



ADVISORY OPINION 22 (AO-22)

1 *This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing*
2 *standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and*
3 *to offer advice from the ASB for the resolution of appraisal issues and problems.*

4 **SUBJECT: Scope of Work in Market Value Appraisal Assignments for Real Property**

5 **APPLICATION: Real Property**

6 **THE ISSUE:**

7 How does “market value” affect the scope of work in a real property appraisal assignment?

8 **ADVICE FROM THE ASB ON THE ISSUE:**

9 **Relevant USPAP & Advisory References**

- 10 • COMPETENCY RULE
- 11 • SCOPE OF WORK RULE
- 12 • DEFINITIONS section: “Appraisal,” “Intended Use,” “Market Value,” and “Scope of Work”
- 13 • STANDARD 1
- 14 • Advisory Opinion 35 and 36

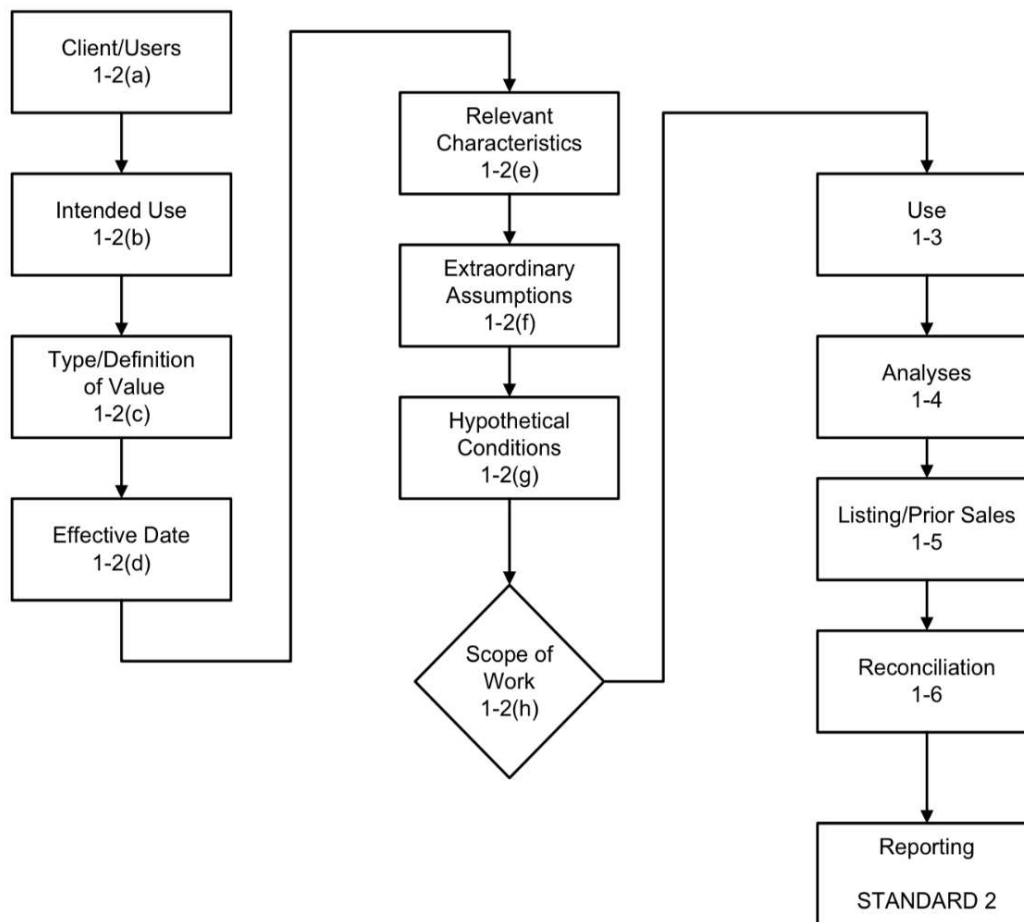
15 **Scope of Work in a Market Value Appraisal**

16 This Advisory Opinion provides guidance that appraisers, users of appraisals, and enforcement bodies can use when
17 making decisions about the scope of work in market value appraisal assignments (called a “market value assignment”
18 or a “market value appraisal” in this Advisory Opinion).

19 Competently determining the scope of work is an essential step in all assignments performed under USPAP. In a
20 real property appraisal assignment, Standards Rules 1-2(a)–(h) set forth eight identification actions or steps that an
21 appraiser must understand and complete in performing any appraisal assignment. Completing the first seven action
22 steps provides support for the eighth step, the appraiser’s scope of work decision.



The Sequence and Relationship of Action Steps Required by Standards Rule 1-2 in a Real Property Appraisal – The following table illustrates the sequence and relationship of the action steps leading to the appraiser's scope of work decision and the steps taken after that decision through to completion of the appraisal process.



It is important to recognize that the action of identifying the client and intended users, the intended use, the type and definition of value, and the effective date (Standards Rule 1-2(a)-(d)) affects the appraiser's decisions as to the subject's relevant characteristics, the scope of work, and extraordinary assumptions or hypothetical conditions (Standards Rule 1-2(e)-(h)). The appraiser's decisions about the last four elements to be identified follow from, and must be consistent with, factual information identified in the first four elements shown in the table.

The sequence illustrated in the table requires the appraiser to begin the decision-making process in the early stages of an assignment. It also means the appraiser has a burden of proof for conclusions about which property characteristics are relevant and which are not.

Sequence and Relationship of Action Steps Required by Standards Rule 1-2 in a Real Property Appraisal
Competency and the Scope of Work Decision - Accomplishing the first four action steps (Standards Rule 1-2(a) through (d)) illustrated in the table provides the basis for deciding which of the property's characteristics are relevant in the assignment. This information, together with the appraiser's competency (knowledge and expertise) in appraising the specific type of property involved, permits the appraiser to determine whether any extraordinary assumptions or hypothetical conditions are necessary to complete the assignment and to make a reasonable and supportable scope of work decision.

It is important to note here that the appraiser's competency in performing similar assignments is a key factor in the scope of work decision. Without competency, the appraiser is not prepared to correctly interpret the information



43 gathered in response to Standards Rule 1-2(a)–(e) or to make well-reasoned decisions based on that information in
44 response to the requirements set forth in Standards Rule 1-2(f)–(h). Moreover, without competency, the appraiser is
45 not aware of or capable of understanding how the information gathered in compliance with Standards Rule 1-2(a)–(e)
46 and the conclusions formed in compliance with Standards Rule 1-2(f) and (g) affect the decision about which of the
47 analyses steps set forth in Standards Rules 1-3 and 1-4 are necessary in an assignment.

48 Understanding which analyses, methods and techniques are necessary and what data are necessary to correctly
49 complete the analyses is an integral part of the scope of work decision. This decision cannot be made competently
50 without understanding how the “conditions” in a market value definition work together with the other factors identified
51 in compliance with Standards Rule 1-2 to determine what kind of data are relevant and which types of analyses are
52 applicable and necessary in the assignment.

53 **General Comment on Market Value Definitions**

54 Market value appraisals are distinct from appraisals using other types of value because market value appraisals
55 are based on a market perspective and on a normal or typical premise. These criteria are illustrated in the following
56 definition of *Market Value*,¹ provided here only as an example.

57 **“Market value** means the most probable price which a property should bring in a competitive and open market
58 under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and
59 assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale
60 as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 61 1. Buyer and seller are typically motivated;
- 62 2. Both parties are well informed or well advised and acting in what they consider their own best interests;
- 63 3. A reasonable time is allowed for exposure in the open market;
- 64 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable
65 thereto; and
- 66 5. The price represents the normal consideration for the property sold unaffected by special or creative
67 financing or sales concessions granted by anyone associated with the sale.”

68 The market perspective replaces a user’s (e.g., buyer, seller, lender, agent, etc.) perspective that might apply in other
69 appraisals, such as for investment value or insurable value. This market perspective directly affects the scope of work
70 necessary to develop credible opinions and conclusions in market value appraisals. The public’s expectation that
71 a market value appraisal reflects only the perspective of the marketplace, and is not affected by such other criteria
72 as an intended user’s objectives, is important. Meeting this expectation serves to foster and promote public trust in
73 professional appraisal practice, a fundamental purpose of the *Uniform Standards of Professional Appraisal Practice*
74 and one that applies to all work performed under USPAP.

75 A market value appraisal is also based on whatever the “normal” or “typical” conditions are in the marketplace for
76 the property appraised in a time frame that is consistent with the effective date of the appraisal. If the definition
77 of value used in an appraisal contains criteria that are different from those that are “normal” or “typical,” the use
78 of the term “Market Value,” alone, to characterize the assignment result is not appropriate. For example, a value
79 opinion developed to reflect the most probable price in a sale under forced conditions is a forced-sale value and not
80 consistent with the “normal” or “typical” premise to be reflected in a market value appraisal.

81 **Importance of Identifying the Specific Definition of Market Value**—The definition of the value to be developed in an
82 appraisal establishes specific conditions. These conditions impose parameters on the appraisal assignment that are
83 necessary to ensure that the results of the assignment are meaningful in the context of that definition of value.

84 There are many definitions of value, some of which are market value definitions. Other definitions of value appear
85 to be related to market value but are not called market value. For example, it is common practice in appraisals for
86 intended use in employee relocation assignments to use a value definition based on “anticipated sales price” rather
87 than “market value.” The “anticipated sales price” definition contains very specific marketing, property condition, and
88 terms of sale requirements that replace normal or typical market conditions. Thus, while the development process

1 This example definition is from regulations published by federal regulatory agencies pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between July 5, 1990, and August 24, 1990, by the Federal Reserve System (FRS), National Credit Union Administration (NCUA), Federal Deposit Insurance Corporation (FDIC), and the Office of Comptroller of the Currency (OCC). This definition is also referenced in regulations jointly published by the OCC, FRS, and FDIC on June 7, 1994, and in the *Interagency Appraisal and Evaluation Guidelines*, as revised and updated December 2010.



under the specific conditions may appear similar to market value assignments, the result is a value to the property user—the relocation company—under that client’s specific criteria and is not market value.	89 90
Importance of Identifying the Source of a Market Value Definition —Definitions of market value from different sources contain different conditions. Those differences can directly affect the scope of work that is necessary to develop credible assignment results. Each definition is unique, with authority only in a specific jurisdiction or to a specific client group. Therefore, identification of the source for the definition of value to be applied in an assignment is essential.	91 92 93 94
The source must be consistent with the jurisdiction having authority over the transaction in which the appraisal is to be used. For example, using a definition of market value other than the definition specified in regulations published pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) may invalidate that appraisal for use in a federally related transaction. Likewise, if an appraisal is prepared for use in litigation, using a definition of value other than the definition specified by the court having jurisdiction over the matter being litigated may disqualify that appraisal for use in that court.	95 96 97 98 99 100
How the “Conditions” in a Market Value Definition Affect the Scope of Work Decision	101
In an appraisal assignment, <i>Market Value</i> is defined by a specific jurisdiction (e.g., a court, a regulatory body or public agency with legal authority), or by a client group (e.g., Fannie Mae or Freddie Mac).	102 103
In a market value appraisal, the appraiser’s conclusions about how best to analyze the market and what data are necessary for the development of credible results must be consistent with the conditions set forth in the specific definition of market value applicable in the assignment. The definition of <i>market value</i> included in this Advisory Opinion as an example illustrates the type of conditions that might be part of a specific market value definition used in an assignment.	104 105 106 107 108
Market value always presumes the transfer of a property as of a certain date, under specific conditions. The “Conditions” stated in market value definitions generally fall into three categories:	109 110
1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);	111
2. the terms of sale (e.g., cash, cash equivalent, or other terms); and	112
3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).	113
Market value appraisals focus on understanding how buyers and sellers are most likely to respond to a subject property under the conditions stated in a specific value definition. Not all market value definitions contain the same conditions, though most contain a common subset of elements. Experienced appraisers understand the nuances in the various definitions and develop their assignments using data and analyses that match the conditions required by the specific definition used in an appraisal.	114 115 116 117 118
The “knowledge” referred to in a market value definition is knowledge about the property appraised, about the market for that property, and about alternatives available in the marketplace that the appraiser concludes are reasonable competition for the property appraised. ²	119 120 121
An appraiser is expected to be at least as knowledgeable as the typical market participant is about the market for the type of property to be appraised. By completing research and verification steps while performing the assignment, the appraiser is expected to become as knowledgeable about the subject property and its comparables as the typical market participants.	122 123 124 125
Knowledge of the Subject Property —Of the three areas typical market participants are presumed to be knowledgeable about (subject, market, and competition), the first area that the appraiser must address is knowledge of the subject property, which is accomplished by gathering and verifying information about the subject property. This action step may or may not require a personal inspection.	126 127 128 129
In a market value assignment, the relevant characteristics are those that have a significant impact on the property’s marketability (See Standard Rules 1-2(e)). These features include legal, economic and physical characteristics. The decision as to which characteristics are relevant cannot be made without knowledge of the market in which the property is sold. This is why competency in appraising a specific type of property and knowledge of the subject property’s market are essential in an assignment.	130 131 132 133 134

² See Advisory Opinion 35, *Reasonable Exposure Time in Real Property and Personal Property Opinion of Value*.



135 Knowing the property's relevant characteristics also provides the basis for deciding the applicability of an approach
136 to value.

137 **Knowledge of the Market**—The scope of work necessary to ensure an adequate knowledge of the market for
138 the subject property may range from very little (in addition to what the appraiser already knows) to extensive new
139 research. If the subject property is of a type frequently appraised and in a locality where the appraiser regularly
140 provides services, there may be little need for extensive market research beyond confirmation that the data available
141 for analysis is current, adequate, relevant, and credible.

142 However, if the property involved is not of a type regularly appraised by the appraiser or if the market area is not
143 familiar to the appraiser, the extent of research needs to be sufficient for the appraiser to acquire competency.
144 As stated in the **COMPETENCY RULE**, this can be achieved in several ways (self-study, association with a locally
145 knowledgeable and competent appraiser, etc.).

146 The critically important aspect of this factor in the scope of work decision is to recognize when additional research
147 is necessary. A competent, professional appraiser will not assume knowledge merely for the sake of convenience.
148 Even though the appraiser might be actively involved in appraising a particular type of property in a given locality, self-
149 imposed professional discipline will prompt that individual to ensure that the scope of work includes verification that
150 the market data used in the analyses is credible, relevant, appropriate, adequate, and as current as possible.

151 This is consistent with the requirement stated in Standards Rule 1-1(b), which is designed to ensure that the scope of
152 work completed in an appraisal is sufficient to produce credible opinions and conclusions, given the intended use of the
153 appraisal.

154 **Knowledge of Alternatives**—An understanding of market behavior requires a scope of work that includes research
155 and analyses that is sufficient to ensure competent knowledge of the supply and demand relationships that are
156 relevant to the time frame and the type of property involved in the appraisal. In a market value appraisal, this means
157 gathering, verifying, and evaluating data about sales, listings, and failed efforts to sell “competitive” property, as well
158 as more generalized market data.

159 **Conditions of Sale**—A market value appraisal requires research and analysis of market data sufficient to develop
160 a reasonable opinion of exposure time (see the [Comment](#) to Standards Rule 1-2(c) and Advisory Opinion 35) with
161 the property marketed in whatever manner is typical for that type of property in its locality. An appraiser working
162 in different market areas should guard against presuming that a marketing process common in one area is typical
163 in all areas. For example, in some markets, property is customarily sold through an auction arrangement, while in
164 others professional brokerage is the norm, and in still others so called “for sale by owner” is the typical process. Each
165 process, in a given time period and locality for the type of property involved, can be “normal.” The identification of the
166 marketing process and exposure time requires an understanding of the subject's market.

167 Market value definitions imply a sale of the property wherein the buyer and seller are “typically motivated.” This
168 condition requires that the level of research in a market value assignment is sufficient to understand the motivations of
169 the buyers and sellers for the sales used in the approaches to value. The motivations that lead to a sale play a critical
170 role in establishing the relevancy or irrelevancy of a sale as a comparable one in an assignment.

171 Analysis of sales data can yield numeric results, but the numbers lack real meaning without an understanding of the
172 market conditions that generated the sales involved. Without an understanding of what the market conditions were at
173 the time of a sale, as well as the conditions of a particular sale, an appraiser cannot reasonably conclude that the sale
174 price, or any element of comparison based on that price, is a reliable indicator of market value.

175 **Subject's Marketing and Sale History, and Reconciliation**

176 The appraiser's scope of work decision in a market value appraisal needs to recognize the research and analyses
177 steps that are necessary to comply with the requirements stated in Standards Rule 1-5 and Standards Rule 1-6. Those
178 requirements have two objectives, both of which are especially important in a market value appraisal.

179 The first is to ensure that the appraiser makes the effort to obtain relevant information about current and recent
180 market activity involving the subject property (Standards Rule 1-5(a) and (b)). This due diligence effort is consistent
181 with the requirement stated in Standards Rule 1-1(b). It also serves as a safeguard against confusing the price in a
182 contract (agreement of sale or option) or an offering with market value and as a safeguard against the appraiser being
183 inadvertently involved in an effort to conceal the facts in regard to one or more recent sale transactions.



The second is to ensure that the appraiser reconciles the indications of value resulting from the various approaches utilized to arrive at the value conclusion (Standards Rule 1-6). 184
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SUMMARY:

The scope of work decision is a critical step in any appraisal. That decision must result in a match between the extent of the research and analyses completed in an assignment with the conditions specified in the definition of value used in that assignment. 186
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In a market value appraisal, the appraiser's scope of work decision carries a burden of proof to support the appraiser's conclusion about how the appraiser addresses each "condition" in the market value definition used in the appraisal. 190
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The definition includes conditions that often require a high degree of knowledge, competency, and judgment, which are necessary to effectively develop the appraisal process. Appraisers cannot meet their obligations in a market value assignment without having competently identified and then completed a scope of work that enables development of credible opinions and conclusions. 192
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