
Glossary

References

These glossary terms have been gleaned from the sources below. Many terms are accompanied by their source in parentheses (e.g., [see NAR]), if known.

Uniform Standards of Professional Appraisal Practice, 2010-2011 (USPAP)

Fundamentals of Real Estate Appraisal. William Ventolo, Jr. and Martha Williams. 2005. Dearborn Real Estate Education, Chicago. (Ventolo and Williams)

Questions & Answers to Help You Pass the Real Estate Appraisal Exams. Jeffrey Fisher and Dennis Tosh. 2008. Dearborn Financial Publishing, Chicago. (Fisher and Tosh)

Basic Real Estate Appraisal: Principles & Procedures. Richard Betts and Silas Ely. 2008. Thomson Publishers, Mason, OH. (Betts and Ely)

Melanie J. McLane, ABR, CDEI, CRB, CRS, ePRO, GREEN, GRI, RAA, RSPS, SRES, SRS. Inducted into the REBAC Hall of Fame as a Trainer in 2008. Certified AQB USPAP Instructor. (See Melanie McLane)

A

ABR®

See **Accredited Buyer's Representative**.

Absorption analysis

A study of the number of units of residential or nonresidential property that can be sold or leased over a given period of time in a defined location.

Absorption rate

An estimate of the rate at which a particular classification of properties for sale or lease can be successfully marketed in a given area; it is often requested in a feasibility study or an appraisal in connection with a request for financing. An absorption rate must be developed to analyze supply and demand.

Accredited Buyer's Representative (ABR®)

This designation is awarded to REALTORS® who meet the specified educational and practical experience criteria, set up by the Real Estate Buyer's Agent Council (REBAC) of the National Association of REALTORS®. www.rebac.net

Adjustments

The dollar value or percentage amounts added to or subtracted from the sales price of a comparable property to arrive at an indicated value for the property being appraised (subject property). Real estate elements of comparison typically are adjusted in the following order: property rights, financing terms, conditions of sale, market conditions, location, and physical characteristics.

After-repair value (ARV)

When looking at the viability of a project, an investor must be able to estimate the value of a property after all repairs are completed.

Agency

Refers to the relationship between a principal and an agent whereby the principal, expressly or by implication, authorizes the agent to work under the principal's control and on the principal's behalf ([http://en.wikipedia.org/wiki/Agency_\(law\)](http://en.wikipedia.org/wiki/Agency_(law))).

Agency, Dual

Dual agency occurs when the same brokerage represents both the seller and the buyer. Individual state laws vary and interpret dual agency rather differently.

Agent

The licensed real estate salesperson or broker who represents buyers or sellers.

Anticipation

The principle that the current value of a property is affected by the expectation of future value.

Appraisal

The estimation of a home's value based on sales of comparable properties in the neighborhood is one method of doing an appraisal. Appraisals are conducted by a licensed appraiser and are used in the loan process to ensure that the value of the home is equal to or greater than the purchase price.

Appraisal management company (AMC)

AMCs serve as a go-between from the lender to the appraiser and are contracted by the lender. They are not regulated by USPAP (<http://activerain.com/blogsvieiw/340265/appraisal-management-companies>).

As of May 1, 2009, some loans may be subject to the Home Valuation Code of Conduct (HVCC) which is designed to restrict the interaction the appraiser has with the loan company through the use of a third-party management company. This may add time to the transaction, but is intended to protect the integrity of the appraisal process and make the estimated value of the home more reliable (http://www.bcsres.com/Glossary_of_terms.html).

Appraisal principles

Concepts that provide the rationale of market behavior, which affects value. Appraisal principles include anticipation, change, supply and demand, substitution, and balance.

Appraisal report

A report, written or oral, that contains the results of an appraisal. A standard written report usually contains the following pieces of information: the definition of value to be applied, the estimate and effective date of the valuation, certifications and limiting conditions, description of the property and rights being appraised, supporting data, justification to support the value estimate, consideration of each of the three approaches, and the reconciliation. Oral reports should also include the above information when appropriate.

Appraised value

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

Appraiser

A person who possesses the education, training, and experience necessary to accurately render an opinion as to the value of real estate.

Arm's-length transaction

A transaction in which both buyer and seller act willingly and under no pressure, with knowledge of the present conditions and future potential of the property, and in which the property has been offered on the open market for a reasonable length of time and there are no unusual circumstances. (See Ventolo and Williams)

ARV

See **after repair value**.

As-is price

The price of a house in its current condition.

As-is value

An estimate or opinion of property in its current state, which may be in disrepair or scheduled for improvement

(<http://www.allbusiness.com/glossaries/as-is-value/4962296-1.html>).

As-repaired price

The price of the property if put into marketable condition; repairs needed to make it acceptable in the marketplace.

Assignment

An agreement between an appraiser and a client to provide a valuation service; or, the valuation service that is provided as a consequence of such an agreement.

Assumption

That which is taken to be true.

AVM

See **automated valuation model**.

Automated valuation model (AVM)

Automated evaluation services were developed in response to a growing need for low-cost, quick-response property evaluations. While not a complete appraisal, these abbreviated reports provide much of the same information and can be completed in a matter of a few hours. They are used by lending institutions to estimate property values. However, they cannot take into account unique features or factor in the affect of changing neighborhoods

(<http://www.mrktusa.com/glossary.htm>).

B**Balance**

The appraisal principle that states that the greatest value of a property will occur when the type and size of the improvement are proportional to each other as well as to the land. (See Melanie McLane)

BPO

See **broker price opinion**.

Broker

(1) A state-licensed individual who acts as the agent for the seller or buyer

(<http://www.realtor.org>).

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

Broker of record

The person registered with his or her state licensing authority as the managing broker of a specific real estate sales office

(<http://www.realtor.org>).

Broker price opinion (BPO)

(1) The real estate broker's opinion of the expected final net sale price, determined prior to the acquisition of the property

(<http://www.realtor.org>).

(2) A BPO is similar to an appraisal, but is done by a real estate broker instead of a licensed appraiser. This option may be used by lenders and mortgage companies when they feel the expense and delay of an appraisal is not necessary

(http://www.bcsres.com/Glossary_of_terms.html).

C

Certificate of reasonable value (CRV)

A certificate issued by the Department of Veterans Affairs (VA) that states an estimate of the value of the property being appraised; it is issued on any property in which VA financing is used.

Change

The appraisal principle that states that the cause and effect of economic and social forces are constantly causing property values to be in transition.

Client

The party or parties who engage an appraiser (by employment or contract) in a specific assignment.

CMA

See **comparative market analysis**.

Code of ethics

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

Comparables

Properties used to express estimate of value for the subject property. Normally, such properties have been recently sold or leased and are similar to the property being evaluated.

Comparables need not be identical to the subject, but should be similar or relatively easy to adjust for differences in comparison. (See Ventolo and Williams)

Comparative market analysis (CMA)

(1) Comparative market analyses are used to help establish a realistic price range for a home. A CMA usually includes a review of comparable properties in the immediate area currently on the market or that have recently sold

(<http://www.mrktusa.com/glossary.htm>).

(2) A CMA is an estimate of the home's value compared with others. This differs from an appraisal in that property currently for sale may be taken into consideration (competition for the subject property)

(http://www.ask.com/wiki/Real_estate_broker/agent).

Competency Rule

An appraiser must be competent to perform the assignment, acquire the necessary competency to perform the assignment, or decline or withdraw from the assignment.

Competition

The principle that success attracts success, meaning that one successful business will draw more businesses like it into the market, diluting profits. (See Melanie McLane)

Concessions

A service or discount given to prospective tenants to induce them to lease specific properties.

Confidential information

Information that is either identified by the client as confidential when providing it to an appraiser and that is not available from any other source, or classified as confidential or private by applicable law or regulation.

Conformity

An appraisal principle that states that value is created when components of a property are in harmony with its surroundings. (See Ventolo and Williams)

Contribution

(1) The appraisal principle that states that the worth of a particular component is measured by the amount it contributes to the value of the whole property, regardless of the actual cost of the component. The value of the component may be measured as the amount by which its absence would detract from the entire property value.

(2) The principle that any improvement to a property, whether to vacant land or a building, is worth only what it adds to the market value of the property, regardless of the actual cost of the improvement. (See Melanie McLane)

Cost

The total amount spent to acquire or build. May or may not reflect value. Cost is historic and does not vary.

CRV

See **certificate of reasonable value**.

D**Debt reduction**

The process of reducing the amount of money owed on an unsecured loan or purchase.

Decreasing returns

The situation in which property improvement no longer brings a corresponding increase in property income or value.

Deed-in-Lieu of Foreclosure (DIL)

The voluntary surrender of property by an owner/borrower to a lien holder that eliminates the need to continue foreclosure action by the lien holder. The lien holder can refuse to accept the deed in lieu.

Depreciation

Loss in value due to any cause, including physical deterioration, functional obsolescence, and external obsolescence.

Distressed sales

Generally refers to foreclosures and short sales, selling at discounts of 15 to 20 percent from non-distressed market prices. This can exert a major negative impact on overall market prices (http://www.realtor.org/research_secured/reinsights/behindthenumbers).

E**Ethics Rule (USPAP)**

An appraiser must promote and preserve the public trust inherent in appraisal practice by observing the highest standards of professional ethics.

An appraiser must comply with USPAP when obligated by law or regulation, or by agreement with the client or intended users. In addition to these requirements, an individual should comply any time that individual represents that he or she is performing the service as an appraiser.

This rule is divided into four sections: Conduct, Management, Confidentiality, and Record Keeping.

Escrow

Money, securities, or property held by a third party until the conditions of a contract are met.

Externality

Property is affected either positively or negatively by influences outside the property lines.

F

Fair market price

The most probable price, as of the date of inspection or other specifically defined date, 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.

Fair market value

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

Fannie Mae (FNMA)

The Federal National Mortgage Association (FNMA), which is a congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds

([http://www.realestateabc.com/glossary/glossary1.htm#Fannie Mae \(FNMA\)](http://www.realestateabc.com/glossary/glossary1.htm#Fannie%20Mae%20(FNMA))).

Federal Home Loan Banks (FHLB)

FHLBs provide stable, on-demand, low-cost funding to American financial institutions for home mortgage loans, small business, rural, agricultural, and economic development lending.

Federal Housing Administration (FHA)

The FHA is a U.S. government agency created as part of the National Housing Act of 1934. It insures loans made by banks and other private lenders for home building and home buying. The goals of this organization are to improve housing standards and conditions, to provide an adequate home financing system through insurance of mortgage loans, and to stabilize the mortgage market.

Federal Housing Finance Agency (FHFA)

The FHFA is an independent federal agency created as the successor regulatory agency resulting from the statutory merger of the Federal Housing Finance Board (FHFB), the Office of Federal Housing Enterprise Oversight (OFHEO), and the U.S. Department of Housing and Urban Development government-sponsored enterprise mission team, absorbing the powers and regulatory authority of both entities, with expanded legal and regulatory authority, including the ability to place government sponsored enterprises (GSEs) into receivership or conservatorship. The enabling law establishing the FHFA is the Federal Housing Finance Regulatory Reform Act of 2008.

FHLMC

See **Freddie Mac**.

Fiduciary

A person who holds an asset in trust for a beneficiary.

Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989

A federal law passed in 1989 to provide guidelines for the regulation of financial institutions. One part of the law requires a state license or certification for the performance of federally related real estate transaction appraisals (with de minimis exceptions). (See Betts and Ely)

FIRREA

See **Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989**.

FNMA

See **Fannie Mae**.

Forced sale liquidation

A court-ordered liquidation sale, as in bankruptcy.

Foreclosure

A legal process in which a default in payment or other terms of the mortgage note causes the property used as security for the mortgage to be sold to satisfy the debt. The title to the property in the mortgage is passed to either the holder of the mortgage or to a third party.

Foreclosure sale

Property sold to the highest bidder, typically at auction.

Freddie Mac (FHLMC)

A leading, government-sponsored enterprise and publicly-traded company that creates guidelines on suitable properties, down payment, income and credit requirements, and the maximum mortgage amount. The maximum loan limit is reset each year by Freddie Mac and Fannie Mae. Middle-income Americans have access to more affordable rentals and homeownership largely because of Freddie Mac's efforts to keep funds flowing to creditors. Freddie Mac buys, guarantees, and packages mortgages to create securities (http://www.personalhomeloanmortgages.com/mortgage_glossary.asp).

G**General data**

Information not specific to a certain property (e.g., interest rates, employment rates, census information). (See Fisher and Tosh)

GLA

See **gross living area**.

Government-sponsored enterprise (GSE)

Government-sponsored enterprises, two of which are the housing enterprises of Fannie Mae (FNMA) and Freddie Mac (FHLMC), which account for nearly 70% of the residential loans in the U.S.

(http://en.wikipedia.org/wiki/Mortgage_GSE_controversy).

Graphic analysis

A method used in sensitivity analysis in which one variable is changed and the effect of this change on a second variable is plotted on a graph. By visually analyzing the graph, the appraiser may be able to better determine if assumptions used in the appraisal are realistic.

Gross living area (GLA)

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

GSE

See **government-sponsored enterprise**.

H**HAFA**

See **Home Affordable Foreclosure Alternatives**.

Highest and best use

The reasonable and probable use of a property that will support the highest present value of the land. (See Betts and Ely)

Home Affordable Foreclosure Alternatives (HAFA)

In 2009, the Treasury Department introduced the HAFA program to provide a viable option for homeowners who are unable to keep their homes through the existing Home Affordable Modification Program (HAMP). The HAFA program took effect on April 5, 2010, although some servicers may have implemented it sooner if they met certain requirements. It sunsets on December 31, 2012.

HAFA provides incentives in connection with a short sale or a deed-in-lieu of foreclosure (DIL), used to avoid foreclosure on a loan eligible for modification under the HAMP program (http://www.realtor.org/government_affairs/short_sales_hafa).

Home Affordable Modification Program (HAMP)

HAMP is a federal program set up to help eligible home owners with loan modifications on their home mortgage debt. It is set up in the context of the ongoing subprime mortgage crisis in the debt markets, continuing from 2008.

I

Increasing returns

Refers to the situation in which improvements to a property increase its income or value. (See Melanie McLane)

Inflation

An increase in the pricing environment due to a rise in the volume and availability of money and credit and a reduction in the availability of goods.

Intended use

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

K

L

License

A formal agreement from a constituted authority that allows an activity to be conducted. (See Fisher and Tosh)

License law

Refers to individual states' real estate laws, regulations, and the licensing requirements for real estate agents in a specific jurisdiction.

Lien

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

Limiting conditions

Specifications in an appraisal report that restrict the assumptions in the report to certain situations (e.g., date and use of the appraisal, definition of value, definition of surveys used or not used, etc.). (See Fisher and Tosh)

Liquidation value

The estimated price of an asset when there is insufficient time to sell that asset on the open market, thereby reducing its exposure to potential buyers. Liquidation value is typically

lower than fair market value
(http://en.wikipedia.org/wiki/Liquidation_value).

Liquidity

- (1) The ability to convert assets or investments into cash without significant loss.
- (2) The ease of selling an asset for cash.

Loan to value (LTV)

The amount of money borrowed as compared to the total value of a property. It is determined by dividing the amount of the loan by the property value.

LTV

See **loan to value**.

M

Market value

The most probable price real estate should bring in a sale occurring under normal market conditions. (See NAR)

MLS

See **multiple listing service**.

Mortgage

A legal document in which real estate is named as the security or collateral for the repayment of the loan. (See Fisher and Tosh)

Multiple listing service (MLS)

The primary purpose of the multiple listing service is to provide a facility to publish a unilateral offer of cooperation and compensation by a listing broker to other broker participants in that MLS.

N

National Association of REALTORS® (NAR)

NAR is comprised of real estate professionals from almost 60 countries involved in every

aspect of the real estate industry, from residential brokers to property managers. NAR has over one million members, including residential and commercial real estate agents, brokers, property managers, and appraisers.

NAR

See **National Association of REALTORS®**.

Neighborhood life cycle

The period during which most of the properties in a neighborhood undergo the stages of development, equilibrium, decline, and revitalization.

Development (growth): Improvements are made, and properties experience a rising demand.

Equilibrium: Properties undergo little change; also called stability.

Decline: Properties require an increasing amount of upkeep to retain their original utility and become less desirable.

Revitalization: Property renovations occur in response to demand; all called rehabilitation. (See Ventolo and Williams)

Net income ratio

The ratio of net operating income to effective gross income. (See Ventolo and Williams)

O

OER

See **operating expense ratio**.

Operating expense ratio (OER)

The ratio of total operating expenses to effective gross income.

Outlier

Outliers are properties that, for reasons that are usually undetermined, sold for a price that is extremely high or low based on all other comparables.

P

Passive income

Income from rental activity or other business in which the investor does not actively participate.

Personal property

Identifiable tangible objects that are considered by the general public as being "personal" (e.g., furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment). All tangible property that is not classified as real estate.

Potential gross income

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

Pre-Foreclosure

Begins at mortgage default and ends when property is sold. Length varies. It is during this period when a borrower may attempt a short sale.

Price

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

Progression

The principle that the value of an inferior property is enhanced if surrounded by properties of greater value.

Prospective price

The price as estimated for a future date after the date of the report

Public records

A public record is any document or record required to be made or kept by law. It is a record made by a public officer or a government agency in the course of the performance of a duty. Public records are

subject to inspection, examination, and copying by any member of the public (Merriam-Webster's Dictionary of Law ©2001).

Q

Qualitative

Pertaining to, or concerned with, quality or qualities.

Quantitative

Pertaining to, or concerned with, measuring quantity.

Quick sale

A quick sale involves buying a property for a price lower than its normal value. This normally happens when the mortgage loan could not be paid by the borrower or home owner. After a couple of months that the debtor failed to pay for the loan, the lender decides to sell the property for a lower price, rather than putting too much pressure on the borrower (<http://ezinearticles.com/?What-is-a-Quick-Sale-in-Real-Estate?&id=3703139>).

Quick-sale liquidation value

R

Real estate

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

Real Estate Buyer's Agent Council, Inc. (REBAC)

Real Estate Buyer's Agent Council, Inc. of the National Association of REALTORS® Center for Specialized REALTOR® Education.

Real Estate Investment Trust (REIT)

A company that securitizes and manages a portfolio of real estate for shareholders.

Real Estate Owned (REO)

If a foreclosure sale is unsuccessful, ownership of the property is transferred involuntarily to the lender.

Real property

The interests, benefits, and rights inherent in the ownership of real estate.

REALTORS® Valuation Model (RVM)

The RVM is a creation of the Realtors Property Resource (RPR). The online real estate library will catalog every property in the United States. This initiative will provide access to a national database of real property information and will give real estate professionals the best access to real property information needed to serve their clients and customers.

REALTORS® Property Resource (RPR)

NAR's library/archive that will include in-depth information on every parcel of real property, including public record information, details of prior transactions, MLS-provided information, zoning information, transfer tax information, and other relevant information (http://www.realtor.org/about_nar/realtors_property_resource).

REBAC

See **Real Estate Buyer's Agent Council, Inc.**

Regression

The principle that a higher-priced property is worth less if located amid lower-priced properties. (See Melanie McLane)

REIT

See **Real Estate Investment Trust.**

REO

See **Real Estate Owned.**

Retrospective price

The value as estimated at a past date sometime earlier than the report date.

RPR

See **REALTORS® Property Resource (RPR).**

RVM

See **REALTORS® Valuation Model.**

S**Sales comparison approach**

One of three approaches to value in appraisal theory. In this approach, value is estimated by comparing similar properties that have sold recently to the subject property.

Sales person

Any person who, for compensation or valuable consideration, is employed either directly or indirectly by a real estate broker to work with a client to sell or offer to sell; or to buy or offer to buy; or to negotiate the purchase, sale, or exchange of real estate; or to lease, rent, or offer for rent any real estate; or to negotiate leases thereof or improvements thereon. Such a salesperson or agent must secure a state license.

Scope of work

The type and extent of research and analyses in an assignment. An appraiser must identify the problem to be solved, determine and perform the scope of work necessary to develop credible assignment results, and disclose the scope of work in the report.

Securitization

The process of financing a pooling of financial assets and selling shares to generate capital.

Selling price

The actual price that a buyer pays for a property.

SFR

See **Short Sales and Foreclosure Resource**.

Short sale

As used in MLS rules (Section 7.23, Note 3), a short sale is defined as a transaction where title transfers, where the sales price is insufficient to pay the total of all liens and costs of sale, and where the seller does not bring sufficient liquid assets to the closing to cure all deficiencies.

Short Sales and Foreclosure Resource (SFR)

This certification is awarded to REALTORS® who meet the specified educational criteria set up by the Real Estate Buyer's Agent Council (REBAC) of the National Association of REALTORS® (www.RealtorSFR.org).

Signature

Personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of the responsibility for the content, analyses, and conclusions in the report.

Specific data

Data related to the subject property and comparable properties in the market.

Stages of neighborhoods

See **neighborhood life cycle**.

Strata Title

A system for registering ownership of space within a multilevel building.

Subject property

The building being appraised.

Substitution

The appraisal principle that states a buyer will pay no more for a property than the cost of obtaining an equally desirable substitute. (See Fisher and Tosh)

Supply and demand

The principle that the value of any good or service will rise as demand increases and supply decreases, and fall as demand decreases and supply increases. (See Melanie McLane)

T

Title

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

U

Uniform Standards of Professional Appraisal Practice (USPAP)

Minimal criteria for appraisal competency promulgated by The Appraisal Foundation at the direction of Congress, to be applied to appraisals that require the services of a state-licensed or certified appraiser. (See Ventolo and Williams)

USPAP

See **Uniform Standards of Professional Appraisal Practice**.

V

Valuation

The act of assessing the value or price of a property or investment.

Valuation principles

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

Value

The subjective judgment on the relative worth of something.

W

X

Y

Z