

# Highest and Best Use Summary

## Where is your highest and best use summary?

The number one omission by appraisers cited by the state regulatory agencies is the failure of the residential appraiser to summarize their highest and best use analysis and they attribute it to a failure in the forms typically used for the mortgage lending community.

Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?  Yes  No If No, describe

The form states in a contradictory fashion “If No, describe”. Most appraisers stop right here.

Here is an example of a disciplinary action taken against an appraiser in Missouri where the appraiser “simply checked the box”.

Standards Rule 1-3 states that “when necessary for credible assignment results in developing a market value opinion, an appraiser must develop an opinion of the highest and best use of the real estate.” and that **STANDARDS RULE 2-2** (a)(x) states “when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion.”



**SETTLEMENT AGREEMENT BETWEEN MISSOURI REAL ESTATE APPRAISERS COMMISSION AND [REDACTED]**

e. Failure to analyze, and failure to report his analysis of the relevant legal, physical, and economic characteristics that lead to his conclusion that the present use is the highest and best use of the subject property, where he simply checked the box that says the present use is the highest and best use.

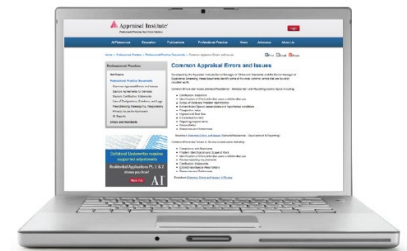
### STANDARDS RULE 2-2

Each written real property appraisal report must be prepared under one of the following options and prominently state which option is used: Appraisal Report or Restricted Appraisal Report.<sup>28</sup>

- (x) when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion;

Failure to summarize the highest and best use analysis is also high on the hit parade for FNMA, FHLMC, and HUD; but it is nothing new.

The Appraisal Institute, for years, has published a document called “Common Errors and Issues”. In 2013, they drew attention to this matter by stating “Another common misconception is that it is only necessary to check the box on a form report if the highest and best use is “as improved.” Highest and best use in a form report still requires some detail even when the existing improvements represent the highest and best use. You may provide a brief statement, but to meet the requirements of USPAP... you must provide more than a checked box.”



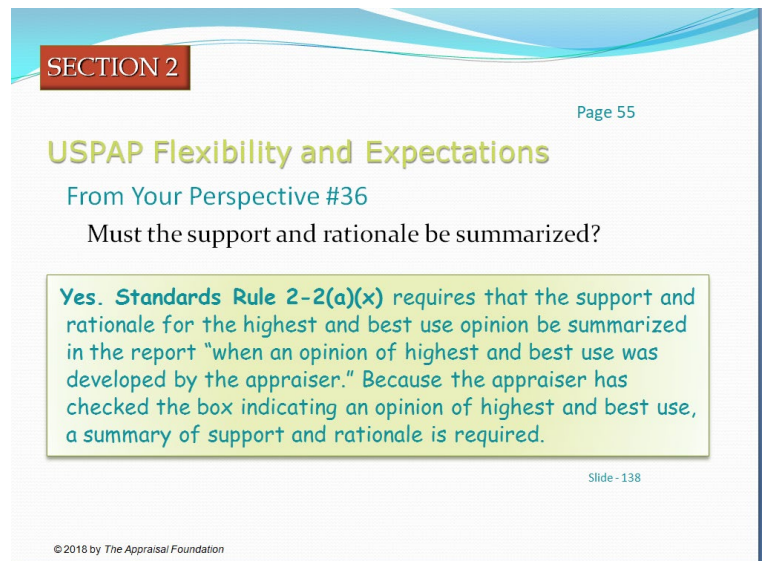
To read more about “Common Errors and Issues” visit [www.appraisalinstitute.org](http://www.appraisalinstitute.org)



In July 2014, Appraisal Today published an article called “Residential Highest and Best Use Analysis: More than Just a ‘Check Box’” from Denis Desaix, SRA. Later in the same year, Working RE published a similar article from Philip G. Spool, ASA where he comments that “Most residential appraisers use the Fannie Mae form and are content with checking the box “yes” indicating that the highest and best use of the subject as improved is its present use. But the appraiser who does not think beyond checking that box “yes,” is doing a disservice to their client by not understanding what highest and best use is all about.”

Advisory Opinion 11 (AO-11) offers additional guidance for an appraiser and again emphasizes the fact the “under 2-2(a)(x) an Appraisal Report must summarize the support and rationale for the highest and best use opinion when such opinion was developed by the appraiser.”

The Appraisal Foundation is bringing additional attention to the requirement. In the USPAP 2018-2019 7-hour update there is an exercise included in the Student Handbook on page 55: “An appraiser determined that a highest and best use analysis is not necessary for credible assignment results in a particular assignment. However, the assignment called for the appraisal to be reported on a preprinted Appraisal Report form with a required checkbox response regarding the highest and best use. Since the opinion was not necessary for credible results, must the report summarize the rationale for the state highest and best use opinion?”

A presentation slide titled "SECTION 2" and "USPAP Flexibility and Expectations" with the subtitle "From Your Perspective #36". The main question is "Must the support and rationale be summarized?". A highlighted box contains the answer: "Yes. Standards Rule 2-2(a)(x) requires that the support and rationale for the highest and best use opinion be summarized in the report 'when an opinion of highest and best use was developed by the appraiser.' Because the appraiser has checked the box indicating an opinion of highest and best use, a summary of support and rationale is required." The slide is labeled "Page 55" and "Slide - 138" and includes a copyright notice "© 2018 by The Appraisal Foundation".

SECTION 2

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### USPAP Flexibility and Expectations

From Your Perspective #36

Must the support and rationale be summarized?

**Yes.** Standards Rule 2-2(a)(x) requires that the support and rationale for the highest and best use opinion be summarized in the report “when an opinion of highest and best use was developed by the appraiser.” Because the appraiser has checked the box indicating an opinion of highest and best use, a summary of support and rationale is required.

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For a residential tract home this should be quite easy and not intensive at all, but appraisers still overlook the requirement. For other properties, it may help the user of the report understand the property better, its use, and its compliance with zoning.

It is imperative that appraisers incorporate HBU summaries into their normal report writing processes. Keep in mind that the requirement is not for dissertation, rather, a brief statement in a paragraph within the addenda of the report will suffice. Take care to present a statement that discusses the physical possibilities of the subject based upon design and intent, the legal permissibility as dictated by local zoning as well as other housing guidelines and restrictions for which the property is affected by, and the feasibility associated with the construction or modification of the property in a use that provides maximum productive value return.

Including the summary is not only a requirement, but in the best interest of the appraiser in presenting a more thorough report for the benefit of the reader and will also keep them out of the regulatory hot seat.