

## <sup>8</sup>Glossary

**Abatement:** (1) An official reduction or elimination of one's assessed valuation after completion of the original assessment. (2) An official reduction or elimination of one's tax liability after completion of the tax roll.

**Ad Valorem:** According to value.

**Ad Valorem Tax:** A tax levied in proportion to the value of the thing(s) being taxed. Exclusive of exemptions, use-value assessment provisions, and the like, the property tax is an ad valorem tax.

**Adverse Land Use:** A land use that decreases the value of nearby properties, usually because the adverse use is incompatible with the uses of the neighboring properties. A garbage dump near a residential neighborhood is an example of adverse land use.

**Age/Life Method:** A method of estimating accrued depreciation founded on the premise that, in the aggregate, a neat mathematical function can be used to infer accrued depreciation from the age of a property and its economic life. Another term is "straight-line depreciation" (see depreciation, accrued; and depreciation method, straight-line).

**Air Rights:** The right to use space above real estate. A right to use and occupy the space lying above a stated elevation or within certain distances above the ground surface, in conjunction with specified spaces on the surface for the support of foundations; for example, the rights granted by railroads to build above their right-of-ways.

**Appeal:** A process in which a property owner contests an assessment either informally or formally.

**Appraisal:** (1) The act of estimating the money value of property. (2) The money value of property as estimated by an appraiser. (3) Of or pertaining to appraising and related functions, for example, appraisal practice, appraisal services. Compare assessment.

**Appraisal, Complete:** The act or process of estimating value or an estimate of value performed without invoking the departure provision (USPAP).

**Appraisal Card, Building:** A card used by an assessor or appraiser on which is carried a sketch or photograph of a building, a description of its location, a list of the principal factors affecting its reproduction cost and depreciation, and the calculations by which such cost and depreciation are estimated. Note: The building appraisal card is frequently combined with the land appraisal card into a single document. In such event, the combination card may be used for a composite appraisal as well as for a summation appraisal. Also called a property record card.

**Appraisal Card, Land:** A card used by an assessor or appraiser on which is carried a sketch or an adequate description of a parcel of land, a description of its location, a list of the principal factors affecting its market value, and the calculations by which the market value is estimated.

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<sup>8</sup> (International Association of Assessing Officers. Glossary for Property Appraisal and Assessment. 1997. (Chicago: IAAO).

**Appraisal Date:** The date as of which a property's value is estimated.

**Appraisal Foundation, The:** The organization authorized by the United States Congress as the source of appraisal standards and appraiser qualifications.

**Appraisal Methods:** The three methods of appraisal, that is, the cost approach, income approach, and sales comparison approach.

**Appraisal Principles:** The economic concepts underlying appraisal. See under principle of: anticipation, balance, change, conformity, contribution, and substitution. See also competition; demand; highest and best use; and variable proportions, law of.

**Appraisal Report:** The oral or written communication of a completed appraisal.

**Appraisal Standards Board:** The division of The Appraisal Foundation that develops, publishes, interprets, and amends the Uniform Standards of Professional Appraisal Practice on behalf of appraisers and users of appraisal services.

**Appraise:** To make an estimate of value, particularly of the value of property.

**Appraiser:** One who estimates the value of property; more commonly, one of a group of professionally skilled persons holding themselves out as experts in valuation.

**Appreciation:** Increase in value of a property, in terms of money, from causes other than additions and betterments. For example, a farm may appreciate if a shopping center is built nearby, and property of any sort may appreciate as a result of inflation. Contrast depreciation.

**Array:** An ordered arrangement of data, such as a listing of sales ratios, in order of magnitude.

**Assemblage:** The assembling of adjacent parcels of land into a single unit. Compare plottage.

**Assessed Value:** (1) A value set on real estate and personal property by a government as a basis for levying taxes. (2) The monetary amount for a property as officially entered on the assessment roll for purposes of computing the tax levy. Assessed values differ from the assessor's estimate of actual (market) value for three major reasons: fractional assessment ratios, partial exemptions, and decisions by assessing officials to override market value. The process of gathering and interpreting economic data to provide information that can be used by policymakers to formulate tax policy.

**Assessment:** (1) In general, the official act of determining the amount of the tax base. (2) As applied to property taxes, the official act of discovering, listing, and appraising property, whether performed by an assessor, a board of review, or a court. (3) The value placed on property in the course of such act.

**Assessment, Doomage:** An assessment made without adequate information when a taxpayer fails to comply with laws requiring him or her to list his or her property for taxation. Compare assessment, arbitrary; assessment, penalty.

**Assessment, Unit:** An assessment involving a composite appraisal of a property, as distinguished from an assessment involving a summation appraisal or a fractional appraisal. Compare

assessment, central. Note: Unit assessment is generally limited to specified properties extending beyond the confines of a local assessment district, but it is also applicable to properties wholly within a local assessment district.

**Assessment Date:** The status date for tax purposes. Appraised values reflect the status of the property and any partially completed construction as of this date.

**Assessment Equity:** The degree to which assessments bear a consistent relationship to market value.

**Assessment Level:** The common or overall ratio of assessed values to market values.

**Assessment Period:** (1) The period beginning with the assessment date and ending with the date on which the assessor is required to complete the original assessment. (2) Sometimes used synonymously with assessment year.

**Assessment Progressivity (Regressivity):** An appraisal bias such that high-value properties are appraised higher (or lower) than low-value properties in relation to market values. See price-related differential.

**Assessment Ratio:** (1) The fractional relationship an assessed value bears to the market value of the property in question. (2) By extension, the fractional relationship the total of the assessment roll bears to the total market value of all taxable property in a jurisdiction. See level of assessment and fractional assessments.

**Assessment Ratio Study:** An investigation intended to determine the assessment ratio and assessment equity.

**Assessment Roll:** The basis on which the property tax levy is allocated among the property owners in a jurisdiction with taxing powers. The assessment roll usually lists an identifier for 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 improvements, applicable exemption codes, and the total assessed value. Synonyms include cadastre, list, grand list, abstract of ratable, and rendition.

**Assessment-Sale Price Ratio:** The ratio of the assessed value to the sale price (or adjusted sale price) of a property.

**Assessment Year:** (1) A year beginning on the day after the assessment date and ending on the assessment date in the calendar year next following. (2) The 365 days beginning with the appraisal date.

**Assessor:** (1) The head of an assessment agency; sometimes used collectively to refer to all administrators of the assessment function. (2) The public officer or member of a public body whose duty it is to make the original assessment.

**Average:** The arithmetic mean.

**Average Deviation:** The arithmetic mean of the absolute deviations of a set of numbers from a measure of central tendency, such as the median. Taking absolute values is generally understood without being stated. The average deviation of the numbers 4, 6, and 10 about their median (6) is  $(2 + 0 + 4) / 3 = 2$ . The average deviation is used in computing the coefficient of dispersion (COD).

**Bias:** A statistic is said to be biased if the expected value of that statistic is not equal to the population parameter being estimated. A process is said to be biased if it produces results that vary systematically with some factor that should be irrelevant. In assessment administration, assessment progressivity (regressivity) is one kind of possible bias.

**Block:** An urban area, usually consisting of several lots, enclosed on all sides by public streets or by public streets and a river, a railroad right-of-way, or other more or less permanent boundary. Sometimes called a "Square."

**Board of Appeals:** A public body (other than a court) charged with the duty of hearing and deciding appeals taken by taxpayers or tax districts on assessments established by public officers or bodies other than the courts. Synonymous with "Board of Tax Appeals." Note: The decisions of such a board are subject to further review by the courts on matters of law, but its findings are often made conclusive as to matters of fact. Compare board of equalization; board of review.

**Board of Equalization:** A public body (other than a court) having jurisdiction over two or more assessment districts which together make up a single tax district, charged with the duty of examining the assessment rolls of several assessment districts, and empowered, on appeal or on its own initiative, to revise assessments by district totals and/or by totals for particular classes of property. Compare board of appeals; board of review. Note: A board of equalization may also be a board of review.

**Bundle of Rights:** The six basic rights associated with the private ownership of property: right to use; sell; rent or lease; enter or leave; give away; and refuse to do any of these.

**Business Enterprise Value:** A term applied to the concept of an intangible, nonrealty component of a property's value probably ascribable to supramarginal management competence. Different from goodwill and going-concern value.

**Cadastral Map:** A scale map displaying property ownership boundaries and showing the dimensions of each parcel with related information such as parcel identifier, survey lines, and easements. Annotations on recent sales prices and land value are sometimes added.

**CAMA:** See computer-assisted mass appraisal.

**Capital Expenditure:** Cash investments to acquire or improve an asset that will have a life of more than one year; as distinguished from cash outflows for expense items normally considered as part of the current operations.

**Capitalization:** The phenomenon whereby one or more events of economic consequence expected to happen in the future exert an economic effect on values, processes, and decisions in the present. Specifically, the conversion of expected income and rate of return into an estimated present value in the income approach to value. Property taxes, anticipated changes, and land-related government services may also be capitalized. See also yield capitalization.

**Capitalization of Ground Rent:** Method of estimating land value in the absence of comparable sales; applicable where there is an income stream; for example, to farmland and commercial land leased on a net basis.

**Capitalization of Income Method:** Method of estimating accrued depreciation similar to the sales comparison approach except that estimated values (appraisals) based on the income approach are used instead of comparable sales. Reliability depends on accurate data and appropriate methods.

**Capitalization Rate:** Any rate used to convert an estimate of future income to an estimate of market value; the ratio of net operating income to market value.

**Capitalized Leased Property:** Property included on the company books under capital leases. Capital leases are leases that are effectively considered to be sales under "Generally Accepted Accounting Principles" (GAAP).

**Capitalized Value:** The value of a property estimated by the income approach to value.

**Capital Structure:** (1) The manner in which a firm is financed, that is, the amount and kind of equity and debt that satisfies the need for funds. (2) The financing mix of debt and equity. Note: Capital structure may be based on book values or market values.

**Cash-Equivalent Sale Price:** An indicator of market value that is a refinement over the raw sale price, in that the effects of unusual financing arrangements and extraneous transfers of personal property have been removed. See also adjusted sale price.

**Cash Flow:** Amount of money left after subtracting operating expenses and debt service from rents collected. Before-tax cash flow (also called "cash throw-off" ) signifies that income tax effect has not been considered; after-tax cash flow includes income tax savings generated by ownership.

**Cash Flow Analysis:** A study of the anticipated movement of cash into or out of an investment.

**Caveat Emptor:** "Let the buyer beware." A common maxim stating that the buyer purchases at his or her own risk.

**Chattel:** Tangible personal property. See also property and mortgage, chattel.

**Chronological Age:** The number of years elapsed since an original structure was built. Synonyms are actual age and historical age. Contrast with effective age.

**Classification:** (1) The act of segregating property into two or more classes for the application of different effective tax rates by means of one or more special property taxes (see tax, special property) or a classified property tax system. For a representative scheme, see property use category. (2) In a geographic information system, the process of assigning individual pixels of a multispectral image to categories, generally on the basis of spectral reflectance characteristics.

**Classified Property Tax System:** (1) A system intended by law to tax various kinds of property at different effective tax rates. Thus, two different kinds of property worth the same amount of money have different tax bills. Although this could be done by applying different tax rates to

different kinds of property that share a common assessment ratio, the usual approach is to apply a uniform tax rate to all properties and establish by law what the assessment ratio should be for each class of property. (2) Loosely, by extension, a set of assessment practices that has this result contrary to laws requiring uniformity.

**Closing:** The act of finalizing a real estate transaction that executes and delivers mortgage or property title documents.

**Closing Costs:** Settlement fees and expenses incurred in transferring property ownership that are paid at the real estate closing.

**Closing Statement:** A listing of incurred closing costs of the buyer and seller in closing a real estate transaction.

**CMS:** See Cadastral Mapping Specialist.

**Coefficient of Dispersion (COD):** The average deviation of a group of numbers from the median expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.

**Community Property:** Property which is acquired by either spouse during their marriage that becomes owned by them equally.

**Comparable Sales; Comparables:** (1) Recently sold properties that are similar in important respects to a property being appraised. The sale price and the physical, functional, and locational characteristics of each of the properties are Compared to those of the property being appraised in order to arrive at an estimate of value. (2) By extension, the term "comparables" is sometimes used to refer to properties with rent or income patterns comparable to those of a property being appraised.

**Comparative Unit Method:** (1) A method of appraising land parcels in which an average or typical value is estimated for each stratum of land. (2) A method of estimating replacement cost in which all the direct and indirect costs of a structure (except perhaps architect's fees) are aggregated and specified with reference to a unit of comparison such as square feet of ground area or floor area, or cubic content. Separate factors are commonly specified for different intervals of the unit of comparison and for different story heights, and separate schedules are commonly used for different building types and quality classes..

**Comparison Unit:** Comparison units express an overall value attributable to a property in terms of the value per unit of measure. The sale price of a vacant lot, for example, can be expressed as a cost per square foot or cost per front foot. The income produced by a property can also be expressed in comparison units, such as rent per square foot.

**Computer-Assisted Mass Appraisal (CAMA):** A system of appraising property, usually only certain types of real property, that incorporates computer-supported statistical analyses such as multiple regression analysis and adaptive estimation procedure to assist the appraiser in estimating value.

**Condemnation:** (1) The exercise of the right of eminent domain to secure legal title to private property required for a public use. (2) A declaration by a constituted authority to the effect that a

structure is unfit for occupancy or dangerous to persons or other property, often accompanied by exercise of the police power to limit or prohibit occupancy or to require demolition of the structure. Note: The term "expropriation" is also used to convey the first of these meanings.

**Condition:** A judgment of the depreciation of an improvement. Note: This is a difficult area of comparison because although the condition of the subject is known, it is difficult to know the condition of the comparable. Differences in condition may justify variances in selling prices of similar assets. An investigation of the condition of the comparables should be done, if possible.

**Condominium/Condominium Unit:** A condominium is a separately owned unit of real property in the same structure with other such units; the unit owners hold an undivided interest in common elements of the property, such as a lobby, swimming pool, and grounds. See also cooperative.

**Confidence Interval:** A range of values, calculated from the sample observations that are believed, with a particular probability, to contain the true population parameter (mean, median, COD). The confidence interval is not a measure of precision for the sample statistic or point estimate, but a measure of the precision of the sampling process (see reliability).

**Confidence Level:** The required degree of confidence in a statistical test or confidence interval; commonly 90, 95, or 99 percent. A 95 percent confidence interval would mean, for example, that one can be 95 percent confident that the population measure (such as the median or mean appraisal ratio) falls in the indicated range.

**Consistent Use:** The concept that land should not be valued on the basis of one use while the improvements are valued on the basis of another.

**Construction in Progress:** Property that is in a process of change from one state to another, such as the conversion of personal property from inventory to fixed asset by installation or the conversion of personalty to realty by becoming a fixture.

**Contiguous:** Sharing a property boundary; adjacent.

**Contract Rent:** The actual amount of rent, per unit of time, that is specified in the contract (lease). For very old contracts, the contract rent may be substantially less than the rent the property would bring today. Compare market rent.

**Contributory Value:** The amount a component of a property contributes to the total market value. For improvements, contributory value must be distinguished from cost.

**Conveyances:** Legal documents that transfer ownership of property. Deeds and wills are examples of conveyances. Compare real estate transfer documents.

**Cooperative:** A business entity, usually a corporation, that holds title to realty and that grants rights of occupancy to its shareholders by means of proprietary leases or similar devices. A cooperatively owned apartment building is legally different from a building consisting of condominium units. See also condominium and blanket mortgage.

**Corner Influence:** (1) The effect of location at, or proximity to, the intersection of two streets upon the value of a lot or parcel. (2) The increment of value resulting from such location or

proximity; found most often in commercial properties because of greater ease of entry and exit, accessibility to higher volume of traffic, and increased show-window and advertising space.

**Cost:** The money expended in obtaining an object or attaining an objective; generally used in appraisal to mean the expense, direct and indirect, of constructing an improvement.

**Cost, Construction:** The sum of direct costs of materials and labor plus contractor's indirect costs to build an improvement.

**Cost, Depreciated Reproduction:** The reproduction cost of a given property, less the estimated amount of accumulated depreciation on such property. See also reproduction cost new.

**Cost, Direct:** A cost which can be traced directly to a particular unit of output, for example, cost of raw materials or certain labor costs. Note: A direct cost usually varies more or less directly with the number of units output. Synonymous with "prime cost." Contrast cost, overhead.

**Cost, Fixed:** A cost that is more or less inevitable and continuous; that does not vary with production levels; and that cannot be changed in the short run. Synonymous with "fixed charge." Compare cost, overhead.

**Cost, Historic:** The cost of an asset not adjusted for inflation since the date of purchase, as opposed to the current replacement or reproduction cost. Usually the basis for depreciation in accounting, which has a requirement that all information on financial statements be presented in terms of the item's original cost to the entity. Also called original cost.

**Cost, Original:** The cost of acquisition of a property by its present owner, plus the cost of any additions and betterments made by such owner, whether or not such costs represent prudent investments. Also called "actual cost" and "historical cost."

**Cost, Overhead:** A cost that is not directly traceable to any given unit of output, for example, salaries of managers, interest on funded debt, and property taxes. Sometimes referred to as "indirect cost." Note: An overhead cost does not ordinarily vary with any close relationship to units of output. It is impossible to draw a sharp line of demarcation between overhead and direct costs; the difference is purely one of degree, and any classification of costs into these two groups is necessarily somewhat arbitrary. Contrast cost, direct.

**Cost, Trended:** The original cost adjusted to current price levels by means of composite or individual price indexes of items entering into such cost. Note: The trended cost should closely approximate the reproduction cost if the price indexes are appropriately selected and properly constructed.

**Cost Approach:** (1) One of the three approaches to value, the cost approach is based on the principle of substitution—that a rational, informed purchaser would pay no more for a property than the cost of building an acceptable substitute with like utility. The cost approach seeks to determine the replacement cost new of an improvement less depreciation plus land value. (2) The method of estimating the value of property by: (a) estimating the cost of construction based on replacement or reproduction cost new or trended historic cost (often adjusted by a local multiplier); (b) subtracting depreciation; and, (c) adding the estimated land value. The land value is most frequently determined by the sales comparison approach.



**Cost Manual:** A guide, containing pictures, specifications of structures, and cost schedules, used to help classify construction quality and estimate the cost of replacing a structure.

**Cost of Capital:** The opportunity cost of capital.

**Cost of Equity:** See equity yield rate.

**Cost Study:** The determination of replacement cost new.

**Cost to Cure:** Estimated cost to correct or replace a component or defect within a property.

**Cost Trend Factor:** A factor derived from a cost index used to estimate the contemporary cost of something based on its historic cost.

**Current-Market-Value Appraisals:** Appraisals that reflect contemporary market values rather than market values at some point in the past. Currency is commonly taken to be implicit in the term market value.

**Declaration:** A term occasionally used to designate a property list filed by a taxpayer.

**Deed:** A document (or written legal instrument) which, when executed and delivered, conveys an interest in or legal title to a property.

**Deed, Quitclaim:** A deed in which the grantor conveys or relinquishes all interests that he or she may have in a property, without warrant as to the extent or validity of such interests.

**Deed, Tax:** A deed by which title to real property, sold to discharge delinquent taxes, is transferred by a tax collector or other authorized officer of the law to the purchaser at a tax sale.

**Deed, Trust:** (1) Broadly, a deed by which title to property is transferred to a trustee to be held in trust. (2) Specifically, a deed by which title to property is transferred, conditionally or unconditionally, to a trustee to be held for the benefit of creditors or obligors of the grantor. (3) Loosely, the agreement made between an issuer of bonds and the holders of such bonds that is deposited with the trustee, whether or not such agreement involves the transfer of property to the trustee. Also called "deed of trust."

**Deed, Warranty:** A deed containing a covenant of warranty whereby the grantor of an estate of freehold guarantees that the title that he or she undertakes to transfer is free from defects and that the property is unencumbered except as stated, and whereby the grantor, for him- or herself and his or her heirs, undertakes to defend and protect the grantee against any loss that may be suffered by reason of the existence of any other title or interest in the property existing at the time the deed was executed and not excepted therein. Contrast deed, quitclaim.

**Deed Restriction:** A limitation to property rights that transfers with the property regardless of the owner.

**Depletion:** A decrease in land value due to the removal of trees, minerals, or other such resources. Contrast depreciation; obsolescence.

**Depreciation:** Loss in value of an object, relative to its replacement cost new, reproduction cost new, or original cost, whatever the cause of the loss in value. Depreciation is sometimes subdivided into three types: physical deterioration (wear and tear), functional obsolescence (suboptimal design in light of current technologies or tastes), and economic obsolescence (poor location or radically diminished demand for the product).

**Depreciation, Accrued:** (1) The amount of depreciation, from any and all sources, that affects the value of the property in question on the effective date of the appraisal. (2) In accounting, the amount reserved each year or accumulated to date in the accounting system for replacement of a building or other asset. When depreciation is recorded as a dollar amount, it may be deductible from total plant value or investment to arrive at the rate base for public utilities.

**Depreciation, Book:** An accounting term referring to the total accruals recorded on the books of the owner of property summarizing the systematic and periodic expenses charged toward amortizing the investment of limited-life property over its expected life.

**Depreciation, Curable:** That part of depreciation that can be reversed by correcting deferred maintenance and by remodeling to relieve functional obsolescence. See also cost to cure.

**Depreciation, Economic:** (1) Depreciation due either (a) to an increase in supply of the property under consideration or (b) to a reduction in monetary demand for properties of the type under consideration unaccompanied by shifts in demand from such properties to other properties and/or personal services (preferred). (2) Depreciation of any sort other than physical depreciation. Note: A depression is accompanied by economic depreciation of the type indicated in 1(b) because of a general decline in purchasing power. Depressions are also accompanied by obsolescence because of changes in the relative distribution of purchasing power. Contrast depreciation, physical; obsolescence.

**Depreciation, Functional:** Synonymous with the preferred term obsolescence.

**Depreciation, Observed:** The amount of depreciation, expressed as a percentage of original or reproduction cost new, estimated on the basis of an actual inspection of the property.

**Depreciation, Physical:** Depreciation arising solely from a lowered physical condition of the property or a shortened life span as the result of ordinary use, abuse, and action of the elements.

**Depreciation, Structural:** Synonymous with the preferred term physical depreciation.

**Depth Curve:** A graph of depth factors showing the estimated percentage relationships between the front-foot values of a given lot and the front-foot value of a lot of standard depth as the depth of the given lot varies. Note: Usually the depth of the given lot is plotted on the x-axis, and the percentage relationship between the front-foot value of the given lot and that of a lot of standard depth on the y-axis.

**Depth Factor:** The ratio of the estimated front-foot value of a lot of more or less than standard depth to the estimated front-foot value of a lot of standard depth.

**Digitization:** (1) The process of converting spatial information, originally compiled on orthographic materials or base maps, into digital form for incorporation into a geographic information system. (2) Referencing of ground control points or lines to a remotely sensed image.

**Discounted Cash Flow Analysis:** (1) A yield capitalization method used to calculate the present value of anticipated future cash flows. (2) Analysis of the present value of an income-producing property by isolating differences in the timing of cash flows. Net cash flows from all time intervals involved in the analysis are discounted to present value by an appropriate discount rate.

**Discounting:** The process of estimating the present worth of an anticipated item of income or expense by determining the amount of money which, if presently invested and allowed to accumulate at compound interest, will exactly equal the expected item of income or expense at the time when it becomes due. Note: For example, the value of \$100 due three years hence, assuming a 6 percent discount rate, is  $\$100/1.063 = \$83.96$ ; the value of a perpetual annuity of \$100 is  $\$100/1.06 + \$100/1.062 + \$100/1.063 + \dots = \$100/.06 = \$1,666.67$ .

**Discount Rate:** (1) The rate of return on investment; the rate an investor requires to discount future income to its present worth. The discount rate is made up of an interest rate and an equity yield rate. Theoretical factors considered in setting a discount rate are the safe rate earned from a completely riskless investment (this rate may reflect anticipated loss of purchasing power due to inflation) and compensation for risk, lack of liquidity, and investment management expenses. The discount rate is most often estimated by band-of-investment analysis or sales comparison analysis that estimates typical internal rates of return. (2) In monetary policy, the rate that the Federal Reserve Bank charges member banks to borrow. Compare recapture rate.

**Discovery:** (1) The process whereby the assessor identifies all taxable property in the jurisdiction and ensures that it is included on the assessment roll. (2) That part of a lawyer's trial preparation in which witnesses from the opposing side answer questions.

**Divided Rights:** Rights to property that have been divided among several owners in partnerships, joint tenancy, tenancy in common, and time-share units.

**Domicile (or Domicil):** That particular locality wherein a person is legally deemed to have his or her true home or place of abode. Note: A person always has one, and only one, domicile. Domicile at one place is not lost until a new domicile is established elsewhere. In case one has more than one place of abode, domicile is determined with reference to one's attitude rather than in accordance with one's physical presence in one or other of such places. Compare residence.

**Easement:** (1) Broadly, any non-possessory interest held by one person in land possessed by another whereby the first person is accorded partial use of such land or the second person is restricted in the use of his or her land. (2) A right held by one person to use the land of another for a specific purpose, such as access to other property. (3) In a restricted sense, a non-possessory interest held by one person, by reason of his or her possession of a given piece of land (the dominant estate), in a second piece of land possessed by another (the servient estate), whereby the first person is accorded partial use of the second piece of land without the privilege of taking a portion of its substance. **Note:** The non-possessory interests in land that are included in the first of the above definitions but not in the second are: (1) Servitudes, in which there is not necessarily a dominant estate in land; (2) profits a prendre, which are rights to take the substance of, or income

from, the servient estate; and (3) restrictions, which limit the possessor of the servient estate in the use of his or her land without according its partial use to the owner of the non-possessory interest.

**Economic Life:** The period during which a given tangible asset, building, or other improvement to property is expected to contribute (positively) to the value of the total property. This period is typically shorter than the period during which the improvement could be left on the property, that is, its physical life.

**Economic (External) Obsolescence:** (1) A cause of depreciation that is a loss in value as a result of impairment in utility and desirability caused by factors outside the property's boundaries. (2) Loss in value of a property (relative to the cost of replacing it with a property of equal utility) that stems from factors external to the property. For example, a buggy-whip factory, to the extent that it could not be used economically for anything else, suffered substantial economic obsolescence when automobiles replaced horse-drawn buggies.

**Effective Age:** The typical age of a structure equivalent to the one in question with respect to its utility and condition, as of the appraisal date. Knowing the effective age of an old, rehabilitated structure or a building with substantial deferred maintenance is generally more important in establishing value than knowing the chronological age.

**Effective Tax Rate:** (1) The tax rate expressed as a percentage of market value; will be different from the nominal tax rate when the assessment ratio is not equal to 1. (2) The relationship between dollars of tax and dollars of market value of a property. The rate may be calculated either by dividing tax by value or by multiplying a property's assessment level by its nominal tax rate.

**Egress:** An outlet or exit or means of exiting.

**Elasticity:** (1) The responsiveness of supply and demand to changes in price. Supply or demand that changes rapidly in response to price changes is "elastic." Supply or demand that changes slowly in response to price changes is "inelastic." (2) A measure of the responsiveness of tax yields to changes in economic conditions. The yield of an elastic tax increases rapidly in a growing economy. The yield of an inelastic tax increases slowly. Often measured by the formula: percent change in tax percent change in personal income

**Eminent Domain:** The right by which a sovereign government, or some person acting in its name and under its authority, may acquire private property for public or quasi-public use upon payment of reasonable compensation, but without consent of the owner. See also condemnation.

**Encroachment:** The unauthorized trespassing of an improvement on the domain of another person's land.

**Encumbrance:** Any limitation that affects property rights and value.

**Environmental Assessment:** A report showing the results of investigation into environmental contamination. This report is often required by the EPA and other regulatory agencies to establish the extent of contamination. Depending on the type and extent of contamination suspected, "Phase I" or more extensive "Phase II" assessments may be required. See Phase I and II reports.

**EPA:** The United States Environmental Protection Agency.

**Equalization:** The process by which an appropriate governmental body attempts to ensure that all property under its jurisdiction is assessed at the same assessment ratio or at the ratio or ratios required by law. Equalization may be undertaken at many different levels. Equalization among use classes (such as agricultural and industrial property) may be undertaken at the local level, as may equalization among properties in a school district and a transportation district; equalization among counties is usually undertaken by the state to ensure that its aid payments are distributed fairly.

**Equalized Values:** Assessed values after they have all been multiplied by common factors during equalization.

**Equitable Ownership:** The interest or estate of a person who has a beneficial right in property legally owned by another, for example, the beneficiary of a trust has equitable ownership in the trust property.

**Equity:** (1) In assessment, the degree to which assessments bear a consistent relationship to market value. Measures include the coefficient of dispersion, coefficient of variation, and price-related differential. See also horizontal inequity and vertical inequity. (2) In popular usage, a synonym for tax fairness. (3) In ownership, the net value of property after liens and other charges have been subtracted.

**Escheat:** The right to have property revert to the state for nonpayment of taxes or when there are no legal heirs of someone who dies without leaving a will.

**Escrow:** (1) A written instrument that by its terms imparts a legal obligation but that is placed by the grantor in the hands of a third party, to be held by him or her until the occurrence or nonoccurrence of a specified event, and then only to be delivered to the grantee and to take effect. (2) The agreement under which such instrument is so placed, held, and conditionally delivered.

**Estate:** (1) The interest which a person possesses in a single concrete article of property. (2) The aggregate interests of any person in articles of property of all descriptions. (3) The aggregate property of all descriptions left by a decedent. See also tenancy; real estate.

**Estate, Leasehold:** Any possessory interest in land less than estate of freehold, that is, an estate for years, an estate from year to year (periodic estate), an estate at will, or an estate at sufferance. See leasehold.

**Estate in Fee Simple:** An inheritable, possessory interest in land that may endure until the extinction of all lineal and collateral heirs of the first owner and that may be freely conveyed by its owner; the largest possible estate in land.

**Estate of Freehold:** Any one of the three types of possessory interests in land-fee simple, fee tail, and estate for life-that in feudal times were granted only to freemen. Note: Estates of freehold are said to be estates of indefinite duration and any other estate is said to be "less than freehold."

**Expense:** A cost, or that portion of a cost, which, under accepted accounting procedures, is chargeable against income of the current year.

**Expert Witness:** One who is qualified to render expert testimony.

**External (Economic) Obsolescence:** The loss of appraisal value (relative to the cost of replacing a property with property of equal utility) resulting from causes outside the property that suffers the loss. Usually locational in nature in the depreciation of real estate, it is more commonly marketwide in personal property, and is generally considered to be economically infeasible to cure.

**Factor:** (1) An underlying characteristic of something (such as a house) that may contribute to the value of a variable (such as its sale price), but is observable only indirectly. For example, construction quality is a factor defined by workmanship, spacing of joists, and materials used. Factor definition and measurement may be done subjectively or by a computer-assisted statistical algorithm known as factor analysis. (2) Loosely, any characteristic used in adjusting the sales prices of comparables. (3) The reciprocal of a rate. Assessments may be equalized by multiplying them by a factor equal to the reciprocal of the assessment ratio, and value can be estimated using the income approach by multiplying income by a factor equal to the reciprocal of the discount rate.

**Federal Home Loan Mortgage Corporation (FHLMC)(Freddie Mac):** An organization that facilitates secondary residential mortgages, for savings and loan associations, to increase availability of residential mortgage financing.

**Federal National Mortgage Association (FNMA) (Fannie Mae):** A quasi-governmental agency that purchases mortgages from originators; intended to increase liquidity in the home mortgage market.

**Fee Appraisal:** Appraisal of properties one at a time for pay.

**Fee Simple:** In land ownership, complete interest in a property, subject only to governmental powers such as eminent domain. Also fee simple absolute. See estate in fee simple; fee; and absolute ownership.

**Fiduciary:** Any person who occupies a position of special trust in certain of his or her relationships to another person or persons, for example, an administrator, executor, guardian, receiver, or trustee.

**Fixture:** (1) Attached improvements that can be real or personal property. If attached to the realty in such a manner that its removal would damage the real property or the fixture, the fixture is realty. If the fixture is removable without damage, it is generally considered personal property. (2) An item of equipment that, because of the way it is used, the way it is attached, or both, has become an integral part of a building or other improvement. A fixture, such as a bathtub, is classified as real property, but trade fixtures (fixtures used in the conduct of business) are classified as personal property.

**Floor Area of Building:** The total area of all floors within the finished portion of a building, measured to the center of party walls and to the outside surfaces of other exterior walls. Compare cubic content of building; ground area of building.

**Foreclosure:** The legal process by which a lien on a property is enforced.

**Forfeiture:** Reversion of property (to the state) based on a violation of a law or a stipulated restriction by the owner.

**4-3-2-1 Rule:** An empirical rule that ascribes 40 percent of the value of a standard lot (see lot, standard) to the quarter of the lot fronting on the street, 30 percent to the next quarter, 20 percent to the third quarter, and 10 percent to the rear quarter. Compare Harper rule; Hoffman rule; one-third, two-thirds rule. Note: Lots with a depth greater than the standard lot cannot be valued in accordance with this rule as stated above. The rule is sometimes altered by omitting the word "standard." It thereby becomes applicable to extra deep lots but produces inconsistent results as applied to lots of varying depths.

**Fractional Appraisal Method:** Appraisal of the individual components of a property rather than appraisal of the entire system or unit as a single operating entity.

**Franchise:** A privilege or right that is conferred by grant of government on an individual or a group of individuals; usually an exclusive right to furnish public services or to sell a particular product in a certain geographical area.

**Freddie Mac:** See Federal Home Loan Mortgage Corporation.

**Free and Clear:** Property that is unencumbered by any liens or mortgages.

**Front Foot:** The unit or standard of linear measure used in measuring frontage. Compare unit foot.

**Frontage:** The extent of a parcel of land along a street, road, river, or other traffic artery on which the parcel is said to face.

**Full-Market-Value Assessment Standard:** Assessments for which a law or other standard requires that the assessment ratio equals one.

**Functional Obsolescence:** Loss in value of a property resulting from changes in tastes, preferences, technical innovations, or market standards.

**Functional Organization:** A method of organizing personnel and practices under which the primary division is what is done to achieve the goals of the organization (such as producing the assessment roll) rather than where the activities are done. The latter method is called geographical organization. Functional organization of assessment usually means that special divisions are responsible for appraising properties by type: personalty, residential property, agricultural property, commercial property, industrial property, and vacant land. Improved land is generally the responsibility of the appraiser of the improvement.

**Geographic Information System (GIS):** (1) A database management system used to store, retrieve, manipulate, analyze, and display spatial information. (2) One type of computerized mapping system capable of integrating spatial data (land information) and attribute data among different layers on a base map.

**Global Positioning System (GPS):** A navigational and positioning system by which the location of a position on or above the earth can be determined by a special receiver at that point interpreting signals received simultaneously from several of a constellation of special satellites.

**Going-Concern Value:** The enhanced or synergistic value of assets due to their existence within, or assemblage into, an operating and economically viable business that is expected to continue its

operation in the future with no intention or necessity of liquidation or the material alteration of the scale of operation.

**Goodwill:** The economic advantage over competitors that a business has acquired by virtue of habitual patronage of customers.

**Government National Mortgage Association (GNMA)(Ginnie Mae):** A government-owned and government-financed agency that subsidizes mortgages through its secondary mortgage market and issues federally insured mortgage-backed securities. This agency falls within the Department of Housing and Urban Development.

**Grantee:** One who acquires property by voluntary conveyance.

**Grantor:** One who voluntarily conveys property, whether by sale, gift, lease, or otherwise.

**Ground Area of Building:** The total area included at mean grade level within the outside surfaces of the exterior walls and the center lines of party walls, not including the area under open porches or steps or in courts or shafts. Compare cubic content of building; floor area of building.

**Hazardous Waste:** A solid waste that may pose a present or potential hazard to health or to the environment. This includes any solid waste that is ignitable, corrosive, toxic, or reactive.

**Hectare:** Unit of land measure equal to 100 meters square. Equivalent to 2,471 acres.

**Highest and Best Use:** A principle of appraisal and assessment requiring that each property be appraised as though it were being put to its most profitable use (highest possible present net worth), given probable legal, physical, and financial constraints. The principle entails first identifying the most appropriate market, and, second, the most profitable use within that market. The concept is most commonly discussed in connection with underutilized land.

**Historical Age:** The number of years elapsed since an original structure was built. Synonyms are actual age and chronological age. See cost, original.

**IAAO:** International Association of Assessing Officers.

**Improvement:** Anything done to raw land with the intention of increasing its value. A structure erected on the property constitutes one very common type of improvement, although other actions, such as those taken to improve drainage, are also improvements. Although such cases are rarely intentional, "improvements" can conceivably diminish the value of the land; note, however, that easements restricting the use and value of land are not considered improvements.

**Improvements:** Buildings, other structures, and attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains, and sewers. Note: Sidewalks, curbing, sewers, and highways are sometimes referred to as "betterment," but the term "improvements" is preferred.

**Improvement to Land:** Designed to enhance a site's utility for general use (fill, water, and wastewater lines, for example), or to reshape the land's natural contours for more specific use.



(stock tanks, for example). Any publicly constructed improvement that does not fulfill a specific use—such as curbs, gutters, and sidewalks—constitutes an improvement to land.

**Improvements Other than Buildings:** A fixed asset account that reflects the acquisition value of permanent improvements, other than buildings, that add value to land. Examples of such improvements are fences, retaining walls, sidewalks, pavements, gutters, and tunnels. This account contains the purchase or contract price; if improvements are obtained by gift, the account reflects the appraised value at time of acquisition.

**Income:** The payments to its owner that a property is able to produce in a given time span, usually a year, and usually net of certain expenses of the property.

**Income Approach:** One of the three approaches to value, based on the concept that current value is the present worth of future benefits to be derived through income production by an asset over the remainder of its economic life. The income approach uses capitalization to convert the anticipated benefits of the ownership of property into an estimate of present value.

**Income Capitalization:** The process of dividing a property's net annual income by a capitalization rate in order to arrive at an estimated value.

**Income Stream:** The series of payments (usually net income payments) receivable from an investment over the life of the investment. The series, of course, may be of any conceivable nature, including a constant series of equal payments (level), a series of decreasing payments that decrease by equal amounts each period (arithmetically decreasing), a series of increasing payments that grow larger each period at a constant rate (geometrically increasing), and so on.

**Incurable:** A part of depreciation for which it is not economical to correct the condition, and if corrected, the cost of correcting the condition exceeds the value added.

**Indemnification:** Bonds established to provide security against future costs resulting from previously existing contamination; usually provided by the seller to facilitate a sale of contaminated property.

**Indirect Costs:** (1) Overhead costs (see cost, overhead). (2) Costs incurred in construction away from the site. For example: fees, permits, insurance, and loans.

**Inelastic:** See elasticity.

**Ingress:** An entrance or means of entering.

**Insolvent:** Being incapable of meeting current debts.

**Interest (Interest Rate):** The premium paid for the use of money; a (rate of) return on capital; the equilibrium price in money markets. The interest rate usually incorporates a risk factor, an illiquidity factor, a time-preference factor, an inflation factor, and potentially, other factors. See also discount rate.

**Intrinsic value:** (1) The inherent worth of a thing. (2) Value that remains when cost to cure a contamination problem exceeds original market value. See value in use.

**Investment Value:** The worth of an investment property to a particular investor. Investment value may or may not coincide with market value depending on the requirements of the specific investor.

**Investment Yield:** The rate of return on capital that is generated from an investment over a period of ownership, including both income and resale.

**Inwood Coefficient:** A factor used to obtain the present worth of a level stream of income; also known as the present worth of 1 per period factor.

**Iowa Type Curve:** A classification of survivor curves by their basic mathematical shape into three families of, respectively, 6, 7, and 5 curves; hence the alternate designation of "Iowa 18 type curves." Type survivor curves are used to smooth original survivor curves, to help determine the probable life of single units, and as a means of checking the adequacy of the depreciation reserve balance or of estimating an adjustment factor in the appraisal procedure.

**IRV:** A mnemonic for the basic equation of the income approach:  $\text{Income} = (\text{Capitalization}) \text{Rate} + \text{Value}$ .

**Iteration:** One repetition or repeated cycle in a process of estimating values as close as possible to actual values by repeated approximations. The results of each approximation are used in the next one.

**Jurisdiction:** (1) The right and power to interpret and apply the law; also, the power to tax and the power to govern. (2) The territorial range of authority or control.

**Land:** (1) In economics, the surface of the earth and all the natural resources and natural productive powers over which possession of the earth's surface gives man control. (2) In law, a portion of the earth's surface, together with the earth below it, the space above it, and all things annexed thereto by nature or by man. See also improvement.

**Land Ratio:** The ratio of land area to building area. The land ratio can be an important factor in grouping properties for income approach appraisal by means of direct sales comparisons.

**Land, Improved:** Land that has been made more valuable by the application of labor or labor and capital to it or public property adjacent to it.

**Land-to-Building Ratio (Land-to-Improvement Ratio):** The proportion of land area to gross building (improvement) area. For a given use, the most frequently occurring ratio will be that of a functioning economic unit.

**Landlord:** Synonymous with lessor.

**Lease:** A written contract by which the lessor (owner) transfers the rights to occupy and use real or personal property to another (lessee) for a specified time in return for a specified payment (rent).

**Leased Fee Estate:** An ownership interest held by a lessor with the rights of use and occupancy conveyed by lease to another.

**Leasehold Estate:** Interests in real property under the terms of a lease or contract for a specified period of time, in return for rent or other compensation; the interests in a property that are associated with the lessee (the tenant) as opposed to the lessor (the property owner). May have value when market rent exceeds contract rent.

**Leasehold Improvements:** Items of personal property such as furniture and fixtures associated with a lessee (the tenant) that have been affixed to the real property owned by a lessor.

**Legal Description:** A delineation of dimensions, boundaries, and relevant attributes of a real property parcel that serve to identify the parcel for all purposes of law. The description may be in words or codes, such as metes and bounds or coordinates (see coordinate system). For a subdivided lot, the legal description would probably include lot and block numbers and subdivision name.

**Lessee:** The person receiving a possessory interest in property by lease, that is, the owner of a leasehold estate.

**Lessor:** The person granting a possessory interest in property by lease, that is, the conveyor of a leasehold estate, the holder of a leased fee estate.

**Levy:** See property tax levy.

**Liability:** (1) Any debt or legal obligation. (2) Used broadly to include the obligations, legal or equitable, of a business entity to its owners as well as its creditors.

**Lien:** (1) The legal right to take or hold property of a debtor as payment or security for a debt. (2) Any legal hold or claim, whether created voluntarily or by operation of law, which a creditor has on all or specified portions of the property owned by a person indebted to him. Compare mortgage.

**Lien Date:** The date on which an obligation, such as a property tax bill (usually in an amount yet to be determined), attaches to a property and the property thus becomes security against its payment. The term is usually synonymous with appraisal date but is not necessarily so.

**Life Estate:** An interest in property that lasts only for a specified person's lifetime; thus the owner of a life estate is unable to leave the property to heirs.

**Life Tenant:** The recipient of a life estate.

**Liquid Assets:** Assets that can quickly be converted into cash.

**Liquidity:** The ease with which an asset may be converted into cash.

**List, Grand:** (1) The combined contents of all individual tax lists within a given tax or assessment district after the completion of the original assessment and administrative review. (2) Occasionally, a list of the record owners of real estate. Compare assessment roll.

**Locally Assessed Property:** Property for which the assessed value is set by the assessing official of the local jurisdiction within which the property is located.

**Locational Obsolescence:** A component of economic obsolescence; loss in value due to suboptimal siting of an improvement.

**Lot:** Any one of the marketable parcels into which a tract of land is divided upon platting; applied especially to urban land. Note: A lot may or may not be coterminous with a parcel of land.

**Lot, Corner:** A lot located in the angle formed by two intersecting streets.

**Lot, Irregular:** A lot which is not rectangular in shape.

**Lot, Restricted:** A lot whose owner is restricted as to its use or sale by the terms of a private contractor by operation of law; for example, a lot upon which construction is restricted to residential buildings of an approved style and of a minimum cost. Note: Restrictions are ordinarily created by zoning laws and ordinances or by private contract on the deed of property.

**Map:** A conventional representation, usually on a plane surface and at an established scale, of the physical features (natural, artificial, or both) of a part or the whole of the earth's surface. Features are identified by means of signs and symbols, and geographical orientation is indicated.

**Map, Lot, and Block:** A map of an urban area showing the division of land into lots and blocks, with dimensions.

**Map, Tax:** A map drawn to scale and delineated for lot lines or property lines or both, with dimensions or areas and identifying numbers, letters, or names for all delineated lots or parcels.

**Map, Topographic:** A map showing the horizontal and vertical locations of natural and artificial features. It is distinguished from a planimetric map by the presence of quantitative symbols showing the relief.

**Market:** (1) The topical area of common interest in which buyers and sellers interact. (2) The collective body of buyers and sellers for a particular product.

**Marketability:** The salability of a property at a specific time, price, and terms.

**Market Adjustment Factors:** Market adjustment factors, reflecting supply and demand preferences, are often required to adjust values obtained from the cost approach to the market. These adjustments should be applied by type of property and area and are based on sales ratio studies or other market analyses. Accurate cost schedules, condition ratings, and depreciation schedules will minimize the need for market adjustment factors.

**Market Analysis:** A study of real estate market conditions for a specific type of property.

**Market Approach:** A valuation term with several meanings. In its broadest use, it might denote any valuation procedure intended to produce an estimate of market value, or any valuation procedure that incorporates market-derived data, such as the stock and debt technique, gross rent multiplier method, and allocation by ratio. In its narrowest use, it might denote the sales comparison approach.

**Market Rate of Return:** The typical return on an investment in a given type of property in a given market. It is distinct from the actual rate of return indicated by a property's actual income.

**Market Rent:** The rent currently prevailing in the market for properties comparable to the subject property. Market rent is capitalized into an estimate of value in the income approach.

**Market System:** A type of economic system in which the questions of what to produce, for whom, and how are decided by the workings of an open and competitive market.

**Market Value:** Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States is: The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: The buyer and seller are typically motivated; Both parties are well informed or well advised, and acting in what they consider their best interests; A reasonable time is allowed for exposure in the open market; Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Mass Appraisal:** The process of valuing a group of properties as of a given date, using standard methods, employing common data, and allowing for statistical testing.

**Mean:** A measure of central tendency. The result of adding all the values of a variable and dividing by the number of values. For example, the mean of 3, 5, and 10 is 18 divided by 3, or 6. Also called arithmetic mean.

**Median:** A measure of central tendency. The value of the middle item in an uneven number of items arranged or arrayed according to size; the arithmetic average of the two central items in an even number of items similarly arranged; a positional average that is not affected by the size of extreme values.

**Metes and Bounds:** Measurement of angles and distances; a description of a parcel of land accomplished by beginning at a known reference point, proceeding to a point on the perimeter of the property being described, and then tracing the boundaries until one returns to the first point on the perimeter, usually a corner. The angles are described by reference to points of the compass, and the distances are described in feet or chains; curves are treated as arcs on a circle.

**Mill:** One mill is one-thousandth of one dollar or one-tenth of one cent.

**Millage; Mill Rate:** A tax rate expressed as mills per dollar. For example, a 2 percent tax rate is \$2 per \$100, \$20 per \$1,000, or 20 mills per dollar.

**Mineral Rights:** The right to extract ore, petroleum, or other minerals from a property.

**Mode:** A measure of central tendency. (1) In an array of the values of a variable, the most frequently occurring value. (2) By extension for grouped data, the class with the greatest number of observations.

**Model:** (1) A representation of how something works. (2) For purposes of appraisal, a representation (in words or an equation) that explains the relationship between value or estimated sale price and variables representing factors of supply and demand.

**Mortgage:** A contract under the terms of which the legal, but not the equitable, title to a specific property of one person (the mortgagor) is conditionally conveyed to a second person (the mortgagee) as security for the payment of a debt or performance of some other act. Note: In some states, legal title to mortgaged property passes to the mortgagee on execution of the mortgage; in others, legal title passes when the debt secured by the mortgage is in default; in still others, the mortgage is simply a lien, and legal title does not pass until foreclosure proceedings have been completed.

**Neighborhood:** (1) The environment of a subject property that has a direct and immediate effect on value. (2) A geographic area (in which there are typically fewer than several thousand properties) defined for some useful purpose, such as to ensure for later multiple regression modeling that the properties are homogeneous and share important locational characteristics.

**Net Assessed Value:** The official dollar value remaining on an assessment roll after deducting the amount of any applicable partial exemptions from the gross assessed value.

**Net Book Value:** The value at which an asset is carried on the balance sheet. An asset's book value at any time is its cost less accounting depreciation.

**Net Income:** (1) The income expected from a property, after deduction of allowable expenses. (2) Net annual income is the amount generated by a property after subtracting vacancy and collection loss, adding secondary income, and subtracting all expenses required to maintain the property for its intended use. The expenses include management fees, reserves for replacement, maintenance, property taxes, and insurance, but do not include debt service, reserves for building additions, or income tax.

**Net Operating Income (NOI):** Annual net income after operating expenses are subtracted from effective gross income. Does not include payments for interest or principal.

**Nominal:** Pertaining to the named or stated value of something.

**Nonconforming Use:** (1) A use of property that does not comply with the applicable zoning ordinance. (2) Uses that differ noticeably from prevailing uses in a neighborhood are sometimes also referred to as "nonconforming."

**Obsolescence:** A decrease in the value of a property occasioned solely by shifts in demand from properties of this type to other types of property and/or to personal services. Some of the principal causes of obsolescence are: (1) Changes in the esthetic arts; (2) changes in the industrial arts, such as new inventions and new processes; (3) legislative enactments; (4) change in consumer demand for products that results in inadequacy or overadequacy; (5) migration of markets that results in misplacement of the property. Contrast depreciation, physical; depreciation, economic.

**Occupancy Ratio:** (1) The ratio of the occupied units (for example, square feet of floor space, living units, or rooms) of a property to the total available units. (2) The ratio of the actual gross income from leased units of a property to the total gross income that would be obtained if all units were leased at standard rates.

**Open Market:** A freely competitive market in which any buyer or seller may trade and in which prices are determined by competition.

**Operating Expenses:** Expenses necessary to maintain the flow of income from a property. These are deducted from effective gross income to obtain net operating income, which is then capitalized in the income approach to obtain an indication of market value. Such expenses generally include the costs of property insurance; heat, water, and other utilities; repairs and maintenance; replacement reserves for such items as heat and air-conditioning systems, water heaters, built-in appliances, elevators, roofing, floor coverings, and other items whose economic life will expire before that of the structure itself; management; and other miscellaneous items necessary to operate and maintain the property. Not considered operating expenses are depreciation charges, debt service, income taxes, capital improvements, and personal or business expenses of the owner. In addition, for assessment purposes, property taxes are usually treated as an adjustment to the capitalization rate rather than as an expense item.

**Operating Unit:** (1) The property, taken as a whole, that is used in a public utility operation. (2) A term used to define an integrated set of assets whose value is based on the interaction and contribution of the assets as a whole.

**Outliers:** Observations that have unusual values, that is, they differ markedly from a measure of central tendency. Some outliers occur naturally; others are due to data errors.

**Overadequacy:** The inability of a property to yield a reasonable return on value of the land and the reproduction cost of improvements (less accumulated physical depreciation) because of its adaptation to the production of more goods or services that can be profitably sold in the market available to it. See superadequacy and functional obsolescence.

**Overall Age/Life Method:** Method of estimating accrued depreciation based on straight-line depreciation in which the building is assumed to depreciate by a constant percentage each year over its economic life.

**Overall Rate (OAR):** A capitalization rate that blends all requirements of discount, recapture, and effective tax rates for both land and improvements; used to convert annual net operating income into an indicated overall property value.

**Overimprovement:** An improvement whose cost exceeds the cost of an alternative improvement by more than the excess of the present worth of the given improvement and the land over the present worth of the alternative improvement and the land, often because a structure is too large or too costly for the most profitable use of the site. Contrast underimprovement.

**Ownership:** The rights to the use of property, to the exclusion of others.

**Parcel:** A contiguous area of land described in a single legal description or as one of a number of lots on a plat; separately owned, either publicly or privately; and capable of being separately conveyed.

**Parcel Identification Number:** A numeric or alphanumeric description of a parcel that identifies it uniquely. Assessors use various systems, many with common features. A growing number of these systems include geocoding. In the thirty states where it exists, the Public Land Survey System, authorized by the United States government in 1785, is often a basis for parcel identification.

**Parcel of Land:** A contiguous urban or rural land area that is considered as a unit, is subject to single ownership, and is legally recorded as a single piece. Compare lot; plot.

**Percent Condition:** The difference between observed physical depreciation, expressed as a percentage of original or reproduction cost, and 100 percent.

**Percent Good:** An estimate of the value of a property, expressed as a percentage of its replacement cost, after depreciation of all kinds has been deducted.

**Percentile:** The values that divide a set of data into specified percentages when the data are arrayed in ascending order. The tenth percentile includes the lowest 10 percent of the values, the twentieth percentile includes the lowest 20 percent of the values, and so forth.

**Personal Property:** Consists of every kind of property that is not real property; movable without damage to itself or the real estate; subdivided into tangible and intangible. Also called "personalty."

**Personalty:** A synonym for personal property.

**Plat:** A map intended to show the division of land into lots or parcels. Upon recordation with the appropriate authorities, land included in the plat can thenceforth be legally described by reference to the plat, omitting a metes and bounds description.

**Plot:** (1) A relatively small area of land, generally used for a specific purpose. (2) A measured area of land; lot.

**Plottage:** (1) Those factors of size, shape, and location with reference to other plots that add or detract from the value of a plot for a given purpose (preferred). (2) The assembling of adjacent parcels of land into a single unit. (3) The excess cost of assembling adjacent parcels of land into a single unit under single ownership over the estimated cost at which such parcels might be acquired individually by independent purchasers. (4) plottage value. Note: Because of the variety of meanings attached to this term and its derivatives, it is suggested that the more descriptive term "assemblage" and its derivatives be used to convey all of the above meanings except the first. Compare assemblage.

**Plottage Value:** (1) The increment of value ascribed to a plot because of its suitability in size, shape, and/or location with reference to other plots (preferred). (2) The excess of the value of a large parcel of land formed by assemblage over the sum of the values of the unassembled parcels. Compare assembly value.



**Police Power:** The power of the state that curtails individual rights for the health, safety, and general welfare of all society.

**Possessory Interest:** (1) An interest of a person in an article of property arising from a physical relationship to the article of such nature as to confer on him or her a degree of physical control over it, coupled with the intent so to exercise such control as to exclude the general public from use of it. (2) The right to occupy and use any benefit in a transferred property, granted under lease, licenses, permit, concession, or other contract. (3) A private taxable interest in public tax-exempt property, for example, a private service station in a federal military base. Assessment of this interest presents complex valuation problems. Among the issues are whether the ownership or the use is exempt, whether the parcel should be split, and whether market rent differs from contract rent.

**Power of Attorney:** A written authorization in which one person gives authority to another person to act on his or her behalf.

**Present Worth:** (1) The value of something after discounting future payments and receipts. (2) The present value of income that is expected to be received at some future date or dates, as ascertained by the process of discounting both the income and the anticipated expenses incident to its receipt, that is, the amount of money that, if presently invested and allowed to accumulate at compound interest, would yield net income in the same amounts and at the same intervals as is anticipated of a given property. Synonymous with "capital value" and "present value."

**Present Worth of 1:** (Also called the reversion factor.) The lump-sum amount that would have to be set aside to accumulate with compound interest to \$1 at the end of a specified number of years and at a specified rate of interest. Alternatively, it can be viewed as the present value of \$1 receivable at the end of a specified number of years and discounted at a specified rate.

**Present Worth of 1 per Period:** (Also called the annuity factor, or Inwood coefficient). The present worth of a series of payments of \$1, receivable at the end of each year, for a specified number of years and at a specified interest rate.

**Price, Market:** The value of a unit of goods or services, expressed in terms of money, as established in a free and open market. Note: This term is sometimes distinguished from "market value" on the ground that the latter term assumes that buyers and sellers are informed, but this assumption is also implied by the phrase "free and open market." Compare price, sale.

**Price, Sale:** (1) The actual amount of money exchanged for a unit of goods or services, whether or not established in a free and open market. An indicator of market value. (2) Loosely used synonymously with "offering" or "asked" price. Note: The sale price is the "selling price" to the vendor and the "cost price" to the vendee.

**Price-Earnings Ratio (P/E):** The ratio of the market price per share of the common stock of a specific company to the earnings per share of common stock of that company during a twelve-month period. Typically, the ratio is based on the current market price and the most recent twelve-month period for which earnings are known. This ratio is the reciprocal of the earnings price ratio (E/P).

**Price Equilibrium:** In a specific period, that price at which the quantity the buyers want is exactly equal to the quantity the sellers want to sell.

**Price-to-Book Multiple (P/Book):** See equity market multiple.

**Principal Place of Business:** The place at which the person or persons responsible for the management of a business enterprise exercise their managerial powers. Note: Generally the president, treasurer, and chairman of the board of directors have their headquarters at the principal place of business. The board of directors will probably meet here, and, at any rate, the policies determined by the board will be put into operation by or through the offices at this place. The principal place of business in any given state may be a district or even a branch office.

**Principle of Anticipation:** The appraisal principle that value depends on the expectation of benefits to be derived in the future.

**Principle of Balance:** The principle of balance as used in appraising is that the greatest value in property will occur when the type and size of improvements and uses are proportional to each other as well as to the land.

**Principle of Change:** The principle of change asserts that all markets are in a continual state of change. According to this principle, properties generally go through the three stages of integration (development), equilibrium (stasis), and disintegration (decline).

**Principle of Conformity:** The principle of conformity states that the value of a group of properties will rise to its highest possible level in an area where architectural styles are reasonably homogenous and surrounding land uses are compatible with the use of the specified properties.

**Principle of Contribution:** The principle of contribution requires an appraiser to measure the value of any improvement to a property by the amount it contributes to market value, not by its cost.

**Principle of Progression:** The principle of progression holds that the worth of an inferior property is increased by its proximity to better properties of the same use class.

**Principle of Substitution:** The principle of substitution states that no buyer will pay more for a good than he or she would have to pay to acquire an acceptable substitute of equal utility in an equivalent amount of time.

**Private Encumbrances:** Private hindrances that affect value and sale price such as easements, condominium controls, and deed or subdivision restrictions.

**Private Restrictions:** Private parties, such as a group of homeowners, may establish private restrictions on ownership rights. Deed restrictions are a common form of private restriction.

**Profit and Loss Statement:** An accounting statement that shows the income and expenses of a business over a specified time.

**Property:** (1) An aggregate of things or rights to things. These rights are protected by law. There are two basic types of property: real and personal. (2) The legal interest of an owner in a parcel or thing (see bundle of rights).

**Real Property:** Consists of the interests, benefits, and rights inherent in the ownership of land plus anything permanently attached to the land or legally defined as immovable; the bundle of rights with which ownership of real estate is endowed. To the extent that "real estate" commonly includes land and any permanent improvements, the two terms can be understood to have the same meaning. Also called "realty."

**Tangible Personal Property:** Personal property that has a substantial physical presence beyond merely representational. It differs from real property in its capacity to be relocated. Common examples of tangible personal property are automobiles, boats, and jewelry.

**Intangible Personal Property:** Property that has no physical existence beyond merely representational nor any extrinsic value; includes rights over tangible real and personal property, but not rights of use and possession. Its value lies chiefly in what it represents. Examples include corporate stock, bonds, money on deposit, goodwill, restrictions on activities (for example, patents and trademarks), and franchises. Note: Thus, in taxation, the rights evidenced by outstanding corporation stocks and bonds constitute intangible property of the security holders because they are claims against the assets owned and income received by the corporation rather than by the stockholders and bondholders; interests in partnerships, deeds, and the like are not ordinarily considered intangible property for tax purposes because they are owned by the same persons who own the assets and receive the income to which they attach.

**Property, Distributable:** (1) Property subject to central assessment that is certified by the central assessing officer or body to local tax districts, according to the property's actual or constructive tax within such districts, for inclusion in the local assessment and/or tax rolls. See assessment, central. (2) The personal property of an intestate available for distribution by the administrator to the heirs.

**Property, Income:** A property that yields to its owner a gross money income.

**Property, Investment:** A property that has been developed with the intention and expectation of renting it, in whole or in part, for profit. (Term not recommended for use).

**Property, Noninvestment:** A property that has not been developed with the intention and expectation of renting it, in whole or in part, for profit. (Term not recommended for use.)

**Property, Nonoperating:** Property not included in the unit being appraised, usually where the nonoperating property is not necessary to the operation of the unit and is readily assessed locally.

**Property, Nonrepresentative Intangible:** (1) Intangible property that, while constituting an asset of the owner, does not at the same time represent a liability of another person; for example, patents, copyrights, trademarks, goodwill, and special franchises (preferred). (2) Intangible property that does not represent an interest of any sort in specified tangible property; for example, goodwill, patents, unsecured personal notes, accounts receivable. Note: The term "liability," as used in this definition, includes the equitable obligations of a corporation to its stockholders.

**Property, Operating:** (1) Property actually used in the business of the owner, as distinguished from intangible property representing investments in property actually used in the business of some other person or persons. (2) As applied to public utilities, the property actually used in a public service enterprise conducted by the owner, as distinguished from intangible property representing investments in property actually used in the business of some other person or persons and the property used by the owner in the conduct of a non-public service enterprise. Synonymous with "operative property." See also property, nonoperating.

**Property, Ratable (or Rateable):** Taxable property.

**Property Line:** The boundary line that defines a parcel of land.

**Property Record Card (Form):** An assessment document with blanks for the insertion of data for property identification and description, for value estimation, and for property owner satisfaction. The basic objectives of property record forms are, first, to serve as a repository of most of the information deemed necessary for identifying and describing a property, valuing a property, and assuring property owners that the assessor is conversant with their properties, and, second, to document property appraisals. Use of properly designed property record forms permits an organized and uniform approach to amassing a property inventory.

**Property Residual Technique:** A technique used to estimate the value of a property from knowledge of its net operating income, discount rate, remaining economic life, the amount of the reversion, and the income path attributable to the property over the holding period (generally the remaining economic life of the property). The technique estimates total value by discounting anticipated income and adding the result to the present worth of the reversion.

**Property Tax Levy:** (1) The total amount of money to be raised from the property tax as set forth in the budget of a taxing jurisdiction. (2) Loosely, by extension, the millage rate or the property tax bill sent to an individual property owner.

**Quantity Survey Method:** A method of estimating reproduction cost in which a complete itemization is made of all labor and material costs by component and subcomponent and all indirect costs; these are added to obtain an estimate of the cost of a structure or a reasonable bid for a contractor to submit on a proposed project.

**Rate Base:** Under perfect regulation, the dollar amount on which a return is allowed as established by a regulatory agency.

**Rate of Return:** See discount rate.

**Ratio Study:** A study of the relationship between appraised or assessed values and market values. Indicators of market values may be either sales (sales ratio study) or independent "expert" appraisals (appraisal ratio study). Of common interest in ratio studies are the level and uniformity of the appraisals or assessments. See also level of appraisal and level of assessment.

**Real Estate:** The physical parcel of land and all improvements permanently attached. Compare real property.

**Realty:** (1) Any tangible thing whose fee ownership constitutes real property, that is, land or improvements. (2) A synonym for real estate.

**Reappraisal:** The mass appraisal of all property within an assessment jurisdiction accomplished within or at the beginning of a reappraisal cycle (sense 2). Also called revaluation or reassessment.

**Reappraisal Cycle:** (1) The period of time necessary for a jurisdiction to have a complete reappraisal. For example, a cycle of five years occurs when one-fifth of a jurisdiction is reappraised each year and also when a jurisdiction is reappraised all at once every five years. (2) The maximum interval between reappraisals as stated in laws.

**Reassessment:** (1) The relisting and revaluation of all property, or all property of a given class, within an assessment district by order of an authorized officer or body after a finding by such an officer or body that the original assessment is too faulty for correction through the usual procedures of review and equalization. (2) The revaluation of all real property by the regularly constituted assessing authorities, as distinguished from assessment on the basis of valuations most or all of which were established in some prior year. See also revaluation.

**Recapture Rate:** The return of an investment; the annual amount that can be recaptured from an investment divided by the original investment; primarily used in reference to wasting assets (improvements).

**Reconciliation:** The final step in the valuation process wherein consideration is given to the relative strengths and weaknesses of the three approaches to value, the nature of the property appraised, and the quantity and quality of available data in formation of an overall opinion of value (either a single point estimate or a range of value). Also termed "correlation" in some texts.

**Rendition:** A term occasionally used synonymously with declaration.

**Rent, Economic:** (1) In appraisal, the annual rent that is justified for the property on the basis of a careful study of comparable properties in the area; market rent. (2) In economics, the payment received by an owner of something being bought or rented in excess of the minimum amount for which he or she would have sold or rented it.

**Replacement Cost New Less Depreciation (RCNLD):** In the cost approach, replacement cost new less physical incurable depreciation.

**Replacement Cost; Replacement Cost New (RCN):** The cost, including material, labor, and overhead, that would be incurred in constructing an improvement having the same utility to its owner as a subject improvement, without necessarily reproducing exactly any particular characteristics of the subject. The replacement cost concept implicitly eliminates all functional obsolescence from the value given; thus only physical depreciation and economic obsolescence need to be subtracted to obtain replacement cost new less depreciation (RCNLD).

**Replacement Reserve:** An allowance in an annual operating statement for replacement of short-lived items that will not last for the remaining economic life of a property.

**Required Rate of Return on Equity:** A component of the discount rate, as it is understood from the point of view of band-of-investment analysis, and a component of the overall rate developed according to mortgage-equity analysis.

**Right, Water:** The right to a supply of water.

**Right-of-Way:** (1) An easement consisting of a right of passage through the servient estate (preferred). (2) By extension, the strip of land traversed by a railroad or public utility, whether owned by the railroad or utility company or used under easement agreement.

**Sale, Arm's-Length:** A sale in the open market between two unrelated parties, each of whom is reasonably knowledgeable of market conditions and under no undue pressure to buy or sell.

**Sale, Distress:** A sale made to meet the immediate and pressing needs of the seller at whatever price the property will bring.

**Sale, Forced:** A sale made pursuant to law; usually an auction sale that is involuntary on the part of the owner.

**Sale, Normal:** A sale in which neither the buyer nor the seller acts under legal or economic compulsion, in which both parties are reasonably well informed, and in which both are primarily actuated by economic motives. Compare value, market and sale, arm's-length.

**Sale-Leaseback:** A sale and subsequent lease given by the buyer back to the seller as part of the same transaction.

**Sale of Convenience:** A sale designed to correct defects in a title, create a joint or common tenancy, or serve some similar purpose. Such sales generally are transacted at only a nominal price.

**Sales Comparison Approach:** One of three approaches to value, the sales comparison approach estimates a property's value (or some other characteristic, such as its depreciation) by reference to comparable sales.

**Sales Data:** (1) Information about the nature of the transaction, the sale price, and the characteristics of a property as of the date of sale. (2) The elements of information needed from each property for some purpose, such as appraising properties by the direct sales comparison approach.

**Site:** The location of a person, thing, or event.

**Site Amenities:** The specific location-related positive attributes of a property: topography, utilities, street traffic, view, and so on.

**Site Analysis:** A study that determines the suitability of a specific parcel of land for a specific purpose.

**Site Characteristics:** (1) Characteristics of (and data that describe) a particular property, especially land size, shape, topography, drainage, and so on, as opposed to location and external economic forces. (2) By extension, any characteristics of either the site or the improvement.

**Situs:** The actual or assumed location of a property for purposes of taxation. In personal property, situs may be the physical location of the property or, in the instance of highly mobile property, the more-or-less permanent location of the property owner.

**Square Foot:** A unit of area equal to a square one foot in length on each side.

**Standard Deviation:** The statistic calculated from a set of numbers by subtracting the mean from each value and squaring the remainders, adding together all the squares, dividing by the size of the sample less one, and taking the square root of the result. When the data are normally distributed, one can calculate the percentage of observations within any number of standard deviations of the mean from normal probability tables. When the data are not normally distributed, the standard deviation is less meaningful, and one should proceed cautiously.

**State Assessed Property:** That property for which the assessed value is set by a state agency, either for taxation by the local jurisdiction affected, or for state taxation. Most often, this term applies to utility property or property with special characteristics where the state preempts local authority to achieve uniformity in assessments.

**Stratify:** To divide, for purposes of analysis, a sample of observations into two or more subsets according to some criterion or set of criteria.

**Stratum, Strata (pl.):** A class or subset that results from stratification.

**Structure:** Any man-made improvement that rises above ground level.

**Stumpage:** The amount of timber "on the stump."

**Stumpage Value:** The value of uncut timber.

**Subdivision:** A tract of land that has been divided into marketable building lots and such public and private ways as are required for access to those lots, and that is covered by a recorded plat.

**Tax Base:** The aggregate of the values or units to which the tax rate or rates are applied to determine the tax liability of a person or a group of persons, for example, \$10,000 worth of property, \$2,500 of income. Compare measure of tax; object of tax; subject of tax.

**Tax Base, Property:** The total of all the assessed values in a given community.

**Tax Burden:** Economic costs or losses resulting from the imposition of a tax. Burden can be determined only by detailed economic analysis of all economic changes resulting from the tax. In popular usage, the term often refers to the initial incidence rather than to ultimate economic costs.

**Tax Calendar, Property:** A calendar of the assessment year that lists important dates in the property tax system.

**Tax-Exempt Property:** Property entirely excluded from taxation because of its type or use. The most common examples are religious, charitable, educational, or governmental properties. This definition omits property for which the application of a partial exemption reduces net taxable value to zero.

**Tax Levy:** (1) The act by which a legislative body fixes either the amount of taxes to be placed in collection or the rate to be applied to a predefined tax base. (2) The amount of taxes authorized to be placed in collection by a competent legislative body.

**Taxpayer:** (1) A person who pays a tax in the first instance, whether he or she finally bears the burden or shifts it; generally defined in law to include all persons liable for payment of a tax whether or not they actually pay it.

**Tax Rate:** For the property tax, the percentage of assessed value at which each property is taxed in a given district. Distinguish between effective tax rate and nominal tax rate.

**Tax Roll:** An official list showing the amount of taxes charged against each taxpayer and/or each property within the jurisdiction of a tax district. Note: In property taxation, the tax roll is sometimes combined with the assessment roll into a single document.

**Tax Warrant:** The tax collector may ask a court to issue a document called a tax warrant directing a peace officer and tax collector to take as much of a person's personal property as is necessary to pay all taxes, penalties, and interest the person owes.

**Tenancy:** The act of using or occupying property, especially real property whose fee title is vested in someone other than the occupant.

**Tenancy, Joint:** A state of tenancy involving two or more persons owning undivided possessory interests which have arisen out of a single conveyance, no one of the tenants being free to create interests in the estate without the consent of the others, and the surviving tenants acquiring the interest of any tenant who may die. Compare tenancy in common; tenancy by the entirety.

**Tenancy by the Entirety:** A state of tenancy, recognized by some states, in which the husband and wife are considered as a single person, neither one being free to create interests in the estate without the consent of the other and the survivor acquiring the whole interest upon the death of either. Compare tenancy, joint.

**Tenancy in Common:** A state of tenancy involving two or more persons owning undivided possessory interests that have arisen out of separate and distinct conveyances, any one of the tenants being free to create interest in his portion of the estate and the heirs or devisees acquiring the interest of any tenant who may die. Compare tenancy, joint; tenancy by the entirety.

**Tenancy in Severalty:** A state of tenancy involving one person who owns a divided possessory interest.

**Three Approaches to Value:** A convenient way to group the various methods of appraising a property. The cost approach encompasses several methods for estimating replacement cost new of an improvement less depreciation plus land value. The sales comparison approach estimates values by comparison with similar properties for which sales prices are known. The methods included in the income approach are based on the assumption that value equals the present worth of the rights to future income.

**Time-Adjusted Sale Price:** The price at which a property sold, adjusted for the effects of price changes reflected in the market between the date of sale and the date of analysis.

**Time-Share Unit:** A residence, usually a condominium at a vacation or resort site, whose ownership is divided among the owners by weeks or months, giving each owner the right to occupancy for a specified time each year.



**Time Value of Money:** The principle that an amount of money anticipated as income in the future is always worth less than an equal amount in hand at the present time.

**Title:** The union of all elements constituting proof of property ownership or the instrument that is evidence of ownership.

**Title Search:** An examination of public records to ensure the quality of the seller's title to a property. Preparation of an abstract of title requires a complete title search, as does preparation to foreclose on a property in a delinquent tax suit.

**Topographic Map:** Refers to the basic description and elevation of a piece of land.

**Total Economic Life:** The period of time or units of production over which the operation of an asset is economically feasible, not necessarily the same as its physical life.

**Trended Original Cost:** (1) The cost of constructing an improvement at a particular time, adjusted to reflect inflation and deflation, as well as changes in construction costs, between that time and the appraisal date. (2) Method of cost estimating that obtains an estimate of the reproduction cost of a structure by adjusting its original, or historical, cost with a factor from an appropriate construction cost index.

**Trending:** Adjusting the values of a variable for the effects of time. Usually used to refer to adjustments of assessments intended to reflect the effects of inflation and deflation and sometimes also, but not necessarily, the effects of changes in the demand for microlocational goods and services.

**Trending Factor:** A figure representing the increase in cost or selling price over a period of time. Trending accounts for the relative difference in the value of a dollar between two periods.

**Trust:** An agreement whereby the owner of property (the settlor) transfers legal title to a second party (the trustee), such property to be held, managed, or disposed of for the benefit of a third party (the beneficiary) or the settlor, or both, as set forth in the trust agreement.

**Trust Estate:** The aggregate interests of a trustee in property of all sorts held under a trust agreement.

**Trust, Investment:** A corporation or trust association whose assets are largely or exclusively stocks and bonds purchased for investment purposes rather than as a means of controlling the policies of other corporations.

**Trust, Revocable:** A trust in which the grantor of the property held in trust retains the right to repossess the legal and equitable titles. See deed, trust.

**Trustee:** One who holds legal title to property under a trust agreement. Compare settlor; beneficiary.

**Truth-in-Taxation (Full Disclosure) Requirements:** Legal obligations for local government officials to make taxpayers aware of assessment increases, levy increase proposals, and so on, and to give taxpayers an opportunity to participate in public hearings on the changes.

**t-Statistic:** A particular statistic important in inferential statistics for certain kinds of hypothesis testing of certain kinds of data.

**t-Test:** A particular parametric statistical test useful, among other things, in testing the level of assessment.

**Undivided Interest:** An interest in a property that is not distinct from the interest or interests of one or more other persons as to the time during which the interest is possessory or as to the portion of the property to which the interest attaches, for example, the interest of a joint tenant or a tenant in common.

**Uniformity:** The equality of the burden of taxation in the method of assessment.

**Uniform Standards of Professional Appraisal Practice (USPAP):** Annual publication of the Appraisal Standards Board of The Appraisal Foundation: "These Standards deal with the procedures to be followed in performing an appraisal, review or consulting service and the manner in which an appraisal, review or consulting service is communicated. . . .STANDARD 6 sets forth criteria for the development and reporting of mass appraisals for ad valorem tax purposes or any other universe of properties" (p. 1).

**Unit:** The property being appraised. Everything used or useful to the ongoing economic operation of the business (property). Includes tangible and intangible property.

**Unit Appraisal:** See appraisal, composite.

**Unitary Method of Valuation:** The unit rule is a method that values the property within a particular jurisdiction based on the fair share of the value of an operating enterprise, of which the property is an integral part. The unit value concept values all the property as a going concern without geographical or functional division of the whole and includes tangible and intangible assets. The unit rule concept is typically associated with the valuation of public utilities, telecommunications networks, railroads, and other transportation properties. However, the concept of unit valuation is similarly applicable to the appraisal of a single-family residence when comparable sales are used to value the entire property without segregation of land values. Similarly, when rents are capitalized into a value estimate for commercial properties, the unit rule is used.

**Unit Cost:** A valuation guideline expressing the relationship between cost or value of property and some unit of measure, for example, cost per square foot or per employee.

**Unit of Comparison:** A property as a whole or some smaller measure of the size of the property used in the sales comparison approach to estimate a price per unit.

**Usable Area:** The area of land that can be used, or the equivalent area after allowance for irregular topography.

**Useful Life:** Estimated normal operating life in terms of utility to the owner of a fixed asset or group of assets.

**Utility:** (1) The quality of a property or service that enables it to satisfy human wants. (2) The satisfaction obtained from the goods and services that a consumer consumes.

**Vacancy and Collection Loss:** The amount of money deducted from potential annual gross income to reflect the effect of probable vacancy and turnover, or nonpayment of rent by tenants. Vacancy and collection loss is commonly expressed as a percentage of potential annual gross income, and it should be based on market research, not actual rental history of a property.

**Valuation:** (1) The process of estimating the value-market, investment, insured, or other properly defined value-of a specific parcel or parcels of real estate or of an item or items of personal property as of a given date. (2) The process or business of appraising, of making estimates of the value of something. The value usually required to be estimated is market value.

**Valuation Date:** The specific date as of which assessed values are set for purposes of property taxation. This date may also be known as the "date of finality." See also assessment date.

**Value:** (1) The relationship between an object desired and a potential owner; the characteristics of scarcity, utility, desirability, and transferability must be present for value to exist. (2) Value may also be described as the present worth of future benefits arising from the ownership of real or personal property. (3) The estimate sought in a valuation. (4) Any number between positive infinity and negative infinity. See also market value.

**Value, Actual:** Market value, especially as distinguished from so-called book, par, or face values.

**Value, Book:** (1) The money figure at which an asset is carried on the regular books of account of the owner, after deduction of any valuation reserve carried against it. (2) The value ascribed to corporation stock by the books of account of the issuing corporation, as determined by the stated amount of the corporation's capital, surplus, undivided profits, and reserves that can reasonably be expected to accrue to the stockholders. Note: The book value of preferred stock is generally not affected by surplus, undivided profits, and reserves.

**Value, Economic:** Worth in a use, transaction, or exchange, as distinguished from ethical worth, esthetic worth, historical worth, and the like.

**Value, Exchange:** Synonymous with the preferred term market value.

**Value, Fair:** (1) In taxation, market value. (2) In public utility regulation, a term inappropriately applied to the combination of costs and values that commends itself to the courts as a fair rate base.

**Value, Full:** Synonymous with the preferred term market value.

**Value, Going:** The value of an entire property in active service and with an established clientele, as distinguished from its value immediately before being put into service or upon retirement from service.

**Value, Improved:** A loose term generally defined as that portion of the present worth of a property that represents the resale factor. (Term not recommended for use.)

**Value, Intrinsic:** (1) The value of an article due to its own physical qualities rather than to the rights, privileges, or immunities with respect to other properties or persons which its possession confers. (2) A term used to designate "value" that is supposed to reside within an article rather than within the minds of its actual or would-be possessors. Note: This is a term that is much abused and that might well be discarded. Although it is proper to say that the intrinsic value of a stock certificate is the value, if any, of the paper, it is not correct to say that real estate has an intrinsic value in excess of, or less than, its market value.

**Value, Junk:** Synonymous with the preferred term "scrap value."

**Value, Liquidation:** The value of one or more of the assets of a business concern under conditions in which the business is discontinued and the assets disposed of either in their entirety or separately. Contrast going-concern value.

**Value, Salvage:** The value which badly depreciated improvements, machines, or equipment would have if dismantled and sold in separate parts or pieces; the value of an asset at the end of its economic life. Compare value, scrap.

**Value, Scrap:** The value that the basic, recoverable materials (usually metals) of a physical property would have as junk if it were completely broken up or too badly deteriorated to serve its normal purpose; the value of an asset at the end of its physical life. Compare value, salvage.

**Value, Sound:** The value that would obtain if a property were worth its reproduction cost less physical depreciation. (Term not recommended for use.)

**Value, Speculative:** A loose term used to distinguish actual market prices and market values from the appraiser's estimate of present worths. (Term not recommended for use.)

**Value, True:** Synonymous with the preferred term market value.

**Value in Use:** The value of property for a specific use. The concept that holds value to be inherent in property itself, that is, the value is based on the ability of the asset to produce revenue through ownership.

**Variance:** A measure of dispersion equal to the standard deviation squared.

**Vendee:** One who purchases. Synonymous with "buyer."

**Vendor:** One who transfers property by sale. Synonymous with "seller."

**Verify:** To check the accuracy of something. For example, sales data may be verified by interviewing the purchaser of the property, and data entries may be verified by check digits.

**Wasting Asset:** A property or other thing of value whose value diminishes with the passage of time. For example, buildings are a wasting asset, but land and gold, traditionally, are not.

**Worth, Present:** See present worth.

**Yield Capitalization:** Any of several methods used in the income approach to value. Yield methods involve certain subtleties and assumptions that vary according to the particular method

employed, but include estimating such factors as the required rate of return on investment, the remaining economic life of the property, an investment holding period, the income path, anticipated depreciation or appreciation, and reversionary value. The yield methods stand in contrast to direct sales analysis methods, in which a typical relationship between incomes and sales prices is found by simply dividing observed incomes by sales prices for comparable properties, the fraction thus obtained then being applied (in the form of a gross income multiplier or an overall rate) to the properties being appraised. See also building residual technique, discount rate, mortgage-equity analysis, and property residual technique.

**Yield Rate:** (1) The return on investment applicable to a series of incomes that results in the present worth of each. Examples of yield rates are interest rate, discount rate, equity yield rate, and internal rate of return. (2) The required rate of return on equity capital; a component of the capitalization rate (or discount rate or mortgage-equity overall rate) that must be separately specified in band-of investment analysis and mortgage equity analysis.

**Zoning:** The exercise of the police power to restrict land owners as to the use of their land and/or the type, size, and location of structures to be erected thereon.