

# Chapter Synopses

## Appraisal Terminology

- **Chapter 1:** The use of specific nomenclature within the field of personal property appraising is critical to presenting as well as understanding the information associated with the Appraisal Process and contained within assignment reports that are developed by the professional appraiser. Chapter 1 covers terms commonly used by appraisers including many of those important terms emphasized within the *Uniform Standards of Professional Appraisal Practice (USPAP)*. A brief introduction to these specific terms is provided at the beginning of this work so that the reader becomes immediately familiar with the basic terminology that forms the foundation of what follows. Finally, the seven steps of the all-important and aforementioned “Appraisal Process” are briefly analyzed (steps ranging from initially “defining the appraisal problem” to preparing the final appraisal report). The Appraisal Process will also be covered in greater detail in Chapter 7 *Uniform Standards of Professional Appraisal Practice (USPAP)*.

## Appraisal Principles

- **Chapter 2:** Chapter 2 introduces the various types of appraisal tasks the appraiser is likely to encounter. The appraiser is often asked to determine value (monetary worth) such as fair market value, fair value (for business assets and liabilities), orderly liquidation value, or perhaps investment value, i.e., the present worth of monies that are anticipated to be received in the future from an investment property. The concept of value, the different types and definitions of value, and the importance of identifying the type and definition of value used in an appraisal assignment are discussed. Chapter 2 also focuses on another important appraisal task—estimating costs. Specifically, terms such as replacement cost (new), replacement cost (comparable), replacement cost (new reproduction), replacement cost (new production), and replacement cost (new) less depreciation will be discussed.<sup>[1]</sup> Chapter 2 also introduces the reader to “walk-throughs,” which is a term commonly used to refer to certain types of on-site oral appraisal report assignments.
- **Chapter 3:** Chapter 3 focuses primarily on the important issue of **scope of work**. In basic terms, scope of work is the degree or amount of work an appraiser performs to arrive at **credible** assignment results. The options for the appraiser to personally inspect the property or not to inspect the property are discussed. Appraisal purposes and intended uses of appraisals are explained. The chapter familiarizes the reader with the concept of ownership rights and with the three different kinds of property—investment property, marketable non-investment property, and service property. Contraband property is also discussed. This chapter describes the three primary kinds of values including investment value, market value, and owner value. The reader will also learn about the three approaches to value (sales comparison, cost, and income

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<sup>[1]</sup> Though not covered in Chapter 2, appraisers are at times also requested to perform “appraisal reviews,” i.e., a review of another appraiser’s work product. The subject of appraisal reviews is covered in the two Chapter 7 sections entitled *STANDARD 3 Appraisal Review, Development* and *STANDARD 4 Appraisal Review, Reporting*.

approaches) as they are used to determine the monetary worth of various types of personal property for various intended uses of the appraisal report.

- **Chapter 4:** Chapter 4 focuses on the various “intended uses” of appraisal reports, i.e., the various manner in which appraisal reports are used by the client and other intended users. Examples are for acquiring insurance coverage, or for making a noncash charitable contribution to a local museum, or for litigation purposes. In the discussion of federally-related intended uses, the reader is introduced to IRS appraisal-related regulations including requirements for what constitutes a “qualified appraiser” as well as what constitutes a “qualified appraisal.” Other intended uses are also discussed including for liquidation, equitable distribution, divorce, federal estate taxes, casualty losses, estates and trust management, and collateralized loans.
- **Chapter 5:** All items of personal property exhibit characteristics that render them relatively more desirable or less desirable to marketplace participants. Chapter 5 explains relevant property characteristics, value creators and value detractors such as depreciation caused by obsolescences and/or physical deterioration. Chapter 5 also discusses the critical dates that are important to understand and document such as effective date of the appraisal and date of the report. The relationship of those two dates determines whether an appraisal is “current,” “retrospective,” or “prospective.” Fractional, contingent, hypothetical, preliminary, hybrid and draft appraisals are also discussed as are making use of specialist appraisers, team assignments, using photographs in lieu of a personal inspection, oral reports, limiting conditions, hypothetical conditions, and extraordinary assumptions. Three types of value discounts that might tend to reduce estate tax obligations are discussed: after death discounts, fractional interest discounts and blockage discounts. Making use of photographs and other client-provided information when a personal, on-site inspection is not possible is also covered as is the related topic of online Internet appraisals.
- **Chapter 6:** Appraisers rely on several marketplace principles as well as principles relating to property itself as a basis for the appraisal process in which value opinions are developed. Chapter 6 introduces the reader to such principles as most appropriate market, highest and best use, supply and demand, and the principles of substitution, qualitative ranking, marginal utility, sampling, contribution and more. The reader will also learn the difference between identification and authentication, about due diligence in authenticating property, and when the appraiser is permitted to make use of the concept of readily apparent identity in lieu of a formal authentication. Appraisal report limiting conditions that limit the appraiser’s liability, and terms of use that stipulate how and by whom the appraisal report can be used are also discussed.

### ***Uniform Standards of Professional Appraisal Practice (USPAP)***

- **Chapter 7:** The goal of USPAP is to preserve the public’s trust in the appraisal profession. Chapter 7 is a mini-course in USPAP. It’s a course-within-a course. Chapter 7 will teach the reader the importance of USPAP standards for performing competently and ethically when acting in the role of an appraiser. This chapter will introduce the reader to the history and structure of The Appraisal Foundation (TAF) and to the TAF’s *Uniform Standards of Professional Appraisal Practice* including

USPAP’s PREAMBLE, DEFINITIONS, five RULES (ETHICS RULE, COMPETENCY RULE, RECORD KEEPING RULE, SCOPE OF WORK RULE, and the JURISDICTIONAL EXCEPTION RULE), ten STANDARDS, and associated Comments. The reader is also introduced to what TAF refers to as “other communications” that include Advisory Opinions (AO), Frequently Asked Questions (FAQ), and USPAP Q&A.<sup>[2]</sup> Also discussed is the individual’s responsibility to comply with USPAP when performing “appraisal practice” as an appraiser as opposed to when providing a different type of “valuation service” while performing outside the role of an appraiser such as when performing as an auctioneer, antiques dealer, or estate liquidator. The differences between Valuation Service and Appraisal Practice, the two USPAP appraisal report options,<sup>[3]</sup> and the Appraiser Qualification Board’s (AQB) *Personal Property Appraiser Qualification Criteria* are also covered.

Chapter 7 also describes what USPAP refers to as the all-important “**Appraisal Process**” including the specific steps appraisers must take to help ensure credible assignment results (which must be reported in a meaningful and non-misleading manner) that conform to the standards and requirements of USPAP. Chapter 7 also focuses on when USPAP applies to the individual while performing as an appraiser as well as while performing as a non-appraiser.

Though thorough, Chapter 7 is not a substitute for taking the 15-hour National USPAP Course and passing its associated exam. By state law, the 15-hour course is required for every real property appraiser, but the course is not required by the states for personal property appraisers. While passing such a course is not required by the states for personal property appraisers, all major professional personal property appraisal societies do require that their members take the 15-hour National USPAP Course and pass the exam.<sup>[4]</sup>

## Ethical Standards of Professional Conduct

- **Chapter 8:** In a way, Chapter 8 is an extension of the topic of ethics that, as was noted in Chapter 7, is central to USPAP. Chapter 8 provides a more general overview of the need for ethical behavior and how personal values, societal codes of ethics and USPAP combine to provide the appraiser with the guidance needed to perform in a manner that will preserve the public’s trust in the profession of appraising. Chapter 8 addresses several real-world appraiser obligations such as specific obligations to the client (including the appraiser-client relationship), to intended users other than the client, to colleagues and the appraisal profession as a whole, and while giving testimony. This chapter will also provide the appraiser with an understanding of additional ethics-related issues such as conflicts of interest, unconsidered opinions,

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<sup>[2]</sup> Note that as of the 2016-2017 edition of USPAP, all STATEMENTS ON APPRAISAL STANDARDS (SMT) had been retired. As a result, SMTs are no longer discussed in this book.

<sup>[3]</sup> The two USPAP appraisal report “options” include the **Appraisal Report** option and the **Restricted Appraisal Report** option.

<sup>[4]</sup> There are two versions of the 15-hour National USPAP Course—one for real property appraisers and one for personal property appraisers. Personal property appraisers should take the personal property version taught by a personal property appraiser who must be certified to teach USPAP courses by TAF’s Appraiser Qualifications Board (AQB).

ethical and unethical fee structures, and the prohibition against misrepresentation of one's appraisal qualifications or professional designations.

## Research

- **Chapter 9:** Chapter 9 focuses on market and value research and analysis and covers the research process as well as research resources that are typically used by the personal property appraiser. Chapter 9 demonstrates how appraisers objectively develop the bases for their opinions, analyses, and conclusions, including how much research to do and when confirming research might not even be required! Usually, opinions of value are based on an analysis of comparable properties that have been sold or are being offered for sale within the relevant marketplace. Specific value resources such as retail outlets, Internet websites and auctions will be discussed. Product knowledge resources such as authenticators, museum curators, appraiser colleagues, experts, dealers, collectors and collector clubs, authors, restorers, trade periodical editors, etc. will also be covered. Documenting and disclosing (in accordance with the requirements of USPAP) those other appraisers who have provided significant personal property appraisal assistance with an assignment is also discussed in this chapter.

## Describing Property

- **Chapter 10:** Chapter 10 emphasizes the important issues of property description including identifying the property or property type and describing the property's value-relevant quality, economic and physical characteristics in a meaningful manner—the degree and detail of which is dependent on the intended use of the appraisal, on the needs of the client and other intended users, and on the potential value level of the item being appraised. Examples of descriptions for various categories of property are provided as are tips for describing groupings, collections, and accumulations of property. This chapter explains how the intended use of an appraisal and the USPAP report format option employed (i.e., either the Appraisal Report or Restricted Appraisal Report format) impacts the extent and detail of information that must be contained in a report, including the detail to which the subject property must be described.

## Writing an Appraisal Report

- **Chapter 11:** For the novice, putting together an actual appraisal report based strictly on theory and principles and without examples is difficult, to say the least. Chapter 11 overcomes that challenge by listing the USPAP-required elements of appraisal reports and by giving examples of how those elements of information might actually be worded. In addition to the USPAP-required elements of information, the reader will also learn of several optional “best practices” elements that experience has taught us would be beneficial to add to the appraisal report as well.

## The Professional Appraiser

- **Chapter 12:** This chapter focuses on the more basic of those issues and strategies that are unique or particularly applicable to the personal property appraisal profession

including business development, preparing a curriculum vitae (professional profile), professional development, office equipment, tools of the appraiser and basic appraiser techniques such as communication with the client, what to do while on site, using caution during the inspection to avoid damaging the subject property, making use of photographs in lieu of a personal inspection, delivering the assignment report, getting paid, appraisal updates, and the requirements for maintaining assignment workfiles and other business-related records. In addition, the reader will learn about issues relating to expert witness testimony including working with attorneys, preparing for trial, and tips on giving testimony either at a deposition or at trial.

## Legal Issues Affecting the Appraiser

- **Chapter 13:** As with any profession, it's good for the personal property appraiser to be conversant in legal issues that have impacted the profession in the past and/or that act as guideposts to help the individual avoid legal pitfalls as they practice their profession. Having said that, appraisers are not attorneys or paralegals. Nor are they legal researchers or consultants regarding the law. Just as it is not the appraiser's responsibility to advise clients on legal matters, draft legal documents, or represent clients in court, neither is it the appraiser's responsibility to spend excessive time conducting legal research in law libraries or on Internet law websites. But being familiar with landmark cases that have impacted our profession and understanding the issues raised and the decisions concluded does make for a better, all-around professional.

Supplemented by reviews of relevant case law, Lesson 13 briefly introduces the appraiser to legal issues that impact the individual who is acting in the role of an appraiser. But appraisers also perform in other roles outside that of an appraiser. As examples, many appraisers are also dealers, jewelry store owners, auctioneers, downsizing experts, restoration specialists, and estate liquidators. When wearing those other hats, appraisers may be faced with legal issues that do not normally attach when performing strictly as an appraiser. However, we will not spend time discussing legal matters that normally do not apply to the personal property appraiser, regardless of how significant they may be to other types of personal property related endeavors. For instance, there are issues of contract, commercial and agency law of which other professions must be aware but that do not normally impact the appraiser. Included are matters regarding commercial transactions, consignment sales, auction sales, warranties, fraud, disparagement, and performing as an agent on a principal's behalf—none of which are matters of primary concern to the personal property appraiser.

Instead, we will limit our discussion to the legal issues with which the appraiser might become involved. These most commonly include issues relating to bailment, title, negligence and malpractice, fraud by a dealer/appraiser, appraiser liability to third parties, and, albeit extremely rarely, negligent referrals. Several tax court cases will also be summarized to help us better understand issues to which the IRS is sensitive such as choice of appropriate market, fair market value, and valuation discounts.