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Appraisal Report: Appraisers Must Identify the Client, Intended Use and Intended User of the Appraisal

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The Statement on Appraisal Standards No. 9 (SMT-9), which requires the appraiser to identify the client and other intended users of the appraisal report, was adopted by the Appraisal Standards Board of the Appraisal Foundation on August 27, 1996. This requirement was effective January 1, 1997, and is included in the 1997 edition of the *Uniform Standards of Professional Appraiser Practice (USPAP)*.

In conjunction with this statement, the Appraisal Standards Board clarified the definition of "client" in USPAP and provided definitions for the terms "intended use" and "intended user." The following is a discussion of this development and how it relates to the relocation appraisal.

As in the past, the intended use of the appraiser's opinions and conclusions must be identified in the appraisal report. Consequently, the definition of the term "intended use" is being added to USPAP as "the use or uses of an appraiser's reported appraisal, consulting, or review assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment."

The intended use represents the function for which the appraisal is intended. This function is identified on page one of the ERC Residential Appraisal Report in the "Definitions and Guidelines" section: "The purpose of the appraisal is to estimate the anticipated sales price for a relocating employee's primary residence. The intended use of the appraisal is to assist an employer in facilitating the employee relocation process." The ERC Residential Appraisal Report thus conforms with the USPAP requirement of identifying the intended use of the appraisal.

The recently adopted statement now requires the appraiser to identify the client and other intended users. The "client" is defined in USPAP as "the party or parties who engage an appraiser (by employment or contract) in a specific assignment."

The ERC Residential Appraisal Report already calls for the appraiser to identify the client in the first line item on page one, which generally refers to the party ordering the appraisal, i.e., the relocation management company or corporation in the case of an in-house program (While it is rare in relocation appraisal assignments for a client to request confidentiality, the statement does outline the steps to be taken in such a situation.).

The next issue arises as to who are intended users of the appraisal, and how they must be identified in the appraisal report. To clarify this, the following definition of the term "intended user" is being incorporated into USPAP: "The client and any other party as identified, by name or type, as users of the appraisal, consulting, or review report, by the appraiser based on communication with the client at the time of the assignment."

The statement released by the Appraisal Standards Board indicates that "neither the client nor the appraiser is obligated to identify an intended user by name. If identification by name is not

appropriate or practical, an appraiser's client and the appraiser may identify an intended user by type.

"A party receiving a report copy from the client does not, as a consequence, become a party to the appraiser-client relationship.

"Parties who receive a copy of an appraisal, consulting, or review report as a consequence of disclosure requirements applicable to an appraiser's client do not become intended users of the report unless the client specifically identifies them at the time of the assignment."

While specific identification of the client is a part of completing a relocation appraisal (as requested on the first line of page one of the ERC Residential Appraisal Report), it may not be practical to identify by name other intended users who may not be known to the appraiser. However, USPAP allows that such intended users can be identified by type; this also is done in the current ERC Residential Appraisal Report.

The ERC Residential Appraisal Report indicates in its definition of intended use that, in addition to the client, another intended user of the appraisal is the employer: "The intended use of the appraisal is to assist an employer in facilitating the employee relocation process."

It should be noted that, while many corporate relocation policies call for the transferee to receive a copy of the appraisal, this does not mean that the transferee is an intended user. Receiving a copy of the report does not make a party an intended user.

It also should be noted that even though intended users of an appraisal must be identified in the report, obligations in the appraiser-client relationship regarding issues such as confidentiality still exist and do not necessarily extend to other intended users.

It appears that the ERC Residential Appraisal Report used for typical relocation assignments already identifies the client and other intended users as required by the new Statement on Appraisal Standards No. 9.

The statement indicates that the purpose of the new requirement is to ensure that the client and other intended users recognize their role in the appraisal assignment and that unintended users are not misled and are aware that they are neither the client nor the intended user of the report. The appraiser, therefore, should consider adding the following statement to the ERC Residential Appraisal Report to clarify this: "This report is intended for use only by (identify the client) and the homeowner's employer. Use of this report by others is not intended by the appraiser. This report is not intended for any other use than that identified in the 'Definitions and Guidelines.' The appraiser assumes no responsibility of liability for unauthorized use of this report."

If the ERC Residential Appraisal Report is to be used for any purposes other than employee relocation, this specific intended use must be identified, along with the "client" and other "intended users" for that particular appraisal assignment.

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