

STANDARD 1: REAL PROPERTY APPRAISAL, DEVELOPMENT

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

FAQ See also
FAQ 117-241

Comment: STANDARD 1 is directed toward the substantive aspects of developing a credible appraisal of real property. The requirements set forth in STANDARD 1 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 1-1

In developing a real 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 Standards Rule recognizes that the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in the real estate field have a substantial impact on the appraisal profession. Important changes in the cost and manner of constructing and marketing commercial, industrial, and residential real estate as well as changes in the legal framework in which real property rights and interests are created, conveyed, and mortgaged 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 is constantly reviewing and revising appraisal methods and techniques and devising new methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in real property appraisal.

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

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

- (c) not render 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 affects the credibility of those results.**

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

STANDARDS RULE 1-2

In developing a real property appraisal, an appraiser must:

- (a) identify the client and other intended users;¹⁶**

- (b) identify the intended use of the appraiser's opinions and conclusions;¹⁷**

Comment: An appraiser must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased.¹⁸

¹⁶ See Advisory Opinion 36, *Identification and Disclosure of Client, Intended Use, and Intended Users*.

¹⁷ See Advisory Opinion 36, *Identification and Disclosure of Client, Intended Use, and Intended Users*.

¹⁸ See Advisory Opinion 19, *Unacceptable Assignment Conditions in Real Property Appraisal Assignments*.

- 459 **(c) identify the type and definition of value, and, if the value opinion to be developed is market value,**
 460 **ascertain whether the value is to be the most probable price:**
- 461 **(i) in terms of cash; or**
 462 **(ii) in terms of financial arrangements equivalent to cash; or**
 463 **(iii) in other precisely defined terms; and**
 464 **(iv) if the opinion of value is to be based on non-market financing or financing with unusual conditions**
 465 **or incentives, the terms of such financing must be clearly identified and the appraiser's opinion**
 466 **of their contributions to or negative influence on value must be developed by analysis of relevant**
 467 **market data;**

468 Comment: When reasonable exposure time is a component of the definition for the value opinion
 469 being developed, the appraiser must also develop an opinion of reasonable exposure time linked to
 470 that value opinion.¹⁹

- 471 **(d) identify the effective date of the appraiser's opinions and conclusions;²⁰**
- 472 **(e) identify the characteristics of the property that are relevant to the type and definition of value and**
 473 **intended use of the appraisal,²¹ including:**
- 474 **(i) its location and physical, legal, and economic attributes;**
 475 **(ii) the real property interest to be valued;**
 476 **(iii) any personal property, trade fixtures, or intangible items that are not real property but are included**
 477 **in the appraisal;**
 478 **(iv) any known easements, restrictions, encumbrances, leases, reservations, covenants, contracts,**
 479 **declarations, special assessments, ordinances, or other items of a similar nature; and**
 480 **(v) whether the subject property is a fractional interest, physical segment, or partial holding;**

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

483 An appraiser may use any combination of a property inspection and documents, such as a physical legal
 484 description, address, map reference, copy of a survey or map, property sketch, or photographs, to identify
 485 the relevant characteristics of the subject property.

486 When appraising proposed improvements, an appraiser must examine and have available for future
 487 examination, plans, specifications, or other documentation sufficient to identify the extent and character of
 488 the proposed improvements.²²

489 Identification of the real property interest appraised can be based on a review of copies or summaries of title
 490 descriptions or other documents that set forth any known encumbrances.

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

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

19 See Advisory Opinion 7, *Marketing Time Opinions*, and Advisory Opinion 35, *Reasonable Exposure Time in Real and Personal Property Opinions of Value*.

20 See Advisory Opinion 34, *Retrospective and Prospective Value Opinions*.

21 See Advisory Opinion 2, *Inspection of Subject Property*, and Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*.

22 See Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*.

- Comment: An extraordinary assumption may be used in an assignment only if: 494
- it is required to properly develop credible opinions and conclusions; 495
 - the appraiser has a reasonable basis for the extraordinary assumption; 496
 - use of the extraordinary assumption results in a credible analysis; and 497
 - the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions. 498
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(g) identify any hypothetical conditions necessary in the assignment; and 500

Comment: A hypothetical condition may be used in an assignment only if: 501

- use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison; 502
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- use of the hypothetical condition results in a credible analysis; and 504
- the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions. 505

(h) determine the scope of work necessary to produce credible assignment results in accordance with the SCOPE OF WORK RULE.²³ 506
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STANDARDS RULE 1-3 508

When necessary for credible assignment results in developing a market value opinion, an appraiser must: 509

(a) identify and analyze the effect on use and value of existing land use regulations, reasonably probable modifications of such land use regulations, economic supply and demand, the physical adaptability of the real estate, and market area trends; and 510
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Comment: An appraiser must avoid making an unsupported assumption or premise about market area trends, effective age, and remaining life. 513
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(b) develop an opinion of the highest and best use of the real estate. 515

Comment: An appraiser must analyze the relevant legal, physical, and economic factors to the extent necessary to support the appraiser's highest and best use conclusion(s). 516
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STANDARDS RULE 1-4 518

In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results. 519
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(a) When a sales comparison approach is necessary for credible assignment results, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion. 521
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(b) When a cost approach is necessary for credible assignment results, an appraiser must: 523

- (i) develop an opinion of site value by an appropriate appraisal method or technique;** 524
- (ii) analyze such comparable cost data as are available to estimate the cost new of the improvements (if any); and** 525
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- (iii) analyze such comparable data as are available to estimate the difference between the cost new and the present worth of the improvements (depreciation).** 527
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(c) When an income approach is necessary for credible assignment results, an appraiser must: 529

- (i) analyze such comparable rental data as are available and/or the potential earnings capacity of the property to estimate the gross income potential of the property;** 530
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²³ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

- 532 (ii) analyze such comparable operating expense data as are available to estimate the operating
533 expenses of the property;
- 534 (iii) analyze such comparable data as are available to estimate rates of capitalization and/or rates of
535 discount; and
- 536 (iv) base projections of future rent and/or income potential and expenses on reasonably clear and
537 appropriate evidence.²⁴

538 Comment: In developing income and expense statements and cash flow projections, an appraiser must
539 weigh historical information and trends, current supply and demand factors affecting such trends, and
540 anticipated events such as competition from developments under construction.

541 (d) When developing an opinion of the value of a leased fee estate or a leasehold estate, an appraiser must
542 analyze the effect on value, if any, of the terms and conditions of the lease(s).

543 (e) When analyzing the assemblage of the various estates or component parts of a property, an appraiser
544 must analyze the effect on value, if any, of the assemblage. An appraiser must refrain from valuing the
545 whole solely by adding together the individual values of the various estates or component parts.

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

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

552 (f) When analyzing anticipated public or private improvements, located on or off the site, an appraiser must
553 analyze the effect on value, if any, of such anticipated improvements to the extent they are reflected in
554 market actions.²⁵

555 (g) When personal property, trade fixtures, or intangible items are included in the appraisal, the appraiser
556 must analyze the effect on value of such non-real property items.

557 Comment: When the scope of work includes an appraisal of personal property, trade fixtures or intangible
558 items, competency in personal property appraisal (see STANDARD 7) or business appraisal (see STANDARD
559 9) is required.

560 **STANDARDS RULE 1-5**

561 **When the value opinion to be developed is market value, an appraiser must, if such information is available to**
562 **the appraiser in the normal course of business:**²⁶

563 (a) analyze all agreements of sale, options, and listings of the subject property current as of the effective
564 date of the appraisal; and

565 (b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date
566 of the appraisal.²⁷

567 Comment: See the Comments to Standards Rules 2-2(a)(viii) and 2-2(b)(viii) for corresponding reporting
568 requirements relating to the availability and relevance of information.

24 See Advisory Opinion 33, *Discounted Cash Flow Analysis*.

25 See Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*.

26 See Advisory Opinion 24, *Normal Course of Business*.

27 See Advisory Opinion 1, *Sales History* and Advisory Opinion 4, *Standards Rule 1-5(b)*.

STANDARDS RULE 1-6

In developing a real property appraisal, an appraiser must:

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

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(b) reconcile the applicability and relevance of the approaches, methods and techniques used to arrive at the value conclusion(s).

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