



# USPAP Q&A

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Vol. 10, No. 3

March 2008

*The Appraisal Standards Board (ASB) of The Appraisal Foundation develops, interprets, and amends the Uniform Standards of Professional Appraisal Practice (USPAP) on behalf of appraisers and users of appraisal services. The USPAP Q&A is a form of guidance issued by the ASB to respond to questions raised by appraisers, enforcement officials, users of appraisal services and the public to illustrate the applicability of USPAP in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems. The USPAP Q&A may not represent the only possible solution to the issues discussed nor may the advice provided be applied equally to seemingly similar situations. USPAP Q&A does not establish new standards or interpret existing standards. USPAP Q&A is not part of USPAP and is approved by the ASB without public exposure and comment.*

## **Does Appraising a Physical Segment Require Use of a Hypothetical Condition?**

### **Question:**

I received a request to perform an appraisal on an improved property; however, the client only wants me to provide an opinion of land value, giving no value to the improvements. Does such an assignment require the use of a hypothetical condition, since the improvements exist but are not being included in the value?

### **Response:**

No, such an assignment does not require the use of a hypothetical condition.

Standards Rule 1-2(e)(v) permits the appraisal of a physical segment of a property. In this example, the segment being appraised would be the land. Put simply, the land is the subject of the assignment and the improvements are not. To avoid communicating a misleading appraisal report, the report would have to acknowledge the *existence* of the improvements on the land, but they do not have to be included in the valuation.

USPAP defines a hypothetical condition as:

*that which is contrary to what exists but is supposed for the purpose of analysis.*

In this example, a hypothetical condition would not be required because the land does, in fact, exist. This is no different than the situation that commonly exists in appraisals

employing the cost approach. In arriving at an opinion of value by the cost approach, an appraiser often develops an opinion of the site value as if vacant, separate from an estimated value of the improvements.

This can be contrasted by an assignment that includes providing a current value of proposed improvements. Appraising the improvements as if currently completed is contrary to what exists, so a hypothetical condition would be required in that case.

### **Must a Hypothetical Condition or Extraordinary Assumption be Labeled?**

**Question:**

If I employ a hypothetical condition or an extraordinary assumption in an assignment, does USPAP require me to label it as such?

**Response:**

No, USPAP does not require use of the specific terms *hypothetical condition* or *extraordinary assumption*. USPAP requires that all hypothetical conditions and extraordinary assumptions be disclosed clearly and conspicuously, and it must be disclosed that their use might affect the assignment results.

### **Is a Letter of Transmittal Part of an Appraisal Report?**

**Question:**

I recently completed an appraisal report that included a letter of transmittal as part of my report. Some of the items required to comply with the reporting requirements of USPAP appear only in the letter of transmittal. My client states that a letter of transmittal is not part of the appraisal report, and these items must appear within the body of the report to comply with USPAP. Is my client correct?

**Response:**

No, the client is not correct. Although a letter of transmittal is not required by USPAP, there is nothing in USPAP that prohibits making a letter of transmittal part of the appraisal report.

It should be noted that USPAP does require an appraiser signing any part of an appraisal report, including a letter of transmittal, to also sign the certification.

*The USPAP Q&A is posted each month on The Appraisal Foundation website ([www.appraisalfoundation.org](http://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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