

Guide Note 4

Reliance on Reports Prepared by Others



Introduction

In this Guide Note an analysis, opinion, or conclusion prepared by others, and upon which an appraiser relies, is referred to as a “report.” Appraisers often rely, at least in part, on reports prepared by others. Reliance on the reports of others generally increases with the complexity of the appraisal problem. The use of such reports may increase in the future. Appraisers are providing more specialized

services and will need more information to make decisions and develop their appraisals. Reports prepared by others vary in form, content, and applicability. Although they are frequently used in conjunction with proposed properties and transactions, they may also be applicable to existing properties and used in special situations such as litigation and arbitration.

GUIDE NOTE 4

Introduction (continued)

According to USPAP, in the Comment to SR 2-3, appraisers have specific obligations when relying on reports prepared by others:

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

In general, these reports fall into four major classifications:

General Informational Reports

General informational reports are usually descriptive in nature and provide information pertaining to an overall area. They include data on demographics, economic trends, and other such matters. They are not specific to the property being appraised.

Reports Prepared by Licensed or Certified Non-Real Estate Appraisal Professionals

Reports prepared by licensed or certified non-real estate appraisal professionals are specific to the subject property and may be either descriptive or factual in nature. They include engineering services, environmental studies, soil reports, impact studies, survey reports, zoning opinions, audited financial statements, and other reports relating to matters beyond the scope of appraisers' expertise, or services not typically offered by appraisers.

Reports Prepared by Other Non-Real Estate Appraisal Professionals

Reports in this category are prepared by experts who are not licensed or certified but have specific experience or expertise that an appraiser may rely upon. Examples include reports pertinent to the appraisal problem from academicians, operators of special use properties, and personal property valuers.

Other Reports

Other reports pertaining to the subject property may be prepared by the client, by another real estate professional, or by others. These reports include financial statements, rent rolls, prior appraisal reports on the subject property, highest and best use studies, rental surveys, computer programs (or other electronic media), cost studies, and others.

Basis for Proper Evaluation

Before relying upon reports prepared by others the appraiser must:

1. have a reasonable basis for believing the individuals preparing the report(s) are competent;
2. have no reason to doubt the credibility of the work of the work preparer(s);
3. consider the criteria under which the reports were prepared;
4. consider the source and extent of the instructions given to the preparer of the reports;
5. determine how the appraiser might rely on this information in making decisions and preparing his or her report; and
6. determine the process and procedures used to evaluate the reports prepared by others.

Basis for Proper Evaluation (continued)

The valuation process may require projections which are influenced by uncertain events. For this reason the basis for all assumptions and projections employed by the individual who prepared the report must be understood and properly utilized by the appraiser.

USPAP Standards Rules 1-1(b) and 3-1(b) state that the appraiser must not commit a substantial error of omission or commission that significantly affects the appraisal or the appraisal review. USPAP Standards Rules 1-1(c) and 3-1(c) state that the appraiser must not make a series of errors that, although individually might not significantly affect the results, in the aggregate affect the credibility of those results.

USPAP Standards Rules 2-1(a) and 3-4(a) require that each written or oral appraisal or appraisal review report clearly and accurately set forth the appraisal or appraisal review in a manner that will not be misleading. USPAP Standards Rules 2-1(b) and 3-4(b) require that each written or oral appraisal or appraisal review report must contain sufficient information to enable the intended users to understand the report properly. USPAP Standards Rules 2-2(a)(xi), and b(x) and 3-5(f) require that each written appraisal report or appraisal review report clearly and conspicuously state all extraordinary assumptions and hypothetical conditions. USPAP Standards Rules 2-2(a)(viii), requires the appraiser to summarize in the appraisal report the information analyzed, the appraisal methods and technologies employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach or income approach must be explained. USPAP Standards Rule 2-2(b)(viii) requires the appraiser to state in the report the appraisal method and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach or income approach must be explained. USPAP Standards Rule 2-2(b)(viii) requires the appraiser to state in the report the appraisal method and techniques employed, state the value opinion(s) reached, and reference the workfile; exclusion of the sales comparison approach, cost approach, or income approach must be explained, and 2-2(b)(vii), and 3-5(g) require the appraiser to address the assignment's scope of work in the appraisal or appraisal review report.

Market value opinions should be supported by market-derived data and assumptions made should be specific to both the market and the property. An appraiser who accepts the projections or assumptions of others without some assurance of the accuracy or reasonableness of the calculations or information provided may violate the aforementioned USPAP Standards Rules.

The four major classifications of reports require varying levels of review and care on the part of the appraiser, as offered below:

General Informational Reports

General informational reports usually require limited verification. Most discrepancies are easily clarified.

Reports Prepared by Licensed or Certified Non-Real Estate Appraisal Professionals

Reports prepared by licensed or certified non-real estate appraisal professionals typically offer conclusions as to the adequacy of a specific property component or issue pertaining to the property. These conclusions are generally based on accepted procedures or standards and represent informed opinions on matters beyond the appraiser's expertise. Absent reasonable doubt, these reports usually can be accepted conditioned upon the qualification that they were prepared by recognized professionals. Should observed or apparent material discrepancies exist between the appraiser's investigation and the submitted report prepared by a licensed or certified non-real estate appraisal professional, such material discrepancies must be disclosed.

Reports Prepared by Other Non-Real Estate Appraisal Professionals

An appraiser's reliance on reports prepared by these experts is distinct from that of the preceding paragraph in the greater care the appraiser should exercise in determining the pertinent expertise of the author. USPAP Standards Rule 2-3, in the Comment, requires that such reports may only be used if the signing appraiser has a reasonable basis for believing that individuals who performed the work are competent and has no reason to doubt the work of those individuals is credible.

Basis for Proper Evaluation (continued)

Other 3-3 Reports

Other reports prepared by, or at the direction of, the client, other real estate professionals, or others, require a careful review for reasonableness. To the degree possible and practical, computer programs or other electronic media should be reviewed for errors or inconsistencies. The level of investigation should be appropriate to the problem. The appraiser must understand the assumptions on which these reports are based as well as their applicability and validity to the assignment.

Summary of Standard Practices

1. Become familiar with any report prepared by another that is relied upon in the appraisal process and, to the degree possible, understand the basis for its conclusions. Address any questions with the preparer of the report prior to using it in the appraisal process.
2. In conjunction with the scope of work for the assignment, identify or reference in the appraisal report any report prepared by another that was relied upon in developing the appraisal or appraisal review opinion or conclusion.

(Please Note: The purpose of the Guide Notes to the Standards of Professional Appraisal Practice is to provide Members, Candidates, Practicing Affiliates and Affiliates with guidance as to how the requirements of the Standards may apply in specific situations.)

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