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Editor's Column: Appraisal Report 'Flavor' Options

Paul R. Hyde, EA, MCBA, BVAL, ASA, MAI

Business appraisers occasionally rely on another appraiser's work product as part of their appraisal assignment. It is important to understand what is included in various report options as there are a number of options available to clients needing an appraisal. The relevance of these various options depends entirely upon the purpose and use of the appraisal report. Under the relatively new "Scope of Work" rule outlined in the Uniform Standards of Professional Practice ("USPAP"), the client and the appraiser are able to "negotiate" the parameters of the assignment in order to meet the client's need (often designed to save money when possible). The charts below illustrate some of the common options for real estate appraisals, business appraisals, and equipment & personal property (including livestock) appraisals – as well as outlining their typical uses, and the degree of defensibility of the determined result:

Real Estate Appraisal Options

Appraisal Type	Report Type	Defensibility
Calculations	Letter Report	Used primarily to assist in arriving at an asking price for an anticipated sale. This type of assignment is not an appraisal as too many required steps are omitted. It involves a basic "crunch" of the historical numbers and the application of several appraisal methods to arrive at a likely range of values. A calculations report is not suitable for any kind of IRS or litigation use.
Single "Best" Method	Limited Summary Report	Used by a few lenders who want to save some money. In my opinion, the use of this type of report has contributed to the financial mess that many lenders are in. The use of a single "best" method, when other methods are applicable, results in a value conclusion without much support. This type of report is not suitable for any kind of IRS or litigation use.
Real Estate Appraisal	Restricted Use Report	Primarily for internal use by the property owner only. This type of report is allowed under USPAP for one party only. The parameters of the work to be done are agreed upon by the client and the appraiser. This type of report is not appropriate for any use where a second party is involved.
Real Estate Appraisal	"Limited" Summary Report	Used for a wide range of assignments. This type of report explains the appraisal process and how the conclusion was reached. Typically there is an agreement to limit the scope of the assignment in order to save some money, i.e. when valuing a chain of retail stores, it might be agreed that the appraiser will personally visit only three of the twelve stores. This type of report may not be suitable for litigation or IRS purposes. The limitation on scope reduces the level of confidence regarding the conclusion of value, but it may meet the needs of the client and save them some money.
Real Estate Appraisal	Summary Report	Used for a wide range of assignments and clients including for most lenders. This type of report explains the appraisal process and how the conclusion was reached. This type of report meets the needs of many appraisal users.

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Real Estate Appraisal	“Detailed” Summary Report or Self-Contained Report	Used primarily for either litigation or IRS purposes, though some lenders that desire a thorough job (rather than simply the bare minimum) request this level of report. This type of report is the most comprehensive available and basically everything needed to understand and explain the appraisal process is included in the report. We generally call this type of report a Summary Report rather than a Self-Contained Report when doing litigation assignments as some opposing attorneys have, in the past, focused on trying to find areas of the report that might not meet the threshold for a Self-Contained Report instead of focusing on the facts and determinations presented in the appraisal.
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Business Appraisal Options

Appraisal Type	Report Type	Use & Defensibility
Calculations	Letter Report	Used primarily to assist in arriving at an asking price for an anticipated sale. This type of assignment is not an appraisal as too many required steps are omitted. It involves a basic “crunch” of the historical numbers and the application of several appraisal methods to arrive at a likely range of values. A calculations report is not suitable for any kind of IRS or litigation use.
Calculations	Limited Summary Report	Used primarily for a lender intending to do an SBA guaranteed loan. This type of assignment is also not an appraisal as too many required steps are omitted. It involves a basic “crunch” of the historical numbers and the application of a number of appraisal methods to arrive at a likely value. A more detailed report than the letter report, it explains how the conclusion was derived. A calculations report is not suitable for any kind of IRS or litigation use.
Business Appraisal	Letter Report or “Restricted Use Report”	Primarily for internal use by the business owner only. This type of report is allowed under USPAP for one party only. The parameters of the work to be done are agreed upon by the client and the appraiser. This type of report is not appropriate for any use where a second party is involved.
Business Appraisal	“Limited” Summary Report	Used for a wide range of assignments. This type of report explains the appraisal process and how the conclusion was reached. Typically there is an agreement to limit the scope of the assignment in order to save some money, i.e. when valuing a chain of retail stores, it might be agreed that the appraiser will personally visit only three of the twelve stores. This type of report may not be suitable for litigation or IRS purposes. The limitation on scope reduces the level of confidence regarding the conclusion of value, but it may meet the needs of the client and save them some money.
Business Appraisal	“Comprehensive” Summary Report	Used primarily for litigation assignments and for Estate and Gift appraisal needs. This type of report explains the appraisal process thoroughly and completely.

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Equipment & Personal Property Appraisal Options

Appraisal Type	Report Type	Defensibility
Personal Property Appraisal	Restricted Use Report	Primarily for internal use by the property owner only. This type of report is allowed under USPAP for one party only. The parameters of work to be done are agreed upon by the client and the appraiser. This type of report is not appropriate for any use where a second party is involved.
Personal Property Appraisal	"Limited" Summary Report	Used for a wide range of assignments. This type of report explains the appraisal process and how the conclusion was reached. Typically there is an agreement to limit the scope of the assignment in order to save some money. This type of report may not be suitable for litigation or IRS purposes. The limitation on scope reduces the level of confidence regarding the conclusion of value, but it may meet the needs of the client and save them some money.
Personal Property Appraisal	Summary Report	Used for a wide range of assignments including for most lenders. This type of report explains the appraisal process and how the conclusion was reached. This type of report meets the need for many appraisal users.
Personal Property Appraisal	"Detailed" Summary Report or Self-Contained Report	Used primarily for litigation and IRS purposes. This type of report is the most comprehensive available and everything needed to understand and explain the appraisal process is included in the report. We generally call this type of report a Summary Report rather than a Self-Contained Report when doing litigation assignments as some opposing attorneys have, in the past, focused on trying to find areas of the report that might not meet the threshold for a Self-Contained Report instead of focusing on the facts and determinations presented in the appraisal.

Hopefully, these descriptions will be useful in assisting clients to determine what type of appraisal report is needed, especially when you, the business appraiser, may need to rely on information derived from another's work. It should be noted that some appraisers may have a different definition of some of the report options. It is recommended that the scope of work to be included in any appraisal assignment be carefully defined and agreed to by all parties.

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