Effective Date and the Date of the Report

Question:
I have been engaged to perform a real property valuation assignment. The assignment is to develop an opinion of the market value of the subject property in its current “as-is” condition. USPAP states, “Current appraisals occur when the effective date of the appraisal is contemporaneous with the date of the report.” In this context, what defines contemporaneous with the date of the report?

Response:
In USPAP, there are three different types of appraisals: retrospective, current, and prospective. Statement on Appraisal Standards No. 3 (SMT-3) addresses retrospective appraisal assignments, while Statement on Appraisal Standards No. 4 (SMT-4) addresses prospective appraisal assignments.

“Current” appraisal assignments are based on the effective date of the appraisal being contemporaneous with the date of the report. Contemporaneous means arising, existing or occurring during the same time period. In this context contemporaneous is not intended to mean simultaneous. Because the “same time period” may very well differ from assignment to assignment, one single specific time period cannot be provided that can be used for all assignments. However, for an assignment to include a current appraisal opinion there must not have been a significant change in the property
characteristics or market conditions between the effective date of the appraisal and the date of the report.

**Relying On the Reports of Others**

**Question:**
I am a business valuation appraiser and do not perform real property appraisal assignments. As a result, I sometimes rely on the results of a real property appraisal to determine the value of business equity. The real property appraisal report is not contained in my business valuation report; however, the real property value conclusion (the dollar amount) is indicated in my report. An example of this would be a real property holding company in which the value of the equity may be significantly dependent on the value of the owned real property. What is the appropriate way to address such reliance of the real property appraisal within my business valuation appraisal report?

**Response:**

The Comment to SR 10-3 states, in part:

> When a signing appraiser(s) has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent. The signing appraiser(s) also must have no reason to doubt that the work of those individuals is credible.

Additionally, the Conduct section of the ETHICS RULE states, in part:

> An appraiser must not use or communicate a misleading or fraudulent report...

The business valuation report should specifically reference the source of the real property value and may incorporate that value conclusion by use of an extraordinary assumption. Disclosure of the extraordinary assumption could be similar to the following:

> “The fair market value of the subject interest in XYZ Company is dependent on the market value of the real property owned by the Company, as provided to us. We have not verified the validity of this asset value, which we assume to be reliable. The use of this assumption might have affected our assignment results.”

The business appraisal report must contain a certification by the business appraiser(s). A signed certification related to the real property appraisal will be in the report provided by the real property appraiser (or in the workfile in the case of an oral report).
The business appraiser must rely on a real property appraiser because the business appraiser in this scenario is not competent to perform a real property appraisal or to review the real property appraisal.

In deciding that the individual providing the real property appraisal is competent, the business appraiser might note such things as the real property appraiser’s:

- declaration in a signed certification that the analyses, opinions and conclusions were developed, and the report was prepared, in conformance with USPAP;
- relevant experience, education, or references; or
- evidence of professional status, such as license, professional designation, or other recognition of professional or academic achievement.

It is important to note that the determination of another appraiser’s competency may not be established by a single factor, but instead may require a combination of factors. Ultimately, it would be the business valuation appraiser’s decision as to whether the real property appraiser is competent, and that decision must be based on reasonable criteria. In addition, it is of paramount importance that the business valuation appraiser has no reason to doubt that the work of the real property appraiser is credible.

The USPAP Q&A is posted each month on The Appraisal Foundation website (www.appraisalfoundation.org). The ASB compiles the monthly USPAP Q&A into the USPAP Frequently Asked Questions (USPAP FAQ) for publication with each edition of USPAP. In addition to incorporating the most recent questions and responses issued by the ASB, the USPAP FAQ is reviewed and updated to ensure that it represents the most recent guidance from the ASB. The USPAP Frequently Asked Questions can be purchased (along with USPAP and USPAP Advisory Opinions) by visiting the “Foundation Store” page on The Appraisal Foundation website (https://commerce.appraisalfoundation.org).

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