



The credibility of an Appraisal Report
is driven by it's intended use...

keep your eye
on the prize.



ne of the most common questions brought up is on an appraisal report's credibility and its intended use. The question is usually phrased something like the following:

I have an appraisal report prepared for one use (ex. finance) and now I'm being told it isn't acceptable for another use (ex. estate planning or tax appeal). The appraiser is telling me I have to have a new appraisal report prepared because the conclusions reached are not credible for use other than it was originally prepared for. Why is an appraisal report prepared for one use not good enough for another use?

My answer is always the same, the appraiser is correct. The question centers on the appraisal's intended use and the foundation for credibility of an appraisal. The Uniform Standards of Professional Appraisal Practice (USPAP) defines the following terms, in pertinent parts:

Credible worthy of belief. . . [c]redible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use.

Intended Use the use or uses of an appraiser's reported appraisal. . . as identified by the appraiser based on communication with the client at the time of the assignment.

In addition, USPAP states "[t]he credibility of assignment results is always measured in the context of the intended use..." and an appraiser is required "...to identify the intended use ... as part of problem identification." Therefore an appraisal's conclusions are only credible for that assignment's identified intended use and it must be identified prior to preparing the appraisal.

Scope of Work

An appraiser's identification of intended use is necessary to properly identify the appraisal problem and helps the appraiser in determining the scope of work for the appraisal.

Scope of work is defined as "the type and extent of research and analyses in an assignment." The scope of work must include the research and analyses that are necessary to develop credible assignment results. Scope of

work includes, but is not limited to:

- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions.

Therefore, the intended use is a driver of both the extent of research and analyses performed as well as the type of research and analyses used (such as which approaches-to-value will be used). For example, an appraisal prepared for the intended use of evaluating collateral for home equity lending decision-making might not entail a physical interior inspection on the subject property and may not necessitate inspection of any of the comparable properties used. On the other hand, an appraisal prepared for tax appeal would typically require the appraiser to physically inspect the interior of subject property and at a minimum perform exterior inspections of all the comparable properties used.

Tests of Acceptability

The appraiser's scope of work is acceptable when it meets or exceeds both of the following:

- the expectations of parties who are regularly intended users for similar assignments; and
- what an appraiser's peers' actions would be in performing the same or a similar assignment.

So the scope of work that is acceptable for one intended use may be inappropriate for another.

Conclusion

When an appraisal report is prepared for an identified intended use it is improper to use it for a different use. The approach the appraiser took in preparing the appraisal was driven by intended use and a different use may inherently require different steps to be taken and could require entirely different information to be collected and analyzed, such as the litigation versus non-litigation uses.

Therefore as a personal caveat, when engaging an appraiser you

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should ascertain specifically what intended use is proper for your specific needs taking into consideration any near-future need for the appraisal. Often times you can have an appraisal completed for multiple intended uses and save yourself some money on needing separate, and perhaps, several subsequent reports. For example, you may consider buying a property that you believe could be incorrectly assessed. So you might consider engaging an appraiser and requiring the intended use to include pre-purchase due diligence and for qualifying that the assessment records detailing physical characteristics are correct. Another common multiple-intended use engagement is pre-purchase due diligence and estate planning uses.



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