

# UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE and ADVISORY OPINIONS 2005 EDITION

APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal  
Standards and Appraiser Qualifications*

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**EFFECTIVE:**

January 1, 2005

## FOREWORD

The Appraisal Standards Board (ASB) of The Appraisal Foundation develops, publishes, interprets, and amends the *Uniform Standards of Professional Appraisal Practice* (USPAP) on behalf of appraisers and users of appraisal services. Because USPAP will be used by state and federal regulatory agencies and others, the ASB has adopted a publication policy to ensure that all interested parties are informed of interpretations of or amendments to USPAP in a regular and timely manner. This 2005 edition is the fourteenth annual publication of USPAP.

The ASB publishes USPAP in a bound annual edition that includes a Key Features section that chronicles significant changes during the previous year. This 2005 edition of USPAP is divided into five sections: “DEFINITIONS,” “PREAMBLE,” “Rules,” “Standards and Standards Rules,” and “Statements on Appraisal Standards.”

In addition, for convenience of reference, this bound volume contains Advisory Opinions approved by the ASB and an Index. These reference materials are forms of “Other Communications” provided by the ASB for guidance only and are not an integral part of USPAP.

For clarification, the Statements and Advisory Opinions have been labeled as to their applicability to the various appraisal disciplines.

It is important that individuals understand and adhere to changes in each annual edition of USPAP. This edition becomes effective **January 1, 2005**. State and federal regulatory authorities enforce the content of the current or applicable edition of USPAP.

### Origin and History of USPAP

These Standards are based on the original *Uniform Standards of Professional Appraisal Practice* developed in 1986–87 by the Ad Hoc Committee on Uniform Standards and copyrighted in 1987 by The Appraisal Foundation. Prior to the establishment of the ASB in 1989, USPAP had been adopted by major appraisal organizations in North America. USPAP represents the generally accepted and recognized standards of appraisal practice in the United States.

At its organizational meeting on January 30, 1989, the ASB unanimously approved and adopted the original USPAP as the initial appraisal standards promulgated by the ASB. USPAP may be altered, amended, interpreted, supplemented, or repealed by the ASB after exposure to the appraisal profession, users of appraisal services, and the public in accordance with established rules of procedure.

Effective Date of Original Uniform Standards: April 27, 1987

The most recent amendments by the ASB, excluding administrative edits, are indicated below:

DEFINITIONS	June 15, 2004
PREAMBLE	June 27, 2003
ETHICS RULE	June 27, 2003
COMPETENCY RULE	September 15, 1999
DEPARTURE RULE	September 16, 1998
JURISDICTIONAL EXCEPTION RULE	July 19, 1994
SUPPLEMENTAL STANDARDS RULE	June 12, 2001
STANDARD 1	June 11, 2002
STANDARD 2	June 27, 2003
STANDARD 3	June 11, 2002
STANDARD 4	July 10, 2000
STANDARD 5	July 10, 2000

1 **ADVISORY OPINION 18 (AO-18)**

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

5 **SUBJECT: Use of an Automated Valuation Model (AVM)**

6 **APPLICATION: Real Property, Personal Property, Intangible Property**

7 **THE ISSUE:**

8 What steps should an appraiser take when using an AVM as a tool in the development of appraisal,  
 9 appraisal review, or appraisal consulting opinions and conclusions concerning an individual property?

10 In addition, what steps should an appraiser take when he or she is using an AVM only to process  
 11 information and communicate the AVM's output but is not performing an appraisal, appraisal review, or  
 12 appraisal consulting assignment?

13 **BACKGROUND:**

14 This Advisory Opinion addresses how an appraiser may use an AVM.

15 An AVM is a computer software program that analyzes data using an automated process. For example,  
 16 AVMs may use regression, adaptive estimation, neural network, expert reasoning, and artificial intelligence  
 17 programs.

18 The output of an AVM is not, by itself, an appraisal. An AVM's output may become a basis for appraisal,  
 19 appraisal review, or appraisal consulting opinions and conclusions if the appraiser believes the output to be  
 20 credible and reliable for use in a specific assignment.

21 An appraiser can use an AVM as a tool in the development of appraisal, appraisal review, or appraisal  
 22 consulting opinions and conclusions. However, the appropriate use of an AVM is, like any tool, dependent  
 23 upon the skill of the user and the tool's suitability to the task at hand.

24 This Advisory Opinion applies when an appraiser uses an AVM in connection with an individual property.  
 25 This Advisory Opinion does not apply to mass appraising.

26 An appraiser needs to know, before using an AVM, whether it is to be used:

- 27           1. to perform an appraisal, appraisal review, or appraisal consulting service, or  
 28           2. solely to provide the client with AVM output.

29 When an appraiser uses an AVM to develop his or her own opinions or conclusions in an appraisal,  
 30 appraisal review, or appraisal consulting assignment, all of the USPAP rules governing that assignment  
 31 apply and all of this Advisory Opinion is relevant.

32 An appraiser is not performing an appraisal, appraisal review, or appraisal consulting assignment when he  
 33 or she simply runs an AVM by using information provided by the client and:

- 34           1. does not alter the input or affect the output of the AVM, and  
 35           2. does not communicate his or her own appraisal, appraisal review, or appraisal consulting  
 36           opinions or conclusions regarding the AVM's output.

If the appraiser uses an AVM only to provide the client with the AVM output, only the references to the Conduct section of the ETHICS RULE and the “Communicating the AVM Output” section in this Advisory Opinion are relevant. 37  
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**ADVICE FROM THE ASB ON THE ISSUE:** 40

**Relevant USPAP & Advisory References** 41

- Conduct section of the ETHICS RULE: “An appraiser must perform assignments ethically and competently, in accordance with USPAP and any supplemental standards applicable to the assignment. An appraiser must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.” Further, “An appraiser must not communicate assignment results in a misleading or fraudulent manner. An appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report.” 42  
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- COMPETENCY RULE: “Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently.” 51  
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- DEPARTURE RULE: “An appraiser may enter into an agreement to perform an assignment in which the scope of work is less than, or different from, the work that would otherwise be required by the specific requirements ....” 55  
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- Standards Rule 1-1(a): An appraiser must “be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.” 58  
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- Standards Rule 1-1(b): An appraiser must “not commit a substantial error of omission or commission that significantly affects an appraisal.” 61  
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- Standards Rule 1-1(c): An appraiser must “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 affect the credibility of those results.” 63  
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- Standards Rule 1-6: An appraiser must “reconcile the indications of value resulting from the various approaches utilized to arrive at the value conclusion(s).” 67  
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- STANDARD 2: “In reporting the results of a real property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.” 69  
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- STANDARD 3: “In performing an appraisal review assignment, an appraiser acting as a reviewer must develop and report a credible opinion as to the quality of another appraiser’s work and must clearly disclose the scope of work performed.” 72  
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- Statement on Appraisal Standards No. 7 (SMT-7), quoting from the DEPARTURE RULE: “The burden of proof is on the appraiser to decide that the scope of work applied in an assignment is adequate and leads to results that are credible.” 75  
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- Statement on Appraisal Standards No. 9 (SMT-9): “Although an appraiser bound by the Uniform Standards of Professional Appraisal Practice must identify and consider the client’s intended use of the appraiser’s reported appraisal, appraisal review, or appraisal consulting opinions and conclusions, an appraiser must not allow a client’s intended use or the requirements of any intended user of the report to affect the appraiser’s independence and objectivity in performing an assignment. An appraiser must not allow a client’s objectives to cause the analysis or report to be biased.” 78  
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86 **Competency**

87 When an appraiser is asked to use an AVM in an assignment, the appraiser must ensure that he or she can  
88 comply with the requirements of the COMPETENCY RULE both prior to accepting the assignment and in  
89 the course of performing it.

90 In an appraisal assignment, an appraiser must have a basic understanding of how the AVM works in order  
91 to reasonably determine that:

- 92 1. use of the AVM is appropriate for the assignment;  
93 2. the output of the AVM is credible for use in the assignment; and  
94 3. the AVM does not exclude relevant market measures or factual information necessary for a  
95 credible calculation.

96 A client may suggest or request the use of an AVM in an appraisal, appraisal review, or appraisal  
97 consulting assignment, but ultimately the appraiser is responsible for the decision to use or not use the  
98 AVM and its output. The appraiser must be able to reasonably conclude that the AVM's output is credible  
99 before deciding to use the AVM or rely on its output. For example, in an appraisal assignment, the  
100 credibility of the AVM output may be established by comparison to the subject market. If the appraiser  
101 concludes that using the AVM output in an assignment would be misleading, the appraiser should either  
102 use other tools to perform the analysis or decline the assignment.

103 If use of the AVM involves invoking departure, the DEPARTURE RULE requires the appraiser to advise  
104 the client of the appraisal's limitations and to disclose those limitations in the report, provided the client has  
105 agreed that the limited service is appropriate.

106 **Under What Conditions May AVMs Be Used?**

107 There are five critical questions to which the appraiser should answer "yes" before deciding to use an AVM  
108 in an appraisal, appraisal review, or appraisal consulting assignment:

- 109 1. Does the appraiser have a basic understanding of how the AVM works?  
110 2. Can the appraiser use the AVM properly?  
111 3. Are the AVM and the data it uses appropriate given the intended use of assignment results?  
112 4. Is the AVM output credible?  
113 5. Is the AVM output sufficiently reliable for use in the assignment?

114 The answers to these questions may be affected by the degree to which the appraiser can interact with the  
115 AVM. The decision to use an AVM may also be affected by support information supplied by the AVM's  
116 developer, the appraiser's previous experience in using the AVM, or other available information.

117 **Database**

118 Credibility of the AVM output depends on the quality of its database and how well the AVM is designed to  
119 analyze that database. When using an AVM in an appraisal, appraisal review, or appraisal consulting  
120 assignment, the appraiser must have reason to believe the AVM appropriately uses data that are relevant.

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