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## **REAL ESTATE APPRAISAL TERMINOLOGIES**

The following are terms used by appraisers as defined in the Philippine Valuation Standards.

### ***Adjusted Book Value-***

The book value that results when one or more asset or liability amounts are added, deleted, or changed from the reported book amount.

### ***Administrative (Compliance) Review-***

A valuation review performed for the purpose of exercising due diligence for decision making such as for purchase or selling of property.

### ***Ad Valorem Property Taxation-***

A revenue raising procedure, based on the assessed value of property related to a scale of charges as defined by statute within specified time frame.

### ***Agricultural Activity-***

Management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into agricultural biological assets.

### ***Appraiser/Professional Property Valuer-***

A person who possesses necessary qualifications, ability, and experience to estimate property value for diversity of purposes (see: valuer, internal/external value, independent valuer)

### ***Annuity-***

A series of payment made or received at regular intervals of equal/even amounts.

### ***Arm's-Length Transaction-***

A transaction between parties who do not have a particular or special relationship (ex. Parent and subsidiary companies or landlord and tenant) that may make the price level uncharacteristic of the market or inflated because of an element of special value. The market value transaction is presumed to be between unrelated parties, each acting independently.

### ***Assessed, Rateable, or Taxable Value-***

A value which is based upon definitions contained within applicable laws relating to the assessment, rating, and/or taxation of property. Although some jurisdiction may cite

market value as the assessment basis, required valuation methodology may produce results, which differ from market value as defined.

***Asset-***

A resource owned or controlled by an entity as a result of past events and from which some future economic benefits can be expected to flow to the entity. The asset can be tangible or intangible.

***Asset-Based Approach-***

A means of estimating value of a business and/or equity interest using methods based on the market value of individual business assets and liabilities.

***Assumptions-***

Suppositions taken to be true. Assumptions may involve facts, conditions, or situations affecting the subject of, or approach to, a valuation but may not be capable or worthy of verification. All assumptions underlying a valuation should be reasonable.

***Auction Price-***

The price that is the final accepted bid at a public auction.

***Basis of Value-***

A statement of the fundamental measurement principles of a valuation on a specified date.

***Biological Asset-***

A living animal or plant.

***Book Value-***

With respect to asset, the capitalized cost of an asset less accumulated depreciation, depletion or amortization as it appears on the book of accounts of the business. (synonymous with net book value, net worth and shareholder's equity –Total assets less total liabilities).

***Business Entity-***

A commercial, industrial, service, or investment firm pursuing an economic activity, generally, a profit-making entity (can be a sole proprietorship, partnership or corporation).

***Business Valuation-***

The act of process of arriving at an opinion or estimation of the value of a business or entity or an interest therein.

***Calibration-***

The process of analyzing sets of property and market data to determine the specific parameters operating upon a model.

***Capitalization-***

A method of arriving at the value of a property by reference to net returns and an expected percentage yield or return. Or refers to the conversion of a stream of income into capital value using certain conversion factor (capitalization rate or income/rent multiplier).

May also refer to the capital structure of a business entity or recognition of an expenditure as a capital asset rather than a periodic expense.

***Capitalization Factor-***

Any multiple or divisor used to convert income into capital value. (capitalization rate, income/rent multiplier and/or valuation ratio).

***Capitalization Rate-***

Any divisor (usually expressed in percentage) that is used to convert income into capital value. (sometimes refers to "all risks yield").

***Capital Structure-***

Composition of invested capital or sources of invested capital (bonds and stocks).

***Carrying Amount-***

The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses thereon.

***Cash Generating Assets-***

Assets held to generate a commercial/economic return.

***Cash Flow-***

May refer to cash inflow (receipt) or cash outflow (disbursement) from operating, investing and/or financing activities.

***Cash Generating Asset-***

The smallest identifiable group of assets that generates cash inflows and generally independent of the cash inflows from other assets or group of assets.

***Certification of Value-***

The statement of a valuation in a prescribed format to meet statutory or regulatory requirements. (see: compliance statement, valuation report).

***Collectibles-***

Generally refer to fine arts, antiques, gems and jewelry, books, etc, due to their rarity, novelty or uniqueness.

***Comparable Data-***

Data generally used in valuation analysis to develop value estimates which are taken from comparable properties and which have similar characteristics to the property under appraisal (include sale prices, rents, income, expenses, size, location and other market-derived capitalization, yield, and/or discount rates.

***Compliance Statement-***

An affirmative statement attesting to the fact that the Valuer has followed the ethical and professional requirements of the IVSC's Code of Conduct in performing his assignment.

***Component Value-***

The value of those components, created by the separation of property interests.

***Condemnation-***

The act or process of enforcing the right of eminent domain.

***Contract Rent-***

The rent specified by a given lease arrangement/contract.

***Control-***

The power to direct the management and policies of a business.

***Cost-***

May refer to the price paid for the goods or services; the amount required to create or produce the goods or services (production costs).

***Cost Approach-***

One of the basic approaches to value, which establishes the value of the property by estimating its reproduction/replacement cost-new less accrued depreciation and adding the value of the land (using market approach).

***Cost Approach for Valuing Fine Arts-***

A comparative approach to the value of fine arts; such as "New for Old" or "Indemnity Basis".

*New for Old-* refers to the cost of purchasing a item similar in nature and condition of a fine art item no longer available in the market, in the retail market for new works of fine art.

*Indemnity Basis-*refers to the cost of replacing an item with similar item with similar condition in the second-hand retail market for art and antiques.

***Cultural Heritage-***

May refer to monumental sculpture and painting, architectural works, elements or structure of an architectural nature, inscriptions, which are of outstanding universal value from point of view of history, art or science.

***Cultural Property-***

Property inscribed in the World Heritage List after having met at least one of the cultural heritage criteria and the test of authenticity.

***Current Assets-***

Assets that are expected to be used and consumed within the normal operating period, generally, one year. (include cash, cash equivalents, receivables, inventories and prepayments).

***Debenture-***

Is an evidence of a debt (unsecured bonds payable)

***Deed of Restrictions and Restrictive Covenants-***

Lawful limitations which may affect the use, development, and conveyance of ownership, generally, of the land asset.

***Depreciable Amount-***

The cost of a fixed and tangible asset less its residual/reversion/salvage value, which depreciates over its useful/economic life.

***Depreciated Replacement/Reproduction Cost-New-***

An application of the cost approach used in estimating the value of fixed and tangible assets where the reproduction/replacement cost-new is estimated less accrued depreciation (physical, functional and economic obsolescence).

***Depreciation-***

The systematic allocation of the depreciable amount of an asset over its useful life.

***Desk Review-***

A valuation review that is limited to the data presented in the report, which may or may not be independently confirmed. Generally, performed using a checklist of items. (as differentiated from field review which requires the actual inspection of the subject property and its comparable properties to confirm the data provided in the report). The review covers the accuracy of the calculations, reasonableness of data, methodology used, and compliance with client guidelines, regulatory requirements, and professional standards.

***Discount Rate-***

An interest rate or rate of return used to convert a future value into present value.

***Discounted Cash Flow Analysis-***

A financial modelling technique used in Income Approach where cash flows are projected then an appropriate discount rate is applied to calculate their present value.

***Easement-***

Nonpossessory (incorporeal) interest in landed property conveying use, but not ownership, of a portion of that property. (such as Right of Way where rights or privileges, acquired to pass over a portion or strip of landed property owned by another).

***Economic Life-***

The period over which an asset is expected to be economically usable by one or more users.

***Economic Obsolescence/External Obsolescence-***

A loss in value due to factors outside the subject asset. (sometimes called environmental, or locational obsolescence). Example: An industrial plant near a residential area (and considered "incurable" as the expense to cure the problem is impractical)

***External Valuer-***

A Valuer who does not have a material links with the client or the subject of the assignment.

***Extractive Industries-***

Those industries involved in the finding, extracting and associated with processing of natural resources located on, or near the earth's crust. (ex. Are minerals industry and petroleum industry, or those engaged in extracting geothermal fluid for its energy content, but does not include industry that extract water from the earth.

***Fair Value-***

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.

***Fair Value Model/Revaluation Model-***

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at revalued amount, being its fair value at the date of the revaluation less any accrued depreciation and/or accumulated impairment loss.

***Fee Simple-***

Absolute ownership of a property subject only to limitations imposed by the state (police power, eminent domain, escheat, and taxation). Also referred to as "freehold".

***Finance/Financial lease-***

A lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title to the subject leased property may or may not be transferred. (vs. Operating lease).

***Financial Instruments- (promissory notes, stocks, options, bonds)***

Any contract that gives rise to financial asset of one entity and financial liability or equity instrument of another entity.

***Financial Interest-***

Interest created by mortgage, pledge, where property is used as collateral to secure a loan taken over the property.

***Financial Modelling-***

The projection of a business' or property's periodic income or cash flow pattern from which measures of financial return can be calculated.

***Financial Statements-***

A complete set of financial reports that comprises: the balance sheet, income statement and cash flow statement and notes indicating significant accounting policies and other explanatory notes.

***Fixed or long-term Assets/ (Non-Current Assets)-***

Tangible and intangible assets which include land, property, plant and equipment, and other non-current asset (long-term investments and intangibles).

***Fixtures and fittings-***

The totality of improvements integral to a property, valued collectively.

***Forced Sale-***

A circumstance where a seller is under compulsion to sell and/or a proper marketing period is not available. The price obtained under this situation is not the Market Value.

***Forestry/Timberland-***

Agricultural property used for the growing of non-orchard trees that are periodically harvested over extended growing periods (10-20 or more years). This property produces a crop, i.e. woods

***Fractional Interest/Partial Interest-***

Rights in real estate created by legal divisions of the ownership interest. Ex. Contract of lease, or portion of the property is contributed to a partnership, corporation or any joint ventures.

***Functional Obsolescence-***

A loss in value within the structure due to changes in tastes, preferences, technical innovations, or market standards. Functional obsolescence may be curable or incurable.

***GAVP-***

Generally Accepted Valuation Principles; best practices in the valuation profession.

***Going Concern-***

The entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations. An operating business.

***Goods and Chattels Personal-***

Used for identifiable, portable, and tangible objects considered by the general public to be personal property.

***Goodwill-***

An intangible but marketable asset based on the probability that the customers will continue to patronize the same business under a particular name or trade name with the prospect of earning profits in excess of normal profits.

***Government Business Enterprise (GBE)-***

An entity that has all the power to carry on a financial and operational activities and controlled by a public service entity.

***Ground Lease-***

Generally a long-term lease of land with the lessee permitted to improve or build on the land and to enjoy the benefits for the term of the lease.

***Hazardous Substance-***

In the context of valuation, any material within, around or near the subject property that would create a negative impact on the property's market value.

***Highest and Best Use (HBU)-***

The most probable use of the property which is physically possible, legally permissible, financially feasible and maximally productive and which results to the highest value of the subject property.

***Historical Cost Principle-***

The traditional accounting principle that states that asset are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition.

***Historic Property-***

Real property publicly recognized or officially designated by a government-chartered body as having cultural or historic importance because of its association with historic event or period or with the nation's heritage.

***Holding Company-***

An entity that maintains "effective control" of other companies which may or may not have a controlling interest on the latter.

***Impairment (loss)-***

A loss in the future economic benefits, or service potential of an asset, over and above the systematic recognition of the loss of an asset through depreciation.

***Improvements-***

Buildings, structures, or some modifications to land, of a permanent nature intended to enhance the value or utility of the property.

***Income Capitalization Approach-***

One of the basic approaches to value where income (net returns) is converted to value through the application of techniques of capitalization process.

***Income Multiplier-***

The ratio between the sale price or value of a property and the average annual income or income expectancy (can be based on gross or net income) and applied to income to arrive at capital value.

***Intangible Assets-***

Assets that do not have physical substance but manifest themselves by their economic value. Example-goodwill, copyrights, patents, franchise, trademarks and other forms of intellectual properties.

***Intangible property-***

Rights and privileges granted to owners of intangible assets.

***Internal Rate of Return (IRR)-***

The discount rate that equates the present value of cash inflows and the present value of capital investments and which results to zero net present value (NPV). The IRR is compared with the firm's cost of capital. The IRR must be equal or greater than the cost of capital to make the project acceptable, otherwise, the project is rejected.

***Intrinsic Value-***

The amount considered on the basis of the evaluation of available facts to be the "true" and "real" worth of the item.

***Invested Capital-***

The sum of the debt and equity in a business on a long-term basis.

***Investment Analysis-***

A study undertaken for the purpose of development and investment, the evaluation of investment performance, or the analysis of a transaction involving investment properties.



***Investment Asset-***

An asset owned by the corporation and considered extraneous to the operational requirement of the corporate owners.

Example: Land and building owned by the corporation but not used in the production of goods or services, or for administrative purposes. The assets are used to earn a rental income.

***Investment Property-***

In real estate, property (land and/or building) held to earn income and/or capital appreciation, rather than use for production purposes and/or administrative purposes.

***Investment Value/Worth-***

The value of the property to an investor, or a class of investors which may be higher or lower than market value.

***Joint Venture-***

A business alliance of two or more parties to undertake a specific project. When the project is completed, the joint venture self-destructs itself.

***Land-***

The earth's surface, the space beneath which extends to the center of the earth, and the space above which extend to the sky.

***Lease-***

An agreement or contract, whereby the owner/lessor of property transfer to the lessee/tenant the right of possession of the subject property, subject to payment of specific consideration (rent) and other terms and conditions as contained in the lease contract.

***Leased-Fee Interest/Leased-Fee Estate-***

Refers to the rights of the owner/lessor to receive contract rent, repossess the subject property upon termination of the lease, and any adjustments in the improvement as contained in the lease agreement.

***Leasehold Interest/Leasehold estate-***

Refers to the right of the lessee/tenant to use and occupy the property subject to terms and conditions of the lease contract.

***Legal Life-***

The life of the intangible asset allowed by law.

***Lessee-***

A person to whom property is rented under lease. Commonly called a tenant.

***Lessor-***

One who own the property and whose rights to use an asset, which is transferred to another (lessee) under the lease contract. Commonly referred to as landlord.

***Limiting Conditions-***

Constraints which are imposed on valuation by the client, the Valuer, or statutory law.

***Liquidation Value-***

The value of assets estimated with regard to specific circumstances under which the assets are sold, generally, following the closure of the business.

***Listing of Heritage Buildings or Historic Properties Register-***

A recording of officially designated historic properties.

***Livestock Ranches/Stations-***

Agricultural properties used to raise and fee animals such as, cattle, sheep, horse, etc, or combinations thereof.

***Loan Security-***

An asset nominated to be available as security to the lender following the default by the borrower.

***Machinery & Equipment-***

Tangible assets, other than realty, (plant, machinery, equipment) owned and held by the entity to be used in production of goods and/or services, for rental or for administrative purposes; are expected to be used over a period of time.

***Majority Control-***

The degree of control provided by a majority position.

***Majority Interest-***

Ownership position greater than 50% of the voting interest in a business.

***Market Rent-***

The estimated amount for which a property or space within a property, should lease on the date of valuation between a willing lessor and willing lessee on appropriate terms in an arm's-length transaction , after proper marketing, and parties acted prudently, knowledgeably and without compulsion.

***Market Value-***

An estimated amount for which a property should exchange on the date of valuation between a willing seller and willing buyer in an arm's-length transaction, after proper marketing, where parties acted prudently, knowledgeably without compulsion.

***Marketability Discount-***

An amount or percentage deducted from the equity interest to reflect lack of marketability.

***Marriage Value /Synergistic Value-***

An additional element of value created by the combination of two or more interests where the value of the combined interests (whole) is worth more than the sum of the original interests.

***Master Lease/Headlease-***

A lease to a single entity that is intended to be the holder of subsequent leases to sublessees.

***Mass Appraisal-***

The practice of appraising multiple properties as of a given date by a systematic and uniform application of appraisal methods and techniques.

***Mineral-***

Any naturally occurring material having value and found in or on the earth's crust. (includes metallic minerals, industrial minerals, precious stones, fuel minerals, etc., but does not include petroleum.

***Mineral Reserve-***

The economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined.

***Mineral Resource-***

A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust (a deposit) in such form and quantity that there are reasonable prospects for eventual economic extraction. (the location, quality, grade, geological characteristics and continuity of mineral resource are known.

***Mineral Industry-***

Entities involved in the exploration of minerals and the mining, processing and marketing of minerals.

***Minority Discount-***

A discount for lack of control applicable to a minority interest.

***Minority Interest-***

Ownership position of less than 50% of the voting interest in a business.

***Modern Equivalent Asset (MEA)-***

An asset which has a similar function and equivalent productive capacity to the asset being valued, but at current design and constructed or made using current materials and technique.

***Mortgage-***

A pledge of an interest in property as security or collateral for repayment of a loan with provision for redemption on repayment. In case of borrower's default, the lender can foreclose the collateral.

***Mortgage Lending Value (MLV)-***

The value of the property as determined by a prudent assessment of the future marketability of the property taking into account the long-term sustainable prospect of the property.

***Net Present Value (NPV)-***

The measure of the difference between the discounted revenues, or inflows, and the discounted costs, of outflows, (or cost of investments).

***Net Realizable Value-***

The estimated selling price of an asset in the ordinary course of business, less the estimated cost of completion and selling.

***Obsolescence-***

A loss in value due to a decrease in the usefulness of the property caused by decay, change in technology, people's behavioural pattern and taste/preference, or environmental changes. (functional and economic obsolescence).

***Operating Company-***

A business that performs an economic activity by making, selling, or trading a product or service.

***Operating Lease-***

A lease other than finance/financial lease.

***Operational Asset-***

An asset considered requisite to the operation of an on-going concern entity.

***Optimization-***

The process by which the least cost replacement option is determined for the remaining service potential of an asset. Optimization minimizes, rather than maximizes, a resulting valuation where alternative lower cost replacement options are available.

***Option-***

An agreement to keep open an offer to buy, sell or lease real property for a specified period of time at a stated price.

***Oral Report-***

The result of valuation is verbally communicated to a client or presented before a court either as expert testimony or by means of deposition.

***Owner-Occupied Property-***

Property held by the owner or by the lessee (finance lease), for use in the production of goods/service or for administrative purposes.

***Partial or Fractional Interest***

Rights in real estate created by legal divisions of the ownership interest (example lease interests).

***Partnership-***

An ownership interest in which two or more persons jointly own a business or property, and share its profits and losses.

***Personal Property-***

Rights and privileges related to the ownership of a property other than realty.

***Petroleum-***

Any naturally occurring hydrocarbon, whether in gas, liquid or solid form. Raw petroleum are primarily crude oil and natural gas.

***Petroleum Industry-***

Entities involved in exploration, processing, and marketing petroleum.

***Price-***

An amount asked, offered, or paid for a good or service.

***Principle of substitution-***

This principle is fundamental to the 3 approaches to value-states that " a prudent person will not pay more for a good or service than the cost of acquiring an equally satisfactory substitute good or service ".

***Professional Property Valuer-***

A person who possesses necessary qualification, ability, and experience to estimate property value for a diversity of purposes.

***Property-***

A legal concept, pertaining to all the interests, rights, and benefits related to ownership of a real estate.

***Property Rights-***

Refer to bundle of rights, subject only to the private and state limitations.

***Public Building-***

Building held in public ownership.

***Public Utility-***

A property that produces goods or services for general public consumption.

***Rate of Return-***

Amount of income or loss, expressed in percentage of the invested capital.

***Real Estate-***

Land and all things that are a natural part of the land including all permanent building attachments.

***Real Property-***

All the rights, interests and privileges related to ownership of real estate.

***Realty –***

A term used to distinguish either real property or real estate from items of personal property.

***Rent Escalations or Stepped Rents-***

Upward rental adjustments as specified in the lease contract.

***Replacement Cost-New-***

A replacement cost estimate of constructing a substitute of equal utility of the subject property.

***Reproduction Cost-***

New-A cost to create a duplicate or replica of the subject property.

***Report Date-***

The date of valuation report (different from valuation date/inspection date)

***Residual Value- \*\****

The amount that an entity can obtain from disposal of the asset less disposal cost at the end of the useful/economic life of the asset.

***\*\*Salvage Value/Reversion Value***

***Sales Comparison Approach (Market Data)***

A comparative approach to value where value estimate of the subject is established from market data of comparable properties.

***Special-Purpose Property-***

Property that is not normally sold or bought in the market.

***Special Value-***

An amount above market value due to special attributes of the asset that are only of value to the special purchaser.

***Valuation Report-***

A document that records the instructions of the assignment, the basis and purpose of valuation, the result of analysis that led to the opinion of value. Reports can be oral or written (letter form, form report or narrative form)

***Valuation Review-***

A valuation assignment that covers a range of types and purposes where the Valuer exercises impartial judgment in considering the work of another Valuer.

***Value-***

The price most likely to be concluded by the buyers and sellers of a good or service that is available for purchase.

***Value in Exchange-***

The value as recognized by the market in which exchange of asset ownership takes place.

***Value in Use (per IFRS)-***

The present value of future cash flows expected to be derived from the continuing use of the asset and from its disposal at the end of its useful life.

***Wasting Asset-***

Examples include leasehold which is terminated over time.