

Common Errors and Issues

April 15, 2015

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Common Errors and Issues

The following are some of the errors commonly noted by the Appraisal Institute Senior Manager of Experience Screening and Senior Manager of Ethics and Standards Counseling. This information is pertinent to both general and residential appraisal practice. These items are not listed in order of occurrence or importance.

Note concerning Appraisal Institute Members, Candidates, Practicing Affiliates, and Affiliates: The Appraisal Institute has adopted a [Code of Professional Ethics](#) and [Standards of Professional Appraisal Practice](#) to establish requirements for ethical and competent practice. These requirements also serve to promote and maintain a high level of public trust and confidence in Appraisal Institute Members, Candidates, Practicing Affiliates, and Affiliates. Effective January 1, 2015, the Appraisal Institute Standards of Professional Appraisal Practice are composed of:

- *the Standards of Valuation Practice (SVP) promulgated by the Appraisal Institute and the Certification Standard of the Appraisal Institute; or*
- *applicable national or international Standards and the Certification Standard of the Appraisal Institute.*

The Uniform Standards of Professional Appraisal Practice (USPAP) are an example of national standards and the International Valuation Standards (IVS) are an example of international standards.

Certification Statement

The most common errors we see in appraisal and review reports have to do with certification statements. These errors are also the easiest to avoid. The key is to remain cognizant of current certification requirements.

- USPAP: SR 2-3 for real property appraisal reports and SR 3-3 for appraisal review reports
- SVP: SR C-3 for appraisal and review reports
- Certification Standard of the Appraisal Institute: Contains specific certifications that AI Members, Candidates, and Practicing Affiliates must make.

Certification requirements may change from time to time. It is incumbent on the appraiser to provide a certification that is contemporary with the appraisal date. To assist you with USPAP compliance, the Appraisal Institute provides sample certifications for USPAP-compliant appraisal and appraisal review assignments on our website. These are Word documents that can be downloaded and copied directly into your own reports. They include both the statements required by USPAP and the statements required by the Appraisal Institute for its Designated Members, Candidates, and Practicing Affiliates. Click here for the [Sample Certification Statements](#) page. This link will take you to a page showing sample certification statements for USPAP-compliant appraisal and appraisal review reports.

The USPAP certification does not need to be exactly the same as that in Standards Rule 2-3, but it must be similar in content. You must be careful not to deviate from the intent of the language if you do not use the USPAP certification language exactly. You may make additions if they are relevant to the assignment.

Form reports must be used with caution. The certification included in software packages may be out of date or not comply with Appraisal Institute certification requirements or with your state appraisal law. With the exception of the Appraisal Institute [AI Reports®](#) forms, certifications provided in form reports must be supplemented to be compliant with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. It does not matter where these additions are placed in the report. If they cannot be added to the certification page, put them in a logical place.

If you have created your own certification template, it is helpful to put a version date on it so you can easily tell whether it is current.

The value conclusion need not be included in the certification. The certification need not be dated (except in the case of the certification retained in the workfile for an oral report).

Note that the proper nomenclature is “certification,” not “certificate,” “certificate of value,” or “certification of value.” The certification statements relate to the entire assignment and the manner in which it was completed, not just the value conclusion.

Finally, keep in mind that the certification is a very important part of an appraisal or review report. Only an appraiser can make such statements. Avoid burying the certification in the back of the report or in the addenda, or putting it in small or difficult-to-read print. Let your reader know you are sincere about these statements and proud to be able to make them.

Identification of the Client, Intended Users, and Intended Use

Identification of the client, intended users, and intended use is a significant and necessary step in the appraisal process. Making these identifications defines the parties to whom you are responsible and why. When you write a report, you are writing to your client and intended users. They are the audience for your discussion and conclusions. Note that USPAP SR 2-1(b) states that the report “must contain sufficient information to enable the intended users of the appraisal to understand the report properly” and SVP SR C-2 states that an “appraisal or review report, whether oral or written, must contain sufficient information to enable the intended user(s) to understand the report properly in the context of the intended use.” In order to ensure that your report contains sufficient information, you must first know who your intended users are. And you are writing to the intended users about the particular problem they wish to resolve—a question about the value of a property or about the quality of the work of another appraiser, for example.

The concept of intended user tends to be misunderstood. To be an intended user, THE APPRAISER MUST INTEND for that party to rely on the assignment results. An intended user is not simply anyone who “intends to rely” or “will rely” on assignment results. Further, if a party receives a copy of a report, it does not mean that party must be identified as an intended user.

The intended use is the key driver in determining the appropriate scope of work for the assignment. Why the appraisal is needed, what the value issues are, what effective date of appraisal is required, and what interests are to be considered are among factors that make up the intended use/intended user/scope decision. Your client might not fully understand the appraisal process, the reporting requirements, or the complexities of appraisal. Your identification of these elements can help you provide your client with a valuation service that is appropriate.

It is a misconception that the “addressee” named in the report is necessarily the client. A very common mistake is to assume it is understood that the addressee is the client. This may or may not be the case. It is required that you specifically identify the client by name or type.

Again, be careful with form reports, as they might not provide space to adequately address these key items.

Scope of Work and Problem Identification

Scope of work is the most critical decision you will make in an assignment. In solving any problem, including an appraisal problem, there are three major steps to the process:

1. Identify the problem,
2. Determine the solution (or scope of work), and
3. Apply the solution.

None of the three steps can be omitted, and they must be carried out in order.

The first step, identification of the problem, involves figuring out key assignment elements:

- the client and any other intended users;
- the intended use of the report;
- the type and definition of value;
- the effective date of the valuer's opinions and conclusions;
- the property that is the subject of the appraisal and the interest in that property to be appraised;
- the characteristics of the subject property that are relevant to the type and definition of value and intended use of the appraisal;
- any special assumptions (known as "extraordinary assumptions" in USPAP) necessary in the appraisal;
- any hypothetical conditions necessary in the appraisal; and
- other conditions of the engagement that affect the scope of work, including general assumptions and applicable laws, regulations, and guidelines.

In an appraisal assignment, USPAP Standards Rule 1-2 and SVP Standards Rule A-2 require that key assignment elements be identified, or "figured out." These key elements provide the framework for the assignment and allow the appraiser to identify the problem to be solved. USPAP Standard 2 and SVP Standard C require that the key assignment elements be reported. They provide the "full story" about the value conclusion, which, by itself, is meaningless.

Once the assignment elements are figured out, the appraiser can move to the second step, determining the scope of work to solve the problem. Scope of work encompasses all aspects of the valuation process, including the question of which of the usual three approaches to value will be used. Also included in the scope decision are the questions of how much data is to be gathered, from what sources, from which geographic area, and over what time period; what is the extent of the data verification process; and what is the extent of the property inspection, if any, etc.

The scope of work decision is appropriate when it allows you to arrive at credible assignment results and when it's consistent with (1) the expectations (if any) of clients that are similar to yours and (2) what your peers would do if faced with the same sort of situation.

Reporting Scope of Work

The scope of work discussion should be unique to each assignment, and should link directly to the analyses and appraisal process.

It is appropriate to include detail about the extent of the data verification process, the extent of the [subject](#) property inspection, an explanation of how the gross/net building areas or how the units' sizes were established, and so on. Often this information might trigger the need for one or more extraordinary/special assumptions. For example, were the buildings measured, or were documents and information provided by secondary sources? If there is minimal access to the property or minimal support for the size, condition, and amenities, you may have assignment conditions to describe.

The Appraisal Institute has published a book, [Scope of Work](#), by Stephanie Coleman, MAI, SRA, AI-GRS, AI-RRS, which provides some practical assistance.

Extraordinary Assumptions/Special Assumptions

USPAP defines “Extraordinary Assumption” as “an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which if found to be false, could alter the appraiser’s opinion or conclusions.”

SVP defines “Special Assumption” as “an assumption, directly applicable to a specific service, which if found to be false, could alter the opinions or conclusions in an appraisal or review.”

The proper use of extraordinary/special assumptions is often misunderstood. An extraordinary/special assumption is an underlying premise of the assignment, something that is believed to be true for the sake of the analysis, but whether or not it is in fact true is uncertain. The condition or premise is presumed to be true *as of the effective date*, not after or before. So it is specific to the assignment and pertinent as of the effective date only. Conditions presumed to be true *after* the effective date are projections, not assumptions.

If an assumption turns out to be false, the assignment results might be affected. This is true of both ordinary or general assumptions and extraordinary/special assumptions. Extraordinary/special assumptions differ from the general assumptions that are often made and reported in all assignments. An extraordinary/special assumption is specific to the assignment at hand. To have an extraordinary/special assumption, the appraiser must have reason to believe the condition presumed true might not be true. That is, a red flag must be going up that alerts the appraiser and creates uncertainty about the situation.

For example, consider the case of an appraisal of an older gas station. The date of value is the current date. It is known that many gas stations of the subject’s vintage have leaking underground storage tanks. If so, the cost to remediate the problem could be sizable—especially if leaking fuel has made its way into the groundwater. However, the status of the subject’s tanks is uncertain. If you proceed with the assignment based on the assumption that the property does not have leaking tanks, you would be using an extraordinary/special assumption—it is specific to your assignment and would likely affect your value conclusion if found to be incorrect.

A second example is the very common case of a “drive-by appraisal,” in which the subject improvements are visually inspected only from the curb. To proceed with such an assignment, you must establish something to be true about the size, condition, and other characteristics of the property that are relevant to the valuation problem. Sources for such information may include prior appraisals completed by another; county records; or even the verbal information from the owner or agent. The information may be true, but from the appraiser’s viewpoint there is uncertainty attached to it, and the valuation will hinge on one or more extraordinary/special assumptions about the “gaps in the facts.”

It is important to understand that when an extraordinary/special assumption proves to be contrary to the truth, it does not mean the appraiser was “wrong.” The appraiser must ascertain that the use of the extraordinary/special assumption is appropriate given the client’s intended use of the assignment results. Then, unless agreed upon with the client at the time of the assignment, the appraiser is under no obligation to “fix” or “correct” an appraisal upon learning that the premise—the reason for the extraordinary/special assumption—is false. A value opinion is always developed within the context of the assignment as defined by the scope of work and other assignment parameters such as the date of value and the type of value, as well as stated hypothetical conditions and extraordinary/special assumptions. If an extraordinary/special assumption made in an appraisal subsequently turns out to be false, the appraiser could accept a new assignment that would reflect the different underlying premise.

- USPAP’s SR 2-2 a (x) and b (x) require that an appraisal report “clearly and conspicuously state all extraordinary assumptions; and state that their use might have affected the assignment results.”
- SVP’s SR C-2 (a) (xvi) and (b) (xiii) require that a written report clearly and conspicuously state all special assumptions and that their use might have affected the opinions and conclusions.

The statement that the use of the extraordinary/special assumption might have affected the assignment results/opinions/conclusions is required and is critical so that the report is not misleading. These rules do not require that the property be appraised twice—both with and without the extraordinary/special assumption. It simply means the client and intended users must be alerted to the extraordinary/special assumptions so that their significance, given the intended use, can be comprehended.

Many assignments involve one or more extraordinary/special assumptions. In reporting, extraordinary/special assumptions need to be handled in a specific manner. Extraordinary/special assumptions must be conspicuously disclosed. They cannot be inserted in fine print or buried in the addenda where they are unlikely to be read. It may be appropriate to cite extraordinary/special assumptions in more than one place in your report, depending on their significance to the assignment.

Hypothetical Conditions

Hypothetical conditions are conditions that you know to be contrary to fact but you take them to be true for the purpose of the analysis. Contrast these with extraordinary/special assumptions, which are about uncertainties.

Hypothetical conditions are conditions presumed true *on the effective date*, not before or after.

The decision to base an appraisal on a hypothetical condition must be carefully considered. The hypothetical condition must be appropriate given the client's intended use of the assignment results and can't be so outlandish that it leads to non-credible results.

It may be necessary to use a hypothetical condition for legal or comparison purposes. The resulting analysis and conclusions must be credible, and the hypothetical condition must be clearly disclosed. Your client needs to know what the hypothetical condition is and how it might affect your value conclusion. In reporting, hypothetical conditions need to be handled in a specific manner.

- USPAP SR 2-2 a (x) and b (x) require that you “clearly and conspicuously state all hypothetical conditions; and state that their use might have affected the assignment results.”
- SVP SR C-2 a (xvi) and b (xiii) require that you “clearly and conspicuously state ... all hypothetical conditions; and that their use might have affected the valuer's opinion(s) and conclusion(s).”

The statement that the use of the hypothetical condition might have affected the assignment results/opinions/conclusions is required and is critical so that the report is not misleading.

Hypothetical conditions must be conspicuously disclosed, not buried in the back of the report or shown in tiny print. It may be appropriate to cite all hypothetical conditions in more than one place in your report, depending on their significance to the value conclusion.

One of the most common hypothetical conditions is in the case of a proposed property valued as of the current date. Almost all appraisals of residential construction projects are performed this way and therefore are based on a hypothetical condition—that is, that improvements are already complete when, in fact, the improvements don't exist.

When using a hypothetical condition, terminology is important. It is appropriate to note that the value is based on the hypothetical condition. You then explain the condition. The value itself is not hypothetical—it's not a “hypothetical value.” Rather, the value is based on a hypothetical condition.

Prospective Value

One key assignment element is the effective date of value, which may be a current date, a retrospective date, or a prospective date. If your assignment is for a proposed project, your client may need a value that is effective as of the date of completion and/or date of stabilization (prospective values). Or your client might need to know what the property would be worth if it were completed as of today (current value). Either is allowable. Each can provide the client with a useful conclusion. See

USPAP Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*, for further information.

There is confusion about how to qualify your reporting of a prospective value. Extraordinary/special assumptions help you report prospective value without being misleading; they assist you in being clear about your valuation process, opinions, and conclusions. To some it is confusing whether the value of proposed construction or of non-stabilized properties should be based on a hypothetical condition or an extraordinary/special assumption. If your effective value date is a current date, your appraisal will be based on the hypothetical condition that the improvements exist when, in fact, they do not. If your value date is in the future, when you anticipate completion (a prospective value), then your appraisal will be based on the extraordinary/special assumption that the improvements will indeed be completed as proposed as of that date.

Whenever the date of value is a prospective date (even in cases that don't involve proposed construction), there will be one "automatic" extraordinary/special assumption that relates to the potential changes between the current time, when you are researching and writing the report, and the effective future value date. Because you cannot see into the future, you want to point out that you assume no significant changes will take place.

Reporting prospective values must be done with care. According to Statement No. 4 in USPAP, "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." It's correct, for example, to state your conclusion as "market value as of (future date) will be \$XXX," rather than "the market value is...."

Prospective Value – Value Date

In a prospective value assignment, you may be asked for the value as of either a specific date or a specific event. The date of value to be used in an analysis is identified based on the nature of the problem to be solved.

If your client requests a value as of a specific event, such as completion of construction or stabilization of the property, you will need to figure out what future date will be associated with that event. The client, developer, or other parties to the assignment may provide you with dates reflecting their estimate of completion, lease-up, or stabilization. These may be reasonable estimates, but you cannot assume they are without some consideration. It is not appropriate for you to accept the developer's estimate of completion or stabilization at face value. You must consider the market and determine if the completion, lease-up, sellout, etc., is likely to occur by the specified date.

Analysis of the Subject Property History

Under USPAP, it is not sufficient to simply report the subject's sales history. In fact, simply reporting it does not meet USPAP requirements on this issue. When an opinion of market value is to be developed, you must *analyze* all sales of the subject property that occurred in the three years prior to your date of value. You must also analyze any agreements of sale (contracts), options, or listings that are current as of the date of appraisal. Listing the sales or other agreements is just a start. See USPAP SR 1-5 as well as reporting requirements covered by SR 2-2 (a) (ix) or 2-2 (b) (ix). Also see USPAP Advisory Opinion 1, *Sales History*.

Under SVP SR C-2, an appraisal or review report, whether oral or written, must contain sufficient information to enable the intended user(s) to understand the report properly in the context of the intended use.

Neither USPAP nor SVP has a requirement to analyze the sales history of each comparable sale. However, Fannie Mae and certain other government bodies require comparable sales histories. This regulation is applicable to lenders, and it's reflected on the URAR form.

Highest and Best Use

Highest and best use is commonly one of the weakest areas in an appraisal. It is too often viewed as a "necessary but fruitless exercise," when it is the meat of the assignment in an analysis of market value. Even though many improved properties do represent the highest and best use, there are still issues that must be considered. If you do not adequately address highest and best use, you may inappropriately analyze the property.

When your assignment objective is to develop an opinion of market value, you must address the question of the highest and best use for whatever you are valuing. That is, if you're valuing an improved property, you must address the question of the highest and best use *as currently improved*. If you're valuing a vacant site, then you must address highest and best use *as vacant*. If you're valuing a site as if vacant (as in the case of an improved property when we complete a cost approach), you must address the question of the highest and best use *as if vacant*. If you're valuing a proposed property, you must address what the highest and best use *WILL* be when complete. If you're valuing a proposed property as of the current date based on a hypothetical condition, you must address what the highest and best use *WOULD* be if the improvements were complete as proposed.

To answer the question of highest and best use of a vacant site, four tests apply: physical possibility, legal permissibility, financial feasibility, and maximum productivity. Many uses may be physically possible, but only some of those will be legally permissible. And of those, only some will be financially feasible. The question ultimately becomes, which of those uses (physically possible, legally permissible, financially feasible) brings the highest economic return to the owner of the rights to the land?

Timing is a critical consideration in the analysis of highest and best use. For example, a site may be well suited for development of an industrial building, but if there is currently not enough demand for that use, it will not meet the test of financial feasibility. Therefore, the highest and best use would be to leave vacant, given the current economic climate.

To answer the question of the highest and best use of an improved site, the same four tests apply. But they generally don't provide a sufficient framework for answering the highest and best use question. Rather, you need to consider three possible scenarios regarding the improvements, and which of the three makes the most sense. What would the most probable buyer of this improved site do with the improvements? Would the buyer:

1. Keep using the improvements the way they exist?
2. Make modifications to what exists?
3. Demolish the existing improvements to obtain a vacant site?

Using the framework of these three questions allows you to better refine your highest and best use analysis. Many times, appraisers miss the mark because they don't recognize the opportunity to alter the existing improvements that the market sees for the property. Remember, as an appraiser you are trying to reflect the actions of the "most probable buyer" for that property. Put yourself in those shoes. If it were your property, what would you do with it to maximize its value?

An incorrect conclusion of highest and best use as improved may seriously impact your value conclusion. A common error in highest and best use analysis is failure to recognize or address property characteristics that may have been mentioned in the description sections. There are many obvious property issues that trigger additional highest and best use analysis. Excess land, a legally non-conforming use, obsolescence, the need for renovation or conversion of use, interim use, and transitional use are a few. If you do not properly address these issues, they can affect the credibility of the work. If you do not recognize them in your analysis of highest and best use, you may miss them in the valuation analysis. And, if these are issues for your property, you should expect to include some discussion in the highest and best use section.

Unfortunately, it is very common to see a statement that reads: "The subject property's highest and best use is as improved." This is a weak comment about any property, but it is particularly inappropriate for an appraisal of a proposed project or one where renovation is being analyzed. Highest and best use as improved for a proposed property should address the proposed improvements. A proposed project needs the same critical analysis as that for an existing improved property. It is crucial to recognize that a proposed project may not be the highest and best use of the property. The developer may not know the market or may be constructing something that is an over-improvement or an under-improvement to accommodate special needs of the buyer/user. It is your job to recognize the keys to highest and best use and analyze the proposed improvements AND deal with them appropriately if they are not the highest and best use of the property.

Highest and Best Use – Reporting

A common misconception is that in an appraisal report it is acceptable to just state your highest and best use conclusion. If the objective is market value, there will always be some degree of analysis of highest and best use. Granted, in some cases that analysis is quick, and the highest and best use conclusion of the property as it exists doesn't take more than a flash to figure out. For example, consider the case of a single-family residence located within a subdivision of similar houses, where there is no chance that a likely buyer would demolish the house to maximize value, and where modifying the improvements would not significantly increase the value above the cost to make them. But it's still necessary to provide some support and rationale for your conclusion.

- USPAP SR 2-2 (b) (ix) provides: "summarize the support and rationale for that opinion."
- SVP SR C-2 provides that an appraisal report, whether oral or written, must contain sufficient information to enable the intended user(s) to understand the report properly in the context of the intended use.

It is not necessary to repeat sections of the report in the highest and best use analysis. Report sections are not intended to be stand-alone. The Market Analysis and other descriptive sections of the report can be used to support highest and best use conclusions as well as the valuation sections. Material from other report sections may be referenced in the Highest and Best Use section to support the analysis and conclusions.

Highest and Best Use – Residential Forms

Another common misconception is that it is only necessary to check the box on a form report if the highest and best use is “as improved.” Highest and best use in a form report still requires some detail even when the existing improvements represent the highest and best use. (See comments above.) You may provide a brief statement, but to meet the requirements of USPAP or SVP, you must provide more than a checked box.

Excess Land and Surplus Land

Excess land is commonly mishandled in assignments. It is often confused with surplus land. It is too often lumped in with the value of the entire property or ignored altogether. Excess land may be sold off separately from the rest of the property, so in effect, the subject property becomes two subject properties. Excess land may have a different highest and best use than the rest of the site. The excess land should be described in the Description section and it must be addressed in the highest and best use analysis. Further, excess land will have to be treated separately in the valuation process. An entirely different set of comparable data may be required. The value of excess land must be reported separately. Be careful about adding the value of the excess land to the value of the rest of the property, as the sum of the parts may or may not equal the whole.

Surplus land does not have a separate value, as it cannot be sold off separately. It is “extra” land that may or may not contribute value to the overall property. It does not have an independent highest and best use. It may have the same value per unit of comparison (e.g., value per square foot, value per acre) as the rest of the site, or it may contribute less per unit of comparison.

Reporting Requirements under USPAP

USPAP Advisory Opinion 11 provides an overview of the content requirements for each of the reporting options under USPAP and includes a report content comparison chart that is very helpful in determining what is required for each. It is important that you meet all of the requirements for the option that you choose. It is inappropriate and misleading to state that you are providing an Appraisal Report when its content level is that of a Restricted Appraisal Report.

If you are preparing a Restricted Appraisal Report, you must intend that it be used by only one party. That is, it must be for client-use only. If you intend for parties other than the client to use the report, a Restricted Appraisal Report is not appropriate. If your client needs more than just the value conclusion (for example, data and analyses), then a Restricted Appraisal Report is not appropriate.

It is unacceptable to provide a Restricted Appraisal Report just to keep costs down. Your report must include the information the client requires and address the reason why the client needs the appraisal from you. For instance, in legal situations, often an attorney will request a Restricted Appraisal Report

to make an initial determination about the extent of a legal issue. It may be appropriate to provide such a report if it is your intention that the attorney is the only one who will use the report. But it is not appropriate to provide a Restricted Appraisal Report for eminent domain purposes when it is your intention that the attorney, the client, and the court will all use it.

You may use any number of forms for reporting. Beware of forms that do not in themselves call for all of the information required under USPAP Standard 2. Some forms need to be supplemented with such items as intended use, intended user, scope of work, etc. It is incumbent on you, the appraiser, to understand whether the form or format you are using allows for compliance with the reporting requirements of Standard 2 of USPAP.

Residential Reporting Requirements

When using the URAR form (March 2005), the Appraisal Institute's certification statements and the USPAP certification statement about prior services must be added.

The URAR form is intended for lending purposes only and should not be used for other purposes.

We highly recommend the use of the Appraisal Institute's AI Reports® forms when the appraisal does not need to meet the requirements of Fannie Mae, Freddie Mac, FHA, or VA. If the assignment is with a lender who is not concerned with these entities, use of the URAR is not required. For a non-lending client, the URAR is not appropriate.

Reconciliation under USPAP

USPAP SR 1-6 requires the appraiser to reconcile the quality and quantity of data. The corresponding reporting requirements are in USPAP SR 2-2 (a) (ix) and 2-2 (b) (ix). A reconciliation section consisting of boilerplate and stock comments does not often present useful information. A discussion of the data used, its application to the subject, how the approaches apply to the subject, and so on, is essential to a meaningful reconciliation.

Reporting Consistency

Data provided in a report should be consistent from one section throughout the report. Report sections are not intended to be stand-alone; there should be a common thread leading through the report and data provided should be consistent. For example, general vacancy rates, trends, rent levels, and so on provided in the Market Analysis section should support, not vary significantly from, the conclusions in the Valuation sections. Differences, if present, should be reconciled.

Miscellaneous – Theory and Practice

The following are common errors noted in a significant number of assignments:

- Failing to complete a sufficiently thorough market analysis when analyzing highest and best use, income, vacancy, and expenses
- Including irrelevant data in the report but leaving out relevant information; for instance, including a detailed market analysis covering retail and office properties but providing only a weak analysis of the apartment market when the subject property is an apartment
- Improperly handling or ignoring excess land
- Allowing gaps in the reporting of the analysis, which require the reader to take “leaps of faith” to understand a conclusion or analysis
- Failing to recognize the market for the property—local, regional, or national
- Valuing a leased fee interest without knowing or analyzing the lease terms
- Analyzing a single-tenant, owner-occupied property using multi-tenant comparables
- Analyzing rent comparables without considering the size of the demised spaces in either the comparables or the subject
- Failing to recognize the date leases were initiated in completing rent comparable analysis
- Failing to use a DCF for leased fee analysis when it is necessary for credible results
- Not understanding what is included in Marshall Valuation Costs
- Applying percentage adjustments in an improper sequence
- Failing to understand that matched pairs is NOT the only way to support an adjustment
- Failing to understand that it is no more appropriate to NOT make an adjustment when it is needed than to MAKE one that has NO support
- Not using or citing up-to-date materials; for instance, referencing old textbooks
- Not having or reviewing current editions of the Standards—akin to filing your taxes using an old form
- Not discussing excess land or functional issues in a highest and best use analysis

- Failing to reconcile the data and analysis in the appraisal
- Careless editing of boilerplate
- Using comparables that have a different highest and best use (single tenant vs. multi-tenant properties)
- Reconciling the value outside the range of the adjusted comparables
- Starting with a narrow unadjusted range and concluding a wider range after adjustment
- Not providing support for site value in a residential cost approach
- Using a Restricted Appraisal Report format when multiple intended users are cited

Resources and References

The Appraisal Institute [Code of Professional Ethics](#) and [Standards of Professional Appraisal Practice](#) are available on the Appraisal Institute Web site (<http://www.appraisalinstitute.org>).

See also the following Appraisal Institute publications:

- *The Appraisal of Real Estate*, 14th edition. Chicago: Appraisal Institute, 2013
- *The Dictionary of Real Estate Appraisal*, 5th edition. Chicago: Appraisal Institute, 2010

If you have additional questions or need more information, contact:

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