

## Appraisal Process

An appraiser develops an opinion of value that is based on fact. Developing appraisals and reporting the results in an orderly manner following a tested and proven series of steps will help ensure that all relevant information is considered and that the appraiser's conclusions are sufficiently supported by facts so that they are credible (i.e., worthy of belief), understandable, and not misleading. In order to achieve this result, the appraiser follows a set of steps which, taken from the beginning and extending to the completion of an appraisal assignment, is referred to as the **Appraisal Process**.

This section reviews the seven basic steps in the appraisal process. It is necessary that this list be comprehensive; as a result, some terms or concepts within this section may be unfamiliar to you at this point. The appraisal process will become clearer to you when you cover it again as it relates to USPAP in the aforementioned Chapter 7 section entitled “*The Appraisal Process and USPAP*.”

The seven steps of the appraisal process include:

- Step 1: Identify the appraisal problem
- Step 2: Determine the scope of work
- Step 3: Analyze the property’s use, select the appropriate market, analyze relevant economic conditions (marketability, rarity, supply and demand)
- Step 4: Collect and analyze data, apply the most appropriate approach(es) to value
- Step 5: Analyze listings and prior sales (only required if developing an opinion of a type of market value)
- Step 6: Reconcile value indicators and develop a final opinion of value
- Step 7: Communicate assignment results to client

### Step 1: Define the Appraisal Problem

In this first step, the appraiser identifies several **assignment elements** in order to enable him or her to “identify the appraisal problem.” Identifying the appraisal problem is an essential step, as evidenced by the number of times USPAP addresses the issue. Identifying the appraisal problem is required not only by the COMPETENCY RULE but also by the SCOPE OF WORK RULE. The need for identifying the appraisal problem is also embedded in STANDARDS 7 and 8.

Identifying the appraisal problem allows the appraiser to subsequently make a determination (in Step 2) as to the scope of work that will be necessary to perform in order to achieve credible assignment results.

As importantly, identifying the appraisal problem allows the appraiser to determine whether or not he or she is even competent to complete the assignment credibly in the first place!

When identifying the appraisal problem, the appraiser will:

- Conduct an initial client interview. It is through the client interview that critical information will be obtained which will allow the appraisal development and reporting processes to be accomplished in a competent manner. The use of a *Client Data Form & Assignment Activity Log* form will prove beneficial (see Appendix A for an example).
- Identify the client and owner of the property (may be the same).
- Identify the intended use of the appraisal.
- Identify the effective date of the value opinions.
- Identify ownership interest to be valued (usually 100%) and any encumbrances or restrictions thereon.
- Identify all intended users of the appraisal and their needs.
- Identify the type and definition of value to be developed; develop an opinion of exposure time if exposure time is a component of the definition of the type of value being developed.
- Identify the specific subject property (including its value-relevant characteristics) as well as its location(s). While personal property is often well-known by a homeowner, often the client (such as a distant claims adjuster) is only vaguely knowledgeable about the property. Knowing the location of the property will allow the appraiser to better prepare for eventualities of inspecting property in cold warehouses, damp basements, hot attics, dusty farm outbuildings, or secured properties that allow only limited access such as a locked building or a gated community.
- Identify the assignment conditions including limiting conditions, assumptions, extraordinary assumptions, hypothetical conditions and, albeit rarely, jurisdictional exceptions.
- Recognize limitations to your level of competency and plan to overcome them by added study or associating with other appraisers and/or subject matter experts. (See USPAP's COMPETENCY RULE.)
- Establish contractual arrangements with the client including your fee structure.

## **Step 2: Determine the Scope of Work**

Determine the scope of work **necessary to develop credible assignment results**. Scope of work is defined by USPAP as the amount and type of information researched and the analysis applied in an assignment. Scope of work includes but is not limited to the following:

- The degree to which the property is inspected or identified,

- The extent of research into physical or economic factors that could affect the property,
- The extent of data research, and
- The type and extent of analysis applied to arrive at opinions or conclusions.

The scope of work must be consistent with the intended use of the appraisal. To be acceptable, the scope of work must meet or exceed the expectations of parties who are regular intended users of similar assignments. The scope of work must also meet or exceed the actions of the appraiser's peers when they are performing a similar assignment under USPAP. Note that USPAP defines Appraiser's Peers as:

*APPRAISER'S PEERS: other appraisers who have expertise and competency in a similar type of assignment. (USPAP)*

### **Step 3: Analyze the Property's Use, Select Most Appropriate Market, Analyze Economic Conditions**

In this Step, if necessary for credible assignment results, the appraiser must analyze the property's current use as well as any alternative uses (but only if such alternative uses may result in a different value) relevant to the type and definition of value and intended use of the appraisal. This is of paramount importance since for personal property, the value of the property when considering its highest and best use is typically a function of the choice of marketplace, the market level for the type of item, the type and definition of value, and the intended use of the appraisal.

It is in Step 3, based on value type and definition, in which the appraiser makes the determination as to the most appropriate market to research for comparable market data on which he or she will base an opinion of value.

The appraiser will also analyze any relevant economic conditions existing as of the effective date such as trends and fads, degree of subject property acceptability, supply and demand, scarcity or rarity.

### **Step 4: Collect and Analyze Data, Apply Most Appropriate Approach(es) to Value**

In this step, prepare for the assignment, conduct the inspection and make use of outside assistance as necessary to help appraise, identify and/or authenticate. In this step the appraiser analyzes the subject property within the context of the most appropriate market and considers how the subject property compares with similar properties that have sold in the past or that are currently for sale.

The appraiser identifies the property, its quality, its value-relevant attributes, and how the subject property compares to other comparable properties (better than? same as? worse than?). The appraiser's value conclusions will reflect the manner in which the marketplace as well as potential buyers respond to the presence or absence of those quality characteristics and value-relevant attributes.

- Gather necessary forms, tools and supplies for the on-site inspection.
- Arrange for other appraisers, experts, consultants to be on site as needed.
- Schedule and conduct property inspection in accordance with the scope of work requirements, assignment conditions, and the intended use of the report.
- Document the property's description, origin, age, condition, dimensions, maker, and other quality characteristics and value-relevant attributes such as aesthetic qualities, materials, provenance, etc.; make use of grading or authentication reports if necessary. (See the Chapter 3 section entitled “*Inspection vs. Non-Inspection.*”)
- If unable to conduct a personal inspection, arrange for other appraisers, experts, consultants (or the clients themselves) to provide you with necessary photographs along with the identification of the subject property and the property’s value-relevant characteristics.
- Prepare for possible use of post-inspection consulting experts including those needed for identification, repair or restoration, grading or authentication purposes.
- Research the most appropriate market to identify comparable sales, asking prices or other relevant market data on which to base final opinions or conclusions.

Of particular importance to the personal property appraiser, when appraising multiple items, focus your research and analysis on those items that are most significant. USPAP states:

*When appraising multiple objects, the appraiser must consider the significance of the value of the individual assets to the assignment results. Those objects which are more significant to the assignment results should be the focus of the analysis and analyzed in appropriate detail.*

*Comment: A group of objects may have a mix of high and low value items. Those objects that are more significant to the assignment results should be subject to a greater and appropriate depth of analysis. (USPAP SR 7-4(e))*

Apply the most appropriate approach(es) to value (i.e., the sales comparison approach, cost approach, and/or income approach). The appraiser determines how relevant each approach to value is with regards to the intended use and type and definition of value being developed. For personal property, the sales comparison approach is normally the most appropriate approach to value to the exclusion of the other two approaches. Be prepared to include in the appraisal report which approaches were employed and which were discarded and why they were discarded as required by SR 8-2:

*...summarize the information analyzed, the appraisal methods 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 SR 8-2)*

## **Step 5: Analyze Subject Property Listings or Prior Sales**

In Step 5, if **developing a market value type of value**, the appraiser must, to the degree the information is available to the appraiser in the normal course of business, analyze:

- Agreements to sell, validated agreements of sale, or listings of the subject property
- Prior sales of the subject property that have occurred within reasonable and applicable time

Step 5 applies only to types of “market value” such as fair market value or orderly liquidation value. Step 5 would not apply to developing an opinion of replacement value since replacement value, being based on the perspective of the user as opposed to a market perspective, is not a type of “market value.”

## **Step 6: Reconcile Value Indicators, Develop Final Opinion of Value**

Making use of the most relevant valuation approach(es), reconcile value indicators and reach a final value opinion. The appraiser normally forms an opinion as a single dollar value, but sometimes it is necessary to provide a range of possible values for the property being appraised.

During this step, the appraiser will:

- Make use of the relevant data and discard irrelevant data and market data anomalies.
- Make use of information provided by other appraisers, experts, repair/restoration sources or grading or authentication services, if any.
- Reconcile data taking into account the quality and quantity of the data and other available relevant information.
- Make adjustments in value for differences in quality characteristics and value-relevant attributes between subject and comparable properties through value ranking.
- Develop a final opinion of value.

## **Step 7: Communicate Assignment Results to Client**

In general, the appraisal report must be credible and must not be misleading. It should contain sufficient information to allow the client and all intended users to understand the report including:

- How the opinions, analyses and conclusions were developed
- The basis for the reported opinions, analyses and conclusions
- Any limiting or hypothetical conditions encountered and any extraordinary assumptions made by the appraiser in arriving at his or her final value conclusions.
- Any applicable disclaimers and terms of use of the appraisal report

Prepare the appraisal report in accordance with STANDARD 8 of USPAP. The report should be written according to one of the two appraisal report options stipulated in Standards Rule 8-2, i.e., either the Appraisal Report or Restricted Appraisal Report option, and should contain a signed USPAP certification as required in Standards Rule 8-3. If preparing for an oral appraisal report, conform to USPAP Standards Rule 8-4.

(See the Chapter 7 section entitled “*The Appraisal Process and USPAP*” for an additional and more in-depth discussion of the Appraisal Process.)