

Appraisal & Consulting Terminology

This glossary is included to help the reader understand the semantic assumptions and technical meaning of real estate valuation terminology. The following real estate definitions are found in the Appraisal Institute's latest Dictionary of Real Estate Appraisal and the Appraisal Foundation's Uniform Standards of Professional Appraisal Practice (USPAP).

Appraisal: The act or process of developing an opinion of value of or pertaining to appraising and related functions such as appraisal practice or appraisal services. Note that appraisals are performed only by appraisers, while valuation services are provided by a variety of professionals and others.

Appraisal Consulting: The act or process of developing an analysis, recommendation or opinion to solve a problem, where an opinion of value is a component of the analysis leading to the assignment results.

Appraisal Review: The act or process of developing and communicating an opinion about the quality of another appraiser's work that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment.

Appraiser: One who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.

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.

Bias: A preference or inclination that precludes an

appraiser's impartiality, independence, or objectivity in an assignment.

Business Enterprise Value (BEV): The value contribution of the total intangible assets of a continuing business enterprise such as marketing and management skill, an assembled workforce, working capital, trade names, franchises, patents, trademarks, contracts, leases, customer base and operating agreements. This is a hotly debated topic.

Business Value: The market value of a going concern, including real property, personal property, and the intangible assets of the business. Also known as Total Assets of the Business (TAB) and debatable.

Capitalization Rate: Any rate used to convert income into value.

Client: A party or parties who engage, by employment or contract, an appraiser in a specific assignment.

Confidential Information: Information that is either:

1. Identified by the client as confidential when providing it to the appraiser and that is not available from any other source; or
2. Classified as confidential or private by applicable law or regulation.

Discount Rate: A yield rate used to convert future payments or receipts into present value; usually considered to be a synonym for yield rate.

Easement: The right to use another's land for a stated purpose.

Equipment: Fixed assets other than real estate, e.g., office equipment, automotive equipment; as distinguished from fixtures, which are assets that are physically or legally attached to the real estate.

Extraordinary Assumption: An extraordinary assumption is an assumption directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. An extraordinary assumption presumes as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Feasibility Analysis: A study of the cost-benefit relationship of an economic endeavor.

Fee Simple: Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Going-Concern Value: USPAP Definition- The value created by a proven property operation; considered a separate entity to be valued with a specific business establishment; also called "going value". Appraisal Institute Definition- The market value of all the tangible and intangible assets of an established and operating business, with an indefinite life, as if sold in the aggregate...Goodwill may be separately measured, but is an integral component of going concern value...

Highest and Best Use: The reasonably 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.

Hypothetical Condition: A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for purpose of analysis.

Intangible Property (Intangible Assets): Non physical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.

Intended Use: The use or uses of an appraiser's reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.

Intended User: The client and any other party as identified, by name and type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment.

Investment Value: The specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from market value, which is impersonal and detached. See market value for the difference.

Market Value: A type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal. There are several definitions of market value, all similar, that depend on the function of the appraisal.

Personal Property: Identifiable tangible objects that are considered by the general public as being "personal"- for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.

Prospective Value: A forecast of the value expected at a

specified future date. A prospective value estimate is most frequently sought in connection with real estate projects that are proposed, under construction, or under conversion to a new use, or those that have not achieved sellout or a stabilized level of long-term occupancy at the time the appraisal report is written.

Price: The amount asked, offered or paid for a property.

Real Estate: An identified parcel or tract of land, including improvements, if any.

Report: Any communication, written or oral, of an appraisal, appraisal review, or consulting service that is transmitted to the client on completion of an assignment.

Retrospective Value: An estimate of value that is likely to have applied as of a specified historic date. A retrospective value estimate is most frequently sought in connection with appraisals for estate tax, condemnation, inheritance tax, and similar purposes.

Scope of Work: The type and extent of research and analyses in an assignment. A description of the Scope of Work is a USPAP requirement for each appraisal.

Work File: Documentation necessary to support an appraiser's analyses, opinions, and conclusions. It is also a USPAP requirement.

Yield Rate: A rate of return on capital that is usually expressed as a compound annual percentage rate. A yield rate considers all expected property benefits, including the proceeds from sale at termination of the investment.

< Return to Valuation Issues