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Abatement. Stopping or reducing of amount or value, as when [assessments](#) for [ad valorem taxation](#) are abated after the initial assessment has been made.

Absentee landlord. An owner of an interest in income-producing property who does not reside on the premises and who may rely on a property manager to oversee the investment.

Absolute fee simple title. A title that is unqualified. Fee simple is the best title that can be obtained. (See also [fee simple](#))

Abstraction. Method of finding land value in which all improvement costs (less depreciation) are deducted from sales price. Also called extraction.

Access. A way to enter and leave a tract of land, sometimes by easement over land owned by another. (See also egress and ingress)

Accessibility. The relative ease of entrance to a property by various means, a factor that contributes to the probable most profitable use of a site.

Accessory buildings. Structures on a property, such as sheds and garages, that are secondary to the main building.

Accretion. Land buildup resulting from the deposit by natural action of sand or soil washed up from a river, lake or sea.

Accrual basis. In accounting, a system of allocating revenue and expense items on the basis of when the revenue is earned or the expense incurred, not on the basis of when the cash is received or paid out.

Accrued depreciation. (1) For accounting purposes, total depreciation taken on an asset from the time of its acquisition. (2) For appraisal purposes, the difference between reproduction or replacement cost and the appraised value as of the date of appraisal.

Accrued expenses. Expenses incurred that are not yet payable. In a closing statement, the accrued expenses of the seller typically are credited to the purchaser (taxes, wages, interest, etc.).

Acquisition appraisal. A market value appraisal of property condemned or otherwise acquired for public use, to establish the compensation to be paid to the owner.

Acre. A measure of land, 208.71 by 208.71 feet in area, being 43,560 square feet, or 160 square rods or 4,840 square yards.

Actual age. The number of years elapsed since the original structure was built. Sometimes referred to as historical or chronological age.

Adjustable-rate mortgage (ARRI). A financing technique in which the lender can raise or lower the interest rate according to a set index, such as the rate on six-month Treasury bills or the average cost of funds of FDIC-insured institutions. (See also [amortized mortgage](#))

Adjustment. Decrease or increase in the sales price of a comparable property to account for a feature that the property has or does not have in comparison with the subject property.

Ad Valorem. According to value (Latin); generally used to refer to real estate taxes that are based on assessed property value.

Adverse land use. A land use that has a detrimental effect on the market value of nearby properties.

Aesthetic value. Relating to beauty, rather than to functional considerations.

Aggregate. In statistics, the sum of all individuals.

Allocation method. The allocation of the appraised total value of the property between land and building. The allocation may be accomplished either on a ratio basis or by subtracting a figure representing building value from the total appraised value of the property.

Allowance for vacancy and collection losses. The percentage of potential gross income that will be lost due to vacant units, collection losses or both.

Amenities. The qualities and state of being pleasant and agreeable; in appraising, those qualities that are attached to a property and from which the owner derives benefits other than monetary; satisfaction of possession and use arising from architectural excellence, scenic beauty and social environment.

Amortized mortgage. A mortgage loan in which the principal and interest are payable in periodic installments during the term of the loan so that at the completion of all payments there is a zero balance.

Annuity. A fixed, regular return on an investment.

Annuity method. A method of capitalization that treats income from real property as a fixed, regular return on an investment. For the annuity method to be applied, the lessee must be reliable and the lease must be long term.

Appraisal. An estimate of quantity, quality or value; the process through which conclusions of property value are obtained; also refers to the report setting forth the process of estimating value.

Appraisal Foundation. Nonprofit corporation established in 1987 and headquartered in Washington, D.C., sponsored by major appraisal and appraisal-related professional and trade groups.

Appraisal methods. The approaches used in the appraisal of real property. (See also [cost approach](#), [income capitalization approach](#), [sales comparison approach](#))

Appraisal process. A systematic analysis of the factors that bear on the value of real estate; an orderly program by which the problem is defined; the work necessary to solve the problem is planned; the data involved are acquired, classified, analyzed and interpreted into an estimate of value; and the value estimate is presented in the form requested by the client.

Appraisal report. An appraiser's written opinion to a client of the value sought for the subject property as of the date of appraisal, giving all details of the appraisal process.

Appraisal Standards Board. Created by the Appraisal Foundation and responsible for establishing minimum standards of appraisal competence.

Appraised value. An estimate by an appraiser of the amount of a particular value, such as assessed value, insurable value or market value, based on the particular assignment.

Appraiser. One who estimates value.

Appraiser Qualification Board. Created by the Appraisal Foundation and responsible for establishing minimum requirements for licensed and certified appraisers and licensing and certifying examinations.

Appreciation. Permanent or temporary increase in monetary value over time due to economic or related causes.

Approaches to value. Any of the following three methods used to estimate the value of real estate: cost approach, [income capitalization approach](#) and [sales comparison approach](#).

Appurtenance. Anything used with land for its benefit, either affixed to land or used with it, that will pass with the conveyance of the land.

Arm's-length transaction. A transaction in which both buyer and seller act willingly and under no pressure, with knowledge of the present conditions and future potential of the property, and in which the property has been offered on the open market for a reasonable length of time and there are no unusual circumstances. array. An arrangement of statistical data according to numerical size.

Assemblage. The combining of two or more adjoining lots into one larger tract to increase their total value.

Assessed value. The value placed on land and buildings by a government unit (assessor) for use in levying annual real estate taxes.

Assessment. The imposition of a tax, charge or levy, usually according to established rates. (See also special assessment)

Assessor. One who determines property values for the purpose of [ad valorem](#) taxation.

Asset. Property that is owned and has value, such as cash or real or personal property.

Average deviation. In statistics, the measure of how far the average individual, or variate, differs from the mean of all variants.

B

Balance. The appraisal principle that states that the greatest value of a property will occur when the type and size of the improvements are proportional to each other as well as to the land.

Band of investment. A method of developing a discount rate based on (1) the rate of mortgage interest available, (2) the rate of return required on equity and (3) the debt and equity share in the property. A variation of this method is used to compute an overall capitalization rate.

Bargain and sale deed. A deed that contains no warranties against liens or other encumbrances but implies that the grantor has the right to convey title.

Base line. A reference survey line of the government or rectangular survey, being an imaginary line extending east and west and crossing a principal meridian at a definite point.

Base rent. The minimum rent payable under a percentage lease.

Bench mark. A permanent reference mark (PRM) used by surveyors in measuring differences in elevation. Benchmark. The standard or base from which specific estimates are made.

Beneficiary. The person who is to receive the benefits from a trust fund.

Book value. The value of a property as an asset on the books of account; usually, reproduction or replacement cost, plus additions to capital and less reserves for depreciation.

Breakdown method. (See observed condition depreciation)

Break-even point. That point at which total income equals total expenses.

Break-even ratio. The ratio of operating expenses plus the property's annual debt service to potential gross income.

Building capitalization rate. The sum of the discount and capital recapture rates for a building.

Building codes. Rules of local, municipal or state governments specifying minimum building and construction standards for the protection of public safety and health.

Building residual technique. A method of capitalization using net income remaining to building after interest on land value has been deducted.

Bundle of rights. A term often applied to the rights of ownership of real estate, including the rights of using, renting, selling or giving away the real estate or not taking any of these actions.

C

CAR California Association of Realtors

CRS Certified Residential Specialists, professional designation held by fewer than 5% of Realtors in the United States (GRI) Graduates of the Realtors' Institute

Capital. Money and/or property comprising the wealth owned or used by a person or business enterprise to acquire other money or goods.

Capitalization The process employed in estimating the value of a property by the use of an appropriate capitalization rate and the annual net operating income expected to be produced by the property. The formula is expressed as $\text{Income/Rate} = \text{Value}$

Capitalization rate. The percentage rate applied to the income a property is expected to produce to derive an estimate of the property's value; includes both an acceptable rate of return on the amount invested (yield) and return of the actual amount invested (recapture).

Capital recapture. The return of an investment; the right of the investor to get back the amount invested at the end of the term of ownership or over the productive life of the improvements.

Capitalized value method of depreciation. A method of computing depreciation by determining loss in rental value attributable to a depreciated item and applying a gross rent multiplier to that figure.

Cash basis. A system of recognizing revenue and expense items only at the time cash is received or paid out.

Cash equivalency technique. Method of adjusting a sales price downward to reflect the increase in value due to assumption or procurement by buyer of a loan at an interest rate lower than the prevailing market rate.

Cash flow. The net spendable income from an investment, determined by deducting all operating and fixed expenses from gross income. If expenses exceed income, a negative cash flow is the result.

Cash flow rate. (See [equity capitalization rate](#))

Cash on cash rate. (See [equity capitalization rate](#))

Chain. A surveyor's unit of measurement equal to four rods or 66 feet, consisting of 100 links of 7.92 inches each; ten square chains of land are equal to one acre.

Change, principle of. The principle that no physical or economic condition ever remains constant.

Chattels. Tangible personal property items.

Client. One who hires another person as a representative or agent for a fee.

Closing statement. The computation of financial adjustments required to close a real estate transaction, computed as of the day of closing the sale; used to determine the net amount of money the buyer must pay to the seller to complete the transaction, as well as amounts to be paid to other parties, such as the broker or escrow holder. (See also settlement)

Code of ethics. Rules of ethical conduct, such as those that govern the actions of members of a professional group.

Community property. A form of property ownership in which husband and wife have an equal interest in property acquired by either spouse during the time of their marriage. Community property does not include property that each spouse owned prior to marriage or property received by gift or inheritance or as the proceeds of separate property.

Comparables. Properties that are substantially equivalent to the subject property.

Comparative unit method. (See square-foot method)

Comparison method. (See [sales comparison approach](#)) Competition, principle of. The principle that a successful business attracts other such businesses, which may dilute profits.

Compound interest. Interest paid on both the original investment and accrued interest.

Condemnation. Taking private property for public use through court action, under the right of eminent domain, with compensation to the owner.

Conditional use permit. Approval of a property use inconsistent with present zoning because it is in the public interest. For example, a church or hospital may be allowed in a residential district.

Conditions, covenants and restrictions (CC&R's). Private limitations on property use placed in the deed received by a property owner, typically by reference to a Declaration of Restrictions.

Condominium. The absolute ownership of an apartment or a commercial unit, generally in a multiunit building, by a legal description of the airspace that the unit actually occupies, plus an undivided interest in the ownership of the common elements, which are owned jointly with the other condominium unit owners.

Common elements. All portions of the land, property and space that make up a condominium property that include land, all improvements and structures, and all easements, rights and appurtenances and exclude all space composing individual units. Each unit owner owns a definite percentage of undivided interest in the common elements. Parcel. The entire tract of real estate included in a condominium development; also referred to as a development parcel. Unit. One ownership space in a condominium building or a part of a property intended for independent use and having lawful access to a public way. Ownership of one unit also includes a definite undivided interest in the common elements.

Conformity, principle of. The principle that buildings should be similar in design, construction and age to other buildings in the neighborhood to enhance appeal and value. contiguous. Adjacent; in actual contact; touching.

Contract. An agreement entered into by two or more legally competent parties who, for a consideration, undertake to do or to refrain from doing some legal act or acts.

Contract rent. (See scheduled rent)

Contribution, principle of. The principle that any improvement to a property, whether to vacant land or a building, is worth only what it adds to the property's market value, regardless of the improvement's actual cost.

Conventional loan. A mortgage loan, made with real estate as security, that is neither insured by the FHA nor guaranteed by the VA. Conveyance. A written instrument, such as a deed or lease, by which title or an interest in real estate is transferred.

Cooperative. A multiunit residential building with title in a trust or corporation that is owned by and operated for the benefit of persons living within it, who are the beneficial owners of the trust or the stockholders of the corporation, each possessing a proprietary lease granting occupancy of a specific unit in the building.

Corporation. An association of shareholders, created under law, having a legal identity separate from the individuals who own it.

Correction lines. A system of compensating for inaccuracies in the rectangular survey system due to the curvature of the earth. Every fourth township line (24-mile intervals) is used as a

correction line on which the intervals between the north and south range lines are measured again and corrected to a full six miles.

Correlation. (See reconciliation)

Cost. The amount paid for a good or service.

Cost approach. The process of estimating the value of a property by adding the appraiser's estimate of the reproduction or replacement cost of property improvements, less depreciation, to the estimated land value.

Cost index. Figure representing construction cost at a particular time in relation to construction cost at an earlier time, prepared by a cost reporting or indexing service.

Cost service index method. (See index method)

Covenant. An agreement written into deeds and other instruments promising performance or nonperformance of certain acts or stipulating certain uses or non-uses of property.

Cubic-foot method. A method of estimating reproduction cost by multiplying the number of cubic feet of space a building encloses by the construction cost per cubic foot.

Curable depreciation. A depreciated item that can be restored or replaced economically. (See also functional obsolescence-curable and physical deterioration-curable)

D

Datum. A horizontal plane from which heights and depths are measured.

Debt investors. Investors who take a relatively conservative approach, typically taking a passive role in investment management while demanding a security interest in property financed.

Declaration of restrictions. Document filed by a subdivision developer and referenced in individual deeds to subdivision lots that lists all restrictions that apply to subdivision properties. (See also deed restrictions)

Decreasing returns, laws of. The situation in which property improvements no longer bring a corresponding increase in property income or value.

Deed. A written instrument that conveys title to or an interest in real estate when properly executed and delivered.

Deed of trust. (See trust deed)

Deed restrictions. Provisions in a deed limiting the future uses of the property. Deed restrictions may take many forms: they may limit the density of buildings, dictate the types of structures that can be erected and prevent buildings from being used for specific purposes or used at all. Deed restrictions may impose a myriad of limitations and conditions affecting the property rights appraised.

Default. Failure to perform a duty or meet a contractual obligation.

Demised premises. Property conveyed for a certain number of years, most often by a lease.

Demography. The statistical study of human populations, especially in reference to size, density and distribution. Demographic information is of particular importance to people involved in market analyses and highest and best use analyses in determining potential land uses of sites.

Depreciated cost. For appraisal purposes the reproduction or replacement cost of a building, less accrued depreciation to the time of appraisal.

Depreciation. For appraisal purposes, loss in value due to any cause, including physical deterioration, functional obsolescence and external obsolescence. (See also obsolescence)

Depth factor. An adjustment factor applied to the value per front foot of lots that vary from the standard depth.

Development. (See neighborhood life cycle)

Direct capitalization. Selection of a capitalization rate from a range of overall rates computed by analyzing sales of comparable properties and applying the formula $I/V = R$ to each.

Direct costs. Costs of erecting a new building involved with either site preparation or building construction, including fixtures.

Direct market comparison approach. (See [sales comparison approach](#))

E

Easement. A right to use the land of another for a specific purpose, such as a right-of-way or for utilities; a non-possessory interest in land. An easement appurtenant passes with the land when conveyed.

Economic age-life method of depreciation. A method of computing accrued depreciation in which the cost of a building is depreciated at a fixed annual percentage rate; also called the straight-line method.

Economic base. The level of business activity in a community-particularly activity that brings income into the community from surrounding areas.

Economic life. The period of time during which a structure may reasonably be expected to perform the function for which it was designed or intended.

Economic obsolescence. (See external obsolescence)

Economic rent. (See market rent)

Effective age. The age of a building based on the actual wear and tear and maintenance, or lack of it, that the building has received.

Effective demand. The desire to buy coupled with the ability to pay.

Effective gross income. Estimated potential gross income of a rental property from all sources, less anticipated vacancy and collection losses.

Egress. A way to leave a tract of land; the opposite of ingress. (See also access)

Eminent domain. The right of a federal, state or local government or public corporation, utility or service corporation to acquire private property for public use through a court action called condemnation, in which the court determines whether the use is a necessary one and what the compensation to the owner should be.

Encroachment. A building, wall or fence that extends beyond the land of the owner and illegally intrudes on land of an adjoining owner or a street or an alley.

Encumbrance. Any lien (such as a mortgage, tax lien or judgment lien), easement, restriction on the use of land, outstanding dower right or other interest that may diminish the value of property to its owner.

Entrepreneurial profit. The amount of profit attributable to the development function.

Environmental obsolescence. (See external obsolescence)

Equalization. The raising or lowering of assessed values for tax purposes in a particular county or taxing district to make them equal to [assessments](#) in other counties or districts.

Equilibrium. (See neighborhood life cycle) equity. The interest or value that an owner has in real estate over and above any mortgage or other lien or charge against it.

Equity capitalization rate. A rate that reflects the relationship between a single year's before tax cash flow and the equity investment in the property. The before-tax cash flow is the net operating income less the annual debt service payment, and the equity is the property value less any outstanding loan balance. The equity capitalization rate, when divided into the before tax cash flow, gives an indication of the value of the equity. Also called cash on cash rate, cash flow rate or equity dividend rate.

Equity dividend rate. (See equity capitalization rate)

Equity investors. Investors making use of what is termed venture capital to take an unsecured and thus relatively risky part in an investment.

Escalator clause. A clause in a contract, lease or mortgage providing for increases in wages, rent or interest, based on fluctuations in certain economic indexes, costs or taxes.

Escheat. The reversion of property of a decedent who died intestate (without a will) and without heirs to the state or county as provided by state law.

Escrow. The closing of a transaction through a disinterested third person called an escrow agent or escrow holder, who holds funds and/or documents for delivery on the performance of certain conditions.

Estate. The degree, quantity, nature and extent of ownership interest that a person has in real property.

Estate in land. The degree, quantity, nature and extent of interest a person has in real estate.

Estate in remainder. The remnant of an estate that has been conveyed to take effect and be enjoyed after the termination of a prior estate; for instance, when an owner conveys a life estate to one party and the remainder to another. (For a case in which the owner retains the residual estate, see estate in reversion.)

Estate in reversion. An estate that comes back to the original holder, as when an owner conveys a life estate to someone else, with the estate to return to the original owner on termination of the life estate.

Excess income. (See excess rent)

Excess rent. The amount by which scheduled rent exceeds market rent.

Expense. The cost of goods and services required to produce income.

Expense-stop clause. Lease provision to pass increases in building maintenance expenses on to tenants on a pro-rata basis.

External obsolescence. Loss of value from forces outside the building or property, such as changes in optimum land use, legislative enactment's that restrict or impair property rights and changes in supply-demand relationships.

Externalities. The principle that outside influences may have a positive or negative effect on property value.

F

Feasibility study. An analysis of a proposed subject or property with emphasis on the attainable income, probable expenses and most advantageous use and design. The purpose of such a study is to ascertain the probable success or failure of the project under consideration.

Federal Reserve Bank System. Central bank of the United States established to regulate the flow of money and the cost of borrowing.

Fee simple. The greatest possible estate or right of ownership of real property, continuing without time limitation. Sometimes called fee or fee simple absolute.

Fee simple defeasible. Any limitation on property use that could result in loss of the right of ownership.

Fee simple qualified. Ownership of property that is limited in some way.

FHA. The Federal Housing Administration. Insures loans made by approved lenders in accordance with its regulations.

Final value estimate. The appraiser's estimate of the defined value of the subject property, arrived at by reconciling (correlating) the estimates of values derived from the sales comparison, cost and income approaches.

Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). Federal legislation that mandates state licensing or certification for appraisers performing appraisals in certain federally related transactions.

First mortgage. A mortgage that has priority as a lien over all other mortgages.

Fixed expenses. Those costs that are more or less permanent and do not vary in relation to the property's occupancy or income, such as real estate taxes and insurance for fire, theft and hazards.

Fixed-rate mortgage. (See amortized mortgage)

Fixture. Anything affixed to land, including personal property attached permanently to a building or to land so that it becomes part of the real estate.

Foreclosure. A court action initiated by a mortgagee or lienor for the purpose of having the court order that the debtor's real estate be sold to pay the mortgage or other lien (mechanic's lien or judgment).

Form appraisal report. Any of the relatively brief standard forms prepared by agencies such as the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association and others for routine property appraisals.

Freehold. An estate in land in which ownership is for an indeterminate length of time.

Frequency distribution. The arrangement of data into groups according to the frequency with which they appear in the data set.

Front foot. A standard of measurement, being a strip of land one foot wide fronting on the street or waterfront and extending the depth of the lot. Value may be quoted per front foot.

Functional obsolescence. Defects in a building or structure that detract from its value or marketability, usually the result of layout, design or other features that are less desirable than features designed for the same functions in newer property.

Functional obsolescence-curable. Physical or design features that are no longer considered desirable by property buyers but could be replaced or redesigned at relatively low cost.

Functional obsolescence-incurable. Currently undesirable physical or design features that are not easily remedied or economically justified.

G

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Going concern value. The value existing in an established business property compared with the value of selling the real estate and other assets of a concern whose business is not yet established. The term takes into account the goodwill and earning capacity of a business.

Grant deed. A type of deed in which the grantor warrants that he or she has not previously conveyed the estate being granted to another, has not encumbered the property except as noted in the deed, and will convey to the grantee any title to the property the grantor may later acquire.

Grantee. A person who receives a conveyance of real property from a grantor.

Grantor. The person transferring title to or an interest in real property to a grantee.

Gross building area. All enclosed floor areas, as measured along a building's outside perimeter.

Gross income. (See potential gross income)

Gross income multiplier. A figure used as a multiplier of the gross income of a property to produce an estimate of the property's value.

Gross leasable area. Total space designed for occupancy and exclusive use of tenants, measured from outside wall surfaces to the center of shared interior walls.

Gross lease. A lease of property under the terms of which the lessee pays a fixed rent and the lessor pays all property charges regularly incurred through ownership (repairs, taxes, insurance and operating expenses).

Gross living area. Total finished, habitable, above-grade space, measured along the building's outside perimeter.

Gross market income. (See potential gross income)

Gross rent multiplier. (See gross income multi-Ground lease. A lease of land only on which the lessee usually owns the building or is required to build as specified by the lease. Such leases are usually long-term net leases; the lessee's rights and obligations continue until the lease expires or is terminated for default.

Ground rent. Rent paid for the right to use and occupy land according to the terms of a ground lease.

Growing equity mortgage (GERI). A type of loan that rapidly increases the equity in a property by increasing the monthly payments a certain percentage each year and applying those increases to the principal.

H

Highest and best use. The legally and physically possible use of land that is likely to produce the highest land (or property) value. It considers the balance between site and improvements as well as the intensity and length of uses.

Historical cost. Actual cost of a property at the time it was constructed.

Historical rent. Scheduled (or contract) rent paid in past years.

Holdover tenancy. A tenancy in which the lessee retains possession of the leased premises after the lease has expired and the landlord, by continuing to accept rent from the tenant, thereby agrees to the tenant's continued occupancy.

Homeowners' association. Organization of property owners in a residential condominium or subdivision development, usually authorized by a declaration of restrictions to establish property design and maintenance criteria, collect assessments and manage common areas.

HUD. Department of Housing and Urban Development.

I

Improved land. Real property made suitable for building by the addition of utilities and publicly owned structures, such as a curb, sidewalk, street-lighting system and/or sewer.

Improvements. Structures of whatever nature, usually privately rather than publicly owned, erected on a site to enable its utilization, e.g., buildings, fences, driveways and retaining walls.

Income capitalization approach. The process of estimating the value of an income-producing property by capitalization of the annual net operating income expected to be produced by the property during its remaining economic life.

Increasing returns, law of. The situation in which property improvements increase property income or value.

Incurable depreciation. A depreciated item that would be impossible or too expensive to restore or replace.

Independent contractor. A person who contracts to do work for another by using his or her own methods and without being under the control of the other person regarding how the work should be done. Unlike an employee, an independent contractor pays all of his or her expenses, personally pays income and social security taxes and receives no employee benefits. Many real estate salespeople are independent contractors.

Index method. An appraisal technique used to estimate reproduction or replacement cost. The appraiser multiplies the original cost of construction by a price index for the geographic area to allow for price changes.

Indirect costs. Costs of erecting a new building not involved with either site preparation or building construction; for example, building permit, land survey, overhead expenses such as insurance and payroll taxes, and builder's profit.

Industrial district or park. A controlled development zoned for industrial use and designed to accommodate specific types of industry, providing public utilities, streets, railroad sidings and water and sewage facilities.

Ingress. The way to enter a tract of land. Often used interchangeably with access. (See also access)

Installment contract. A contract for the sale of real estate by which the purchase price is paid in installments over an extended period of time by the purchaser, who is in possession, with the title retained by the seller until a certain number of payments are made. The purchaser's payments may be forfeited upon default.

Insurable value. The highest reasonable value that can be placed on property for insurance purposes. Interest. A percentage of the principal amount of a loan charged by a lender for its use, usually expressed as an annual rate.

Interest rate. Return on an investment; an interest rate is composed of four component rates: safe rate, risk rate, non-liquidity rate and management rate. Management rate. Compensation to the owner for the work involved in managing an investment and reinvesting the funds received from the property.

Interim use. A temporary property use awaiting transition to its highest and best use.

Intestate. Dying without a will or without having made a valid will. Title to property owned by someone who dies intestate will pass to his or her heirs as provided in the law of descent of the state in which the property is located. investment value. The worth of investment property to a specific investor.

Inwood annuity table. A table that supplies a factor to be multiplied by the desired yearly income (based on the interest rate and length of time of the investment) to find the present worth of the investment.

J

Joint tenancy. Ownership of real estate between two or more parties who have been named in one conveyance as joint tenants. On the death of a joint tenant, the decedent's interest passes to the surviving joint tenant(s) by the right of survivorship.

Joint venture. The joining of two or more people to conduct a specific business enterprise. A joint venture is similar to a partnership in that it must be created by agreement between the parties to share in the losses and profits of the venture. It is unlike a partnership in that the venture is for one specific project only, rather than for a continuing business relationship.

K

L

Land. The earth's surface in its natural condition, extending down to the center of the globe, its surface and all things affixed to it, and the airspace above the surface.

Land capitalization rate. The rate of return, including interest, on land only.

Land development method. (See subdivision development method)

Landlocked parcel. A parcel of land without any access to a public road or way.

Landlord. One who owns property and leases it to a tenant.

Land residual technique. A method of capitalization using the net income remaining to the land after return on and recapture of the building value have been deducted.

Land trust. A trust originated by the owner of real property in which real estate is the only asset. Because the interest of a beneficiary is considered personal property and not real estate, a judgment against the beneficiary will not create a lien against the real estate. Thus land trusts are popular when there are multiple owners who seek protection against the effects of divorce, judgments or bankruptcies of each other.

Latent defect. Physical deficiencies or construction defects not readily ascertainable from a reasonable inspection of the property, such as a defective septic tank or underground sewage system, or improper plumbing or electrical wiring.

Lease. A written or oral contract for the possession and use of real property for a stipulated period of time, in consideration for the payment of rent. Leases for more than one year generally must be in writing.

Leased fee. The lessor's interest and rights in the real estate being leased.

Leasehold estate. The lessee's right to possess and use real estate during the term of a lease. This is generally considered a personal property interest.

Legal description. A statement identifying land by a system prescribed by law. (See also lot and block system, metes and bounds description and rectangular survey system)

Lessee. The person to whom property is leased by another; also called a tenant.

Lessee's interest. An interest having value only if the agreed-on rent is less than the market rent.

Lessor. The person who leases property to another; also called a landlord.

Lessor's interest. The value of lease rental payments plus the remaining property value at the end of the lease period.

Letter of opinion. Report of property value that states the appraiser's conclusion of value or a range of values and provides only a brief summary of the supporting data and appraiser's analysis.

Letter of transmittal. First page of a narrative appraisal report, in which the report is formally presented to the person for whom the appraisal was made.

Levy. To impose or assess a tax on a person or property; the amount of taxes to be imposed in a given district.

License. (1) The revocable permission for a temporary use of land--a personal right that cannot be sold. (2) Formal permission from a constituted authority (such as a state agency) to engage in a certain activity or business (such as real estate appraisal)

LID Land improvement district. special tax or [assessment](#) passed on to home buyers to pay for roadwork and improvements. can last up to 17 years or more, can be billed, monthly, quarterly, or annually. Usually becomes lien on property and is passed down to future owners until paid off.

Lien. A right given by law to certain creditors to have their debts paid out of the property of a defaulting debtor, usually by means of a court sale.

Life estate. An interest in real or personal property that is limited in duration to the lifetime of its owner or some other designated person or persons.

Living trust. An arrangement in which a property owner (trustor) transfers assets to a trustee, who assumes specified duties in managing the asset. After the payment of operating expenses

and trustee's fees, the income generated by the trust property is paid to or used for the benefit of the designated beneficiary. The living trust is gaining popularity as a way to hold title and avoid probate of trust assets.

Lot and block system. Method of legal description of an individual parcel of land by reference to tract, block and lot numbers and other information by which the parcel is identified in a recorded subdivision map. Also called lot, block and tract system and subdivision system.

M

Maintenance expenses. Costs incurred for day-to-day upkeep, such as management, wages and benefits of building employees, fuel, utility services, decorating and repairs.

Marital property. (See community property and tenancy by the entirety)

Markers. (See monuments)

Market. A place or condition suitable for selling and buying.

Market comparison approach. (See [sales comparison approach](#))

Market comparison method of depreciation. (See sales comparison method of depreciation)

Market data approach. (See [sales comparison approach](#))

Market extraction method of depreciation. (See series comparison method of depreciation)

Market price. (See sales price)

Market rent. The amount for which the competitive rental market indicates property should rent. An estimate of a property's rent potential.

Market value. The most probable price real estate should bring in a sale occurring under normal market conditions.

Mean. The average of all items included within a group, calculated by dividing the sum of the individual items, or variates, by the number of variates.

Mechanic's lien A lien created by statute that exists in favor of contractors, laborers or material men who have performed work or furnished materials in the erection or repair of a building. meridian. (See principal meridian)

Metes and bounds description. A method of legal description specifying the perimeter of a parcel of land by use of measured distances from a point of beginning along specified boundaries, or bounds, using monuments, or markers, as points of reference.

Mile. A measurement of distance, being 1,760 yards or 5,280 feet.

Mobile home. A structure transportable in one or more sections, designed and equipped to contain not more than two dwelling units to be used with or without a foundation system; does not include a recreational vehicle. Also called a manufactured home.

Monuments. Natural or artificial objects used to define the perimeter of a parcel of land using the metes and bounds method of legal description.

Mortgage. A conditional transfer or pledge of real property as security for the payment of a debt; also, the document used to create a mortgage lien.

Mortgagee. The lender in a loan transaction secured by a mortgage.

Mortgagor. An owner of real estate who borrows money and conveys his or her property as security for the loan.

N

NAR National Association of Realtors

Narrative appraisal report. A detailed written presentation of the facts and reasoning behind an appraiser's estimate of value.

Neighborhood. A residential or commercial area with similar types of properties, buildings of similar value or age, predominant land-use activities, and natural or fabricated geographic boundaries, such as highways or rivers.

Neighborhood life cycle. The period during which most of the properties in a neighborhood undergo the stages of development, equilibrium and decline. Properties require an increasing amount of upkeep to retain their original utility and become less desirable. development (growth). Improvements are made, and properties experience a rising demand. equilibrium. properties undergo little change; also called stability.

Net income ratio. The ratio of net operating income to effective gross income.

Net lease. A lease requiring the tenant to pay rent and part or all of the costs of maintenance including taxes, insurance, repairs and other expenses of ownership. Sometimes known as an absolute net lease, triple net lease or net, net, net lease.

Net operating income. Income remaining after operating expenses are deducted from effective gross income.

Non-conforming use. A once lawful property use that is permitted to continue after a zoning ordinance prohibiting it has been established for the area; a use that differs sharply from the prevailing uses in a neighborhood.

Non-liquidity rate. A penalty charged for the time needed to convert real estate into cash. risk rate. An addition to the safe rate to compensate for the hazards that accompany investments in real estate.

O

Observed condition depreciation. A method of computing depreciation in which the appraiser estimates the loss in value for all items of depreciation. (See also incurable depreciation and curable depreciation)

Obsolescence. Lessening of value from out-of-date features as a result of current changes in property design, construction or use; an element of depreciation. (See also external obsolescence and functional obsolescence)

Occupancy. Possession and use of property as owner or tenant.

Occupancy rate. The percentage of total rental units occupied and producing income.

Operating expense ratio. The ratio of total operating expenses to effective gross income.

Operating expenses. The cost of all goods and services used or consumed in the process of obtaining and maintaining income. (See also fixed expenses, maintenance expenses and reserves for replacement)

Operating statement. The written record of a business's gross income, expenses and resultant net income.

Operating statement ratio. Relationship of a property's expenses to income, found by dividing total operating expenses by effective gross income.

Opportunity cost. The value differential between alternative investments with differing rates of return.

Option. A right given for a valuable consideration to purchase or lease property at a future date, for a specified price and terms. The right may or may not be exercised at the option holder's (optionee's) discretion.

Orientation. Positioning a structure on its lot with regard to exposure to the sun, prevailing winds, privacy and protection from noise.

Overage rent. Rent paid over a base amount in a percentage lease.

Overall capitalization rate. A rate of investment return derived by comparing the net income and sales prices of comparable properties.

Overall rate. The direct ratio between a property's annual net income and its sales price.

Over improvement. An improvement to property that is more than warranted by the property's highest and best use and thus not likely to contribute its cost to the total market value of the property.

Ownership in severalty. Individual ownership of real estate, not to be confused with the use of the word several to mean "more than one"; also called tenancy in severalty, sole tenancy or separate ownership.

P

Paired sales analysis. A method of estimating the amount of adjustment for the presence or absence of any feature by pairing the sales prices of otherwise identical properties with and without the feature in question. A sufficient number of sales must be found to allow the appraiser to isolate the effect on value of the pertinent factor (also called paired data set analysis and matched pairs analysis).

Parameter. A single number or attribute of the individual things, persons or other entities in Population.

Partial interest. Any property interest that is less than full **fee simple** ownership of the entire property.

Partnership. An association of two or more individuals who carry on a continuing business for profit as co-owners. Under the law a partnership is regarded as a group of individuals rather than as a single entity.

Percentage lease. A lease commonly used for commercial property that provides for a rental based on the tenant's gross sales at the premises. It generally stipulates a base monthly rental, plus a percentage of any gross sales exceeding a certain amount.

Personal property. Items that are tangible and movable and do not fit the definition of realty; chattels.

Physical deterioration-curable. Loss of value due to neglected repairs or maintenance that are economically feasible and, if performed, would result in an increase in appraised value equal to or exceeding their cost.

Physical deterioration-incurable. Loss of value due to neglected repairs or maintenance of short-lived or long-lived building components that would not contribute comparable value to a building if performed.

Physical life. The length of time a structure can be considered habitable, without regard to its economic use.

Planned unit development (PUD). A subdivision consisting of individually owned residential and/or commercial parcels or lots as well as areas owned in common.

Plat. A map representing a parcel of land subdivided into lots, showing streets and other details or a single site.

Plottage value. The subsequent increase in the unit value of a group of adjacent properties when they are combined into one property in a process called assemblage.

Point of beginning. Place at which a legal description of land using the metes and bounds method starts.

Police power. The right of the government to impose laws, statutes and ordinances to protect the public health, safety and welfare. Includes zoning ordinances and building codes.

Possession. The right of the owner to occupy property. When property is occupied by a tenant, the owner has constructive possession by right of title.

Potential gross income. A property's total potential income from all sources during a specified period of time.

Prepaid items of expense. Expense items, such as insurance premiums and tax reserves, that have been paid in advance of the time that the expense is incurred. Prepaid expenses typically are prorated and credited to the seller in the preparation of a closing statement.

Price. The amount of money set or paid as the consideration in the sale of an item at a particular time.

Principal. (1) A sum lent or employed as a fund or investment--as distinguished from its income or profits; (2) the original amount (as of a loan) of the total due and payable at a certain date; or (3) a party to a transaction--as distinguished from an agent.

Principal meridian. One of 35 north and south survey lines established and defined as part of the U.S. government or rectangular survey system.

Profit-and-loss statement. (See operating statement)

Property residual technique. A method of capitalization using the net income remaining to the property as a whole.

Proration. The adjustment of taxes, interest, insurance and/or other costs on a pro-rata basis as of the closing of a sale. (See also closing statement)

Purchase money mortgage. A note secured by a mortgage or trust deed given by the buyer, as mortgagor, to the seller, as mortgagee, as part of the purchase price of real estate.

Q

Quantity survey method. A method for finding the reproduction cost of a building in which the costs of erecting or installing all of the component parts of a new building, including both direct and indirect costs, are added.

Quit Claim deed. A conveyance by which the grantor transfers whatever interest he or she has in the land, without warranties or obligations.

R

Real estate. Land; a portion of the earth's surface extending downward to the center of the earth and upward into space including fixtures permanently attached thereto by nature or by man, anything incidental or appurtenant to land and anything immovable by law; freehold estate in land.

Real estate broker. Any person, partnership, association or corporation that, for a compensation or valuable consideration, sells or offers for sale, buys or offers to buy, or negotiates the purchase, sale or exchange of real estate, or who leases or offers to lease, or rents or offers for rent any real estate or the improvement thereon for others. Such a broker must secure a state license. For a license to be issued to a firm, it is usually required that all active partners or officers be licensed real estate brokers.

Real estate investment trust (REIT). Trust ownership of real estate by a group of individuals who purchase certificates of ownership in the trust, which in turn invests the money in real property and distributes the profits to the investors free of corporate income tax.

Real estate salesperson. Any person who, for a compensation or valuable consideration, is employed either directly or indirectly by a real estate broker to sell or offer to sell, or to buy or offer to buy, or to negotiate the purchase, sale or exchange of real estate, or to lease, rent or offer

for rent any real estate, or to negotiate leases thereof or improvements thereon. Such a salesperson must secure a state license.

Real property. The rights of ownership of real estate, often called the bundle of rights; for all practical purposes, synonymous with real estate.

Recapture rate. The percentage of a property's original cost that is returned to the owner as income during the remaining economic life of the investment.

Reconciliation. The final step in the appraisal process, in which the appraiser reconciles the estimates of value received from the sales comparison, cost and [income capitalization](#) approaches to arrive at a final estimate of market value for the subject property.

Reconstruction of the operating statement. The process of eliminating the inapplicable expense items for appraisal purposes and adjusting the remaining valid expenses, if necessary.

Reconveyance deed. A deed used by a trustee under a deed of trust to return title to the trustor.

Rectangular survey system. A system established in 1785 by the federal government, which provides for the surveying and describing of land by reference to principal meridians and base lines; also called U.S. government survey system and section and township system.

Regional multipliers. Adjustment factors by which standard cost figures can be multiplied to allow for regional price differences.

Remainder. The remnant of an estate that has been conveyed to take effect and be enjoyed after the termination of a prior estate; for instance, when an owner conveys a life estate to one party and the remainder to another. (For the case in which the owner retains the residual estate, see reversion)

Remainderman. The party designated to receive a remainder estate. There are two types: vested remainderman (one who is known and named) and contingent remainderman (one whose identity is not certain or who is to be selected).

Remaining economic life. The number of years of useful life left to a building from the date of appraisal. Renewal option. Lease provision that allows the lessee to renew the lease for the same term or some other stated period, usually with a rent increase at a stated percentage or based on an index or other formula.

Rent. Payment under a lease or other arrangement for use of a property.

Rent loss method of depreciation. (See capitalized value method of depreciation)

Replacement cost. The current construction cost of a building having exactly the same utility as the subject property.

Reproduction cost. The current construction cost of an exact duplicate of the subject building.

Reserves for replacement. Allowances set up for replacement of building and equipment items that have a relatively short life expectancy.

Residual. In appraising, the value remaining after all deductions have been made.

Resolution trust corporation (RTC). Federal agency created by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 to oversee management and liquidation of assets of failed savings and loan associations.

Reverse annuity mortgage (RAM). An instrument designed to aid elderly homeowners by providing them a monthly income over a period of years in exchange for equity they have acquired in their homes. RAM borrowers typically may obtain up to 80 percent of the appraised value of free-and-clear property.

Reversion. The remnant of an estate that the grantor (as opposed to a third party) holds after he or she has granted a limited estate such as a leasehold or life estate to another person and that will return or revert back to the grantor. (See also remainder)

Right-of-way. The right that one has to travel over the land of another; an easement.

Riparian rights. Rights of an owner of land that borders on or includes a stream, river, lake or sea. These rights include definition of (and limitations on) access to and use of the water, ownership of streambed, navigable water and uninterrupted flow and drainage. (See also accretion)

Risk rate. (See interest rate)

Rod. A measure of length, 16 feet.

S

Sales comparison approach. The process of estimating the value of property through examination and comparison of actual sales of comparable properties; also called the direct market comparison or market data approach.

Sales comparison method of depreciation. Way of estimating loss in value through depreciation by using sales prices of comparable properties to derive the value of a depreciated item. Also called the market data method and the market extraction method.

Salesperson. (See real estate salesperson)

Sales price. The actual price that a buyer pays for a property.

Sandwich lease. The ownership interest of a sublessee.

Scheduled rent. Rent paid by agreement between lessor and lessee; also called contract rent.

Second mortgage. A mortgage loan secured by real estate that has previously been made security for an existing mortgage loan. Also called a junior mortgage or junior lien.

Selling price. The actual price that a buyer pays for a property.

Settlement. The process of closing a real estate transaction by adjusting and prorating the required credits and charges.

Shared appreciation mortgage (SAM). A loan designed for borrowers whose current income is too low to qualify for another type of mortgage. The SAM loan makes the lender and the borrower

partners by permitting the lender to share in property appreciation. In return, the borrower receives a lower interest rate.

Sheriffs deed. Deed given by a court to effect the sale of property to satisfy a judgment.

Sinking fund method. Use of a factor by which a property's annual net income may be multiplied to find the present worth of the property over a given period at a given rate of interest.

Site. Land suitable for building purposes, usually improved by the addition of utilities or other services.

Special assessment. A charge against real estate made by a unit of government to cover the proportional cost of an improvement, such as a street or sewer.

Special-purpose property. Property that has unique usage requirements, such as a church or a museum, making it difficult to convert to other uses.

Square-foot method. A method for finding the reproduction cost of a building in which the cost per square foot of a recently built comparable structure is multiplied by the number of square feet in the subject property.

Standard deviation. A measure of the difference between individual entities, called variates, and an entire population, in which the square root of the sum of the squared differences between each variate and the mean of all the variates in the population is divided by the number of variates in the population.

Statistics. The science of collecting, classifying and interpreting information based on the number of things.

Straight-line method of depreciation. (See economic age-life method of depreciation) straight-line recapture. A method of capital recapture in which total accrued depreciation is spread over the useful life of a building in equal amounts.

Subdivision. A tract of land divided by the owner into blocks, building lots and streets by a recorded subdivision plat. Compliance with local regulations is required.

Subdivision development method. A method of valuing land to be used for subdivision development. It relies on accurate forecasting of market demand, including both forecast absorption (the rate at which properties will sell) and projected gross sales (total income that the project will produce); also called the land development method.

Sub-leasehold. The interest of a sublessee under a sandwich lease.

Subletting. The leasing of premises by a lessee to a third party for a part of the lessee's remaining term.

Substitution, principle of. The basic appraisal premise that the market value of real estate is influenced by the cost of acquiring a substitute or comparable property.

Summation method. Another name for the [cost approach](#) to appraising.

Supply and demand, principle of. A principle that the value of a commodity will rise as demand increases and/or supply decreases.

Survey. The process of measuring land to determine its size, location and physical description; also, the map or plat showing the results of a survey.

T

Tax deed. The instrument used to convey legal title to property sold by a governmental unit for nonpayment of taxes.

Tax-stop clause. A clause in a lease providing that the lessee will pay any increase in taxes over a base or an initial year's taxes.

Tenancy by the entirety. The joint ownership, recognized in some states, of property acquired by husband and wife during marriage. On the death of one spouse the survivor becomes the owner of the property.

Tenant. One who has possession of real estate; an occupant, not necessarily a renter; the lessee under a lease. The estate or interest held is called a tenancy.

Time-share. Estate or use interest in real property for a designated time period each year.

Title. The evidence of a person's right to the ownership and possession of land.

Topography. Surface features of land; elevation, ridges, slope, contour.

Trade fixtures. Articles of personal property installed by a commercial tenant under the terms of a lease. Trade fixtures are removable by the tenant before the lease expires and are not true fixtures.

Triple net lease. (See net lease)

Trust. A fiduciary arrangement whereby property is conveyed to a person or an institution, called a trustee, to be held and administered on behalf of another person or entity, called a beneficiary. The one who conveys the trust is called the trustor.

Trust deed. An instrument used to create a mortgage lien by which the borrower conveys title to a trustee, who holds it as security for the benefit of the note holder (the lender); also called a deed of trust.

Trustee. The holder of bare legal title in a deed of trust loan transaction.

Trustor. The borrower in a deed of trust loan transaction.

U

Underimprovement. An improvement that is less than a property's highest and best use.

Uniform Standards Of Professional Appraisal Practice (USPAP). Minimal criteria for appraisal competency promulgated by the Appraisal Foundation at the direction of Congress, to be applied to appraisals that require the services of a state-licensed or certified appraiser.

Unit-in-place method. A method for finding the reproduction cost of a building in which the construction cost per square foot of each component part of the subject building (including material, labor, overhead and builder's profit) is multiplied by the number of square feet of the component part in the subject building.

Use-value. The value of a property designed to fit the specific requirements of the owner but that would have little or no use to another owner. Also referred to as value-in-use.

Usury. Charging interest in excess of the maximum legal rate.

V

Vacancy and collection losses. (See allowance for vacancy and collection losses)

Valuation principles. Factors that affect market value, such as the principle of substitution, highest and best use, supply and demand, conformity, contribution, increasing and decreasing returns, competition, change, stage of life cycle, anticipation, externalities, balance, surplus productivity, opportunity cost, and theory of distribution.

Value. The power of a good or service to command other goods or services in exchange; the present worth of future rights to income and benefits arising from ownership.

Value in exchange. The value of goods and services in exchange for other goods and services, or money, in the marketplace; an economic concept of market value.

VA mortgage. A mortgage loan on approved property made to a qualified veteran by an authorized lender and guaranteed by the Department of Veterans Affairs to limit possible loss by the lender.

Variance. (See zoning variance)

Variate. In statistics, an individual thing, person or other entity.

Vendee. Buyer.

Vendor. Seller.

W

Warranty deed. A deed in which the grantor fully warrants good clear title to the property.

X

Y

Yield. Income produced by an investment. Usually used to refer to equity investments.

Yield capitalization. Method used to estimate value from annual net operating income by applying a capitalization rate derived by analyzing each of the rate's component parts to provide both return on and return of the investment.

Z

Zoning. Municipal or county regulation of land use within designated districts or zones. Zoning is an application of a state's police power to regulate private activity by enacting laws that benefit the public health, safety and general welfare. Zoning may affect use of the land, lot sizes, type of structure permitted, building heights, setbacks and density.

Zoning ordinance. Regulation of the character and use of property by a municipality or other government Entity through the exercise of its police power.

Zoning variance. An exemption from a zoning ordinance or regulation permitting a structure or use that would not otherwise be allowed.