

## **APPRAISALS - SCOPE OF WORK AND TYPES OF REPORTS**

by

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In 1994, the Appraisal Standards Board of the Appraisal Foundation (the national regulator of the appraisal profession) promulgated regulations concerning limited appraisals and abbreviated reports in the Uniform Standards of Professional Appraisal Practice (USPAP). This action was long awaited in the appraisal community since many appraisers regardless of a lack of specific regulations have always conducted such appraisals. In 1999, USPAP was amended to further clarify this and several other items. While a Departure Provision permitting “limited” appraisals and abbreviated reports had been in place for several years, only then had most of its ambiguity been removed making clearer how to conduct such work. Thus, a number of specific terms were established to replace Letter Opinion of Value, Update Appraisal, Recertification of Value and Evaluation of Real Property Collateral.

Specific definitions were added to USPAP. In essence a “complete” appraisal was one in which added data or analysis would result in only negligible change in its value conclusion. A “limited” (or preliminary) appraisal was one that could have significant value change under those conditions. A “complete” appraisal was at the top of the range of possibilities of reliability or credibility. “Limited” appraisals on the other hand were able to cover a wide range of less reliable or credible options such as exclusion of approaches to value, reliance on market data previously gathered for other appraisals or not fully verified, rather than extensive primary research, or even exclusion of inspection of the real estate in rare cases. A limited appraisal was often useful for preliminary decision-making regarding a real property asset or when an abundance of collateral or credit is available in a loan transaction. An “Evaluation” under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) was essentially often a limited appraisal.

In 2006 USPAP abandoned the Departure Provision, which differentiated between “complete” and “limited” appraisals and replaced it with an obligation by appraisers to consult with their clients to determine the appropriate scope of work considering the intended use of the appraisal. Limited appraisals and abbreviated reports have always been useful tools to serve appraisal and advisory client needs in a wide variety of situations, so the terms are still useful to briefly identify different scopes of work. Today, appraisers are required to specifically address the various components of appraisal analysis in an appraisal assignment. Appraisers at JRES continue to use the terms “complete” and occasionally “limited appraisals” as defined above while their appraisals continue to conform to the requirements of USPAP.

Alongside the range of options for the scope of appraisal analysis, USPAP formerly provided three written report options and one oral report option. In 2014 USPAP consolidated the Self-Contained and Summary Appraisal Report options into the Appraisal Report option which complements the renamed Restricted Appraisal Report option as described on the following page. In the descriptions of the report options the words ‘summarize’ and ‘state’ are used to describe minimum reporting requirements for components of the appraisal report. Either report option may be used with any appraisal research and analysis scope option. An oral report option was eliminated from the table of report options in 2014 and is rarely used except for court testimony.

Today, an Appraisal Report is generally considered equivalent to the former USPAP Summary Appraisal Report and contains summary descriptions of the subject property, its environment, the data used in the appraisal and the analysis applied. While many appraisers include more, according to USPAP, a Restricted Appraisal Report is required to include only the absolute minimum information necessary to make the appraisal report usable without ambiguity or misunderstanding. Within these two categories, a wide variety of Appraisal Report formats are possible including form and narrative reports. Options are inclusion or exclusion of background economic data distantly related to the appraisal conclusion, detailed descriptions of the subject property neighborhood, site and improvements, and detailed descriptions of the real estate market data and/or analysis applied to it.

For further clarification of available options contact the Principals at James Real Estate Services, Inc.

COMPARISON OF REPORT TYPES

	Appraisal Report		Restricted Appraisal Report
i.	state the identity of the client, or if the client requested anonymity, state that the identity is withheld at the client's request;	i.	state the identity of the client, or if the client requested anonymity, state that the identity is withheld at the client's request;
ii.	state the identity of any other intended users by name or type;	ii.	state the identity of any other intended user(s) by name;
n/a		iii.	clearly and conspicuously state a restriction that limits use of the report to the client and the named intended user(s);
n/a.		iv.	clearly and conspicuously warn that the report may not contain supporting rationale for the all of the opinions and conclusions set forth in the report
iii.	state the intended use of the appraisal;	v.	state the intended use of the appraisal;
iv.	Contain information, documents, and/or exhibits sufficient to identify the real estate involved in the appraisal, including the physical, legal and economic property characteristics relevant to the assignment	vi.	state information sufficient to identify the real estate involved in the appraisal;
v.	State the real property interest appraised;	vii.	state the real property interest appraised;
vi.	state the type and definition of value and cite the source of the definition;	viii.	state the type of value and cite the source of its definition;
vii.	state the effective date of the appraisal and the date of the report;	ix.	state the effective date of the appraisal and the date of the report;
viii.	summarize the scope of work used to develop the appraisal	x.	state the scope of work used to develop the appraisal
ix.	Summarize the extent of any significant real property appraisal assistance;	xi.	state the extent of any significant real property appraisal assistance;
x.	Provide sufficient information to indicate that the appraiser complies with the requirements of STANDARD 1 by: <ol style="list-style-type: none"> <li>1. summarizing the appraisal methods and techniques employed</li> <li>2. stating the reasons for excluding the sales comparison, cost or income approach(es) if any have not been developed;</li> <li>3. summarizing the results of analyzing the subject sales, agreements of sale, options, and listings in accordance with Standards Rule 1-5; and</li> <li>4. stating the value opinion(s) and conclusion(s); and</li> <li>5. summarizing the information analyzed and the reasoning that supports the analyses, opinions, and conclusions, including reconciliation of the data and approaches.</li> </ol>	xii.	Provide sufficient information to indicate that the appraiser complied with the requirements of STANDARD 1 by: <ol style="list-style-type: none"> <li>1. stating the appraisal methods and techniques employed</li> <li>2. stating the reasons for excluding the sales comparison, cost or income approach(es) if any have not been developed;</li> <li>3. summarizing the results of analyzing the subject sales, agreements of sale, options, and listings in accordance with Standards Rule 1-5; and</li> <li>4. stating the value opinion(s) and conclusion(s). Comment: An appraiser must maintain a workfile that includes sufficient information to indicate that the appraiser complied with the requirements of STANDARD 1 and for the appraiser to produce an Appraisal Report</li> </ol>
xi	State the use of the real estate existing as of the effective date and the use of the real estate reflected in the appraisal;	xiii	state the use of the real estate existing as of the effective date and the use of the real estate reflected in the appraisal;
xii	When an opinion of highest and best use was developed by the appraiser, state that opinion and summarize the support and rationale for that opinion;	xiv	when an opinion of highest and best use was developed by the appraiser, state that opinion;
xiii	Clearly and conspicuously: <ul style="list-style-type: none"> <li>• state all extraordinary assumptions and hypothetical conditions; and</li> <li>• state that their use might have affected the assignment results;</li> </ul>	xv	clearly and conspicuously: <ul style="list-style-type: none"> <li>• state all the extraordinary assumptions and hypothetical conditions; and</li> <li>• state that their use might have affected the assignments results;</li> </ul>
xiv	Include a signed certification in accordance with the Standards Rule 2-3.	xvi	Include a signed certification in accordance with Standards Rule 2-3.

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