

Glossary of Terms

(Excerpts from *The Dictionary of Real Estate Appraisal*, 3rd Edition, Appraisal Institute, 1993)

To find a specific word, hold down **Ctrl + F** to bring up the Find menu, then simply type the word you are looking for and hit Enter until word is found.

A

Abatement: An official reduction or invalidation of an assessed valuation after the initial assessment for ad valorem taxation has been completed.

Acre: A land measure equal to 43,560 square feet.

Ad valorem tax: A real estate tax based on the assessed value of the property, which is not necessarily equivalent to its market value.

Amenity: A tangible or intangible benefit of real property that enhances its attractiveness or increases the satisfaction of the user but is not essential to its use. Natural amenities may include a pleasant location near water or a scenic view of the surrounding area; man-made amenities include swimming pools, tennis courts, community buildings, and other recreational facilities.

Appraisal: 1. An analysis, opinion, or conclusion relating to the nature, quality, value, or utility of specified interests in, or aspects of, identified real estate; 2. The act or process of estimating value; an estimate of value.

Approaches to Value: Systematic procedures used to derive value indications in real property appraisal. (See also: cost approach, income capitalization approach, sales comparison approach.)

Arbitration: A process in which one or more individuals are selected by opposing parties to settle a dispute outside of court. The decision of an arbitrator is generally binding.

Arm's-length Transaction: A transaction between unrelated parties under no duress.

Assess: 1. To estimate property value as a basis for taxation; 2. To fix or determine, e.g., by a court or commission, the compensation due a property owner for the taking of real property.

Assessed Value: The value of a property according to the tax rolls in ad valorem taxation. May be higher or lower than market value, or based on an assessment ratio that is a percentage of market value.

Assessment: 1. The official valuation of property for ad valorem taxation; 2. A single charge levied against a parcel of real estate to defray the cost of a public improvement that presumably will benefit only the properties it serves, e.g., assessment for the installation of sidewalks, curbs, or sewer and water lines; 3. An official determination of the amount to be paid by or to the owners of real estate to defray the cost of a public improvement that is presumed to benefit the properties it serves in an amount at least equal to the cost of the improvement, e.g., assessment of benefits and damages for public sewer or water lines.

Assessment Period: The period during which all property in the assessment district must be reassessed; also called "assessment cycle" or "assessment frequency."

Assessment Ratio: The relationship between assessed value and market value.

Assessment Roll: A public record that shows how the property tax levy is allocated among the property owners in a jurisdiction with taxing powers; usually identifies each taxable parcel in the jurisdiction, the name of the owner of record, the address of the parcel or the owner, the assessed value of the land, the assessed value of the improvement(s), applicable exemption codes if any, and the total assessed value.

Assessment/Sales Ratio: The number derived by dividing the assessed value by the selling price; used as a measure of the relationship between a property assessment and market value.

Assessor: 1. The head of an assessment jurisdiction. Assessors may be either elected or appointed. The term is sometimes used collectively to refer to all administrators of the assessment function. (IAAO); 2. One who discovers, lists, and values real property for ad valorem taxation.

Assumptions and Limiting Conditions: For appraisal or analysis purposes, a list of assumptions and limitations on which an appraisal or analysis is based.

B

Bargain and Sale Deed: A deed that conveys real property from a seller to a buyer but does not guarantee clear title; used by court officials and fiduciaries to convey property they hold by force of law, but to which they do not hold title. (See also: Deed, Grant Deed, Quitclaim Deed, Warranty Deed.)

Board of Equalization: A nonjudicial board that reviews assessments to see that all districts are assessed at a uniform level of value; authorized to raise or lower the assessments to achieve a uniform basis of taxation.

Breakdown Method: A method of estimating accrued depreciation in which the total loss in the value of a property is estimated by analyzing and measuring each cause of depreciation (physical, functional, and external) separately.

Bundle of Rights Theory: The concept that compares property ownership to a bundle of sticks with each stick representing a distinct and separate right of the property owner, e.g., the right to use real estate, to sell it, to lease it, to give it away, or to choose to exercise all or none of these rights.

C

Certificate of Title: A document, usually given to a home buyer with the deed, which states that the title to the property is believed to be clear; usually prepared by an attorney or another qualified person who has examined the abstract of title for the property.

Class of Construction: The classification of buildings according to the fire-resistance of the materials from which they are constructed, e.g., structural steel framing (Class A), reinforced concrete framing (Class B), masonry walls (Class C), wood or light steel framing (Class D).

Comparables: A shortened term for similar property sales, rentals, or operating expenses used for comparison in the valuation process; also called "comps".

Complex: In real estate, a group of buildings, site improvements, and support facilities are designed to carry out related activities in a single location; e.g., apartment complex, office complex.

Condominium: 1. A form of fee ownership of separate units or portions of multi-unit buildings that provides for formal filing and recording of a divided interest in real property; 2. A multi-unit structure or property in which persons hold fee simple title to individual units and an undivided interest in common areas.

Cost Approach: A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value plus an entrepreneurial profit. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

County: The largest division of local government in all states except Louisiana and Alaska, where the comparable units are parish and borough, respectively.

Curable Depreciation: Items of physical deterioration or functional obsolescence that are economically feasible to cure. Economic feasibility is indicated if the cost to cure is equal to or less than the anticipated increase in the value of the property.

D

Deed: A written, legal instrument that conveys an estate or interest in real property when it is executed and delivered. (See also Bargain & Sale Deed, Quitclaim Deed, Warranty Deed.)

Depreciation: 1. In appraising, a loss in property value from any cause; the difference between the reproduction or replacement cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date; 2. Regarding improvements, depreciation encompasses both deterioration and obsolescence.

Deterioration: Impairment of condition; a cause of depreciation that reflects the loss in value due to wear and tear, disintegration, use in service, and the action of the elements.

Discounting: A procedure used to convert periodic incomes, cash flows, and reversions into present value; based on the assumption that benefits received in the future are worth less than the same benefits received now.

District: 1. A type of neighborhood characterized by homogeneous land use (e.g., apartment, commercial, industrial, agricultural); 2. A unit of local government with the authority to levy taxes and issue bonds to finance schools, parks, sewers, etc.

E

Easement: An interest in real property that conveys use, but not ownership, of a portion of an owner's property. Access or right-of-way easements may be acquired by private parties or public utilities. Governments dedicate conservation, open space, and preservation easements.

Egress: A way out; an exit or outlet.

Eminent Domain: The right of government to take private property for public use upon the payment of just compensation. The Fifth Amendment of the U.S. Constitution, also known as "the takings clause," guarantees payment of just compensation upon appropriation of private property.

Equalization: The process by which an appropriate governmental body attempts to ensure that all property under its jurisdiction is assessed equitably at market value or at a ratio or ratios as required by law.

Escheat: The right of government that gives the state titular ownership of a property when its owner dies without a will or any ascertainable heirs.

F

Fee Appraiser: An appraiser who is paid a fee for the appraisal assignments he or she performs.

Final Value Estimate: The range of values or single dollar figure derived from the reconciliation of value indications and stated in the appraisal report.

Floodplain: The flat surfaces along the courses of rivers, streams, and other bodies of water that are subject to overflow and flooding.

Forced Sale: 1. Offering and transferring property for a valuable consideration under conditions of compulsion; 2. A sale at public auction was made under a court order.

Foreclosure: The legal process in which a mortgage forces the sale of a property to recover all or part of a loan on which the mortgagor has defaulted.

G

Grantee: A person to whom property is transferred by deed or to whom property rights are granted by a trust instrument or other document.

Grantor: A person who transfers property by deed or grants property rights through a trust instrument or other document.

Guaranteed Title: A title whose validity is insured by an abstract, title, or indemnity company.

H

Highest and Best Use: The reasonable, probable, and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are: legal permissibility, physical possibility, financial feasibility, and maximum profitability.

I

IAAO: International Association of Assessing Officers.

Improved Land: 1. Land that has been developed for some use by the construction of improvements; also, land that has been prepared for development by grading, draining, installing utilities, etc., as distinguished from raw land.

Improvements: Buildings or other relatively permanent structures or developments located on, or attached to, land.

Income Approach: A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.

Incurable Depreciation: An element of accrued depreciation; a defect caused by a deficiency or super adequacy in the structure, materials, or design, which cannot be practically or economically corrected.

Industrial Property: Land and/or improvements that can be adapted for industrial use; a combination of land, improvements, and machinery integrated into a functioning unit to assemble, process, and manufacture products from raw materials or fabricated parts; factories that render service, e.g., laundries, dry cleaners, storage warehouses, or those that produce natural resources, e.g., oil wells.

Ingress: A means of entering; an entrance.

Instrument: In real estate, a formal, legal document, e.g., a contract, a deed, a lease, a will.

Intangible Property: 1. Nonphysical items of Personal Property, e.g., franchises, trademarks, patents, copyrights, goodwill; 2. Deferred items such as development or organization expense.

Intestate: The condition of dying without leaving a valid will.

Investment Property: Property that constitutes a business enterprise consisting of all tangible and intangible assets assembled and developed as a single unit of utility for lease or rental, in whole or in part, to others for profit; normally purchased in expectation of annual net income and/or capital gain.

J

Joint Tenancy: Joint ownership by two or more persons with the right of survivorship.

K

L

Land or Site Analysis: A careful study of factual data relating to the neighborhood characteristics that create, enhance, or detract from the utility and marketability of the land or site as compared with competing, comparable land or sites.

Land-To-Building Ratio: The proportion of land area to gross building area; typical land-to-building ratios for properties combine land and building components into a functional economic unit.

Land Use Analysis: A systematic study of an area or region that documents existing conditions and patterns of use, identifies problem areas, and discusses future options and choices. As part of the general planning process, such an analysis might cover topics such as traffic flow, residential and commercial zoning, sewer services, water supply, solid-waste management, air and water pollution, or conservation areas. In short, any factors that could affect how particular areas of land should, or should not, be used.

Legal Description: A description of land that identifies the real estate according to a system established or approved by law; an exact description that enables the real estate to be located and identified.

Legal Owner: The owner of title, as distinguished from the holders of other interests, e.g., beneficial or possessory interests.

Limited Partnership: An ownership arrangement consisting of general and limited partners. General partners manage the business and assume full liability for partnership debt, while limited partners are passive and liable only to the extent of their own capital contributions.

Living Trust: A trust that becomes effective during the lifetime of its creator, as distinguished from a trust under a will.

Lot: 1. A distinct piece of land; a piece of land that forms a part of a district, community, city block, etc.; 2. A smaller portion into which a city block or subdivision is divided; described by reference to a recorded plat or by definite boundaries; a piece of land in one ownership, whether platted or unplatted.

M

Market Value: The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

Mass Appraisal: The process of valuing a universe of properties as of a given date utilizing standard methodology, employing common data, and allowing for statistical testing.

Metes and Bounds System: A system for the legal description of land that refers to the parcel's boundaries, which are formed by the point of beginning (POB) and all intermediate points (bounds) and the courses or angular direction of each point (metes).

Mill: One-tenth of one cent; often used to express real estate taxes.

Mill Levy: A tax rate expressed in tenths of a cent; e.g., a tax rate of one mill per thousand means \$1 of taxes per \$1,000 of assessed value.

Multiple Use: 1. A combination of compatible land uses in an area; 2. A combination of compatible uses in a single building.

N

Neighborhood: A group of complementary land users; a congruous grouping of inhabitants, buildings, or business enterprises.

O

Obsolescence: One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or other external factors that make a property less desirable and valuable for a continued use; may be either functional or external.

Over Improvement: An improvement that does not represent the most profitable use for the site on which it is situated because it is too large or costly and cannot develop the highest possible land value; it may be temporary or permanent.

Owner of Record: The owner of title to a property as indicated by public records.

P

Parcel: A piece of land of any size in one ownership.

Parcel Number: A code number that serves as an abbreviation of, or replacement for, a parcel's legal description; used to facilitate the storage and use of land data in

an information system; may be based on geocodes, government surveys, or tax maps.

Partial Interest: Divided or undivided rights in real estate that represent less than the whole.

Partnership: A business arrangement in which two or more people jointly own a business and share in its profits and losses.

Personal Property: Identifiable portable and tangible objects that are considered by the public to be "personal", e.g., furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all property that is not classified as real estate. Personal property includes movable items that are not permanently affixed to, and part of, the real estate.

Plat: 1. A plan, map, or chart of a city, town, section, or subdivision indicating the location and boundaries of individual properties; 2. A map or sketch of an individual property that shows property lines and may include features such as soils, building locations, vegetation, and topography.

Plat Book: A record showing the location, size, and owner of each plot of land in a stated area.

Plot Plan: A plan showing the layout of improvements on a property site or plot; usually includes location, dimensions, parking areas, landscaping, and other features.

Point of Beginning (POB): A survey reference point that is tied into adjoining surveys. In a metes and bounds description, courses that connect monuments or points are generally described from this point.

Power of Attorney: A legal instrument in which a person authorizes another to act as his or her attorney or agent.

Q

Quitclaim Deed: A form of conveyance in which any interest the grantor possesses in the property described in the deed is conveyed to the grantee without warranty of title.

R

Real Estate: Physical land and appurtenances attached to the land, e.g., structures. An identified parcel or tract of land, including improvements, if any.

Real Property: All interests, benefits, and rights inherent in the ownership of physical real estate; the bundle of rights with which the ownership of the real estate is endowed. In some states, real property is defined by statute and is synonymous with "real estate".

Reassessment: The process in which all property within a taxing jurisdiction is revalued to assign new assessed values.

Reconciliation: 1. The last phase of any valuation assignment in which two or more value indications derived from market data are resolved into a final value estimate, which may be either a final range of value or a single point estimate; 2. In the Sales Comparison Approach, reconciliation may involve two levels of analysis: derivation of a value indication from the adjusted prices of two or more comparable sales expressed in the same unit of comparison, and derivation of a value indication from the adjusted prices of two or more comparables expressed in different units of comparison.

Recorded Map: A map of a parcel of land that has been filed in the office of the County Clerk and Recorder; e.g. "as per map recorded in book 56 at page 20".

Recording: The filing of a copy of a legal instrument or document, e.g., a deed, in a government office provided for this purpose; creates a public record of the document for the protection of all concerned and gives constructive notice to the public at large.

Rectangular Survey System: A system for the legal description of land that refers to the parcel's location in a township, an area approximately six miles square that is formed by the intersection of principal meridians and base lines. Each township contains 36, one-square-mile sections of 640 acres.

Residence: Any property used as a dwelling; in law, the legal domicile; used for owner occupancy, not investment income.

Right of Survivorship: Right of the surviving joint tenant to acquire the interest of the deceased joint tenant in joint tenancies and tenancies by the entirety without any probate proceedings.

S

Sales Comparison Approach: A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and adjusting the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when comparable sales data are available.

Sales-Ratio Analysis: A study of the relationship between assessed values and sale prices and the deviations that result from differences between the two; used to determine the efficiency and fairness of the assessment process in a particular jurisdiction.

Section: In the government survey system of land description, one of the 36 sections, each one mile square, into which each township is divided.

Situs: In real estate, the physical location of a property; in personal property, the taxable location because personal property may be moved from one place to another.

Special Assessment: An assessment against real estate levied by a public authority to pay for public improvements, e.g., sidewalks, street improvements, sewers; an amount levied against individual owners in a condominium or cooperative to cover their proportionate shares of a common expense.

Special Districts: Special service governments were created to provide a particular service, e.g., economic development districts, water resource management districts.

Square Foot Cost: The cost of one square foot of an improvement; obtained by dividing the actual, or estimated, cost of a building by its gross floor area or by dividing the actual, or estimated, cost of a land improvement by its square foot area; can be multiplied by the number of square feet in a building or land improvement to produce the actual or estimated cost.

T

Tax: A compulsory contribution legally exacted from persons, corporations, and other organizations by a government, for the support of government and the maintenance of public services.

Taxation: The right of government to raise revenue through assessments on valuable goods, products, and rights.

Tax Base: The unit of value to which the tax rate is applied to determine the tax due; for property taxes, the assessed valuation; for income taxes, the net taxable income.

Tax District: A political subdivision of one or more assessment districts where a governmental unit has the authority to levy taxes.

Tax Exemption: Total exemption or freedom from tax; granted to educational, charitable, religious, and other nonprofit organizations. Partial exemptions from ad valorem tax are granted to homesteads in some states.

Tax Levy: In property taxation, the total revenue that will be realized by a tax.

Tax Lien: A lien that is automatically attached to property in the amount of its unpaid property taxes.

Taxpayer: One who pays or is liable for a tax.

Tax Rate: The ratio between the tax and the tax base; applied to the assessed value to determine the amount of tax; obtained by dividing the amount of the tax levy by the total assessed value of all properties in the tax district; usually expressed in dollars per \$100 or \$1,000 (mills) of assessed value.

Tax Roll: The official list of all taxpayers subject to property tax, the amounts of their assessments, and the taxes due.

Tenancy: 1. The holding of property by any form of title; 2. The right to use and occupy property as conveyed in a lease.

Tenancy in Common: An estate held by two or more people, each of whom has an undivided interest.

Title: The combination of all elements that constitute proof of ownership.

Township: In the government survey system of land description, the area between two township lines and two range lines, normally contains 36 sections of approximately 640 acres each.

Township Lines: In the government survey system of land description, survey lines that run east and west at six-mile intervals north and south of a baseline and form the north and south boundaries of townships.

Tract: A parcel of land; an area of real estate that is frequently subdivided into smaller parcels.

Trust Deed: A deed that establishes a trust, an instrument that conveys legal title to a property to a trustee, stating the trustee's authority and the conditions that bind the trustee in dealing with the property.

Trustee: A person who controls legal title to a property under a trust agreement.

U

Under Improvement: An improvement that is inadequate to develop the highest and best use of its site; usually a structure that is of less cost, quality, and size than typical neighborhood properties.

Undivided Interest: Fractional ownership without physical division into shares.

Uniform Standards of Professional Appraisal Practice (USPAP): Current standards of the appraisal profession, developed for appraisers and the users of appraisal services by the Appraisal Standards Board of The Appraisal Foundation. The Uniform Standards set forth the procedures to be followed in developing an appraisal, analysis, or opinion and the way an appraisal, analysis, or opinion is communicated. They are endorsed by the Appraisal Institute and by other professional appraisal organizations.

Unimproved Land: Vacant land or land that lacks the essential, appurtenant improvements required to make it useful.

Units of Comparison: The components into which a property may be divided for purposes of comparison, e.g., price per square foot, front foot, cubic foot, room, bed, seat, apartment unit.

Useable Area: The actual occupiable area of a floor or an office; computed by measuring the finished surface of the office side of corridor and other permanent walls, to the center of partitions that separate the office from adjoining usable areas, and to the inside finished surface of the dominant portion of the permanent outbuilding walls. The usable area of a floor is equal to the sum of all usable areas of that floor. No deductions are made for columns and projections necessary to the building.

Use Classification: Categories into which real estate can be divided according to its use: residential, commercial, industrial, agricultural, and special purpose.

V

Valuation: The process of estimating the market value, insurable value, investment value, or some other properly defined value of an identified interest or interests in a specific parcel or parcels of real estate as of a given date. Valuation is a term used interchangeably with appraisal.

Value: 1. The monetary worth of a property, good, or service to buyers and sellers at a given time; 2. The present worth of the future benefits that accrue to real property ownership.

W

Warranty Deed: A deed that conveys to the grantee title to the property free and clear of all encumbrances, except those specifically set forth in the document.

Weighted Average: An average in which each component is adjusted by a factor that reflects its relative importance to the whole; obtained by multiplying each component by its assigned weight, adding the products, and dividing the sum of the products by the sum of the weights.

X

Y

Z

Zoning: The public regulation of the character and extent of real estate use through police power; accomplished by establishing districts or areas with uniform restricts relating to improvements; structural height, area, and bulk; density of population; and other aspects of the use and development of private property