



ASA USPAP Guidance for Real Property Appraisers – Coronavirus/COVID-19 Issues

Note: All USPAP references are from 2020-21 Uniform Standards of Appraisal Practice (USPAP)

The ASA recognizes that the Coronavirus is having an impact on the U.S. and world economies and on real property markets. At this point in time, the effect may not be quantifiable as there probably isn't enough data to clearly determined, through available market evidence.

- I. **Warning/Disclosure.** Appraisers should consider adding to their reports some warning language. Similar to the situation in the aftermath of 9/11 and during the 2008 Financial Panic, the effects of the virus' impact on economic activity is unknown. The language does not need to be labeled or needs to appear in a particular report section but should be prominent.

Appraisers should consider adding warning language in their reports advising the reader of the uncertainty around the validity of assignment results – these include not only value opinions but opinions of highest and best use, functional utility, adjustments, and depreciation – going forward. The language is not a disclaimer or an assumption, but a clear statement that there is uncertainty in the appraisal's assignment results due to the uncertainty in the market.

Appraisers recognize that the effective date (date of value) of an appraisal provides protection for appraisers and clients against unanticipated, catastrophic future events but as value is the present value of future benefits, and there is great uncertainty associated with the future, client, intended users, and other interested parties should be advised of this uncertainty. This is surely a catastrophic event whose effects are unknown and may well have an effect on property values, their cash flows, occupancy and desirability.

Durability of Value Opinion: The effective date (date of value) of an appraisal is recognized by appraisers, clients and intended users as providing a cut off for market conditions and the validity of the value opinion. It provides protection for the appraiser and any and all parties that may rely on the appraisal's results as to future events. The uncertainties around the effects of the COVID-19 pandemic have created very dynamic and changeable market conditions that vary between markets. Market uncertainty may well have an effect on property values and property use, utility, occupancy, marketability, income-producing capacity and marketing times going forward. *The client may consider having the property re-appraised once market conditions have stabilized and the current levels of uncertainty have abate*

- II. **Market Analysis.** A warning statement such as discussed in the preceding section does not absolve the appraiser of making every effort to gain an understanding of current and forecasted market conditions.

FAQ 220, “Sudden Market Changes Related to Catastrophic Events,” (P. 279. 2020-21 USPAP) provides guidance.

STANDARD 1 - Development requirements:

- Standards Rule 1-2 (e) which “requires an appraiser to identify economic characteristics relevant to the subject property;” and,
- Standards Rule 1-3 (a)(iii) “specifically requires analysis of supply and demand.” See below for additional consideration regard market analysis.

STANDARD 2 - Reporting Requirements:

- For Appraisal Reports, Standards Rule 2-2-(a)(iv) requires an Appraisal Report to *contain information, documents, and/or exhibits sufficient to identify the real estate involved in the appraisal, including the physical, legal, and economic property characteristics **relevant** to the assignment. Market conditions (including changes related to catastrophic events) are economic property characteristics and, as such, should be identified in the development of an appraisal and disclosed in the appraiser report.*

Market Analysis under Current Conditions

- There may be limited comparable sales or rental data to confirm trends. Under current conditions, care should be taken with using comparable data prior to the economic change and any adjustments applied to the data.
 - Under current conditions, it may be necessary to rely on information such as:
 - Broker Interviews: are brokers noticing that buyers/sellers, landlords/tenants backing out of, revising, or note entering into transactions?
 - Lenders: Lender attitudes and activities
 - Financial Market: what are possible effects of changes in liquidity, cost of money, etc.
 - Owners/Managers: is the crisis affecting operations.
 - Property Sectors: How are different market sectors being affected specifically.
 - Market rationality/Irrationality, Short Term/Long Term: Market participants don't often act rationally in the short term; appraisers and the appraisal process presume rationality.
- *Highest and Best Use Considerations*
The comment under Standards Rule 1-3 (Market Analysis and Highest and Best Use) further notes: “An appraiser must avoid making an unsupported assumption or premise about **market area trends** (*emphasis added*), effective age and remaining life.” This would apply to adjustments made in the approaches, particularly the sales comparison approach and forecasts made in the income capitalization approach.

III. Inspections.

- USPAP does not require an inspection. What USPAP requires that the subject's property's relevant characteristics – which may differ based on the assignment, intended use, and property type - are identified (along with their sources) in order to provide credible assignment results ((SR 1 (d) (v), comment.) The Comment goes on to say that an “appraiser may use any combination of a property inspection, documents, such as a legal description, address, map reference, copy of a survey or map, property sketch, photographs, or other information to identify the relevant characteristics of the subject property.”
- A subject property Inspection may be required by the client. It may also be within the discretion of the appraiser. All reasonable and prudent judgment should be exercised in conducting inspections where there is a threat to individuals' health and where the health of the public would be endangered.
- *Scope of Work Rule* requirements should be carefully observed, particularly in the determination of Scope of Work Acceptability (p. 14). Relevant guidance includes: An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignments are not credible in the context of the intended use (p 14). Also, the guidance further suggests that “if relevant information is not available because of assignment conditions that limit research opportunities (such as conditions that place limitations on inspection or information gather.... use an extraordinary assumption about such information, if credible assignment results can still be developed.” (p. 14). Additional guidance is found in *AO-2, Inspection of the Subject Property. The sections, Minimum Level of Inspection (P69, lines 45-72) and Disclosure Requirements (p. 70, lines 87 – 95) provide specific guidance.*
- See below for guidance on the use of extraordinary assumptions with respect to the appraiser's personal inspection of the subject property.

IV. Extraordinary Assumptions or Hypothetical Conditions.

The disaster disclaimer is not a hypothetical condition or extraordinary assumption. Using a hypothetical condition in the current situation, does not meet USPAP development or reporting requirements for the use of a hypothetical condition. Using a hypothetical condition would be misleading, unless specifically needed for analysis purposes, i.e., appraise the property as if the pandemic did not exist.

Likewise, using an extraordinary assumption, which assumes an uncertainty to be certain, might be utilized if needed for an assignment-specific purpose, but also would not be appropriate under the present circumstances.

For example, making an assumption that market conditions are or will be “normal,” requires defining what “normal” is.

Appraisers may utilize an extraordinary assumption with respect to the lack of a complete inspection. However, it is critical that any assumption elements be specifically clear and unambiguous. Use of subjective terms such as “normal,” “typical,” or average, should generally be avoided.

Making an assumption that the interior of a property is “average” would require defining what constitutes “average.” Similarly, making an assumption that a market is “normal” would define what normalcy is. Making the extraordinary assumption that the specific property is described based on the information relied upon – interviews, owner/broker photos, MLS or assessing data – is clearer and more defensible. Under USPAP, while extraordinary assumptions need not be specifically labeled as such, they should be, for clarity. Further, the extraordinary assumption needs to contain the language that “if the information relied upon is untrue, the assignment results could be affected.”

The effects of the pandemic are not uncertain, they are unknowable at the current time. That’s why the use of the warning statement is appropriate. The statement doesn’t assume; it points out that the effects can’t be known. In this case, the appraiser is certain about uncertainty.

The decision to employ an extraordinary assumption is a decision made by the appraiser within the context of a specific assignment.

V. **Reporting.** Standard 2 provides guidance on “clearly and accurately” setting forth the appraisal in a manner that is “not misleading,” providing “sufficient information” so that intended users are able to understand the report properly, and, “clearly and accurately disclos[ing] all assumptions, extraordinary assumptions, hypothetical conditions, and limited conditions used in the appraisal.” Given current uncertainty, the requirements of Standard 2 takes on an enhanced importance.

- a. **Scope of Work Rule – Disclosure Obligations.** In the comment, USPAP notes that “proper disclosure is required because clients and other intended users rely on assignment results. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.” This disclosure is crucial in terms of having readers understand the nature and depth of market analysis. Reporting disclosure guidance is also provided in Standard 2-2 (a) (x) which requires that the appraisal “provide sufficient information to indicate that the appraiser complied with the requirements of Standard 1....”

VI. **Report Dates.** The effective date or date of value fixes the context of relevant market conditions affecting the subject property, i.e., the date to which an “appraiser’s analyses, opinions, and conclusions apply.” The report date represents the date the report was transmitted and also creates a perspective in terms of market conditions.

VII. **Exposure Time Opinions.** Standards Rules 1-2(c) states: “When reasonable exposure time is a component of the definition for the value opinion being developed, the appraiser must also develop an opinion of reasonable exposure time linked to that value opinion.” Exposure time is a retrospective opinion based on historical data. (See also AO-35)

USPAP does not require an opinion of marketing time but many clients do. Marketing time is a “forecast that is made looking forward from the effective date.” (AO-7, II 16-17) As such, it is future-oriented, based on perceptions of market participants as of the effective appraisal date.

Under current conditions, appraisers should use due care so as not to not render marketing time opinions based on unsupported assumptions.

It might be useful to say that, in defining and supporting the opinion of exposure time, that the exposure time is retrospective and may be based on data prior to the pandemic's effects. With marketing time, additional in-depth research might be required to understand current market conditions and how they affect marketing time, or, it may be appropriate to state that there is insufficient data with which to provide a supportable opinion. In either case, the opinion needs to be supported by market evidence and not constitute a best guess or assumption.

Appraisal Foundation Link.

The Appraisal Foundation has provided a useful link, [Coronavirus and Appraisers: Your Questions Answered \(Appraisal Foundation\)](#), on their website. The link aggregates information from a number of sources provides access to relevant information about the virus and appraisal-related resources.