: The report must contain the appraiser's opinion as to the highest and best use of the property, unless an opinion as to highest and best use is unnecessary—e.g., as in insurance valuation or "value in use" appraisals. If the purpose of the assignment is market value, a summary of the appraiser's support and rationale for the opinion of highest and best use is required. The appraiser's reasoning in support of the opinion must be provided in the depth and detail required by its significance to the appraisal. In the context of personal property, highest and best use may equate to the choice of the appropriate market or market level for the type of item and the purpose and intended use of the report.

(xi) state and explain any permitted departures from specific requirements of STANDARD 7, and the reason for excluding any of the usual valuation approaches;

Comment: a Summary Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.

When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 7 is not affected by the type of report prepared under STANDARD 8. The extent of the appraisal process performed under STANDARD 7 is the basis for the reliability of the value conclusion.

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

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

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

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

(ii) state the intended use of the appraisal;

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

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

(iv) state the ownership interest appraised;

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

(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 or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

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

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

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

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

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

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

(x) **state, 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; and, when the purpose of the assignment is any market value, state the appraiser's opinion of the highest and best use of the property;**

Comment: If an opinion of highest and best use is required, the appraiser's reasoning in support of the opinion must be stated in the depth and detail required by its significance to the appraisal or documented in the workfile and referenced in the report. In the context of personal property, highest and best use may equate to the choice of the appropriate market or market level for the type of item and the purpose and intended use of the report.

(xi) **state and explain any permitted departures from applicable specific requirements of STANDARD 7; state the exclusion of any of the usual valuation approaches; and state a prominent use restriction that limits use of the report to the client and warns that the appraiser's opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraiser's workfile;**

Comment: When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes it clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

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

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

Standards Rule 8-3 (This Standards Rule contains binding requirements from which departure is not permitted.)

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 no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.**
— **my engagement in this assignment was not contingent upon developing or reporting predetermined results.**
— **my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.**
— **my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.**

- **I have (or have not) made a personal inspection of the property that is the subject of this report. (If_more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)**
- **no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)**

Standards Rule 8-4 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

An oral personal property appraisal report must, at a minimum, address the substantive matters set forth in Standards Rule 8-2(b).

> Comment: Testimony of an appraiser concerning his or her analyses, opinions, and conclusions is an oral report in which the appraiser must comply with the requirements of this Standards Rule.

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

Standards Rule 8-5 (This Standards Rule contains binding requirements from which departure is not permitted.)

An appraiser who signs a personal property appraisal report prepared by another, even under the label of "appraisal reviewer," must accept full responsibility for the contents of the report.

> Comment: This requirement is directed to the employer or supervisor signing the report of an employee or subcontractor. The employer or supervisor signing the report is as responsible as the individual preparing the appraisal for the content and conclusions of the appraisal and the report. Using a conditional label next to the signature of the employer or supervisor or signing a form report on the line over the words "appraisal reviewer" does not exempt that individual from adherence to these Standards.

STANDARD 9 BUSINESS APPRAISAL, DEVELOPMENT

In developing a business or intangible asset appraisal, an appraiser must identify the problem to be solved and the scope of work necessary to solve the problem, and correctly complete the research and analysis steps necessary to produce a credible appraisal.

> Comment: STANDARD 9 is directed toward the substantive aspects of developing a competent business or intangible asset appraisal. The requirements of STANDARD 9 apply when the specific purpose of an assignment is to develop an appraisal of a business or intangible asset.

Standards Rule 9-1 (This Standards Rule contains binding requirements from which departure is not permitted)

In developing a business or intangible asset appraisal, an appraiser must:

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

> Comment: Changes and developments in the economy and in investment theory have a substantial impact on the business appraisal profession. Important changes in the financial arena, securities regulation, tax law and major new court decisions may result in corresponding changes in business appraisal practice.

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

> Comment: In performing appraisal services an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 9-2(e), to reasonably ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, where necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

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

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

Standards Rule 9-2 (This Standards Rule contains binding requirements from which departure is not permitted)

In developing a business or intangible asset appraisal, an appraiser must identify:

(a) the client and any other intended users of the appraisal and the client's intended use of the appraiser's opinions and conclusions;

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

(b) **the purpose of the assignment, including the standard of value (definition) to be developed;**

(c) **the effective date of the appraisal;**

(d) **the business enterprises, assets, or equity to be valued; and**

(i) **identify any buy-sell agreements, investment letter stock restrictions, restrictive corporate charter or partnership agreement clauses, and any similar features or factors that may have an influence on value.**

(ii) **ascertain the extent to which the interests contain elements of ownership control.**

Comment: Special attention should be paid to the attributes of the interest being appraised including the rights and benefits of ownership. The elements of control in a given situation may be affected by law, distribution of ownership interests, contractual relationships, and many other factors. As a consequence, the degree of control or lack of it depends on a broad variety of facts and circumstances which must be evaluated in the specific situation.

Equity interests in a business enterprise are not necessarily worth the pro rata share of the business enterprise value as a whole. Conversely, the value of the business enterprise is not necessarily a direct mathematical extension of the value of the fractional interests.

(e) **the scope of work that will be necessary to complete the assignment:**

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

- the expectations of participants in the market for the same or similar appraisal services; and
- what the appraiser's peers' actions would be in performing the same or a similar business valuation assignment in compliance with USPAP.47

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

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

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

Comment: An extraordinary assumption may be used in an appraisal 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) **any hypothetical conditions necessary in the assignment.**

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

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

Standards Rule 9-3 (This Standards Rule contains binding requirements from which departure is not permitted)

In developing a business or intangible asset appraisal relating to an equity interest with the ability to cause liquidation of the enterprise, an appraiser must investigate the possibility that the business enterprise may have a higher value by liquidation of all or part of the enterprise than by continued operation as is. If liquidation of all or part of the enterprise is the indicated basis of valuation, an appraisal of any real estate or personal property to be liquidated may be appropriate.

Comment: This rule requires the appraiser to recognize that continued operation of a business is not always the best premise of value as liquidation of all or part of the enterprise may result in a higher value. However, this typically applies only when the business equity being appraised is in a position to cause liquidation. If liquidation of all or part of the enterprise is the appropriate premise of value, competency in the appraisal of assets such as real estate (STANDARD 1) and tangible personal property (STANDARD 7) may be required to complete the business valuation assignment.

Standards Rule 9-4 (This Standards Rule contains specific requirements from which departure is permitted. See the DEPARTURE RULE)

In developing a business or intangible asset appraisal, an appraiser must collect and analyze all information pertinent to the appraisal problem, given the scope of work identified in accordance with Standards Rule 9-2(e).

(a) An appraiser must develop value opinion(s) and conclusion(s) by use of one or more approaches that apply to the specific appraisal assignment.

Comment: This rule requires the appraiser to use all relevant approaches for which sufficient reliable data are available. However, it does not mean that the appraiser must use all approaches in order to comply with the rule if certain approaches are not applicable.

(b) include in the analyses, when relevant, data regarding:

(i) the nature and history of the business;

(ii) financial and economic conditions affecting the business enterprise, its industry, and general economy;

(iii) past results, current operations, and future prospects of the business enterprise;

(iv) past sales of capital stock or other ownership interests in the business enterprise being appraised;

(v) sales of similar businesses or capital stock of publicly held similar businesses;

(vi) prices, terms, and conditions affecting past sales of similar business equity;

(vii) economic benefit of intangible assets.

Comment: This rule directs the appraiser to study the prospective and retrospective aspects of the business enterprise and to study it in terms of the economic and industry environment within which it operates. Further, sales of securities of the business itself or similar businesses for which sufficient information is available should also be considered.

Standards Rule 9-5 (This Standards Rule contains binding requirements from which departure is not permitted)

In developing a business or intangible asset appraisal, an appraiser must reconcile the indications of value resulting from the various approaches to arrive at the value conclusion.

Comment: The appraiser must evaluate the relative reliability of the various indications of value. The appraiser must consider the quality and quantity of data leading to each of the indications of value. The value conclusion is the result of the appraiser's judgment and not necessarily the result of a mathematical process.

STANDARD 10 BUSINESS APPRAISAL, REPORTING

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

Comment: STANDARD 10 addresses the content and level of information required in a report that communicates the results of a business or intangible asset appraisal developed under STANDARD 9.

STANDARD 10 does not dictate the form, format, or style of business or intangible asset appraisal reports, which are functions of the needs of users and providers of appraisal services. The substantive content of a report determines its compliance.

Standards Rule 10-1 (This Standards Rule contains binding requirements from which departure is not permitted.)

Each written or oral business or intangible asset appraisal report must:

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

(b) contain sufficient information to enable the intended user(s) to understand it. Any specific limiting conditions concerning information should be noted.

(c) clearly and accurately disclose any extraordinary assumption or hypothetical condition that directly affects the appraisal and indicate its impact on value.

Comment: This requirement calls for a clear and accurate disclosure of any extraordinary assumptions or hypothetical conditions that directly affect an analysis, opinion, or conclusion. Examples might include items such as the execution of a pending agreement, atypical financing, infusion of additional working capital or making other capital additions, or compliance with regulatory authority rules. The report should indicate whether the extraordinary assumption or hypothetical condition has a positive, negative or neutral impact on value.

Standards Rule 10-2 (This Standards Rule contains binding requirements from which departure is not permitted.)

Each written business valuation or intangible asset appraisal report must be prepared in accordance with one of the following options and prominently state which option is used: Appraisal Report or Restricted Use Appraisal Report.

Comment: When the intended users include parties other than the client, an Appraisal Report must be provided. When the only intended user is the client, a Restricted Use Appraisal Report may be provided.

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

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 both types of report. An appraiser must 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 does not become an intended user of the appraisal unless the client identifies such party as an intended user as part of the assignment.

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

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

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

(ii) state the intended use of the appraisal;[48]

(iii) summarize information sufficient to identify the business or intangible asset appraised;

Comment: The identification information must include property characteristics relevant to the assignment.

(iv) state as relevant to the assignment, the extent to which the business interest or the interest in the intangible asset appraised contains elements of ownership control, including the basis for that determination;

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

Comment: Stating the standard of value requires the definition itself and any comments needed to clearly indicate to the reader how the definition is being applied.

(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 or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

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

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

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

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

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

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

(x) state and explain any permitted departures from specific requirements of STANDARD 9, and the reason for excluding any of the usual valuation approaches;

Comment: An Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 9, including any permitted departures from the specific requirements. The amount of detail required will vary with the significance of the information to the appraisal.

When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

(xi) include a signed certification in accordance with Standards Rule 10-3.

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

(i) state the identity of the client;

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE.

(ii) state the intended use of the appraisal;

Comment: The intended use of the appraisal must be client use only.

(iii) state information sufficient to identify the business or intangible asset appraised;

Comment: The identification information must include property characteristics relevant to the assignment.

(iv) **state as relevant to the assignment, the extent to which the business interest or the interest in the intangible asset appraised contains elements of ownership control, including the basis for that determination;**

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

(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 or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

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

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

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

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

Comment: An appraiser must maintain a specific, coherent workfile in support of a Restricted Use Appraisal Report. The contents of the workfile must be sufficient for the appraiser to produce an Appraisal Report. The file must be available for inspection by the client (or the client's representatives, such as those engaged to complete an appraisal review), such third parties as may be authorized by due process of law, and a duly authorized professional peer review committee.

(x) state and explain any permitted departures from applicable specific requirements of STANDARD 9; state the exclusion of any of the usual valuation approaches; and state a prominent use restriction that limits use of the report to the client and warns that the appraiser's opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraiser's workfile;

Comment: When the DEPARTURE RULE is invoked, the assignment is deemed to be a Limited Appraisal. Use of the term Limited Appraisal makes it clear that the assignment involved something less than or different from the work that could have and would have been completed if departure had not been invoked. The report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

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

(xi) include a signed certification in accordance with Standards Rule 10-3.

Standards Rule 10-3 (This Standards Rule contains binding requirements from which departure is not permitted.)

Each written business or intangible asset appraisal report must contain a signed certification that is similar in content to the following:

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

- **the statements of fact contained in this report are true and correct.**
- **the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, 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 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.***
- **no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each and the significant professional assistance must be stated.)**

Standards Rule 10-4 (This Standards Rule contains specific requirements from which departure is permitted. See DEPARTURE RULE.)

An oral business or intangible asset appraisal report must, at a minimum, address the substantive matters set forth in Standards Rule 10-2(a).

Comment: See Record Keeping in the ETHICS RULE for corresponding requirements.

Standards Rule 10-5 (This Standards Rule contains binding requirements from which departure is not permitted.)

An appraiser who signs a business or intangible asset appraisal report prepared by another, even under the label "appraisal reviewer," must accept full responsibility for the contents of the report.

Comment: This requirement is directed to the employer or supervisor signing the report of an employee or subcontractor. The employer or supervisor signing the report is as responsible as the individual preparing the appraisal for the content and conclusions of the appraisal and the report. Using a conditional label next to the signature of the employer or supervisor or signing a form report on the line over the words appraisal reviewer does not exempt that individual from adherence to these Standards.

STATEMENTS ON APPRAISAL STANDARDS

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

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STATEMENT ON APPRAISAL STANDARDS NO. 1 (SMT-1)

SUBJECT: Appraisal Review—Clarification of Comment on Standards Rule 3-1(g)

Adopted July 8, 1991
Revised September 16, 1998
Retired September 15, 1999

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

SUBJECT: Discounted Cash Flow Analysis

THE ISSUE:

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

THE STATEMENT:

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

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

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

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

Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or commission that significantly affects the appraisal. Standards Rule 1-1(c) states that the appraiser must not render appraisal services in a careless or negligent manner, such as making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate would affect the credibility of those results. These two rules are significant for DCF analysis because of the potential for the compounding effect of errors in the input, unrealistic assumptions, and programming errors.

Computer printouts showing the results of DCF analysis may be generated by commercial software or by software prepared by the appraiser. Either way, the appraiser is responsible for the entire analysis including the controlling input, the calculations, and the resulting output. The appraiser should cite the name and version of the software and provide a brief description of the methods and assumptions inherent in the software. Standards Rule 1-4(h) requires realistic forecasts in the appraisal of proposed improvements and development projects. Standards Rule 1-4(c)(iv) requires that projections of anticipated future rent and expenses be based on reasonably clear and appropriate evidence. The Comment to this requirement makes specific reference to cash flow projections, the essence of DCF analysis.

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

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

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

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

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

CONCLUSIONS:

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

- It is the responsibility of the appraiser to ensure that the controlling input is consistent with market evidence and prevailing market attitudes.
- Market value DCF analyses should be supported by market-derived data, and the assumptions should be both market- and property-specific.
- The appraiser should cite the name and version of the software and provide a brief description of the methods and assumptions inherent in the software.

- DCF accounts for and reflects those items and forces that affect the revenue, expenses, and ultimate earning capacity of real estate and represents a forecast of events that would be considered likely within a specific market.
- The results of DCF analysis should be tested and checked for errors and reasonableness.
- Standards Rule 1-1(b) states that the appraiser must not commit a substantial error of omission or commission that significantly affects the appraisal.

Adopted unanimously July 8, 1991
Revised September 16, 1998

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

SUBJECT: Retrospective Value Opinions

THE ISSUE:

Two dates are essential to an appraisal report. Standards Rules 2-2(a)(vi), (b)(vi), and (c)(vi), and 8-2(a)(vi), (b)(vi), and (c)(vi) require that each appraisal report specify the effective date of the appraisal and the date of the report. The date of the report indicates the perspective from which the appraiser is examining the market. The effective date of the appraisal establishes the context for the value opinion. Three categories of effective dates—retrospective, current, or prospective—may be used, according to the purpose and function of the appraisal assignment. When a retrospective effective date is used, how can the appraisal be prepared and presented in a manner that is not misleading?

THE STATEMENT:

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

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

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

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

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

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

CONCLUSIONS:

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

Adopted July 8, 1991

STATEMENT ON APPRAISAL STANDARDS NO. 4 (SMT-4)
SUBJECT: Prospective Value Opinions

THE ISSUE:

Two dates are essential to an appraisal report. Standards Rules 2-2(a)(vi), (b)(vi), and (c)(vi), and 8-2(a)(vi), (b)(vi), and (c)(vi) require that each appraisal report specify the effective date of the appraisal and the date of the report. The date of the report indicates the perspective from which the appraiser is examining the market. The effective date of the appraisal establishes the context for the value opinion. Three categories of effective dates—retrospective, current, or prospective—may be used, according to the purpose and function of the appraisal assignment. When a prospective effective date is used, how can the appraisal be prepared and presented in a manner that is not misleading?

THE STATEMENT:

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

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

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

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

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

When prospective value opinions are required with regard to proposed improvements to real property, Standards Rule 1-4(h) regarding the scope, character, and probable time of completion of the proposed improvements and Standards Rule 1-4(c)(iv) regarding the basis for anticipated future rent and expenses are relevant. Evidence that proposed improvements can be completed by the effective date of the appraisal is important. Support for projected income and expenses at the time of completion of proposed improvements and during the rent-up or sell-out period requires the incorporation of sufficient market research in the appraisal and the consideration of existing and future competition. It is appropriate to study comparable projects for evidence of construction periods, development costs, income and expense levels, and absorption. Items such as rental concessions, commissions, tenant finish allowances, add-on factors, and expense pass-throughs must be studied to develop realistic income expectancy. The same issues are relevant when appraising personal property with proposed modifications, as set forth in Standards Rules 7-4(c) and (h).

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

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

CONCLUSIONS:

- Prospective value opinions are intended to reflect the current expectations and perceptions of market participants along with available factual data. They should be judged on the market support for the forecasts when made, not on whether specific items in the forecasts are realized.
- It is appropriate to study comparable projects for evidence of construction periods, development costs, income and expense levels, and absorption.
- Items such as rental concessions, commissions, tenant finish allowances, add-on factors, and expense pass-throughs must be studied to develop realistic income expectancy.
- All value conclusions should include reference to the time frame when the analysis was prepared to clearly delineate the market conditions and the point of reference from which the appraiser developed the prospective value opinion.
- It is essential to include a limiting condition citing the market conditions from which the prospective value opinion was made and indicating that the appraiser cannot be held responsible for unforeseeable events that alter market conditions prior to the effective date of the appraisal.

Adopted unanimously July 8, 1991
Revised September 16, 1998
Revised September 15, 1999

STATEMENT ON APPRAISAL STANDARDS NO. 5 (SMT-5)
SUBJECT: Confidentiality Section of the Ethics Rule

The Confidentiality section is stated below:

> **An appraiser must protect the confidential nature of the appraiser-client relationship.**
>
> **An appraiser must act in good faith with regard to the interests of the client in the use of confidential information and in the communication of assignment results.**
>
> **An appraiser must not disclose confidential information or assignment results prepared for a client to anyone other than: 1) the client and persons specifically authorized by the client; 2) state enforcement agencies and such third parties as may be authorized by due process of law; and 3) a duly authorized professional peer review committee. It is unethical for a member of a duly authorized professional peer review committee to disclose confidential information or factual data presented to the committee.**
>
> Comment: When all confidential elements of confidential information are removed through redaction or the process of aggregation, client authorization is not required for disclosure of the remaining information.

THE ISSUE:

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

THE STATEMENT:

To promote and preserve the public trust inherent in professional appraisal practice, an appraiser must observe the highest standards of professional ethics. The confidential nature of the appraiser's relationship with the client was recognized by the appraisal profession before December 4, 1989, the date of the ETHICS RULE amendment to USPAP, as evidenced by codes of professional ethics of a number of professional appraisal organizations.

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

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

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

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

Assignment Results, as defined in USPAP, are:

> **an appraiser's opinions and conclusions developed specific to an assignment.**
>
> Comment: Assignment results are an appraiser's:
> - opinions or conclusions developed in an appraisal assignment, such as value;
> - opinions of adequacy, relevancy or reasonableness developed in an appraisal review assignment; or
> - opinions, conclusions or recommendations developed in a consulting assignment.

The results of an assignment are clearly confidential matters under USPAP and may only be disclosed to the three groups cited in the Confidentiality section.

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

> **information received from a client, not available from any other source, which the client identifies as confidential when providing it to an appraiser.**
>
> Comment: Information available to the appraiser from other sources does not become confidential when given to the appraiser by the client.

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

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

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

CONCLUSIONS:

- Promoting and preserving the public trust is inherent in professional appraisal practice.

- Under USPAP, an appraiser must act in good faith with regard to the interests of the client.
- The results of an assignment are clearly confidential matters under USPAP and may only be disclosed to the three groups cited in the Confidentiality section.
- The client is in the best position to decide what information must be considered confidential and to provide an explanation for such a determination.
- Information furnished by the client to potential buyers or mortgagees without a confidentiality condition do not become confidential when given to the appraiser.

Adopted on September 10, 1991
Revised September 16, 1998
Revised September 15, 1999

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

SUBJECT: Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions

THE ISSUE:

In USPAP, the Comments to Standards Rules 1-2(c) and 7-2(c) state:

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

The Comments to Standards Rules 2-2(a)(v), 2-2(b)(v), 8-2(a)(v) and 8-2(b)(v) state:

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

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

THE STATEMENT:

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

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

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

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

Rationale and Method for Developing an Opinion of Reasonable Exposure Time

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

- statistical information about days on market;
- information gathered through sales verification; and
- interviews of market participants.

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