

## DEFINITIONS

These definitions have been extracted, solely or in combination, from definitions and descriptions printed in:

1. The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, Chicago, Illinois, 2010 (Dictionary).
2. The Appraisal of Real Estate, Twelfth Edition, Appraisal Institute, Chicago, Illinois, 2001 (Twelfth Edition).
3. Marshall Valuation Service, Marshall & Swift, Los Angeles, California, (MVS).

### **Absolute Net Lease**

A lease in which the tenant pays all expenses including structural maintenance and repairs; usually a long-term lease to a credit tenant. (*Dictionary*)

### **Accrued Depreciation**

The difference between the reproduction or replacement cost of the improvements on the effective date of the appraisal and the market value of the improvements on the same date. (*Dictionary*)

### **Deferred Maintenance**

Curable, physical deterioration that should be corrected immediately, although work has not commenced; denotes the need for immediate expenditures, but does not necessarily suggest inadequate maintenance in the past. (*Dictionary*)

### **Discounted Cash Flow (DCF) Analysis**

The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate. DCF analysis can be applied with any yield capitalization technique and may be performed on either a lease-by-lease or aggregate basis. (*Dictionary*)

### **Effective Date**

The date at which the analyses, opinions, and advice in an appraisal, review, or consulting service apply. (*Dictionary*)

### **Entrepreneurial Incentive**

A market-derived figure that represents the amount an entrepreneur expects to receive as compensation for providing coordination and expertise and assuming the risks associated with the development of a project. (*Twelfth Edition*)

### **Entrepreneurial Profit**

A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the development cost of a property and its market value upon completion and stabilization, which represents the entrepreneur's compensation for the risk and expertise associated with development. Entrepreneurial profit is an amount earned, estimated after completion, while entrepreneurial incentive is an amount anticipated, prior to development. (*Twelfth Edition*)

### **Exposure Time**

The time a property remains on the market. The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market.

Exposure time is always presumed to occur prior to the effective date of the appraisal. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. Exposure time is different for various types of real estate and value ranges and under various market conditions. *(Dictionary)*

### **Fee Simple Estate**

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. *(Dictionary)*

### **Floor Area Ratio (FAR)**

The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area. *(Dictionary)*

### **Gross Building Area (GBA)**

The total floor area of a building, including below-grade space but excluding unenclosed areas, measured from the exterior of the walls. All enclosed floors of the building including basements, mechanical equipment floors, penthouses, and the like are included in the measurement. Parking spaces and parking garages are excluded. *(Dictionary)*

### **Gross Lease**

A lease in which the landlord receives stipulated rent and is obligated to pay all or most of the property's operating expenses and real estate taxes. *(Dictionary)*

### **Highest and Best Use**

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

### **Industrial Property Classifications**

***Distribution Warehouse*** - High cube single-story structures with clear ceiling heights of at least 22 feet to allow three stacking heights of seven feet each. The most common height in this market is 24-foot clear ceiling height. Some distribution buildings now have clear ceiling heights as high as 40 feet or more due to the introduction of robotic computer systems, which allow very narrow aisles and high stacking. In general, column spacing is wider than that in office warehouse buildings and office build-out is minimal, generally 10% or less.

***Flex*** - Buildings designed with warehouse capabilities such as dock-high or drive-in loading doors and clear ceiling heights of 14 to 16 feet. However, they are termed flex based on their broad range of office finish and their single-story exterior office appearance. The level of office finish typically ranges from 30% to 70% and suites can be divided into relatively small units. Research & Development (R&D) buildings are generally the same as flex warehouse construction but with higher percentages of office finish, often up to 90%.

***Manufacturing*** – Buildings intended to provide space in which to transform, fabricate, or assemble physical resources into other physical goods. These buildings can vary greatly in design, with low clear ceiling heights of 12 feet, to very high clear ceiling heights of 30 feet or more, according to specific industry needs.

**Office Warehouse** - Generally single-story buildings with clear ceiling heights ranging from about 16 feet to 21 feet. The level of office finish is shaped by the needs of individual tenants, the general uses within the market area, and the availability of parking. The level of office finish typically ranges from 10% to 20%. Suites are typically larger than flex warehouse space. These buildings usually have drive-in bays, dock height bays, or a combination thereof and are used for light manufacturing, services, and small-scale distribution businesses.

### **Insurable Value**

Value used by insurance companies as the basis for insurance. Often considered to be replacement or reproduction cost plus allowances for debris removal or demolition less deterioration and non-insurable items. Sometimes cash value or market value, but often entirely a cost concept. (*MVS*)

### **Leased Fee Interest**

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease. (*Dictionary*)

### **Leasehold Interest**

The interest held by the lessee (the tenant or renter) through a lease transferring the rights of use and occupancy for a stated term under certain conditions. (*Dictionary*)

### **Market Rent**

The rental income a property would probably command in the open market; indicated by the current rents that are either paid or asked for comparable space as of the date of the appraisal. (*Twelfth Edition*)

### **Market Value**

The most probable price 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 are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. 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. (*Source: Department of the Treasury, Office of Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision and National Credit Union Administration under 12 CFR Part 34, Real Estate Appraisals and Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"); and the Interagency Appraisal and Evaluation Guidelines, Federal Register, Volume 75, No. 237, December 10, 2010.*)

### **Marketing Time**

The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal. Reasonable marketing time is an estimate of the amount of time it might take to sell an interest in real property at its estimated market value during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions. (*Dictionary*)

### **Modified Gross Lease**

A lease in which the landlord receives stipulated rent and is obligated to pay most, but not all, of the property's operating expenses and real estate taxes. (*Dictionary*)

### **Net Lease**

Generally a lease in which the tenant pays for utilities, janitorial services, and either property taxes or insurance, and the landlord pays for maintenance, repairs, and the property taxes or insurance not paid by the tenant. Also called *single net lease*, *modified gross lease*, and *semi-gross lease*; sometimes used synonymously with *single net lease* but better stated as a *partial net lease* to eliminate confusion. (*Dictionary*)

### **Net Net Lease**

Generally a lease in which the tenant pays for utilities, janitorial services, property taxes, and insurance in addition to the rent, and the landlord pays for maintenance and repairs. Also called *double net lease*, *NN*, *modified gross lease*, and *semi-gross lease*; sometimes used synonymously with *single net lease* but better stated as a *partial net lease* to eliminate confusion. (*Dictionary*)

### **Net Net Net (Triple Net) Lease**

A net lease under which the lessee assumes all expenses of operating a property, including both fixed and variable expenses and any common area maintenance that might apply, but the landlord is responsible for structural repairs. Also called *triple net lease* or *NNN* but better stated as a *fully net lease*. (*Dictionary*)

### **Prospective Value Opinion**

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

### **Rentable Area (RA)**

The amount of space on which rent is based, calculated according to local practice. (*Dictionary*)

### **Replacement Cost**

The estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout. (*Dictionary*)

### **Reproduction Cost**

The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all the deficiencies, super-adequacies, and obsolescence of the subject building. (*Dictionary*)

**Stabilized Occupancy**

Occupancy at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; the optimum range of long-term occupancy which an income-producing real estate project is expected to achieve under competent management, after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. (*Dictionary*)

**Usable Area**

The area available for assignment or rental to an occupant, including every type of usable space; measured from the inside finish of outer walls to the office side of corridors or permanent partitions and from the centerline of adjacent spaces; includes subdivided occupant space, but no deductions are made for columns and projections. (*Dictionary*)

**Value As Is**

The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning. (*Dictionary*)