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# Clarifying Terminology: Purpose, Intended Use, and Definition of Value

By Jack Young, ASA, ARM

**Abstract:** This article clarifies the distinctions between the terms purpose, intended use, and definition of value in the context of appraisal practice, addressing common confusions and providing insights from industry expert Barry Shea, ASA. It delves into the historical evolution of these terms from pre-USPAP practices to their current interpretations within the Uniform Standards of Professional Appraisal Practice (USPAP) and the International Valuation Standards (IVS). The article emphasizes the importance of using standardized terminology to ensure clarity and consistency in appraisal reports and reviews.



## Appraisal Terminology Confusion

Appraisal practitioners tend to combine the *purpose* of an appraisal with the *intended use*, and *definition of value*. Barry Shea, ASA, a seasoned Real Property appraiser and former Chair of the Appraisal Standards Board, explains that back in the pre-USPAP olden days, appraisers routinely identified and reported the *purpose and function* in an appraisal or appraisal review assignment.

Because in plain English those two terms were similar and could be confusing, USPAP made some refinements in successive editions.

### Function

*Function* became *intended use*. Its official definition, still applicable today, applies to the use intended by the user of an appraisal or an appraisal review.

The intended use of an appraisal is the client's rationale for ordering the appraisal, answering the fundamental question of "Why do you need an appraisal?" Intended use determines the appropriate type and definition of value in appraisal assignments or the purpose of review in appraisal review assignments.

### Purpose

*Purpose* was replaced by the phrase *type and definition of value* and used for appraisal assignments. Since the purpose of an appraisal is always an opinion of value, substituting type and definition of value for *purpose* was fairly simple. However, because no official definition of *purpose* was provided, confusion with *intended use* continued. The 2005 USPAP edition addressed this problem with wide-ranging edits:

*Edits were made throughout the document regarding the term purpose, due to its varied intended meanings. The edits result in more accurate language, including use of the terms type and definition of value, intended use, and problem to be solved.*

One basis for on-going confusion could be attributed to IVS, which defines *purpose* in section 20.19, and that definition seems synonymous with USPAP's *intended use*:

*The word purpose refers to the reason(s) a valuation is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions.*

Some appraisers seem to think it is a violation of USPAP to use the term *purpose* in relation to an appraisal assignment, but USPAP does not require appraisers to use specific terminology, so if a report states,

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“The purpose of the appraisal is to develop an opinion of fair market value” and goes on to include the definition and cites the source of the definition, that aligns with USPAP requirements.

### *Purpose and Appraisal Review*

Another opportunity for confusion is that the *purpose* of an appraisal review assignment is an opinion of the quality of another appraiser’s work, with or without a review opinion of value.

The Comment to Standards Rule 3-2(c) states, in part:

*The purpose of an appraisal review assignment relates to the reviewer’s objective; examples include, without limitation, to determine if the results of the work under review are credible for the intended user’s intended use, or to evaluate compliance with relevant USPAP requirements, client requirements, or applicable regulations.*

## Conclusion

Understanding the distinctions among intended use, purpose, and definition of value—and using the terms consistently is important in appraisal practice.

All professions—including medicine, architecture, law, and accounting— have a vocabulary of precise, specialized meanings. These terms enable the professionals to have efficient discussions with practitioners and clients. Using these terms of art (jargon) in the relevant context matters a lot. Imagine an operating room where the medical staff used different names for the various surgical tools (scalpel vs clamp), an architect marking building plans with their personal terminology for various building materials, or an accountant interchanging the terms depreciation and amortization.

It’s not surprising then that many appraisal professionals, including Barry Shea, former Chair of the Appraisal Standards Board, advocate for the adoption of standardized terminology, reserving the term purpose for USPAP reviews and IVS reports. Using consistent, specific language is what enables professionals to deliver consistent and meaningful results that are comparable and usable.

### **About the Author**

Jack Young, ASA, ARM, is owner and senior appraiser at NorCal Valuation in northern California. He has served as Chapter President of the Northern California Chapter of the American Society of Appraisers and as Chair of the International Appraisal Review & Management (ARM) subcommittee of the American Society of Appraisers (ASA). He currently serves the ASA on the Board of Governors as the ARM representative.