Federal Aviation
Administration

Memorandum

Date: August 27, 2018

To: Regional Airports Division Directors, Airport District Office Managers, Compliance Specialists

From: Kevin Willis, Director, Director, Office of Airport Compliance And Management Analysis, ACO-1

Subject: Compliance Guidance Letter 2018-3, Appraisal Standards for the Sale and Disposal of Federally Obligated Airport Property

I. Introduction and Purpose

This Compliance Guidance Letter (CGL) was developed to assist and inform FAA field offices, airport sponsors, and commercial appraisers on the appraisal process required for the sale and leasing of federally obligated property.[1] FAA views the appraisal process as an integral and required component to establishing an objective marketable value and protecting the federal investment in our nation's airports. This CGL describes the FAA-accepted appraisal process and report documentation standards for establishing Fair Market Value (FMV) for the sale, exchange, or leasing of federally obligated property.

Airport sponsors have a federal obligation to establish the FMV for airport property proposed for disposal. With some limited exceptions, lease rates on airport property used for non-aeronautical purposes must be based on FMV.

This CGL supports FAA Order 5190.6B, *Airport Compliance Manual* in further defining the process for determining FMV. Although this CGL does not address the acquisition of property under federally assisted projects, some FAA guidance related to land acquisition requirements may be similar to FAA guidance for land disposal and leasing of non-aeronautical property applicable

[1] The document was developed to address a Department of Transportation, Office of Inspector General, requirement that the FAA Airports Division establish standards regarding appraisals for the sale and disposal of federally obligated property. See DOT-OIG Audit on Venice Airport, AV-2011-180, September 29, 2011 and DOT-OIG Audit on Denver Stapleton International Airport, AV2011057, February 28, 2011. It should also be used as guidance for airport sponsors and appraisers. Field offices are encouraged to share this document with the interested parties. The document becomes effective September 10, 2018, the revision date)

to this CGL. Please consult statutory authority for guidance before conducting an appraisal for land acquisition.[2]

In this CGL, you will find information on these topics:

- Governing standards and authorities.
- Developing a "scope of work" for procuring an appraiser.
- Airport sponsor's selection of an appraiser.
- Features of an appraisal report.
- Discussion of the basic valuation process.
- Sample Scope of work statements for airport sponsors.

The CGL contains scope of work samples for most appraisal types that airport sponsors may have to conduct. The CGL also cites the relevant standards and governing authorities for conducting each type of scope of work.

How to Use this Document

- Become familiar with the requirements for airport appraisals as defined in Federal law and FAA policy beginning with the discussion in Section II. What Do I Need to Know About Appraisals?
- Use Exhibit 1: The Airport Real Property Appraisal Process in Section II as a starting point to decide what to do about a specific property that may need an appraisal.
- Review Section III. Key Authorities. If you need more information on federal requirements for appraisals, determine if one of the Specific Scopes of Work in Section V applies to your appraisal. The sample scopes of work are appropriate in most cases. However, if they are **not applicable** to your particular appraisal, plan to use the General Scope of Work in Exhibit 2
- Adapt the letter contained in Section V to provide guidance about your particular appraisal for the airport sponsor and then attach the appropriate Scope of Work.
- Examine the definitions of appraisal concepts in the dictionary in Appendix A.

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[2] For acquisitions of property, sponsors should consult Uniform Relocation Assistance and Real Property Acquisition Policies Act (42 USC 4601 *et seq.*) and FAA AC 150/5100-17, Land Acquisition and Relocation Assistance for Airport Improvement Program Assisted Projects (see http://www.faa.gov/airports/environmental/relocation_assistance/).

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II. What Do I Need to Know about Appraisals?

Exhibit 1 provides an overview of when an appraisal of an airport property is required, the basis of valuation, qualifications of appraisers, the type of report required, and how to provide guidance to airport sponsors on hiring an appraiser. It does not contain all of the issues related to airport appraisals, but is a good starting point.

Exhibit 1: The Airport Real Property Appraisal Process

When Does an Airport Need an Appraisal?
- Establishing fair market value for airport property
- Selling or Exchanging Property worth more than $25,000[3]
- Selling an entire airport with FAA approval
- Establishing rates and charges for non-aeronautical land

What is the Basis of Establishing Value?
- Market Value at the highest and best use as defined by Uniform Standards of Professional Appraisal Practice (USPAP)[4]

Qualifications of an Appraiser
- Listed on the National Registry of certified and licensed real estate appraisers:

https://www.asc.gov/National-Registry/NationalRegistry.aspx

- Prefer airport experience and/or experience with specialized properties (*e.g.*, land sales, hotels or golf courses, solar panels, water, oil and mineral rights)
- Experience preparing requests to release airport property
- Extensive knowledge and application of the USPAP

What Kind of Report is Required?
- A written Appraisal Report, as defined by USPAP
- A second Appraisal Report by another appraiser for market values over $1 million
- A written Review Appraisal of two Appraisal Reports

How Do I Provide Guidance to a Sponsor Hiring an Appraiser?
- Sample letter to sponsor in this CGL
- Scope of Work in this CGL (either general or for specific appraisals)

[3] Uncomplicated transaction is vacant marketable land without deductions or encumbrances.
[4] Uniform Standards of Professional Appraisal Practice can be accessed at http://www.uspap.org/.

What is an Appraisal?

Title 49 CFR Part 24 Uniform Relocation Assistance (URA) and Real Property Acquisition for Federal and Federally Assisted Programs defines an appraisal in the following way:

> The term appraisal means a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information.

FAA uses appraisals to establish the FMV of airport property, as do airport sponsors for determining fees and rates as stated in Grant Assurance 24, *Fee and Rental Structure*, which states in pertinent part:

> The Airport sponsor will maintain a fee and rental structure for the facilities and services at the airport that will make the airport as self-sustaining as possible under the circumstances existing at the particular airport, taking into account such factors as the volume of traffic and economy of collection.

The purpose of this self-sustaining principle is to protect the Federal investment in the nation's airports (*see* FAA Order 5190.6B, Chapter 17, which discusses the self-sustaining principle).

FAA's *Policy and Procedures Concerning the Use of Airport Revenue,* February 16, 1999, (64 FR 7721) (*Revenue Use Policy*) interprets the self-sustaining principle to require that airports receive FMV for the sale of airport property and for the leasing of airport property and facilities (land, buildings, other improvements) for non-aeronautical use.

When is an Appraisal Report Required?

Two conditions are required to initiate an appraisal report:

- There is a need to establish FMV for the sale of airport property, the exchange of airport property for off-airport property, or to establish lease rates for non-aeronautical use.

- An airport is selling property, except when the sponsor concludes that the appraisal is uncomplicated and the property value is reasonably determined to be less than 25,000.[5] Under this exception, the sponsor must prepare a waiver valuation to document its conclusions.[6] A letter to the local FAA office, supported with appropriate documentation of property values and signed by an airport official knowledgeable of the airport's property

[5] Uncomplicated transaction is an exchange of vacant land marketable without deductions or encumbrances.
[6] A waiver valuation is not an appraisal. URA Rule appraisal requirements and USPAP standards relating to appraisals do not apply to a waiver valuation. Appraisal practice is provided only by appraisers, whereas valuation services are provided by a variety of professionals and others. Valuation services pertain to all aspects of property value and include services performed both by appraisers and by others. A waiver valuation is to be prepared by a knowledgeable person who is aware of the general market values in the airport. The basic concept is to streamline the process.

values, is acceptable.

What is Fair Market Value?

FAA and Uniform Standards of Professional Appraisal Practice (USPAP) have similar definitions for fair market value, or market value. FMV is the cash value of the property if it were sold in a well-functioning market, assuming an arm's-length transaction (the buyer and seller are free from any duress), and the property is exposed to the market for a sufficient period of time for buyers to evaluate it.

FAA Order 5190.6B, Appendix Z of the Airport Compliance Manual, defines Fair Market Value:

> **Fair Market Value**. The highest price estimated in terms of money that a property will bring if exposed for sale in the open market allowing a reasonable time to find a purchaser or tenant who buys or rents with knowledge of all the uses to which it is adapted and for which it is capable of being used. It is also frequently referred to as the price at which a willing seller would sell and a willing buyer buy, neither being under abnormal pressure. FMV will fluctuate based on the economic conditions of the area.

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 the following conditions:

- The buyer and seller are typically motivated.
- Both parties are well informed or well advised, and each is acting in what he or she considers his or her own best interest.
- A reasonable time is allowed for exposure in the open market.[7]
- Payment is made in terms of cash in U. S. dollars or in terms of comparable financial arrangements.
- 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.

There is also a discussion of Fair Market Value in FAA Order 5190.6B (*see Chapter* 17 Self-Sustainability).

[7] Reasonable time will vary by type of property. For example, a house with similar characteristics to those in its neighborhood may only require a few weeks or months exposure to the market to establish value, whereas a unique industrial property may require a few years.

FMV is the Required Standard When an Airport Sells or Leases Non-Aeronautical Property

To maintain self-sustainability, airports must satisfy these requirements:

- Maintain a rate structure, including for airport property leased or sold, that makes the airport as self-sustaining as possible under the circumstances at the airport (*Revenue Use Policy*, Section VI.C).
- Obtain FMV for any land it leases or sells to the airport sponsor for other municipal purposes, developers, non-aviation commercial interests, or other private individuals.
- Charge market rent for leasing airport property for non-aeronautical use as well as determine the market value for the disposal of property that is no longer needed for airport purposes (AIP Grant Assurance 31, *Disposal of Land*; projects and systems, and (d) military aeronautical units).
- Prohibit the sale of airport property at less than FMV that diverts revenue away from the airport in violation of Grant Assurance 25, *Airport Revenue*.
- Retain sufficient property rights and control of any AIP-funded noise land sold, released, or leased, so that its use and development will always be compatible with airport operations (*See* FAA APP-400 guidance "Noise Land Management and Requirements for Disposal of Noise Land or Development Land Funded with AIP", June 2014). The retained property rights must be enforceable and recorded in the local public land records. The FMV appraisal of land to be disposed or leased long term will be subject to the needed sponsor retained rights and restrictions on the land (see appraisal scope of work).

Typical non-aeronautical uses that require FMV include leasing rates for non-aviation facilities (*i.e.*, ground rentals for commercial development, cargo buildings, hotels, car rental facilities, and commercial buildings). Land for these non-aeronautical uses should be appraised based on FMV.

FMV is Not the Standard for Setting Aeronautical Rates and Charges

Rates and charges for the airfield (runways and aircraft movement areas) may not exceed the airport's capital and operating costs of those facilities. These rates are based on accounting principles without reference to market conditions; an appraisal is not required to set the rates. Airport sponsors should consult the *FAA Policy Regarding Airport Rates and Charges*, 78 FR 55330, September 10, 2013 (*Rates and Charges Policy*).

The FAA does not require that these rates be set higher than the airport's capital and operating costs. So, unless the airport's objective is to set rates and charges for hangars, aviation offices, and similar non-movement facilities at FMV, an appraisal is not required.

How Do We Know Rent on an Airport Property is at FMV?

The appraiser still has to make judgments about "similar" returns and what properties are "comparable" when analyzing data on property sales and rentals. Various appraisal and real estate research organizations periodically publish guidelines to aid appraisers in developing parameters for rates of returns applicable to different forms of property. The appraiser will have to specifically take account of the restrictions on the use of airport property (*e.g.*, height restrictions or the need to go through security) when establishing rates.

One way to think about establishing rental rates based on FMV is to answer the question: How much would an airport tenant pay monthly to buy the property, allowing the airport sponsor to make a rate of return on its investment (the property's value), that is similar to what a property owner in the local geographic area might earn on comparable properties? This concept is similar to a mortgage payment, except market rent considers 100 percent of the property's value and reflects the overall investor/owner demanded rate of return on their property value. Of course, the appraiser will not use such a formula as the sole basis of the appraisal, but this approach is a useful way of thinking about what a market rate rental represents.

Here is a simplified example of a market rent required on a typical airport ground lease which requires the tenant to construct its own building and pay all operating expenses including any real estate tax on its development and use of the property:

- Appraised Fair Market Value (FMV) - An appraiser has completed an appraisal of airport land based on recent market land sales with highest best use for industrial development similar to the proposed development of airport land (without access to the ramp) and has concluded that the FMV of the land is $10 per square foot of a typical building lot.

- Cap Rate - The appraiser determines that a local owner/investor currently would expect to earn about 8 percent annually on a ground lease for industrial development after vacancy and land owner management expenses are paid.

- Vacancy Rate -The appraiser finds that in the region's property market, ground rent leases for industrial properties have a 3 percent vacancy rate.

- Annual Management Fee Rate - The airport land owner can expect to incur another 5 percent of gross rent annually for airport management expense on the leased property.

Given the above values, what would be the estimated FMV gross rent (before deducting any airport expenses) charged on a ground lease of airport land, ignoring (for this illustration) all other factors or assuming they have zero impact in this case?

In equation form:

Gross Annual Rent @ FMV = (CAP Rate x Appraised FMV)/(1-Vacancy Rate-Annual Management Fee Rate)

Gross Rent @ FMV = (8% x $10) / (1- .03 – .05) = $8.70 per square foot/ year (rounded).

The Gross Rent, therefore, to be received on the airport land with an FMV of $10/sq. ft. for a market required 8% return on value is $8.70 per square foot/year before expenses.

What are the Qualifications of an Appraiser?

The sponsor must ensure appraisals are conducted by qualified appraisers. Each state adopted the USPAP as the governing standards within their jurisdictions. They also developed licensure standards, which meet or exceed the recommendations of the Appraisal Foundation. All appraisers should be registered in a National Registry certified or licensed by a U.S. state, territory, or possession to perform appraisals in connection with federally related real estate transactions (https://www.asc.gov/National-Registry/NationalRegistry.aspx). Although there is variation from state to state, the most common categories of licensing are Appraisal Trainee, Residential Appraiser, Certified Residential Appraiser, and Certified General Appraiser.

Airport properties should be appraised by either a Certified Residential Appraiser (for residences, usually involved in Part 150 noise issues) or a Certified General Appraiser (who may appraise any type of property). Preference should be given to an appraiser having extensive airport valuation experience involving the type of property being assessed at airports of similar or larger size.

All states have a provision for a Temporary Practice Permit for licensed or certified appraisers from other states who may wish to do appraisal work outside of the state or states in which they are licensed or certified. Such permits are intended to fulfill the appraisal needs of a state, especially when demand exceeds the number of available qualified appraisers within the state.

The following exhibit from FAA AC 150/5100-17, *Land Acquisition and Relocation Assistance for Airport Improvement Program (AIP) Assisted Projects* summarizes the desirable qualifications of an appraiser. Airport sponsors should consult FAA AC 150/5100-17, Chapter 2. “Real Estate Appraisal” for further information about Qualifications, Appraisal Management, and Conflict of Interest.

APPRAISER AND REVIEW APPRAISER QUALIFICATIONS

The qualifications of an appraiser and review appraiser must be adequate for the proposed appraisal assignment. The sponsor should seek to hire the best-qualified appraiser for the type of property, the complexity of the acquisition (*i.e.*, whole or partial taking), familiarity and expertise in the local real estate market, and as applicable experience with acquisitions subject to eminent domain. Also, the appraiser must not have any apparent conflict of interest in the property to be acquired, or potentially with a current or prior client relationship with property owners. An appraiser under consideration for an assignment should be able to submit a resume' of qualifications citing some or all of the following qualification criteria.

Professional Designations:
American Institute of Real Estate Appraisers: Member Appraisal Institute (MAI) and Residential Member (RM)
National Association of Independent Fee Appraisers: (IFA)
American Society of Appraisers: (ASA)
International Right-of-Way Association: (SR/WA)
American Society of Farm Managers and Rural Appraisers: (ASFRM)
National Association of Master Appraisers
Other National and local appraisal organization which grant designations upon completion of educational and experience requirements.

Licensing and Certification under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA): State laws implementing FIRREA will require appraisers to meet the mandated educational and experience requirements to secure either a license or certification. State law may only require the license or certification for FIRREA mandated transactions (*i.e.*, typically Federally insured real estate loans), or may be required for all appraisal activity within the state. The Appraisal Qualification Board of the Appraisal Foundation established by FIRREA, instituted appraiser qualifications for a state license or certification. A licensed or certified appraiser may only perform appraisals consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) as required under FIRREA. Adherence to USPAP requires appraisers to meet specific appraisal standards and a code of ethics in accepting and performing appraisals. The appraisal requirements contained in 49 CFR 24.103 have been determined to meet the requirements of USPAP, (Appraisal Foundation Determination, September 1990).

Educational Background: Completion of recognized course work in professional real estate appraisal principles, processes, and practices. Course providers may be colleges and universities, professional appraisal organizations, and accredited business and professional schools.

Experience: Verifiable experience in the types of property to be appraised. Experience and acceptance as an expert appraisal witness in eminent domain and other court proceedings. Experience with the before and after appraisal process for determining just compensation and the value of partial acquisitions such as easements.

Client References: Verifiable listing of appraisal clients.

Geographic Area of Expertise: Area where the appraiser has an established practice. Some appraisers and appraisal firms may have a national scope, while often appraisers limit their work to specific local areas where they have developed adequate market databases and are fully familiar with the local markets and real estate trends.

Appraiser's Statement of Competency

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. An appraiser must disclose any lack of knowledge or experience necessary to complete an assignment before accepting the assignment. This disclosure is particularly important with regard to sub-specialties like airport property.

It is the responsibility of appraisers to determine whether or not they are competent with regard to a particular assignment. Factors that determine competency may include:

- Familiarity and experience level with regard to specific types of appraisals
- Regional familiarity
- The use of a particular appraisal
- Use of an analytical method in developing the appraisal

If appraisers determine they are not competent to accept a particular assignment, they have three mandatory actions.

First, the appraiser will work with another appraiser who possesses the requisite knowledge to produce credible results. Second, they will take specific steps to educate themselves and develop the necessary knowledge to competently complete the appraisal; and third, if these standards cannot be met, the appraiser must withdraw from the assignment.

What is an Acceptable Appraisal Report?

The FAA will only accept an Appraisal Report that meets the essential steps outlined in USPAP, 2016-2017 Edition. USPAP Standards Rule 2-2 requires the content of an Appraisal Report to be consistent with the intended use of the appraisal and contain this information at a minimum:

1. state the identity of the client and any intended users, by name or type;
2. state the intended use of the appraisal;
3. describe information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;
4. state the real property interest appraised;
5. state the type and definition of value and cite the source of the definition;
6. state the effective date of the appraisal and the date of the report;
7. summarize the scope of work used to develop the appraisal;
8. summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;

9. state the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion;
10. clearly and conspicuously: state all extraordinary assumptions and hypothetical conditions; and
11. state that their use might have affected the assignment results; and
12. include a signed certification in accordance with Standards Rule 2-3.

A Restricted Appraisal Report, another option allowable under USPAP, is inappropriate and unacceptable for FAA use.

When Is a Review Appraisal Required?

The review appraiser will ensure the appraisal process, the resulting FMV, and appraisal report meet minimum USPAP standards and FAA requirements. Two independent Appraisal Reports and a Review Appraisal are required for the disposal of the high value property ($1 million) or more. In the case of large land disposals or subdivision sales, FAA AC 150/5100-17 recommends hiring a review appraiser before hiring appraisers. This review appraiser may assist in defining appraisal scope of work.

FAA AC 150/5100-17, Figure 2-2 Appraisal Report Requirements provides a description of the appraisal process, report content, and statutory authority, which are summarized in the following table.

Appraisal Report Requirements

Appraisal Process	Detailed Report Content	49 CFR 24
Define the Appraisal Problem Identify and Locate the Real Estate Identify the Property Rights to be Valued Establish Date(s) of Value Estimate Identify the Use of the Appraisal Define Value to be Estimated Identify Limiting Conditions and Limitations	Parcel Number as shown on Exhibit "A" Project Influences Disregarded Existing Ownership: fee, easement, tenant Options/contracts Date of Value, Date of Inspection Statement of Owner Accompaniment Statement of Limiting Conditions	49 CFR 24.103(a) 49 CFR 24.103(a)(1)
Preliminary Analysis and Data Collection **General: Specific: Market (Supply & Demand):** Geographic Subject Applicable Sub-market Social Site & Imps. Competing Supply Economic Costs/Income Sales/Listings Govt. Interest Rates Vacancies/Absorption Environ. Use/Ownership Demand Studies	Area, Zoning, Utilities, Improvements Identification of Special Features Identification of Adverse Influences Market Analysis Neighborhood Analysis 5 Year Sales History of Property Encumbrances	49 CFR 24.103(a)(2), (4)
Highest and Best Use Analysis As Vacant and Available As Improved	Support and Analysis Presented	49 CFR 24.103(a)(2)
Land/Site Value Estimate	Sales Comparison, Subdivision Approach, Income Capitalization (Land Residual)	49 CFR 24.103(a)(3)
Application of the Three Approaches to Value Sales Comparison, Income, Cost Approaches (As Applicable)	Comparable Sales Verified Adjustments Explained Data and Analysis Presented for Each Sale Income & Expense Data Verified Capitalization Rate Support Provided Cost Source, Depreciation Supported	49 CFR 24.103(a)(3)
Reconciliation	Reasoning presented, relative strengths and weaknesses of the approaches discussed	49 CFR 24.103(a)(5), (6)
Report of Defined Value	Appraisal Report Appraisers Certification Before & After Analysis (Partial Acquisitions)	49 CFR 24.103(a)(5)(6)

How to Solicit for an Appraiser and Review Appraiser

Airport sponsors can use FAA AC 150/5100-14 as a guide for soliciting and procuring an appraiser; however, there is no requirement to do so. When hiring appraisers, airport sponsors should rely on the applicable legal authority and local procedures governing procurement. FAA requires that the appraisers and review appraiser be from different appraisal organizations.

Property worth more than $1 million

When an airport property is worth more than gross value of $1 million, FAA requires a sponsor to engage two independent appraisers and a review appraiser. One regular appraisal and a review appraisal are sufficient for gross values under $1 million. If the two appraisal reports of the property show divergent fair market values, it is the responsibility of the review appraiser to determine the FMV based on the information in the two appraisal reports and the review appraiser's own views of the market at that time.

How to Define a Scope of Work

The sponsor's appraisal assignment (solicitation) must contain a scope of work statement to ensure an appraisal report acceptable to the FAA. Exhibit 2 provides a sample general scope of work statement to use in procuring a qualified appraiser. The scope of work should be commensurate with the complexity of the appraisal problem and at a minimum include the following:

- **a.** Purpose and/or function[8] of the appraisal (*e.g.*, appraise fair market value).
- **b.** Requirement that the appraiser must perform an appraisal and develop an Appraisal Report, as defined under USPAP.
- **c.** Description of the sponsor as the client and any other intended user, each of which must receive a written Appraisal Report. The FAA is always considered an intended user of the appraisal report.
- **d.** Definition of the estate being appraised, *e.g.*, fee simple, easement, or leased fee.
- **e.** Assumptions and limiting conditions affecting the appraisal.
- **f.** Data search requirements and parameters.
- **g.** Identification of the technology requirements, including approaches to value, to be used to analyze the data.
- **h.** Other specifications required to adequately appraise the property and meet FAA and other regulatory requirements.

[8] "Purpose" is sometimes called "Type" and "Function" is sometimes called "Definition of Value."

Exhibit 2: Sample General Scope of Work Statement

The property to be appraised is roughly X acres of land located at __________________________. Attached are the legal description and a copy of the plat of the property (and, if applicable, a copy of the proposed lease). The sponsor currently owns (or had owned or leased) this property in fee and the real property will be conveyed or leased subject to the identified retained real property rights and encumbrances (see Assumptions and Limiting Conditions).

This appraisal of the property is subject to the following scope of work, intended use, intended user, definition of market value, certifications and statement of assumptions, and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the subject property and to meet the identified standards and requirements.

SCOPE OF WORK: The appraiser will provide an appraisal and appraisal report in accordance with Uniform Standards of Professional Appraisal Practice (USPAP) and FAA requirements. The appraiser must at a minimum:

- Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use of the property.
- Adequately describe the physical characteristics of the property being appraised including known and observed encumbrances, title information, location, zoning (current, proposed, and probability of rezoning), present use, stage of development, concurrency with local and regional land use plans, an analysis and supported determination of highest and best use, and adequate sales history of the property (*e.g.*, when acquired and amount paid).
- Adequately describe and analyze all relevant market data and activity as of the date of value.
- Inspect research, analyze, and verify comparable sales with public sources and with a party to the transaction, buyer, seller or broker, or attorney.
- Appraise the current fair market value of the property, as defined below. If the property is to be appraised based on a date in the past, the “retrospective appraisal” specification must be met by the appraiser (see Assumptions and Limiting Conditions).
- Analyze current or proposed leases, if any, and prepare an estimate of the leased fee value of the property. Explain any variance between the leased fee and the fee simple market value of the property.
- Report the appraiser’s analysis, opinions, and conclusions in the appraisal report. The appraisal report must include the plat or a sketch of the property and provide the location and dimensions of any improvements. The appraisal report must include adequate photographs of the subject property and of the comparable sales and provide location maps of the property and comparable sales.

Exhibit 2: Sample General Scope of Work Statement *continued*

- The land must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph A-14, *Analysis of highest and best use* (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf). As applicable, the appraiser in estimating the market value of the airport land shall consider the development potential of airport land parcels considering the location of airport land and any potential plottage (for combining it) with adjoining development land.

INTENDED USE: The intended use of this appraisal is to provide an appraised current fair market value (or as of the date of value specified for a retrospective appraised fair market value) of the fee simple and leased fee interest, as is applicable.

INTENDED USER: The intended user of this appraisal report is the sponsor and the FAA. The sponsor and FAA will rely on the appraisal and appraisal report to document the current fair market value of the real property.

DEFINITION OF MARKET VALUE: The market value is 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, 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 these conditions:

- Buyer and seller are typically motivated,
- Both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest,
- A reasonable time is allowed for exposure in the open market,
- Payment is made in terms of cash in U. S. dollars or in terms of comparable financial arrangements.
- 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.

Exhibit 2: Sample General Scope of Work Statement *continued*

CERTIFICATION: The appraiser must provide a certification consistent with USPAP requirements. Changes to the certifications are not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization are permitted.

ASSUMPTIONS AND LIMITING CONDITIONS: The appraiser must state all relevant assumptions and limiting conditions necessary. In addition, the sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, such as:

- The data search requirements and parameters that may be required for the assignment.
- The (sponsor) will advise and provide the appraiser the legal description of the airports retained property rights (recorded or to be recorded), *e.g.*, easements, deed restrictions, or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect overflight of the property. The appraiser must appraise the market value of the property subject to the airport retention of the described property rights.
- Identification of the technology requirements, including approaches to value to be used to analyze the data.
- Needed soil studies, potential zoning changes, etc.
- As applicable, any information on property contamination to be provided and considered by the appraiser in making the appraisal.
- Retrospective Appraisal Requirements: If a value for a date or event in the past is required (*e.g.*, as of past lease date or disposal date) the following specification must be inserted into the scope of work: The date of value for this appraisal is (specific date in the past). In conformance to USPAP,[9] market data subsequent to this effective date may be considered in developing a retrospective value as a confirmation of trends that would reasonably be considered by a buyer or seller as of the date of value. For this retrospective appraisal, the appraiser will determine a logical cut-off date after which market data cannot be used to reflect the relevant market as of the date of value.

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[9] Statement of Appraisal Standards #3, Retrospective Value Opinions, Uniform Standards of Appraisal Practice, Appraisal Foundation

Scopes of work adapted to specific types of property are provided later in this document, in Section V. Sample Scopes of Work.

Shelf Life of an Appraisal

Appraisals are essentially a snapshot of value that is taken at a particular time. This short shelf-life is why the date of valuation is so important in determining the validity of an appraisal. The market for all types of real estate is subject to change overtime. Values can increase or decrease, depending on a myriad of external factors.

Appraisals can be prospective, retrospective or contemporary:

- Prospective: Appraisals that anticipate the construction of some type of improvement require prospective values that designate some point in the future when the improvement will either be completed and/or stabilized, and that value may be several years beyond the date the appraisal is actually delivered.
- Retrospective: retrospective appraisals require appraisers to determine the value based on some preceding event, such as a date of death for purposes of settling an estate, or a preceding date that may be tied to a condemnation or other event.
- Contemporary: Appraisals for conditions on or about the date of valuation are contemporary.

FAA and State agencies prefer contemporary appraisals over retrospective or prospective appraisals. However, on occasion, there is a need to use prospective and retrospective appraisals to resolve compliance problems. ACO-100 and APP-400 should be consulted before making a decision. For contemporary appraisals, it is generally recognized that an older appraisal is less reliable than a newer appraisal.

What is an appropriate amount of time before an appraisal needs to be updated to incorporate any potential changes that may have occurred in the marketplace?[10]

In general, for FAA review of sale or lease of properties, if a matter has not gone to contract one year from the date of submission of the appraisal, then a new appraisal report is needed. USPAP specifies that each time an appraiser produces a report, it is considered a completely new appraisal assignment and must be treated as such by the appraiser to remain in compliance with the standards. The new report is not required to have the same level of effort as the original report. In a slow moving market, with little or no activity, the appraiser's level of effort should be more

[10] Within the appraisal profession, there is no defined time. Certain government agencies such as the Federal Housing Administration (FHA) specify that an original appraisal report can only be updated one time using the Appraisal Update Report (AUR). An appraisal with no AUR has a 150-day validity period (120-day validity period for the original appraisal plus 30-day extension period as permitted by HUD). An appraisal with an AUR has a 240-day validity period. Typically, banks and other institutional lenders consider six months to be the optimum timeframe for appraisals pertaining to commercial property, but will often times have properties appraised every several years for purposes of collateral management. Other government agencies at the federal and state level address this problem on a case-by-case basis often times with a chief appraiser in the department having the authority to update appraisals.

modest than when several relevant property sales need to be taken into account. The same advice would apply to any review appraisals. When market activity is minimal, the level of effort of the review appraiser would be less than when many new properties have to be considered in the new appraisal report.

Regardless of the nomenclature used, when a client seeks a more current value or analysis of a property that was previously appraised, this analysis is not an extension of the previously completed assignment. It is a new assignment. In cases where the delay in accepting the appraisal is due to FAA review and approval beyond the one-year period, ACO should be contacted.

Resolving Divergent Valuations between Appraisal Reports

In all cases, the sale of airport property or the leasing of non-aeronautical property must be based on a fair market value determination. In some instances, however, there may be a dispute over the market value of the property. At the request of the FAA, the sponsor's review appraiser may make a determination of the subject property's FMV, taking account of credible and verifiable valuation information in appraisal reports and other factors the review appraiser deems appropriate. Additionally, the sale price or lease rate offered by the sponsor and ultimately accepted to meet applicable Federal obligations must always reflect the existing fair market value of the property.

I. Key Authorities

This section focuses on key authorities for the sale and disposal of airport property. For issues that involve acquisition of property, the reader should consult the FAA website on Acquiring Land for Airports and Relocation assistance, which at the time of this writing was available at the following site:

a. Federal Law

- 49 United States Code (U.S.C.) § 47101(a) (13) Fee and Rental Structure
- 49 United States Code (U.S.C.) § 47107(b) Use of Airport Revenue
- 49 United States Code (U.S.C.) § 47107(c) Acquiring Land

b. Airport Improvement Program Grant Assurances

5. Preserving Rights and Powers
24. Fee and Rental Structure
25. Airport Revenues
31. Disposal of land

1. Self-Sustainability Principle

Federal law and FAA policy, including the *Revenue Use Policy*, require airport sponsors maintain a fee and rental structure that makes the airport as financially self-sustaining as possible under the specific circumstances at the airport. As stated in Title 49 U.S.C. § 47101(a) (13), “airports should be as self-sustaining as possible under the circumstances existing at each airport particular airport and in establishing new fees, rates, and charges.”

Airport sponsors also have a responsibility to ensure the airport maintains a rate and fee schedule that conforms to the grant assurances and is consistent with the FAA’s R*ates and Charges Policy*. FAA’s *Revenue Use Policy* requires federally obligated airports to charge market rent for leasing airport property for non-aeronautical use and dispose of airport property at fair market value. The self-sustainability Principle recognizes that each airport situation is different as well as the circumstances that may affect an airport’s ability to pursue self-sustainability. The primary goal is to maintain the utility of the federal investment in the airport.

c. FAA Order 5190.6B, Airport Compliance Manual

The Airport Compliance Manual provides guidance to FAA personnel on interpreting and administering the various continuing commitments airport sponsors make to the U.S. Government when they accept grants of federal funds or federal property for airport purposes.

Chapter 17. *Self-Sustainability* discusses the airport sponsor's responsibility to be as self-sustaining as possible. Each airport sponsor is required under Grant Assurance 24 to maintain a fee and rental structure, which covers the airport's aggregate operational costs to the greatest practical extent. Fair market pricing or value of airport facilities can be determined by reference to negotiated fees charged for similar uses of the airport or by appraisal of comparable properties. However, in view of the various restrictions on the use of property on an airport (*i.e.*, limits on the use of airport property and height restrictions) appraisers may often need to account for such restrictions when comparing on-airport with off-airport commercial non-aeronautical properties in making fair market value determinations. Failure to receive fair market value under airport circumstances where it is required may be viewed as revenue diversion by the federal or state agency providing the grant and may result in the requirement to repay the grant, financial penalties, and the loss of an airport's eligibility to receive future grants.

d. FAA Order 5100.38D, AIP Handbook

The AIP Handbook at paragraph 5-68 describes the land disposal requirements under 49 U.S.C., § 47107(c) (2), Grant Assurance 31. The sponsor is required to promptly dispose of AIP-funded land when the land is no longer needed for eligible current or planned airport purposes.

The federal share portion of the proceeds on the sale of noise land or land for airport purposes must be reinvested in eligible airport projects and programs. Table 1 provides the order of reinvestment preferences described in Grant Assurance 31.

Table 1. Order of Preference Applying Sale Proceeds of AIP-Funded Land per 49 USC § 47107(c)(4)

Order	Order of preference to apply the federal share of the fair market value
1	Reinvestment in an approved noise compatibility project.
2	Reinvestment in an approved *project* that is eligible for funding under 49 U.S.C., § 47117(e). The only *projects* in this section of the law are those eligible for noise and environmental set-aside funding. A complete list of projects eligible for noise and environmental set-aside funding is in the AIP Handbook, FAA Order 5100.38.
3	Reinvestment in all other approved airport development projects at the airport that are eligible under 49 U.S.C., § 47114, 47115, or 47117.
4	Transfer to a sponsor of another public airport for a noise compatibility project at the other airport.
5	Payment to the Secretary of Transportation for deposit in the Airport and Airway Trust Fund. (Send the FAA Airports District Office a check as directed by the FAA Office of Operational Services - FAA Accounts Payable Branch (AMZ-110) for deposit in the Airport and Airway Trust Fund.)

APP-400 and ACO-100 maintain current guidance on the FAA Airports District Office and sponsor requirements for tracking and disposal of AIP-acquired land. See “Noise Land Management and Requirements for Disposal of Noise Land or Development Land Funded with AIP.”

e. FAA Revenue Use Policy

The FAA’s *Revenue Use Policy* outlines the use of airport revenue and maintenance of a self-sustaining rate structure by federally assisted airports:

- The applicability of the policy.
- Statutory requirements for the use of airport revenue.
- Permitted and prohibited uses of airport revenue.
- Policies regarding the requirement for a self-sustaining rate structure, among others.

This policy echoes the principle of self-sustainability maximization and use of fair market value as described in FAA Order 5190.6B.

Each federally assisted airport sponsor is required by statute and grant assurances to have an airport fee and rental structure that will make the airport as self-sustaining as possible under the particular airport circumstances in order to minimize the airport’s reliance on Federal funds and local tax revenues. The FAA has generally interpreted the self-sustaining assurance to require airport sponsors to charge FMV commercial rates for non-aeronautical uses of airport property. Although FMV is not necessarily applicable to aeronautical uses, user charges are also subject to the standard of reasonableness (*Revenue Use Policy*).

f. FAA Advisory Circular Number 150/5100-17, Land Acquisition and Relocation Assistance for Airport Improvement Program (AIP) Assisted Projects - Real Property Appraisal – Sections 2-3, 2-4, 2-5, 2-8, 2-9

Even though this Advisory Circular addresses the appraisal of land acquisitions for AIP projects, it does contain helpful information that addresses the appraisal process.

g. Uniform Standards of Professional Appraisal Practice

The USPAP comprises the generally recognized ethical and performance standards for the appraisal profession in the U.S. USPAP was created by the Appraisal Standards Board of The Appraisal Foundation, and it is updated every year. USPAP is considered the primary set of standards for appraisal analysis and reporting applicable to real property, personal property, intangibles, and business valuation in the U.S. and its territories.

In 1989, Congress enacted the *Financial Institutions Reform, Recovery, and Enforcement Act of 1989* (FIRREA) that established the legislative and regulatory framework to ensure real estate appraisals are performed in writing, in accordance with uniform standards, and by competent individuals subject to effective supervision. State laws implementing FIRREA require appraisers to meet the mandated educational and experience requirements to secure either a license or certification. The Appraisal Qualification Board of the Appraisal Foundation established by FIRREA, instituted appraiser qualifications for a state license or certification. A licensed or certified appraiser may only perform appraisals consistent with FIRREA. Appraisers are also required to meet specific appraisal standards and a code of ethics in accepting and performing appraisals to adhere to USPAP. States and professional associations enforce compliance with USPAP.

Although USPAP provides a minimum set of quality control standards for appraisals in the U.S., it does not attempt to prescribe specific methods for conducting them. Rather, USPAP requires appraisers to familiarize themselves with and correctly utilize acceptable appraisal methods. This standard means the methods must conform to the intended user requirements and qualified airport or similar industry appraiser practices. USPAP outlines these practices in its Scope of Work Rule (*Uniform Standards of Professional Appraisal Practice*, 2016-2017 Edition, page U-14.), which include these three appraiser requirements:

1. Identify the problem to be solved.
2. Determine and perform the scope of work necessary to develop credible assignment results.
3. Disclose the scope of work in the appraisal report.

At the onset of an assignment, an appraiser is obligated to gather certain specified preliminary data and information about the project, such as the nature of the property to be appraised, the basis of value (*e.g.*, market, investment, impaired, unimpaired), the interests appraised (*e.g.*, fee, partial), important assumptions or hypothetical conditions, and the effective date of the valuation. Based on this data and information, along with other key information, the appraiser relies on a peer-reviewed methodology to formulate an acceptable work plan.

h. Fair Market Value Definitions

This section presents definitions of and other guidance related to fair market value. The sources include the FAA, various regulatory bodies, appraisal standards, and other legal authorities.

FAA's Definition of FMV in Order 5190.6B states:

> The highest price estimated in terms of money that a property will bring if exposed for sale in the open market allowing a reasonable time to find a purchaser or tenant who buys or rents with knowledge of all the uses to which it is adapted and for which it is capable of being used. It is also frequently referred to as the price at which a willing seller would sell and a willing buyer buy, neither being under abnormal pressure. FMV will fluctuate based on the economic conditions of the area (FAA 5190.6B, Appendix Z).

The same order provides additional clarity on the application of FMV and exceptions for the realization of FMV in airport-related transactions:

> **Paragraph 17.12. Fair Market Value.** Fair market fees for use of the airport are required for non-aeronautical use of the airport and are optional for non-airfield aeronautical use. Fair market pricing of airport facilities can be determined by reference to negotiated fees charged for similar uses of the airport or by appraisal of comparable properties. However, in view of the various restrictions on use of property on an airport (*i.e.*, limits on the use of airport property, height restrictions, *etc*.,) appraisers will need to account for such restrictions when comparing on-airport with off-airport commercial non-aeronautical properties in making fair market value determinations (FAA Order 5190.6B, Chapter 17).
>
> **Paragraph 17.13. Exceptions to the Self-sustaining Rule (Leasing only):** While the general rule requires market rates for non-aeronautical uses of the airport, several limited exceptions to the general rule have been defined by congressional direction and agency policy based on longstanding airport practices and public benefit. These limited exceptions relate to leasing only and not the disposal of property: (a) property for community purposes and (b) not-for-profit aviation organizations, (c) transit projects and systems, and (d) military aeronautical units. Applying an exception should not threaten the airport's compliance with the Revenue Use and Self-Sustaining Airport Policies (FAA Order 5190.6B, Chapter 17).

The Appraisal Institute's *The Dictionary of Real Estate Appraisal*, 5th Edition, includes the following entry for "market value":

> The most probable price that the specified property interest should sell for in a competitive market after a reasonable exposure time, as of a specified date, in cash, or in terms equivalent to cash, under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, for self-interest, and assuming neither is under duress.

This source also cites the definition of “market value” used by agencies that regulate federally insured financial institutions in the U.S.:

> 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 these conditions:

- 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 U.S. dollars or in terms of financial arrangements comparable thereto; and,
- 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. (12 C.F.R. Part 34.42(g); 55 Federal Register 34696, August 24, 1990, as amended at 57 Federal Register 12202, April 9, 1992; 59 Federal Register 29499, June 7, 1994)

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, defines the fair value of an asset (liability) as:

> The amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Although Generally Accepted Accounting Principles (GAAP) may not prescribe the method for measuring the fair value of an item, it expresses a preference for the use of observable market prices to make that determination. In the absence of observable market prices, GAAP requires fair value to be based on the best information available in the circumstances.

West's Encyclopedia of American Law, edition 2, defines fair market value as the amount for which real property would be sold in a voluntary transaction between a buyer and seller, neither of whom is under any obligation to buy or sell.”

The customary test of FMV in real estate transactions is the price that a buyer is willing, but is not under any duty, to pay for a particular property to an owner who is willing, but not obligated, to sell. Various factors can have an effect on the FMV of real estate, including the uses to which the property has been adapted and the demand for similar property.

Fair market value can also be referred to as “fair cash value” or “fair value”.

The Internal Revenue Service (Publication 561) defines fair market value as:

> Fair market value (FMV) is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts. If you put a restriction on the use of property you donate, the FMV must reflect that restriction.

The *International Valuation Standards* include the following definition of “market value”:

> The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion (*International Valuation Standards*, Eighth Edition).

In 2012, the State of Florida developed a set of guidelines for determining the value of airport property, which reads:

> Market value can be defined as the most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.(*Guidelines for Determining Market Value & Market Rent of Airport Property*, The Center for Urban Transportation Research, University of South Florida, April 2012.)

A related measure, market rent, is also relevant since airport land is more often than not, leased long term rather than sold, “Market rent is defined as the rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal” (*Guidelines for Determining Market Value & Market Rent of Airport Property*, The Center for Urban Transportation Research, University of South Florida, April 2012).

It is important to observe that the following elements are common to each of these definitions:

- Market value assesses when the parties are typically motivated, generally well informed, acting in their best interest, and not under duress.
- Market value assesses when the property is exposed on the market for a reasonable length of time.
- Payment is in cash or its equivalent.

IV. Appraising Airport Land at FMV

The methodology used by appraisers to determine the FMV of airport land include the sales comparison approach, cost approach, or income approach. All have advantages and disadvantages:

- The **sales comparison approach** is based on the sales of comparable properties. It hinges on the principle of substitution, assuming that a prudent person will pay no more for property than it would cost to purchase a comparable property. In order to determine the value of the property, an up-to-date database of recent real estate transactions (including the description and prices of the properties that have sold) has to be maintained. The current market price of comparable properties is adjusted for differences in physical characteristics (location, size, condition, amenities, *etc.*,) and market conditions to provide the estimate of the property value in question. Choosing comparable land and facilities at airports of similar size is the key for the accurate evaluation of property. The major factors that make airports suitable for comparison include the population and demographics of the community, proximity to other modes of transportation (highways, rail, public transportation, *etc*.), number and types of based aircraft, types of commercial activity at the airport, level of air service (number of enplanements), availability and quality of NAVAIDS and instrument approaches, runway length, and Air Traffic Control services. To be comparable for the valuation purposes, the property at a different airport has to be capable of accommodating the same type of activity.

- The **cost approach** (replacement or reproduction) focuses on what it would cost to construct the property. This approach includes costs for building and site improvements, with consideration for depreciation of both physical and external character. The cost (or rental rate payable) of underlying land must be considered as well. The use of the cost approach for the valuation of the property is based on a fundamental presumption that the property can be replaced or reproduced. The cost approach is considered most reliable when used to assess the value of newer structures, and less reliable to assess older properties.

- The **income approach** links the value of property to the income that it's likely to produce. This method is preferred when evaluating income-producing rental and commercial property, or when the property can be most valuable as a rental property. The income potential can be estimated by researching the current rents paid for comparable (*i.e.*, having the same highest and best use) property. The result is a net operating income for a single year that can be converted into an indicated property value through the overall capitalization process (the net income produced by the property divided by the capitalization rate). It can also be projected over a stated holding period and discounted to present value at an appropriate yield or discount rate. These rates are market-determined rates of return that would attract individuals to invest in the property, considering all the risks and benefits that could be realized. As a general rule, the rates for non-aeronautical airport development are typically lower than for aeronautical airport development projects. Along with the basic special purpose characteristics of the buildings and the sponsor's Grant Assurance limitations, the typical higher costs for aeronautical improvements often reflects the higher risk associated with aviation operations. The array of potential aeronautical tenants is relatively limited when compared to other the non-aeronautical real estate marketplace, and the process of getting aviation-related property into revenue production can be slower.

There are some disadvantages of the three methods. The sales comparison approach requires substantial market data that is not always available. The cost approach is considered most reliable when used to assess the value of newer structures, and less reliable to assess older properties. The income approach has limited use when the property is tailored for a specific aeronautical user that it rarely leases at a rental rate that reflects its construction costs. No "absolute" approach to property valuation exists. In some areas where there are a high number of airports and a resulting large pool of comparable transactions, the sales comparison (market data) approach is popular and practical.

The value of property is directly related to its use. There are two distinct types of airport property, aeronautical and non-aeronautical, and the valuation process is slightly different for each property type.

Appraising Aeronautical Property

FAA defines aeronautical property as all property comprising the land, airspace, improvements, and facilities used or intended to be used for any operational purposes related to, in support of, or complementary to the flight of aircraft to or from the airfield. It is highly recommended for determining FMV rates that aeronautical property is compared to other aeronautical property serving the same function at similar airports throughout the region or state.

The following are the major factors that should be used to identify comparable properties for determining FMV of aeronautical airport property:

- Size of the metropolitan area and population
- Surrounding demographic profile and economic character
- Location of the airport
- Runway(s) length and orientation
- Airport classification, size, and function
- Number of operations and other activity statistic
- Number of based aircraft
- Fixed-base operators and the services provided
- Age and quality of facilities
- NAVAIDS and Air Traffic Control facilities
- Airport cost structure and fees (landing, fuel flowage, aircraft parking, hangar use)
- Fuel sales
- Amenities at the airport

- Location on the airport
- Size of the property parcel in question
- Property function
- highest and best use of property

Appraising Non-aeronautical Property

Non-aeronautical property is the airport property that is not needed or used for supporting or complementing the aviation functions of the airport. Airport property that is not used for aeronautical activity, in many respects, is no different than similar property located in the local area around the airport. In the case of non-aeronautical property, airports compete with industrial parks, commercial, and retail real estate, located in the local community around the airport. Therefore, market value or market rent of non-aeronautical property can be determined by comparisons to other properties with similar use, located in the local area around the airport (*i.e.*, in the local community).

These major factors should be used to identify comparable properties in the local community for appraising of non-aeronautical property:

- Zoning designation and land use (legal encumbrances)
- Size of parcel
- highest and best use of property
- Property function
- Roadway and utility services access
- Other amenities
- Construction method and longevity

(*Guidelines for Determining Market Value & Market Rent of Airport Property*, The Center for Urban Transportation Research, University of South Florida, April 2012.)

Appraising Leased Airport Land

The value of airport leased land may also depend on multiple factors including the location on the airport, permitted use, and possibly the length of the lease term. The typical airport ground lease term is within the range of 20 to 30 years, with renewal options and the reversion of all improvements (or removal) at lease termination.

The most common method to appraise market rent owed on airport land is to analyze similar, currently rented properties with the same highest and best use. This technique is similar to the process applied in the sales comparison approach, only the market data analyzed relates to the particulars of a lease transaction. Another method applied to appraise market rent is to estimate the market value of the property, and apply an appropriate rate of return to that value. In other words, if a property's value is considered to be $1 million, and the market-derived rate of return is 10 percent, then the annual rental rate net of expenses is $100,000. (See the example on page 8 for a further discussion of this method.)

An appraiser may also consider the inherent risks and limitations associated with land designated for aeronautical use. Funding development projects on ground leases at public-use airports involve additional risks for lenders due to specific restrictions on the use of property located on or around the airport. In traditional real estate development pertaining to fee simple owned land, the lender has the ability to place a lien on both the improvements and owner's land as collateral against the default of the borrower. Public airports are typically unable to provide this type of security to the lender. Grant Assurance 5, *Preserving Rights and Powers*, prohibits an airport sponsor from entering into any agreement that would deprive the airport sponsor from performing the terms, conditions, and assurances under the grant agreement with the FAA. Generally, airport sponsors are prohibited from subordinating the sponsor's fee simple interest in airport property by mortgage, easement, or other encumbrance without prior FAA approval.

V. Sample Scopes of Work

This section contains sample Scopes of Work (SOW) for specific types of appraisals. The applicable Appraisal SOW should be given to the airport sponsor when FAA requires an appraisal to determine Fair Market Value. If you do not find the specific type of appraisal you are interested in, use the General Scope of Work contained in Exhibit 2.

These specific Scopes of Work are contained in this section:

Appraisal Scope of Work: Disposal of Existing Airport

Background

The property to be appraised is approximately ____acres of land and aviation-related improvements that comprise the _______________Airport, currently owned and operated by ___________________________. Attached are the legal description and a copy of the plat of the airport. The airport sponsor currently owns this airport property in fee, and the real property will be conveyed or leased subject to the identified retained real property rights and encumbrances (see the Assumptions and Limiting Conditions section later in this SOW).

This appraisal of the property is subject to the following scope of work, intended use, intended user, definition of market value, certifications and statement of assumptions, and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including:

    a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map, County tax parcel number(s).
    b. Name of apparent owner(s) of each interest being evaluated.
    c. Pertinent title information including known and observed leases or encumbrances.
    d. Present use and development, identification of any improvements and leasehold/tenant improvements.
    e. Zoning (current, proposed and probability of rezoning as if released for private market use and development).
    f. Stage of potential or proposed development and concurrency with local and regional land use plans.
    g. Infrastructure (existing and planned) serving the land.
    h. Adequate sales history of the property (*e.g.*, when acquired and amount paid).

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use development of the property.

3. Conduct adequate analysis and develop a supported determination of highest and best use of the airport's land for market sale. Some improvements located on the airport may be suitable for adaptive reuse in a non-aeronautical context. An analysis will be required of

existing and planned utilities, zoning ordinances, probability of rezoning, and all other relevant considerations in order to realize the fair market value of the property. Obligated airport land being disposed (market sale or long-term lease) must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph A-14, "Analysis of highest and best use" (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf). The appraiser, in valuing the fair market value of the airport land, shall consider the private development potential of airport land parcels (and any improvements) considering the location of the airport, and any potential plottage with adjoining land.

4. Adequately describe and analyze all relevant market data and activity in and around the airport property as of the date of value. Market activity relating to the aeronautical applications will be disregarded.

5. Inspect research, analyze, and verify comparable sales of property surrounding the airport with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value of the aggregate airport property, as defined in the Market Value section below.

7. Report the appraiser's analysis, opinions, and conclusions in the appraisal report.

8. The appraisal report must include the plat or a sketch of the airport property and provide the location and dimensions of any improvements. The appraisal report shall include adequate photographs and location maps of the property and of the comparable sales.

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and appraisal report to document the current fair market value of the real property that comprises __________Airport.

Intended Use

The intended use of the appraisal is to determine the fair market value in fee simple of the subject airport in its entirety, for sale in an arm's length transaction— the two parties are unconnected and have no overt common interests. It is the intention of the airport sponsor to sell all of the property assets that comprise the current operational airport facility and cease aeronautical operations.

Disposal of Existing Airport

Purpose

The purpose of the appraisal will be to determine the market value in fee simple for a large tract of contiguous land and improvements that comprises the **_____________** Airport. The market value will represent a sale price to the airport sponsor, and the appraisal is to ensure that the airport achieves the full fair market value at the highest and best use of the property, under the appropriate definition. The date of valuation is to reflect contemporary market conditions. The airport sponsor will identify any property interests such as retained rights easements, unexpired leases, or improvements to be accepted from the sale.

Market Value

The appraiser will estimate fair market value using the following USPAP definition:

Market value means 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 own best interests;
(3) A reasonable time is allowed for exposure in the open market;
(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition, the sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage, or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of land, and make an affirmative statement to that effect in the appraisal report.

Primary Data and Analysis

The appraiser will research and analyze the local market for the demand and supply of non-aeronautical property competitive with the various property assets that comprise the existing airport at its highest and best use, irrespective of the properties' current aeronautical applications. The airport will be assumed to be integrated into the developmental patterns that exist in its immediate vicinity. The appraiser will analyze, verify, and inspect recent comparable sales within the market area that surrounds the airport property.

In the context of appraising the airport property at its highest and best use, appraisers will familiarize themselves and develop an appropriate methodology to account for any and all necessary and normal infrastructural costs that would be applicable to the airport. Developmental infrastructure such as utilities, sewer service, access roads and other supportive elements, and the costs likely to be incurred, are to be fully considered in the valuation. If necessary, the appraiser will consult with the airport sponsor in order to familiarize and evaluate any particular agreement, plan, or concept regarding infrastructure that is pertinent to the property under appraisal.

If applicable, appraisers will familiarize themselves with any plans and conceptual designs relating to the airport property under appraisal. If public parks and open space areas are to be included as a part of any redevelopment option, the appraiser will consider these areas in the context of fair market value for the real property that comprises them.

The appraiser will consider the influence of developmental and or impact fees which would be applicable to the property under appraisal in order to realize its highest and best use. The appraiser will evaluate these fees in the context of the fair market value of the property and apply the appropriate market-based analysis in developing the appraisal. The policies and practices that are pertinent to local market influences that reflect the size of the property, and any absorption factors at its highest and best use will be fully considered and included in the appraiser's analysis. The appraiser will also consider the impact of property taxes that may be assessed on the airport property if conveyed to a non-governmental owner.

In addition to any factors which may affect the absorption of the property under appraisal by the marketplace over time, the appraiser will fully evaluate the historical character of local market factors with regard to any increase or decrease in value that may be anticipated as applying to the appraised airport property. Any projections of value used in developing the appraisal must be market-based and supported by a variety of local data that relates to a similar highest and best use determined for the property. Consumer price-based indexes should be considered when appropriate, but not exclusively relied upon by the appraiser.

Disposal of Existing Airport

The appraiser will analyze existing improvements for their compatibility and suitability for adaptive reuse if they are primarily aeronautical, and non-aeronautical property shall be analyzed to determine whether existing improvements represent the highest and best use for the site.

The airport sponsor will advise and provide the appraiser the legal description of the airport's retained property rights (recorded or to be recorded), *e.g.*, easements, deed restrictions, or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect overflight of the property. The appraiser shall appraise the fair market value of the property subject to the airport retention of the described property rights.

Secondary Data and Analysis

The appraiser will perform an analysis and determination of an appropriate rate of return which can be applied to a Market Land Rent to arrive at an indication of the fee simple land value which would be applicable to the subject property. Existing revenue streams from land leases that are a part of the property under appraisal will be analyzed to determine if they are at a market rate.

The appraiser will analyze the market for large, developmentally oriented residential, commercial, and industrial land sales, and consider the absorption factors that are pertinent to these particular markets in the context of termination of the airport's existing aeronautical applications.

If a change in zoning is required to realize the fair market value of the subject, the appraiser should evaluate the probability of the rezoning, and if necessary to produce a credible appraisal, utilize any appropriate assumptions or conditions.

The appraiser will consult with real estate industry professionals with regard to demand characteristics for the general airport location.

Appraiser will evaluate and report to the client, prior to completion of the appraisal, property conditions at the subject parcel that may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan
- The current Airport Layout Plan
- All environmental due diligence documents prepared by the client regarding the property and include them in the Appraisal Report

Disposal of Existing Airport

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least five years of experience in complex appraisals, with specific experience in the valuation of large parcels of local residential, commercial, and industrial land suitable for subdivision and sale to the market place over a period of time. Experience with appraisals of similar airport property is considered a plus.

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances, March 2014

Appraisal Scope of Work: Disposal of Non-Aeronautical Airport Land

Background

The property to be appraised is approximately ________ acres of land located at _________________ Airport. Attached are the legal description and a copy of the plat of the property (and if applicable a copy of the proposed lease). The airport sponsor currently owns (or had owned or leased) this property in fee and the real property will be conveyed or leased subject to the identified retained real property rights and encumbrances (see the Assumptions and Limiting Conditions).

This appraisal of the property is subject to the following scope of work, intended use, intended user, definition of market value, certifications and statement of assumptions and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must, at a minimum:

1. Adequately describe the characteristics of the property being appraised including:
    a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map, County tax parcel number(s).
    b. Name of apparent owner(s) of each interest being evaluated.
    c. Pertinent title information including known and observed leases or encumbrances.
    d. Present use and development, identification of any improvements and leasehold/tenant improvements.
    e. Zoning (current, proposed and probability of rezoning as if released for private market use and development).
    f. Stage of potential or proposed development and concurrency with local and regional land use plans.
    g. Infrastructure (existing and planned) serving the land.
    h. Adequate sales history of the property (*e.g.* when acquired, amount paid).

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use development of the property.

3. Conduct adequate analysis and develop a supported determination of highest and best use of the airport land for sale. An analysis will be required of existing and planned utilities, zoning ordinances, probability of rezoning, and all other relevant considerations in order to realize the market value of the property. Obligated airport land being disposed (market sale or long-term lease) must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph

Non-Aeronautical Airport Land

A-14, *Analysis of highest and best use* (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf). The appraiser, in valuing the market value of the airport land, shall consider the private development potential of airport land parcels considering the location of airport land and any potential plottage with adjoining development land.

4. Adequately describe and analyze all relevant market data and activity as of the date of value.

5. Inspect research, analyze, and verify comparable sales with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value of the property, as defined in the Market Value section below.

7. As applicable, analyze current or proposed leases, and prepare an estimate of the leased fee value of the property. Explain any variance between the leased fee and the fee simple market value of the property.

8. Report the appraiser's analysis, opinions, and conclusions in the appraisal report.

9. The appraisal report must include the plat or a sketch of the property and provide the location and dimensions of any improvements. The appraisal report shall include adequate photographs and location maps of the subject property and of the comparable sales.

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and Appraisal Report to document the current fair market value of the real property.

Intended Use

The intended use of the appraisal is to determine the market value in fee simple of the subject parcel of airport land for market sale in an arm's length transaction—the buyer and seller are unconnected and have no overt common interests.

Purpose

The purpose of the appraisal will be to determine the market value in fee simple for a large tract of contiguous non-aeronautical commercial or industrial land. The market value will represent a sale price to the airport sponsor, and the appraisal is to ensure that airport achieves the full fair market value at the highest and best use of the property, under the appropriate definition.

Non-Aeronautical Airport Land

The date of valuation is to reflect contemporary market conditions. The airport sponsor will identify and/or confirm any property interests such as retained rights easements, unexpired leases, or improvements to be excepted from the sale.

Market Value

The appraiser will estimate fair market value using the following USPAP definition:

Market value means 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 own best interests;
(3) A reasonable time is allowed for exposure in the open market;
(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition the sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of land, and make an affirmative statement to that effect in the appraisal report.

Non-Aeronautical Airport Land

Primary Data and Analysis

The appraiser will research, and analyze the local market for the demand and supply of property competitive with the airport land at its highest and best use. The appraiser will analyze, verify, and inspect recent comparable sales transactions. Additionally, the appraiser will analyze existing land leases that are a part of the property if applicable.

The appraiser will examine and analyze the impact of the position of the airport land parcel relative to the airport environment. The basic considerations relating to FAA Part 77 (objects affecting navigable airspace) and any impact on any future development should be considered by the appraiser as a part of the highest and best use analysis. The airport sponsor will advise and provide the appraiser the legal description of the airports retained property rights (recorded or to be recorded), *e.g.*, easements, deed restrictions, or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect overflight of the property. The appraiser shall appraise the market value of the property subject to the airport's retention of the described property rights.

In the context of appraising the airport property at its highest and best use, the appraiser will familiarize themselves and develop an appropriate methodology to account for any and all necessary and normal infrastructural costs that would be applicable to the airport. Developmental infrastructure such as utilities, sewer service, access roads and other supportive elements, and the costs likely to be incurred, are to be fully considered in the valuation. If necessary, the appraiser will consult with the airport sponsor in order to familiarize and evaluate any particular agreement, plan or concept regarding infrastructure that is pertinent to the property under appraisal.

If applicable, the appraiser will familiarize themselves with any plans and conceptual designs relating to the airport property under appraisal. If public parks and open space areas are to be included as a part of any redevelopment option, the appraiser will consider these areas in the context of fair market value for the real property that comprises them.

The appraiser will consider the influence of developmental and or impact fees which would be applicable to the property under appraisal in order to realize its highest and best use. The appraiser will evaluate these fees in the context of the fair market value of the property and apply the appropriate market-based analysis in developing the appraisal. The policies and practices that are pertinent to local market influences that reflect the size of the property, and any absorption factors at its highest and best use will be fully considered and included in the appraiser's analysis. The appraiser will also consider the impact of property taxes that may be assessed on the airport property if conveyed to a non-governmental owner.

In addition to any factors which may affect the absorption of the property under appraisal by the marketplace over time, the appraiser will fully evaluate the historical character of local market factors with regard to any increase or decrease in value that may be anticipated as applying to the appraised airport property. Any projections of value used in developing appraisal must be market based, and supported by a variety of local data that relates to a similar highest and best use determined for the property. Consumer price-based indexes should be considered when appropriate, but not exclusively relied upon by the appraiser.

Secondary Data and Analysis

The appraiser will perform an analysis and determination of an appropriate rate of return which can be applied to a Market Land Rent to arrive at an indication of the fee simple land value which would be applicable to the subject property. Existing revenue streams from land leases that are a part of the property under appraisal will be analyzed to determine if they are at a market rate.

The appraiser will analyze the market for large, developmentally oriented commercial and industrial land sales, and consider the absorption factors that are pertinent to this particular market.

If a change in zoning is required to realize the fair market value of the subject, the appraiser should evaluate the probability of the rezoning, and if necessary to produce a credible appraisal, utilize any appropriate assumptions or conditions.

The appraiser will consult with any and all real estate industry professionals with regard to demand characteristics for the general airport location.

The appraiser will consult with airport personnel with regard to demand characteristics for the airport location.

Appraiser will evaluate and report to the client, prior to completion of the appraisal, property conditions at the subject parcel that may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan
- The current Airport Layout Plan
- All environmental due diligence documents prepared by the client regarding the property, and include them in the Appraisal Report.

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least 5 years of experience in complex appraisals, with specific experience in the valuation of large parcels of local commercial and industrial land suitable for subdivision, and sale to the market place over a period of time. Experience with appraisals of similar airport property is considered a plus.

Non-Aeronautical Airport Land

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (Specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014

Appraisal Scope of Work: On-Airport Leasehold

Background

The property to be appraised is approximately ______ acres of land and improvements located on the__________ Airport. Attached are the legal description and a copy of the plat of the property. The Airport Sponsor intends to purchase the leasehold interest pertaining to the property, from the entity who currently owns the leasehold interest.

This appraisal of the property is subject to the following scope of work, intended use, intended user, definition of market value, certifications and statement of assumptions and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property leasehold estate, and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including:
    a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map (See AC 150/5100-17 Figure 1-2), County tax parcel number(s), or any other pertinent documentation. A current, FAA approved Airport Layout Plan (ALP) showing the location of the property under appraisal must be included in the appraisal.
    b. Name of apparent owner(s) of the leasehold being appraised.
    c. Pertinent title information including known and observed sub-leases or encumbrances.
    d. Present use and development, identification of any improvements and owner improvements.
    e. Zoning (current, proposed and probability of rezoning as if released for private market use and development).
    f. Stage of potential or proposed use for aeronautical and non-aeronautical purposes, development and concurrency with local and regional land use plans, and the existing Airport Master Plan.
    g. Infrastructure (existing and planned) serving the property.
    h. Adequate sales or lease history of the leasehold (*e.g.*, when acquired and amount paid).
    i. The terms and conditions of the airport access agreement pertaining to the property under appraisal.
    j. Any other salient airport-related characteristics of the property.

On-Airport Leasehold

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use of the property. The appraiser will become familiar with the sponsor's Grant Assurances under the obligations imposed by the airport's participation in the Airport Improvement Program (AIP), and consider any limitations or restrictions that may apply to the property.

3. Conduct adequate analysis and develop a supported determination of highest and best use of the leasehold for market sale. An analysis will be required of existing and planned utilities, zoning ordinances, probability of redevelopment or reuse, and all other relevant considerations in order to realize the market value of the leasehold interest. Obligated airport land being acquired (market sale or long term lease) must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph A-14, "Analysis of highest and best use" (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf). The portion of the airport under appraisal may be subject to use restrictions and other encumbrances which preclude highest and best use options which are not approved by the FAA for that particular location on the airport under the Sponsor's Assurances. The appraiser, in valuing the market value of the property, shall consider the development potential of the leasehold under appraisal considering the location of the property and the various uses appropriate for it under the existing Airport Layout Plan.

4. Adequately describe and analyze all relevant market data and activity as of the date of value.

5. Inspect research, analyze, and verify comparable sales and/or leases with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value of the leasehold, as defined below.

7. As applicable, analyze current or proposed leases and prepare an estimate of the leasehold value of the property. Explain any variance between the leasehold value to the owner of the leasehold interest, and the leasehold market value of the property based on the economic rental rates payable by any sub lessees to the owner of the leasehold interest under appraisal.

8. Report the appraiser's analysis, opinions, and conclusions in the appraisal report.

9. The appraisal report must include the plat or a sketch of the property and provide the location and dimensions of any improvements. The appraisal report shall include adequate photographs and location maps of the subject property and of the comparable sales.

On-Airport Leasehold

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and appraisal report to document the current fair market value of the leasehold interest.

Intended Use

The intended use of the appraisal is to determine the market value in leasehold estate of the subject parcel of airport property for market sale in an arm's length transaction— the two parties are unconnected and have no overt common interests.

Purpose

The purpose of the appraisal will be to determine the market value in leasehold estate for a tract of airport land and the contributory value of any improvements. The market value will represent a sale price to the owner of the leasehold interest, and the appraisal is to ensure that Fair Market Value at the highest and best use of the property, under the appropriate definition, constitutes the just compensation paid by the airport to the owner of the leasehold interest. The date of valuation is to reflect contemporary market conditions. The airport sponsor will identify any property interests such as retained rights easements, unexpired leases, or improvements to be accepted from the sale

Market Value

The federal courts have adopted the working rule that, in general, the just compensation due for the acquisition of property by the government is equivalent to the property's market value.

The appraiser will estimate market value using the following USPAP definition:

Market value means 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 own best interests;
(3) A reasonable time is allowed for exposure in the open market;
(4) Payment is made in terms of cash in U.S. dollars or in terms or financial arrangements comparable thereto; and

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(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.*

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition the Sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of airport property, and make an affirmative statement to that effect in the appraisal report.

Primary Data and Analysis

The appraiser will research, and analyze the relevant market for the demand and supply of property competitive with the airport land at its highest and best use. Due to the nature of the subject of the appraisal, the appraiser may need to look for comparable data in regions that are geographically further away from the subject then would be the case for non-aeronautical property in the general location of the airport. The appraiser will analyze, verify and if possible, inspect recent comparable sales or lease transactions. Additionally, the appraiser will analyze the existing leases with the airport that pertain to the subject property.

The appraiser will analyze the impact of the position of the property under appraisal relative to the airport environment. The basic considerations relating to FAA Part 77 and impact on future development should be considered by the appraiser as a part of the highest and best use analysis.

The appraiser will review general market data relating to the airport itself and the general aviation environment which surrounds the subject property's immediate area. This analysis will include other leasehold interests on the airport where the property is located. The appraiser will also research and analyze the market for airport real estate at competitive airports, and interview various real estate, airport and aviation personnel regarding current market conditions, current pricing practices, and all relevant information relating to the subject property and its position within the marketplace.

On-Airport Leasehold

The airport sponsor will advise and provide the appraiser the legal description of the airports retained property rights (recorded or to be recorded), *e.g.*, easements, lease restrictions or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect over flight of the property. The appraiser shall appraise the market value of the property subject to the airport retention of the described property rights.

Secondary Data and Analysis

The vast majority of aviation-related leases for land and for improvements are for a specified term. The appraiser will familiarize themselves with the nature of aviation leases and FAA policy regarding term. The influence of the remaining term will be considered by the appraiser in developing the value of the tenant's leasehold interest.

In some instances, improvements that are constructed on a long-term ground lease, vest the title with the lessor. The appraisers will familiarize themselves with the specific underlying ground lease (if applicable to the assignment) and will understand the relationship between the legal title to the improvement and the particular benefits of the lessee's position in developing the appraisal.

Several categories of aviation-related users who would possess the leasehold interest under appraisal may derive commercial benefits relating to non-real estate related elements of their business. Examples would be revenues developed from fuel sales, aircraft maintenance and repair, aircraft charter-related service, and air carrier applications. Appraisers will familiarize themselves with the nature of the on-airport user and develop an appraisal that focuses on the leasehold interest relating only to the real property rights in question.

In appraisals of leasehold interest that involve improvements that were constructed at the expense of the tenant, the appraiser will make an effort to understand all the considerations with regard to the expense and other elements that pertain to on-airport construction of the particular improvements under appraisal.

The appraiser will perform an analysis and determination of an appropriate rate of return which can be applied to a Net Operating Income to arrive at an indication of the leasehold value which would be applicable to the subject property. Existing revenue streams from leases which are a part of the property under appraisal (if any) will be analyzed to determine if they are at market rate.

The appraiser will consult with the applicable airport personnel with regard to demand characteristics for the airport location.

The appraiser will evaluate and report to the client, prior to completion of the appraisal, property conditions that exist at the parcel that may warrant further environmental investigation.

On-Airport Leasehold

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan,
- The current Airport Layout Plan,
- All environmental due diligence documents prepared by the client regarding the property, and include them in the Appraisal Report.

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least 5 years of experience in complex appraisals, with specific experience in the valuation of a variety of on-airport property such as hangars, fixed base operations and vacant airport land. Experience with appraisals of similar airport property is considered a plus.

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014

Appraisal Scope of Work: Concurrent/Interim Lease of On-Airport Property

Background

The property to be appraised is ______ acres of land and improvements located on the ____________Airport. Attached are the legal description and a copy of the plat of the property to be appraised. The Airport Sponsor intends to lease the property under the provisions of FAA Order 5190.6B, 22.5 Request for Concurrent Use of Aeronautical Property for Other Uses. Under federal law, *concurrent use* can be considered if aeronautical property is to remain in use for its primary airport-related, aeronautical purpose, but may also be used for a compatible revenue–producing, non-aeronautical purpose.

Interim use represents a temporary arrangement to use airport property for non-aeronautical purposes. It is anticipated that the interim use will end and the property will be returned to aeronautical use. Interim use is limited to 5 years, with 3 years the preferred term.

Any funds received by the airport (rent) for a release from aeronautical use in either concurrent or interim use should be based on fair market rent and considered airport revenue. The concurrent use that applies to property which requires an appraisal may be predetermined by the airport sponsor within specific parameters, or represent a general redeployment of aeronautical land for non-aeronautical purposes. The appraiser will become familiar with the proposed use for the property and apply the appropriate analysis.

This appraisal of the property is subject to the following scope of work, intended use, intended user, definition of market value, certifications and statement of assumptions, and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property leasehold estate, and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including;
    a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map (See AC 150/5100-17 Figure 1-2), County tax parcel number(s), or any other pertinent documentation. A current, FAA approved Airport Layout Plan (ALP) showing the location of the property under appraisal must be included in the appraisal.
    b. Name of apparent owner(s) of the property being appraised,
    c. Pertinent title information including known and observed sub-leases or encumbrances,
    d. Present use and development, identification of any improvements and owner improvements,

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e. Zoning (current, proposed and probability of rezoning as if released for private market use and development),
f. Stage of potential or proposed use for non-aeronautical purposes, development and concurrency with local and regional land use plans, and the existing Airport Master Plan,
g. Infrastructure (existing and planned) serving the property,
h. Adequate sales or lease history of the property (*e.g.*, when acquired and amount paid).
i. Any other salient airport-related characteristics of the property.

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the proposed use of the property. The appraiser will become familiar with the sponsor's Grant Assurances under the obligations imposed by the airport's participation in the Airport Improvement Program (AIP) and consider any limitations or restrictions that may apply to the property under appraisal from this contractual mandate.

3. Conduct adequate analysis and develop a supported determination relating to the proposed use of the property for market lease. An analysis will be required of existing and planned utilities, zoning ordinances, probability of redevelopment or reuse, and all other relevant considerations in order to realize the market value of the leasehold interest. Obligated airport land being acquired (market sale or long term lease) must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph A-14, "Analysis of highest and best use" (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf). The portion of the airport under appraisal may be subject to use restrictions and other encumbrances which preclude highest and best use options which are not approved by the FAA for that particular location on the airport under the Sponsor's Assurances. The appraiser in valuing the market value of the subject property shall consider the development potential of the leasehold under appraisal considering the location of the property the various uses appropriate for it under the existing Airport Layout Plan.

4. Adequately describe and analyze all relevant market data and activity as of the date of value.

5. Inspect research, analyze, and verify comparable sales and/or leases with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market rent for the property, as defined in the Market Value section below.

7. As applicable, analyze current or proposed leases and prepare an estimate of the leasehold value of the property. Explain any variance between the leasehold value to

Concurrent/Interim Lease

the owner of the leasehold interest, and the leasehold market value of the property based on the economic rental rates payable by any sub lessees to the owner of the leasehold interest under appraisal.

8. Report the appraiser's analysis, opinions, and conclusions in the appraisal report.

9. The appraisal report must include the plat or a sketch of the property and provide the location and dimensions of any improvements. The appraisal report shall include adequate photographs and location maps of the property and of the comparable sales.

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and Appraisal Report to document the current fair market rental for the property.

Intended Use

The intended use of the appraisal is to determine the fair market rental for the airport property for market lease in an arm's length transaction— the two parties are unconnected and have no overt common interests.

Purpose

The purpose of the appraisal will be to determine the fair market rental for airport property and the contributory value of any improvements. The fair market rental will represent a rental rate to the owner of the fee simple interest, and the appraisal is to ensure that the fair market rental for the intended use of the property, under the appropriate definition, constitutes the rent paid by the lessee to the airport. The date of valuation is to reflect contemporary market conditions. The Airport Sponsor will identify any property interests such as retained rights easements, unexpired leases or improvements to be accepted from the lease.

Concurrent/Interim Lease

Market Value

For a property to be leased with the right to use and occupy real estate for a stated term and under certain conditions may require an appraiser to determine a fair market rent (consideration paid by the lessee to the lessor). The definition and principles of fair market value which are applicable to a property sale, and found in USPAP and the Uniform Appraisal Standards for Federal Land Acquisitions, are also applicable to fair market rent. The appraiser will estimate fair market rent using the following USPAP definition:

> *Market value means 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 own best interests;*
> *(3) A reasonable time is allowed for exposure in the open market;*
> *(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.*

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition the Sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of airport property, and make an affirmative statement to that effect in the appraisal report.

Concurrent/Interim Lease

Primary Data and Analysis

The appraiser will research and analyze the relevant market for the demand and supply of property competitive with the airport land at its proposed use. Depending on the nature of the subject of the appraisal, the appraiser may need to look for comparable data in regions that are geographically further away from the subject than would be the case for non-aeronautical property in the general location of the airport. The appraiser will analyze, verify, and if possible, inspect recent comparable sales or lease transactions. Additionally, the appraiser will analyze existing leases with the airport that pertain to the property.

The appraiser will examine and analyze the impact of the position of the property under appraisal relative to the airport environment. The basic considerations relating to FAA Part 77 and any impact on any future development should be considered by the appraiser as a part of the highest and best use analysis.

The appraiser will review general market data relating to the airport itself and the general aviation environment which surrounds the subject property's immediate area. This analysis will include other comparable leasehold interests on the airport where the property is located. If necessary to produce a credible appraisal, the appraiser will research and analyze the market for similar airport real estate at competitive airports, and interview various real estate, airport, and aviation personnel regarding current market conditions, current pricing practices, and other relevant information relating to the subject property and its position within the marketplace.

The airport sponsor will advise and provide the appraiser the legal description of any airport retained property rights (recorded or to be recorded), *e.g.* easements, lease restrictions or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect over flight of the property. The appraiser shall appraise the fair market rental of the property subject to the airport retention of any described property rights.

Secondary Data and Analysis

The appraiser will perform an analysis and determination of an appropriate rate of return which can be applied to a Net Operating Income to arrive at an indication of the leasehold value which would be applicable to the subject property. Existing revenue streams from leases that are a part of the property under appraisal (if any) will be analyzed to determine if they are at a market rate.

The appraiser will analyze the market for land or improvement sales or leases comparable to the proposed concurrent/interim use, and consider the absorption factors that are pertinent to this particular market.

The appraiser will consult with any and all airport personnel with regard to demand characteristics for the airport location.

Concurrent/Interim Lease

Appraiser will evaluate and report to the client, prior to completion of the appraisal, property conditions at the subject parcel that may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan
- The current Airport Layout Plan
- Any environmental due diligence documents prepared by the client regarding the subject of the appraisal, and include the documents in the Appraisal Report

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least 5 years of experience in complex appraisals, with specific experience in the valuation of large parcels of valuation of a variety of on-airport property such as hangars, fixed base operations and vacant airport land. Experience with appraisals of similar airport property is considered a plus.

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014

Appraisal Scope of Work: Sale/Lease of Oil/Gas/Mineral Rights

Background

The interest to be appraised is the value of oil/gas/mineral rights interest located at _____________ Airport. Attached is the legal description of that portion of the property to be affected by the conveyance of the rights, and a description of the property elements. The Airport Sponsor intends to sell/lease the rights to a third party.

This appraisal of the property is subject to the following scope of work, intended use, intended users, definition of fair market value, certifications and statement of assumptions and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including;
   a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map (See AC 150/5100-17 FIGURE 1-2), County tax parcel number(s), or any other pertinent documentation.
   b. Name of apparent owner(s) of the property and interest being appraised,
   c. Pertinent title information including known and observed leases, sub-leases or encumbrances,
   d. Present use and development, identification of any improvements and owner improvements,
   e. Zoning (current, proposed and probability of rezoning as if released for private market use and development),
   f. Stage of potential or proposed use, development and concurrency with local and regional land use plans, and the existing Airport Master Plan
   g. Infrastructure (existing and planned) serving the property,
   h. Adequate sales history of the property (*e.g.*, when acquired and amount paid)

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use of the property.

3. Conduct adequate analysis and develop supported determination of highest and best use of the property to be affected by the conveyance of the rights. An analysis will be required of existing and planned utilities, zoning ordinances, probability of rezoning, and all other relevant considerations in order to realize the market value of the property. The property must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph A-14,

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"Analysis of highest and best use"
(see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf).

4. Adequately describe and analyze all relevant market data and activity as of the date of value.

5. Inspect research, analyze, and verify comparable transactions with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value of the rights, as defined in the Market Value section below.

7. As applicable, analyze current or proposed leases, and prepare an estimate of the leased fee value of the rights. Explain any variance between the leased fee and the fee simple market value of the property.

8. Report the appraiser's analysis, opinions, and conclusions in the Appraisal Report.

9. The appraisal report must include the plat or a sketch of the property affected and a delineation of the proposed easement with both its horizontal, vertical and subsurface specifications clearly represented, and provide the location and dimensions of any improvements on the subject property. The appraisal report shall include adequate photographs and location maps of the property and of the comparable transactions.

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and appraisal report to document the fair market value of the rights to be paid to Airport Sponsor.

Intended Use

The intended use of the appraisal is to determine the fair market value in Easement Interest of the subject property.

Purpose

The purpose of the appraisal will be to determine the fair market value in Easement Interest, the measure of value being the loss in the value to the remainder property and those portions of the total property not taken and the property rights remaining to the owners of property affected by the easement area. The fair market value will represent a sale price to the property owner, and the appraisal is to ensure that fair market value at the highest and best use of the property, under the appropriate definition, is applied to the Easement Interest. The date of

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valuation is to reflect contemporary market conditions. The assignment may relate to either surface rights or subsurface rights. These elements are defined as follows:

Surface Rights: The right to construct, operate, and maintain a pipeline over the lands of others within prescribed geographical limits. The language of the easement determines the extent of the rights granted.

Sub-surface Rights: (1) The rights to the use and profits of the underground portion of a designated property; usually refers to the right to extract coal, minerals, oil, gas, or other hydrocarbon substances, as designated in the grant; may include a right-of-way over designated portions of the surface. (2) The right to construct and maintain tunnels, subways, sub-cellars, pipelines, and sewers, *etc*.

Fair Market Value/Market Value

The appraiser will estimate market value using the following USPAP definition:

Market value means 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 own best interests;
(3) A reasonable time is allowed for exposure in the open market;
(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition, the Sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

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Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of oil/gas/mineral rights, and make an affirmative statement to that effect in the appraisal report.

Primary Data and Analysis

Along with fully identifying and describing the total parcel (contiguity, use, and ownership),the appraiser will analyze the total property from which the proposed easement interest will be separated. This area is sometimes referred to as the *entirety*, the *larger parcel*, or the *parent tract*. The total property in the appraisal is to be defined as a property under a single ownership, physically contiguous and with one highest and best use throughout.

This analysis will identify the area for the proposed oil or gas operations, including its placement and extent of the proposed operation with the aid of technical material provided by the airport sponsor.

The appraiser will need to review the proposed rights agreement and identify the proposed impact on any vertical, horizontal, or subsurface division of the subject property, its relevant, bundle of rights, and the highest and best use of the subject property.

The appraiser will analyze the effect of the oil or gas operation on the physical parts of the total property affected by the easement.

The appraiser will analyze the remaining portions of the total property not involved with the conveyance, plus the property rights remaining to the owner of the total property.

The appraiser will apply all appropriate approaches to value.

The appraiser will examine and analyze the impact of the position of the rights conveyance relative to the airport environment. Surface damage to airport land as a result of the sale or lease of the rights should be considered by the appraiser. The basic considerations relating to FAA Part 77 (objects affecting navigable airspace) and any impact on any future development should be considered by the appraiser as a part of the highest and best use analysis. The (Airport Sponsor) will advise and provide the appraiser the legal description of the airports retained property rights (recorded or to be recorded), *e.g.* other easements, deed restrictions or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect over flight of the property. The appraiser shall appraise the fair market value of the rights subject to the airport retention of the described property rights.

In addition to the value attached to the sale of rights pertaining to the airport property, it may be necessary to install infrastructure and/or temporarily disrupt the operational aeronautical patterns of the airport in order to realize the rights. An example of this condition is if it would be necessary to install subsurface infrastructure across taxiway, runways, aprons, and other operational surfaces on the airport property. The appraiser should analyze this element of the transaction and whether the process may have an adverse impact on commerce at the airport. The appraiser will quantify these potential, applicable conditions in the report.

Secondary Data and Analysis

The appraiser will consider local laws governing the valuation of partial interests, and will utilize those methodologies which are applicable in the subject property's jurisdiction.

Appropriate and sufficient market related production history and production projections, among other information specific to the oil and gas industry which may be relevant, should be described by the appraiser if income capitalization methodology is employed. A comparable sale or lease analysis should address any inconsistencies that may pertain to sales comparison approach data for similar types of rights, and an appropriate reconciliation developed in determining fair market value or rent.

Appraiser will evaluate and report to the client, prior to completion of the appraisal, any property conditions that exist at the subject parcel that may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan
- The current Airport Layout Plan
- Any environmental due diligence documents prepared by the client regarding the subject of the appraisal, and include the documents in the Appraisal Report

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least 5 years of experience in complex appraisals, with specific experience in the valuation of the valuation of Oil/Gas/Mineral rights. Appraisal experience of easements, right-of-ways, and access corridors will be considered a plus.

Certification

The appraiser's certification as required under USPAP.

Sale/Lease of Oil/Gas/Mineral Rights

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014
- FAA AC 150/5100-20, Guidance for the Extraction of Oil and Gas at Obligated Airports

Appraisal Scope of Work: Sale/Disposal of Utilities/Pipeline Easement

Background

The interest to be appraised is the value of a utilities/pipeline easement interest located at ___________ Airport. The legal description of that portion of the property to be encumbered by the easement and a description of the easement elements are attached. The airport sponsor intends to convey the easement to a utilities company. An easement can generally be described as an interest in land of another entitling the owner of that interest to a limited use of the land in which it exists, or a right to preclude specified uses in the easement area by others. An easement is an interest less than the fee estate, with the landowner retaining full rights over the property subject only to the easement. The landowner may make any use of the property that does not interfere with the easement holder's reasonable use of the easement and is not specifically excluded by the terms of the easement.

This appraisal of the property is subject to the following scope of work, intended use, intended users, definition of market value, certifications and statement of assumptions and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including;
   a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map (See AC 150/5100-17 Figure 1-2), County tax parcel number(s), or any other pertinent documentation,
   b. Name of apparent owner(s) of the property being appraised,
   c. Pertinent title information including known and observed leases, sub-leases or encumbrances,
   d. Present use and development, identification of any improvements and owner improvements,
   e. Zoning (current, proposed and probability of rezoning as if released for private market use and development),
   f. Stage of potential or proposed use, development and concurrency with local and regional land use plans, and the existing Airport Master Plan,
   g. Infrastructure (existing and planned) serving the property,
   h. Adequate sales history of the property (*e.g.*, when acquired, amount and paid.

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use of the property.

Sale/Disposal of Utilities/Pipeline Easement

3. Conduct adequate analysis and develop a supported determination of highest and best use of the property for market sale. An analysis will be required of existing and planned utilities, zoning ordinances, probability of rezoning, and all other relevant considerations in order to realize the market value of the property. The property must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph A-14, "Analysis of highest and best use" (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf).

4. Adequately describe and analyze all relevant market data and activity as of the date of value.

5. Inspect research, analyze, and verify comparable sales with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value of the property, as defined below.

7. As applicable, analyze current or proposed leases, and prepare an estimate of the leased fee value of the property. Explain any variance between the leased fee and the fee simple market value of the property.

8. Report the appraiser's analysis, opinions, and conclusions in the Appraisal Report.

9. The appraisal report must include the plat or a sketch of the property and a delineation of the proposed easement with both its horizontal, vertical and sub-surface specifications clearly represented, and provide the location and dimensions of any improvements on the subject property. The appraisal report shall include adequate photographs and location maps of the property and of the comparable sales.

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and appraisal report to document the fair market value of the Easement Interest to be paid to Airport Sponsor.

Intended Use

The intended use of the appraisal is to determine the fair market value in Easement Interest of the subject property.

Purpose

The purpose of the appraisal will be to determine the fair market value in Easement Interest, the measure of value being the loss in the value to the remainder property and those portions of the total property not taken and the property rights remaining to the owners of property affected by the easement area. The fair market value will represent a sale price to the property

Sale/Disposal of Utilities/Pipeline Easement

owner, and the appraisal is to ensure that fair market value at the highest and best use of the property, under the appropriate definition, is applied to the Easement Interest. The date of valuation is to reflect contemporary market conditions. The assignment may relate to either surface rights or subsurface rights. These elements are defined as follows:

Surface Rights: The right to construct, operates, and maintain a pipeline over the lands of others within prescribed geographical limits. The language of the easement determines the extent of the rights granted.

Sub-surface Rights: (1) The rights to the use and profits of the underground portion of a designated property; usually refers to the right to extract coal, minerals, oil, gas, or other hydrocarbon substances, as designated in the grant; may include a right-of-way over designated portions of the surface. (2) The right to construct and maintain tunnels, subways, sub-cellars, pipelines, and sewers, *etc*.

Fair Market Value/Market Value

The appraiser will estimate market value using the following USPAP definition:

Market value means 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 own best interests;
(3) A reasonable time is allowed for exposure in the open market;
(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition, the Sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Sale/Disposal of Utilities/Pipeline Easement

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of utilities/pipeline easements, and make an affirmative statement to that effect in the appraisal report.

Primary Data and Analysis

Along with fully identifying and describing the total parcel (contiguity, use, and ownership), the appraiser will analyze the total property from which the proposed easement interest will be separated. This area is sometimes referred to as the entirety, the larger parcel, or the parent tract. The total property in the appraisal is to be defined as a property under a single ownership, physically contiguous and with one highest and best use throughout.

The appraiser will identify the taking area for the proposed utilities/pipeline easement, including its placement and extent of the proposed utilities/pipeline easement with the aid of technical material provided by the airport sponsor.

The appraiser will need to review the proposed utilities/pipeline easement agreement and identify the proposed impact on any vertical, horizontal or subsurface division of the subject property, its relevant, bundle of rights and the highest and best use of the subject property.

The appraiser will analyze the effect of the utilities/pipeline easement on the physical parts of the total property affected by the easement.

The appraiser will analyze the remaining portions of the total property not taken, plus the property rights remaining to the owner of the total property.

In determining the fair market value of the easement, the measure of value will be determined by the loss in the value of the remaining property, not the value of the utilities/pipeline easement to the buyer.

The appraiser will apply all appropriate approaches to value.

The appraiser shall consider whether severance damages may be appropriate when analyzing the remainder parcel. These may include:

1. Change in highest and best use,
2. Increased cost or restrictions on existing uses, and
3. Limits on future development or use.

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If the remainder property has a different highest and best use as a result of the easement, the appraiser is to determine and appropriately apply the relevant valuation methodology.

The appraiser will examine and analyze the impact of the position of the easement relative to the airport environment. The basic considerations relating to FAA Part 77 and any impact on any future development should be considered by the appraiser as a part of the highest and best use analysis. The (Airport Sponsor) will advise and provide the appraiser the legal description of the airports retained property rights (recorded or to be recorded), *e.g.*, other easements, deed restrictions or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect over flight of the property. The appraiser shall appraise the fair market value of the easement to the airport retention of the described property rights.

In addition to the easement which pertains to the airport property, it may be necessary to install infrastructure and/or temporarily disrupt the operational aeronautical patterns of the airport. An example of this condition is if it would be necessary to install subsurface infrastructure across taxiway, runways, aprons and other operational surfaces on the airport property. The appraiser should analyze this element of the transaction and whether the process may have an adverse impact on commerce at the airport. The appraiser will quantify these potential, applicable conditions in the report.

Secondary Data and Analysis

The appraiser will consider local laws governing the valuation of partial takings, and will utilize those methodologies which are applicable in the subject property’s jurisdiction.

Comparable utilities/pipeline easement transactions are complex, and if the appraiser chooses to consider any, all of the information necessary to make a direct comparison to the subject easement should be diligently collected. The appraiser should identify and abstract any and all relevant components of each transaction such as land value, damages to the remainder, business decisions which may have applied, *etc*. The appraiser should not solely rely on easement transaction data to determine fair market value.

Appraiser will evaluate and report to the client, prior to completion of the appraisal, any property conditions that exist at the subject parcel that may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan
- The current Airport Layout Plan
- Any environmental due diligence documents prepared by the client regarding the subject of the appraisal, and include the documents in the Appraisal Report

Sale/Disposal of Utilities/Pipeline Easement

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least 5 years of experience in complex appraisals, with specific experience in the valuation of easements, right-of-ways, and access corridors considered to be a plus.

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014

Appraisal Scope of Work: Disposal/Lease of Hotel

Background

The property to be appraised is a parcel of land consisting of approximately ________acres that supports a hotel property located at _________________. Attached are the legal description (s) and a copy of the plat of the property (and if applicable a copy of the proposed lease). The airport sponsor currently owns (or had owned or leased) this property in fee, and the real property will be conveyed (or leased) subject to the identified retained real property rights and encumbrances (see assumptions and limiting conditions). Many hotels are constructed on airports and have long-term land leases. At the expiration of the land lease, the hotel frequently reverts to the airport sponsor. The appraisal for this scope of work can also be utilized to develop a rental rate for the hotel property to be paid to the airport sponsor by an operating lessee.

This appraisal of the property is subject to the following scope of work, intended use, intended user, definition of market value, certifications and statement of assumptions and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including;
   a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map, County tax parcel number(s).
   b. Name of apparent owner(s) of each interest being evaluated.
   c. Pertinent title information including known and observed leases or encumbrances,
   d. Present use and development, identification of any improvements and leasehold/tenant improvements.
   e. Zoning (current, proposed and probability of rezoning as if released for private market use and development).
   f. Stage of potential or proposed development and concurrency with local and regional land use plans.
   g. Infrastructure (existing and planned) serving the subject.
   h. Adequate sales history of the property (*e.g.*, when acquired and amount paid).

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use of the property.

3. Conduct adequate analysis and develop a supported determination of highest and best use of the subject property for market sale or lease. An analysis will be required of existing and planned utilities, zoning ordinances, probability of rezoning, and all other relevant

Disposal/Lease of Hotel

considerations in order to realize the market value of the property. Obligated airport land being disposed (market sale or long term lease) must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land Acquisitions at paragraph A-14, "Analysis of highest and best use" (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf).

4. Adequately describe and analyze all relevant market data and activity as of the date of value.

5. Inspect research, analyze, and verify comparable sales with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value of the property, as defined below.

7. As applicable, analyze current or proposed leases and prepare an estimate of the leased fee value of the property. Explain any variance between the leased fee and the fee simple market value of the property.

8. Report the appraiser's analysis, opinions, and conclusions in the appraisal report.

9. The appraisal report must include the plat or a sketch of the property and provide the location and dimensions of any improvements. The appraisal report shall include adequate photographs of the subject property and of the comparable sales and provide location maps of the property and comparable sales.

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and appraisal report to document the current fair market value, or fair market rent, of the property.

Intended Use

The intended use of the appraisal is to determine the market value in fee simple of the subject parcel of airport land for market sale in an arm's length transaction— the two parties are unconnected and have no overt common interests.

Purpose

The purpose of the appraisal will be to determine the market value in fee simple (or alternatively, a market rental value) for a tract of non-aeronautical land which is improved with a hotel property and the value of appropriate site improvements. The market value will represent a sale price (order lease payment) to the airport sponsor, and the appraisal is to ensure that full market value at the highest and best use of the property, under the appropriate definition, is achieved by the airport. The date of valuation is to reflect contemporary market conditions. The airport sponsor will identify any property interests such as retained rights easements, unexpired leases or improvements to be excepted from the sale.

Market Value

The definition and principles of fair market value that are applicable to a property sale and found in USPAP and the Uniform Appraisal Standards for Federal Land Acquisitions are also applicable to fair market rental. The appraiser will estimate fair market value or fair market rental using the following USPAP definition:

> *Market value means 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 own best interests;*
> *(3) A reasonable time is allowed for exposure in the open market;*
> *(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.*

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition the sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of hotel property, and make an affirmative statement to that effect in the appraisal report.

Primary Data and Analysis

Relevant information will be collected and analyzed by the appraiser; the information specific to the airport environment provided by the airport sponsor. The appraiser is expected to investigate any improved sales in the market area and contact buyers, sellers, brokers, property developers, and public officials. The appraiser will inspect competitive lodging facilities and analyze any comparable sales summarized in the report.

The appraiser will evaluate the site from the viewpoint of its physical utility for the operation of a hotel, as well as access, visibility, and other relevant location-related factors. The site's existing improvements are to be inspected for their quality of construction, design, layout efficiency, and items of physical deterioration and functional obsolescence.

The estimates of value should include the land, the improvements, and the furniture, fixtures, and equipment. The appraisal should assume that the hotel is open and operational.

The value of the going concern value for hotels may be allocated into two primary components: the real estate (inclusive of real and personal property) and the business interest. The value of a business interest is defined as: "A value enhancement that results from items of intangible personal property such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements." The appraiser will develop the Fair Market Value for the real estate component only. It will not include a business value component that represents the value of the going concern.

The appraiser will review the surrounding economic environment to identify economic and demographic trends that may have an impact on future demand for hotels. The market for hotel accommodations is expected to be investigated, including factors such as purpose of visit, average length of stay, facilities and amenities, seasonality, daily demand fluctuations, and price sensitivity. An analysis of existing and proposed competition should be delineated in the report.

If required in support of a value conclusion, any documentation for an occupancy and average rate projection should be derived based on an analysis of lodging activity. Any projection of income and expenses utilized in the valuation of the subject property should be made in accordance with the Uniform System of Accounts for Hotels. The appraisal will consider the three approaches to value: cost, sales comparison, and income capitalization.

The appraiser will examine and analyze the impact of the position of the subject property's physical location relative to the airport environment. The basic considerations relating to FAA Part 77 (objects affecting navigable airspace) and any impact on any alternative development of the supporting site should be considered by the appraiser as a part of the highest and best use analysis. The airport sponsor will advise and provide the appraiser the legal description of the airports retained property rights (recorded or to be recorded), *e.g.*, easements, deed restrictions or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect over flight of the property. The appraiser shall appraise the market value of the property subject to the airport retention of the described property rights.

Secondary Data and Analysis

The appraiser will consider national lodging demand trends to determine what conditions exist in this property sector as of the date of the appraisal. The appraiser will also specifically define the subject's pertinent local hotel market.

If necessary to support valuation components, the appraiser will analyze and determine an appropriate rate of return that can be applied to a market land and improvement rent to arrive at an indication of the fee simple value be applicable to the property.

The appraiser will consult with the appropriate airport personnel to determine the demand characteristics for the airport location relating to the market for hotel accommodations.

Appraiser will evaluate and report to the client, prior to completion of the appraisal, property conditions that exist at the subject parcel that, in his opinion, may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan.
- The current Airport Layout Plan.
- All environmental due diligence documents prepared by the client regarding the subject of the appraisal, and include the documents in the Appraisal Report.
- All previous appraisals of the subject property by the Airport Sponsor.

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least 5 years of experience in complex appraisals, with specific experience in the valuation of parcels of local lodging property and land suitable for hotel development. Experience with appraisals of similar on-airport hotel property is considered a plus.

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014

Appraisal Scope of Work: Disposal/Lease of Golf Course

Background

The property to be appraised is a golf course consisting of approximately ____ acres of land located on _______________ Airport. Attached are the legal description and a copy of the plat of the property (and if applicable a copy of the proposed lease). The airport sponsor currently owns (or had owned or leased) this golf course in fee simple, and the real property will be conveyed or leased subject to the identified retained real property rights and encumbrances (see assumptions and limiting conditions). The property will continue to be utilized as a golf course, and will be contained with a deed restriction pertaining to the continued use. The appraiser will determine the fair market value, or the fair market rental as is appropriate.

This appraisal of the property is subject to the following scope of work, intended use, intended user, definition of market value, certifications and statement of assumptions and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value of the property and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including;
   a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map, County tax parcel number(s).
   b. Name of apparent owner(s) of each interest being evaluated.
   c. Pertinent title information including known and observed leases or encumbrances,
   d. Present use and development, identification of any improvements and tenant improvements (if any).
   e. Zoning (current, proposed and probability of rezoning).
   f. Stage of current development and concurrency with local and regional land use plans.
   g. Infrastructure (existing and planned) serving the property.
   h. Adequate sales history of the property (*e.g.*, when acquired and amount paid).

2. Inspect the neighborhood and local area noting utility and transportation infrastructure in the context of continued utilization as a golf course property.

3. The property will continue to be utilized as a golf course. Any highest and best use analysis will consider land compatibility in the vicinity of the airport and recognize that the subject of the appraisal is considered to represent a buffer against development which may impinge on aeronautical activity.

4. Adequately describe and analyze all relevant market data and activity as of the date of value to comparable golf course type properties.

5. Inspect research, analyze, and verify comparable sales with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value of the property, as defined below.

7. As applicable, analyze current or proposed leases and prepare an estimate of the leased fee value of the property. Explain any variance between the leased fee and the fee simple market value of the property.

8. Report the appraiser’s analysis, opinions, and conclusions in the appraisal report.

9. The appraisal report must include the plat or a sketch of the property and provide the location and dimensions of any improvements. The appraisal report shall include adequate photographs of the subject property and of the comparable sales and provide location maps of the property and comparable sales.

Client/Intended Users

The intended users are the Airport Sponsor and FAA. The Airport Sponsor and the FAA will rely on the appraisal and Appraisal Report to document the current fair market value of the real property if sold and if applicable, the Fair Market Rental for the golf course, if it is to be leased.

Intended Use

The intended use of the appraisal is to determine the market value in fee simple of the subject parcel of airport land for market sale (or market rental rate for use in a lease) in an arm’s length transaction.

Purpose

The purpose of the appraisal will be to determine the market value in fee simple for a golf course property. If sold, the fair market value will represent a sale price to the airport sponsor, and if leased, the fair market rental will represent rent paid by the lessee to the sponsor. The appraisal is to ensure that the sponsor realizes full market value of the golf course in continued utilization for this use, with use restrictions pertaining to the property as a part of the transaction. The date of valuation is to reflect contemporary market conditions. The airport sponsor will identify and/or confirm any property interests such as retained rights easements, unexpired leases or improvements to be excepted from the sale.

Market Value

The definition and principles of fair market value that are applicable to a property sale and found in USPAP and the Uniform Appraisal Standards for Federal Land Acquisitions, are also applicable to fair market rental. The appraiser will estimate fair market value or fair market rental using the following USPAP definition:

> *Market value means 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 own best interests;*
> *(3) A reasonable time is allowed for exposure in the open market;*
> *(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.*

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition the sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of golf courses, and make an affirmative statement to that effect in the appraisal report.

Primary Data and Analysis

The appraiser will research and analyze the local market for the demand and supply of similar golf course properties. If necessary, the appraiser may analyze market activity from a broader regional marketplace for similar golf courses. The appraiser will analyze, verify, and inspect recent comparable sales. The appraiser will analyze existing leases pertinent to golf course properties that may yield usable data for the appraisal.

The appraiser will examine and analyze the impact of the position of the property relative to the airport environment. The basic considerations relating to FAA Part 77(objects affecting navigable airspace) and any impact on future development should be considered by the appraiser. The airport sponsor will advise and provide the appraiser the legal description of the airport's retained property rights (recorded or to be recorded), *e.g.*, easements, deed restrictions or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect over flight of the property. The appraiser shall appraise the market value of the property subject to the airport retention of the described property rights.

The appraisal should include a market delineation analysis along with a description and summary of demand and supply factors for golf facilities. Market conditions should reflect local characteristics and support the conclusions in the appraisal relating to the capacity of the property's use to capture market share.

The property should be appropriately classified under standards normally utilized in golf course valuation with regard to the property's facilities condition and design, course design, ownership structure, and quality. Existing improvements are to be inspected for their quality of construction, design, layout efficiency, and items of physical deterioration and functional obsolescence.

Secondary Data and Analysis

If a cost approach is utilized by the appraiser, it is desirable that the appraiser use golf course related cost data from services such as Marshall and Swift and Means and actual data obtained from comparable golf facilities locally.

The appraisal should assume that the golf course is open and operational. The value of the going concern value for golf courses may be allocated into two primary components: the real estate (inclusive of real and personal property) and the business interest. The value of a business interest is defined as "A value enhancement that results from items of intangible personal property such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements." The appraiser will develop the Fair Market Value for the real estate component only, and will not include a business value component that represents the value of the going concern.

Appraiser will evaluate and report to the client, prior to completion of the appraisal, any property conditions that exist at the subject parcel that may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan.

- The current Airport Layout Plan.
- Any environmental due diligence documents prepared by the client regarding the subject of the appraisal, and include the documents in the Appraisal Report.

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least five years of experience in complex appraisals, with specific experience in the valuation of golf courses. Experience with appraisals of airport property in general will be considered a plus.

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014

Appraisal Scope of Work: Sale/Lease of Agricultural Land

Background

The interest to be appraised is the fair market value/fair rental value of agricultural (farm) property located at ___________________ Airport. Attached is the legal description of that portion of the property to be sold/leased, and a description of the property elements. The Airport Sponsor intends to sell/lease the property to a third party.

This appraisal of the property is subject to the following scope of work, intended use, intended users, definition of fair market value/rental, certifications and statement of assumptions and limiting conditions. The appraiser may expand the scope of work to include any additional research or analysis determined necessary for a credible appraisal of the fair market value/rental of the property and to meet the identified standards and requirements.

Scope of Work

The appraiser will provide an appraisal and produce a written narrative Appraisal Report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and applicable FAA documentation requirements. At a minimum, the appraiser must:

1. Adequately describe the characteristics of the property being appraised including;
   a. Location, legal description, parcel number as it relates to the airport's Exhibit "A" map (See AC 150/5100-17 Figure 1-2), County tax parcel number(s), or any other pertinent documentation.
   b. Name of apparent owner(s) of the property and interest being appraised.
   c. Pertinent title information including known and observed leases, sub-leases or encumbrances.
   d. Present use and development, identification of any improvements and owner improvements.
   e. Zoning (current, proposed and probability of rezoning as if released for private market use and development).
   f. Stage of potential or proposed use, development and concurrency with local and regional land use plans, and the existing Airport Master Plan.
   g. Infrastructure (existing and planned) serving the property.
   h. Adequate sales history of the property (*e.g.*, when acquired and amount paid).

2. Inspect the neighborhood and local area noting utility and transportation infrastructure to the extent required for the highest and best use of the property.

3. Conduct adequate analysis and develop a supported determination of highest and best use of the property. An analysis will be required of existing and planned utilities, zoning ordinances, probability of rezoning, and any other relevant considerations in order to realize the market value of the property. The property must be appraised at an economic highest and best use as described in the Uniform Appraisal Standards for Federal Land

Acquisitions at paragraph A-14, "Analysis of highest and best use" (see http://www.usdoj.gov/enrd/land-ack/yb2001.pdf).

4. Adequately describe and analyze all relevant market data and activity as of the date of value.

5. Inspect research, analyze, and verify comparable transactions with public sources and with a party to the transaction, buyer, seller, or broker or attorney.

6. Appraise the current fair market value/rental of the property, as defined below.

7. As applicable, analyze current or proposed leases, and prepare an estimate of the leased fee value of the rights. Explain any variance between the leased fee and the fee simple market value of the property.

8. Report the appraiser's analysis, opinions, and conclusions in the Appraisal Report.

9. The appraisal report must include the plat or a sketch of the property, and provide the location and dimensions of any improvements on the subject property. The appraisal report shall include adequate photographs of the subject property and of the comparable sales or leases, and provide location maps of the property and comparable transactions.

Client/Intended Users

The client is the Airport Sponsor. The Airport Sponsor and the FAA are the intended users, and will rely on the appraisal and appraisal report to document the fair market value or fair market rental for the property to be paid to Airport Sponsor.

Intended Use

The intended use of the appraisal is to determine the fair market value in fee simple or leased fee interest of the subject property.

Purpose

The purpose of the appraisal will be to determine the fair market value/rental in fee simple or leased fee interest. The fair market value/rental will represent a sale price to the property owner, and the appraisal is to ensure that fair market value/rental at the highest and best use of the property, under the appropriate definition, is applied to the property. The date of valuation is to reflect contemporary market conditions.

Fair Market Value/Market Value

If a lease transaction is under appraisal, values which are determined for a property to be leased with the right to use and occupy real estate for a stated term and under certain conditions may require an appraiser to determine a fair market rent (consideration paid by the lessee to the lessor). The definition and principles of fair market value applicable to a property sale and found in USPAP and the Uniform Appraisal Standards for Federal Land Acquisitions are also applicable to fair market rent. The appraiser will estimate fair market rent using the following USPAP definition:

> *Market value means 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 own best interests;*
> *(3) A reasonable time is allowed for exposure in the open market;*
> *(4) Payment is made in terms of cash in U.S. dollars or in terms or 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.*

Assumptions and Limiting Conditions

The appraiser shall state all relevant assumptions and limiting conditions necessary. In addition, the Sponsor may provide other assumptions and conditions that may be required for the particular appraisal assignment, including any Extraordinary Assumptions and/or Hypothetical Conditions.

Prior Services and Competency

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the property to be appraised in the prior three years before the date of the appraisal. These services include valuation, consulting, property management brokerage or any other services. Any such services shall be disclosed in the appraisal report by the appraiser.

Under USPAP, appraisers are required to possess the necessary competence to produce credible results in their appraisal report. The appraiser must possess specific competency and experience with regard to the valuation of agricultural land, and make an affirmative statement to that effect in the appraisal report.

Primary Data and Analysis

The appraiser will research and analyze the relevant market for the demand and supply of agricultural property competitive with the airport land at its proposed use. Depending on the nature of the subject of the appraisal, the appraiser may need to look for comparable data in regions that are geographically further away from the subject then would be the case for non-airport property in the general location of the airport. The appraiser will analyze, verify and if possible, inspect recent comparable sales or leases pertinent to agricultural property. Additionally, the appraiser will analyze any existing leases with the airport that pertain to the subject property.

The appraiser will inspect the property and classify the agricultural land in conformance with accepted and relevant market characteristics. Individual property characteristics such as soil types, water features, climate, and landscaping should all be evaluated and specified in the report if significant with regard to the property's fair market value or fair market rent.

If applicable to the marketplace, sales comparison methodology should be used with income capitalization techniques commonly applied to agricultural land. Income and expense items used in agricultural valuations such as landlord's share of crops, landlord's share of expenses, production costs, management fees, and landlord's share of net income should all be supported by market derived data. Capitalization rates that convert net operating income into the indications of fair market value should likewise be market derived.

The appraiser will examine and analyze the impact of the position of the property under appraisal relative to the airport environment. The basic considerations relating to FAA Part 77 (objects affecting navigable airspace) and any impact on any future development should be considered by the appraiser as a part of the highest and best use analysis.

The appraiser will review general market data relating to the airport itself and the farming environment, which surrounds the property's immediate area. This analysis will include existing comparable leasehold interests pertaining to agricultural land on the airport where the property is located.

The airport sponsor will advise and provide the appraiser the legal description of any airport retained property rights (recorded or to be recorded), *e.g.* easements, lease restrictions or other restrictions and encumbrances on the property to protect and enhance airport operations and to acknowledge and protect over flight of the property. The appraiser shall appraise the fair market value/rental of the property subject to the airport retention of any described property rights.

Secondary Data and Analysis

The appraiser will analyze the market for agricultural land sales and consider the absorption factors that are pertinent to this particular market.

The appraiser will consult with airport personnel to assess historical agricultural demand characteristics for the airport location.

The appraiser will evaluate and report to the client, prior to completion of the appraisal, any property conditions that exist at the subject parcel that may warrant further environmental investigation.

The appraiser will obtain and consider the following technical documents:

- The most recent Airport Master Plan.
- The current Airport Layout Plan.
- Any environmental due diligence documents prepared by the client regarding the subject of the appraisal, and include the documents in the Appraisal Report.

Other Scope of Work Considerations

The appraiser should be a Certified General Appraiser with at least five years of experience in complex appraisals, with specific experience in the valuation of local agricultural land. Experience with appraisals of similar airport-related agricultural property will be considered a plus.

Certification

The appraiser's certification as required under USPAP.

Authoritative Sources

The appraiser will consult the following sources:

- FAA Order 5190.6B (specific sections cited)
- FAA Advisory Circular 150/5100-17 (see Chapter 2 Appraisal Requirements)
- FAA Revenue Use Policy (specific sections cited)
- FAA Airport Sponsor Assurances March 2014

VI. Sample Letter to Sponsor

This section provides a sample letter to an airport sponsor describing the features of an appraisal required by Federal law, FAA Grant Assurances, and policy. The applicable scope of work for the property to be appraised should be attached. If the scopes of work in Section IV are not applicable the General Scope of Work shown in Exhibit 2 may be used.

Mr./Ms./Mrs.
Title
Name of Airport
Address

RE: Obtaining an Appraisal (for ________________________)

Dear Mr./Ms./Mrs.:

With this letter, we are providing you with instructions on obtaining an appraisal (of the above named property) which complies with FAA Sponsor Assurances and Federal law.

Federal law and FAA policy requires a federally obligated airport to be as self-sustaining as possible. Airports must obtain fair market value (FMV) for any land it leases for non-aeronautical purposes or sells to developers or other private individuals. FAA requires a written appraisal report for the release and sale of any federally obligated airport property. You should hire an appraiser and a review appraiser from independent firms. If the value of the property is $1 million or over, you should hire a second appraiser.

To be consistent with Federal law and FAA regulations and grant assurances, the appraisal you obtain should:

- Be conducted by an appraiser who is registered in the National Registry certified or licensed by a U.S. state, territory or possession to perform appraisals in connection with federally related real estate transactions (https://www.asc.gov/National-Registry/NationalRegistry.aspx).It is recommended that the appraiser have airport appraisal experience and/or experience with the type of property at issue if it requires special expertise (*e.g.*, a hotel or golf course).
- Conform to the applicable requirements in the current edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP)
- Be based on the highest and best use of the property in question
- Be based on the following USPAP definition of Market Value:

  Market value means 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 is 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 own best interests;
  (3) A reasonable time is allowed for exposure in the open market;
  (4) Payment is made in terms of cash in U.S. dollars or in terms or 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.

- Comply with USPAP definitions of a written Appraisal Report
- Be reviewed by a competent review appraiser with airport experience (if AIP funds are involved in the matter)
- Satisfy the Scope of Work attached to this letter

If you have questions about what is required, please contact ________________________.

Very truly yours,

Enclosures:
Statement of Work

Appendix A: Real Estate Dictionary

ABSORPTION RATE
The ratio of the number of properties in an area that have been sold against the number available. Used to show the volatility of a market.

ABSTRACTION METHOD
This method of estimating the value of property uses of similar properties available in the same market to extract the value of a parcel of land.

ACCELERATION CLAUSE
A provision in a mortgage that gives the lender the right to demand immediate payment of the outstanding loan balance under certain circumstances, usually when the borrower defaults on the loan.

ACCESSORY BUILDING
A building separate from the main structure on a property. Often used for a specific purpose, such as a workshop, storage shed, or garage.

ACCRETION
The natural growth of a piece of land resulting from forces of nature.

ACRE
43,560 square feet. A measurement of area.

ACTUAL AGE
The time that has passed since a building or other structure was built. See also: EFFECTIVE AGE

ADJUSTMENT DATE
The date the interest rate changes on an adjustable rate mortgage.

AD VALOREM TAX
Taxes assessed based on the value of the land and improvements.

ADDENDUM
A supplement to any document that contains additional information pertinent to the subject. Appraisers use an addendum to further explain items for which there was inadequate space on the standard appraisal form.

ADJUSTABLE-RATE MORTGAGE (ARM)
A type of mortgage in which the interest rate varies based on a particular index, normally the prime lending rate.

ADJUSTED BASIS
The value of an asset (property or otherwise) that includes the original price plus the value of any improvement, and less any applicable depreciation.

ADJUSTED SALES PRICE
An estimate of a property's sales price after adjustments have been made to account for differences between it and a comparable property.

AESTHETIC VALUE
The additional value a property enjoys based on subjective criteria such as look or appeal.

AFFIRMATION
A declaration that a certain set of facts are truthful.

AFFORDABILITY ANALYSIS
A calculation used to determine an individual's likelihood of being able to meet the obligations of a mortgage for a particular property. Takes into account the down payment, closing costs, and on-going mortgage payments.

AGENT
A person who has been appointed to act on behalf of another for a particular transaction.

AMENITY
Any feature of a property that increases its value or desirability. These might include natural amenities such as location or proximity to mountains, or man-made amenities like swimming pools, parks, or other recreation.

AMERICAN SOCIETY OF APPRAISERS
An organization of appraisal professionals and others interested in the appraisal profession.

AMORTIZATION
The repayment of a loan through regular periodic payment.

AMORTIZATION SCHEDULE
The breakdown of individual payments throughout the life of an amortized loan, showing both principal contribution and debt service (interest) fees.

AMORTIZATION TERM
The time over which an amortized loan is repaid. Mortgages are commonly amortized over 15 or 30 years.

ANNUAL PERCENTAGE RATE (APR)
The rate of annual interest charged on a loan.

ANNUITY
A sum of money paid at regular intervals, often annually.

APPLICATION
A form used to apply for a mortgage loan that details a potential borrower’s income, debt, savings, and other information used to determine credit worthiness.

APPRAISAL
A "defensible" and carefully documented opinion of value. Most commonly derived using recent sales of comparable properties by a licensed, professional appraiser.

APPRAISAL FOUNDATION
A not-for-profit educational organization established by the appraisal profession in the United States in 1987. It is dedicated to the advancement of professional valuation and responsible for establishing, improving, and promoting the Uniform Standards of Professional Appraisal Practice (USPAP).

APPRAISAL INSTITUTE
A worldwide organization dedicated to real estate appraisal education, publication and advocacy.

APPRAISAL PRINCIPLES
The basic building blocks of the property valuation process, including property inspection, market analysis, and basic economics.

APPRAISAL REPORT
The end result of the appraisal process usually consists of one major, standardized form such as the Uniform Residential Appraisal Report form 1004, as well as all supporting documentation and additional information. The purpose of the report is to convey the estimated value of the subject property and support that estimate with corroborating information.

APPRAISAL STANDARDS BOARD (ASB)
An independent board of the APPRAISAL FOUNDATION, which writes, amends, and interprets the USPAP. The ASB is comprised of up to seven appraisers appointed by the Foundation's Board of Trustees. The ASB holds public meetings throughout the year to interpret and amend USPAP.

APPRAISED VALUE
The estimated fair market value of a property as developed by a licensed, certified appraiser following accepted appraisal principles.

APPRAISER
An educated, certified professional with extensive knowledge of real estate markets, values, and practices. The appraiser is often the only independent voice in any real estate transaction with no vested interest in the ultimate value or sales price of the property.

APPRECIATION
The natural rise in property value due to market forces.

ARM’S LENGTH TRANSACTION
A transaction in which the two parties are unconnected and have no overt common interests. Such a transaction most often reflects the true market value of a property.

ASSESSED VALUE
The value of a property according to jurisdictional tax assessment.

ASSESSMENT
The function of assigning a value to a property for the purpose of levying taxes.

ASSESSMENT RATIO
The comparative relationship of a property's assessed value to its market value.

ASSESSOR
The jurisdictional official who performs the assessment and assigns the value of a property.

ASSET
Any item of value which a person owns.

ASSIGNMENT
Transfer of ownership of a mortgage usually when the loan is sold to another company.

ASSUMABLE MORTGAGE
A mortgage that can be taken over by the buyer when a home is sold.

ASSUMPTION
When a buyer takes over, or *assumes*, the seller’s mortgage.

BALLOON MORTGAGE
A mortgage loan in which the monthly payments are not large enough to repay the loan by the end of the term. So at the end of the term, the remaining balance comes due in a single large payment.

BALLOON PAYMENT
The final large payment at the end of a balloon mortgage term.

BANKRUPTCY
When a person or business is unable to pay its debts and seeks protection of the state against creditors. Bankruptcies remain on credit records for up to ten years and can prevent a person from getting a loan.

BILL OF SALE
A physical receipt indicating the sale of property.

BIWEEKLY MORTGAGE
A mortgage in which you make half payments every two weeks, rather than one payment per month. This payment plan results in making the equivalent of 13 monthly payments per year, rather than 12, significantly reducing the time it takes to pay off a thirty-year mortgage.

BLIGHTED AREA
A region of a city or town that has fallen into disrepair or otherwise has become undesirable.

BONA FIDE
A genuine offer made without intent to defraud or deceive.

BRIDGE FINANCING
An interim loan made to facilitate the purchase of a new home before the buyer's current residence sells and its equity is available to fund the new purchase.

BROKER
An individual who facilitates the purchase of property by bringing together a buyer and a seller.

BUFFER ZONE
A segment of land between two disparate municipal zones which acts as a shield to keep one zone from encroaching upon the other. Often used to separate residential districts from commercial areas.

BUILDING CODE
Regulations that ensure the safety and material compliance of new construction within a municipality. Building codes are localized to ensure they are adequate to meet the risk of common hazards.

BUILDING LINE OR SETBACK
The statutory distance between buildings and the property line, imposed by municipalities, home associations, or other agreements.

BUILT-INS
Specific items of personal property which are installed in a real estate improvement and become part of the building. Built-in microwave ovens and dishwashers are common examples.

BUY DOWN
Extra money paid in a lump sum to reduce the interest rate of a fixed rate mortgage for a period of time. The extra money may be paid by the borrower in order to have a lower payment at the beginning of the mortgage. It can be paid by the seller or lender as incentive to buy the property or take on the mortgage.

CALL OPTION
A clause in a mortgage which allows the lender to demand payment of the outstanding balance at a specific time.

CAP
Associated with Adjustable Rate Mortgages. A limit on how high monthly payments or how much interest rates may change within a certain time period or the life of the mortgage.

CAPE COD COLONIAL
A single-story house style made popular in New England. Often characterized by a steep roof with gables.

CAPITAL
Accumulated goods and money which is most often used to generate additional income.

CAPITAL EXPENDITURE
An outlay of funds designed to improve the income-producing capabilities of an asset or to extend its economic life.

CASH-OUT REFINANCE
Refinancing a mortgage at a higher amount than the current balance in order to transform a portion of the equity into cash.

CAVEAT EMPTOR
Literally translated: "Let the buyer beware." A common business tenet whereby the buyer is responsible for verifying any and all claims by the seller of property.

CERTIFICATE OF DEPOSIT
A document showing that the bearer has a certain amount of money, at a particular amount interest, on deposit with a financial institution.

CERTIFICATE OF DEPOSIT INDEX
An index based on the interest rate of six-month CDs. Used to set interest rates on some Adjustable Rate Mortgages.

CERTIFICATE OF ELIGIBILITY
A document issued by the Veterans Administration that certifies eligibility for a VA loan.

CERTIFICATE OF OCCUPANCY
Issued by an appropriate jurisdictional entity, this document certifies that a building complies with all building codes and is safe for use or habitation.

CERTIFICATE OF REASONABLE VALUE (CRV)
Usually based on an independent appraisal, a CRV for a particular property establishes the maximum amount which can be secured by a VA mortgage.

CERTIFICATE OF TITLE
A document designating the legal owner of a parcel of real estate. Usually provided by a title or abstract company.

CERTIFIED GENERAL APPRAISER
Generally, a professional who has met the local or state requirements, passed the appropriate certification exam, and is capable of appraising any type of property.

CERTIFIED RESIDENTIAL APPRAISER
A sub-classification of appraiser who is only licensed to appraise residential property, usually up to four units.

CHAIN OF TITLE
The complete history of ownership of a piece of property.

CHATTEL

Personal property which is not attached to or an integral part of a property. Chattel is not commonly taken into consideration when appraising the value of real property.

CLEAR TITLE
Ownership of property that is not encumbered by any counter-claim or lien.

CLOSING
A torturous process designed to induce cramping in a home buyer's hands by requiring signature on countless pieces of documentation that nobody has ever read. Or, the process whereby the sale of a property is consummated with the buyer completing all applicable documentation, including signing the mortgage obligation and paying all appropriate costs associated with the sale (CLOSING COSTS).

CLOSING COSTS
All appropriate costs generated by the sale of property which the parties must pay to complete the transaction. Costs may include appraisal fees, origination fees, title insurance, taxes, and any points negotiated in the deal.

CLOSING STATEMENT
The document detailing the final financial arrangement between a buyer and seller and the costs paid by each.

COLLATERAL
An asset which is placed at risk to secure the repayment of a loan.

CO-BORROWER
A second person sharing obligation on the loan and title on the property.

COLLECTION
The process a lender takes to pursue a borrower who is delinquent on his payments in order to bring the mortgage current again. Includes documentation that may be used in foreclosure.

CO-MAKER
A second party who signs a loan along with the borrower and becomes liable for the debt should the borrower default.

COMMON LAW
As opposed to statute law. Laws that have been established by custom, usage, and courts over many years.

COMMISSION
A percentage of the sales price or a fixed fee negotiated by an agent to compensate for the effort expended to sell or purchase property.

COMMON AREA ASSESSMENTS
Fees which are charged to the tenets or owners of properties to cover the costs of maintaining areas shared with other tenets or owners. Commonly found in condominiums, Planned Unit Developments (PUDs) or office spaces.

COMMON AREAS
Any areas, such as entryways, foyers, pools, recreational facilities or the like, which are shared by the tenets or owners of property nearby. Commonly found in condominiums, Planned Unit Developments (PUDs), or office spaces.

COMMUNITY PROPERTY
In many jurisdictions, a property which has been acquired by a married couple. The ownership of the property is considered equal unless stipulated otherwise by both parties.

COMPARABLES

An abbreviated term used by appraisers to describe properties which are similar in size, condition, location, and amenities to a subject property that is being appraised. The Uniform Standards of Professional Appraisal Practice (USPAP) establish clear guidelines for determining a comparable property.

COMPOUND INTEREST
Interest paid on the principal amount, as well as any accumulated interest.

CONCESSIONS
Additional value granted by a buyer or seller to entice another party to complete a deal.

CONDEMNATION
The official process by which a property is deemed to be uninhabitable or unusable due to internal damage or other external conditions.

CONDOMINIUM
A development where individual units are owned, but common areas and amenities are shared equally by all owners.

CONTIGUOUS
Connected to or touching along an unbroken boundary

CONTINGENCY
Something that must occur before something else happens. Often this term is used in real estate sales to describe a circumstance when a buyer must sell a current home before purchasing a new one or when a buyer makes an offer that requires a complete home inspection before it becomes official.

CONTRACT
A legally binding oral or written agreement between two parties.

CONVENTIONAL MORTGAGE
A traditional real estate financing mechanism that is not backed by any government or other agency (FHA, VA, *etc*.).

CONVERTIBLE ARM
A mortgage that begins as an adjustable rate mortgage that allows the borrower to convert the loan to a fixed rate within a specific timeframe.

COOPERATIVE (CO-OP)
A form of ownership in which each resident of a multiunit property owns a share in a cooperative corporation that owns the building and has rights to a specific unit within the building.

COST OF FUNDS INDEX (COFI)
An index of financial institutions costs used to set interest rates for some Adjustable Rate Mortgages.

COVENANT
A stipulation in any mortgage that, if not met, can be cause for the lender to foreclose.

CREDIT
A loan of money for the purchase of property, real or personal. Credit is either secured by an asset, such as a home, or unsecured.

CREDIT HISTORY
A record of debt payments, past and present. Used by mortgage lenders in determining credit worthiness of individuals.

CREDITOR

A person to whom money is owed.

CREDIT REPORT
A detailed report of an individual’s credit, employment, and residence history prepared by a credit bureau. Used by lenders to determine credit worthiness of individuals.

CREDIT REPOSITORY
Large companies that gather and store financial and credit information about individuals who apply for credit.

CUL-DE-SAC
A dead-end street. One with only one entrance/exit.

DATE OF APPRAISAL
The specific point in time as of which an appraiser designates the value of a home. Often stipulated as the date of inspection.

DEBT
An obligation to repay an amount owed, which may or may not be monetary.

DEBT EQUITY RATIO
The ratio of the amount a mortgagor still owes on a property to the amount of equity they have in the home. Equity is calculated at the fair market value of the home, less any outstanding mortgage debt.

DEED
A document indicating the ownership of a property.

DEED-IN-LIEU (OF FORECLOSURE)
A document given by a borrower to a lender, transferring title of the property. Often used to avoid credit-damaging foreclosure procedures.

DEED OF TRUST
A document which transfers title in a property to a trustee, whose obligations and powers are stipulated. Often used in mortgage transactions.

DEED OF RECONVEYANCE
A document which transfers ownership of a property from a trustee back to a borrower who has fulfilled the obligations of a mortgage.

DEED OF RELEASE
A document which dismisses a lien or other claim on a property.

DEED OF SURRENDER
A document used to surrender any claim a person has to a property.

DEFAULT
The condition in which a borrower has failed to meet the obligations of a loan or mortgage.

DEPOSIT
Cash given along with an offer to purchase property; also called EARNEST MONEY.

DEPRECIATION
The natural decline in property value due to market forces or depletion of resources.

DISCOUNT POINTS
Points paid in addition to the loan origination fee to get a lower interest rate. One point is equal to one percent of the loan amount.

DISTRESSED PROPERTY
A mortgaged property which has been foreclosed on.

DUE-ON-SALE PROVISION
A clause in a mortgage giving the lender the right to demand payment of the full balance when the borrower sells the property.

DUPLEX
A single-building improvement which is divided and provides two units which serve as homes to two families.

DWELLING
A house or other building which serves as a home.

DOWN PAYMENT
An amount paid in cash for a property with the intent to mortgage the remaining amount due.

EARNEST MONEY DEPOSIT
A cash deposit made to a home seller to secure an offer to buy the property. This amount is often forfeited if the buyer decides to withdraw his offer.

EASEMENT
The right of a non-owner of property to exert control over a portion or all of the property. For example, power companies often own an easement over residential properties for access to their power lines.

ECONOMIC DEPRECIATION
The decline in property value caused by external forces, such as neighborhood blight or adverse development.

ECONOMIC LIFE
The amount of time which any income-producing property is able to provide benefits to its owner.

EFFECTIVE AGE
The subjective, estimated age of a property based on its condition, rather than the actual time since it was built. Excessive wear and tear can cause a property's effective age to be greater than its actual age.

EMINENT DOMAIN
The legal process whereby a government can take ownership of a piece of property in order to convert it to public use. Often, the property owner is paid fair market value for the property.

ENCROACHMENT
A building or other improvement on one property which invades another property or restricts its usage.

ENCUMBRANCE
A claim against a property. Examples are mortgages, liens, and easements.

EQUAL CREDIT OPPORTUNITY ACT (ECOA)
U.S. federal law requiring that lenders afford people equal chance of getting credit without discrimination based on race, religion, age, sex, *etc*.

EQUITY

The difference between the fair market value of a property and that amount an owner owes on any mortgages or loans secured by the property.

EQUITY BUILDUP
The natural increase in the amount of equity an owner has in a property, accumulated through market appreciation and debt repayment.

ERRORS AND OMISSIONS INSURANCE
An insurance policy taken out by appraisers to cover their liability for any mistakes made during the appraisal process.

ESCROW
An amount retained by a third party in a trust to meet a future obligation. Often used in the payment of annual taxes or insurance for real property.

ESCROW ACCOUNT
An account setup by a mortgage servicing company to hold funds with which to pay expenses such as homeowners insurance and property taxes. An extra amount is paid with regular principal and interest payments that go into the escrow account each month.

ESCROW ANALYSIS
An analysis performed by the lender usually once each year to see that the amount of money going into the escrow account each month is correct for the forecasted expenses.

ESCROW DISBURSEMENTS
The payout of funds from an escrow account to pay property expenses such as taxes and insurance.

ESTATE
The total of all property and assets owned by an individual.

EXAMINATION OF TITLE
The report on the title of a property from the public records or an abstract of the title.

EXCLUSIVE LISTING
An agreement between the owner of a property and a real estate agent giving the agent exclusive right to sell the property.

EXECUTOR
The person named in a will to administer the estate.

FACADE
The front exposure of any building. Often used to describe an artificial or false front which is not consistent with the construction of the rest of the building.

FAIR CREDIT REPORTING ACT
A federal law regulating the way credit agencies discloses consumer credit reports and the remedies available to consumers for disputing and correcting mistakes on their credit history.

FAIR MARKET VALUE
The price at which two unrelated parties, under no duress, are willing to transact business.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

The U.S. Government agency created in 1933 which maintains the stability of and public confidence in the nation's financial system by insuring deposits and promoting safe and sound banking practices.

FEE APPRAISER
A certified professional appraiser who estimates the fair market value of property and receives a set fee in exchange.

FEE SIMPLE
A complete, unencumbered ownership right in a piece of property.

FEE SIMPLE ESTATE
A form or ownership or holding title to real estate. It is the most complete form of title, having an unconditional and unlimited interest of perpetual duration.

FINAL VALUE ESTIMATE
The estimated value of a piece of property resulting from an appraisal following the USPAP guidelines.

FIRST MORTGAGE
The primary loan or mortgage secured by a piece of property.

FIXED-RATE MORTGAGE (FRM)
A mortgage which has a fixed rate of interest over the life of the loan.

FIXTURE
Any piece of personal property which becomes permanently affixed to a piece of real property.

FLOOR PLAN
The representation of a building which shows the basic outline of the structure, as well as detailed information about the positioning of rooms, hallways, doors, stairs, and other features. Often includes detailed information about other fixtures and amenities.

FORECLOSURE
The process whereby a lender can claim the property used by a borrower to secure a mortgage and sell the property to meet the obligations of the loan.

FORFEITURE
The loss of property or money due to the failure to meet the obligations of a mortgage or loan secured by that property.

FRONTAGE
The segment of a property that runs along a point of access, such as a street or water front.

FUNCTIONAL OBSOLESCENCE
A decrease in the value of property due to a feature or lack of a feature which renders the property undesirable. Functional obsolescence can also occur when the surrounding area changes, rendering the property unusable for its originally intended purpose.

GABLE ROOF
A steeply angled, triangular roof.

GAMBREL ROOF
A 'barn-like' roof, where the upper portion of the roof is less steeply angled than the lower part.

GENERAL LIEN
A broad-based claim against several properties owned by a defaulting party.

GOVERNMENT MORTGAGE
A mortgage insured by a government agency, such as the FHA or VA.

GRADE
The slope of land around a building.

GRANTEE
A person who is given ownership of a piece of property.

GRANTOR
A person who gives away ownership of a piece of property.

GROSS AREA
The sum total of all floor space, including areas such as stairways and closet space. Often measured based on external wall lengths.

HALF-SECTION
320 acres

HAZARD INSURANCE
Insurance covering damage to a property caused by hazards such as fire, wind, and accident.

HEIGHT ZONING
A municipal restriction on the maximum height of any building or other structure.

HIDDEN AMENITIES
Assets of a property which contribute to its value, but are not readily apparent. Examples might include upgraded or premium building materials.

HIGHEST AND BEST USE
The most profitable and likely use of a property. Selected from reasonably probable and legal alternative uses, which are found to be physically possible, appropriately supported, and financially feasible to result in the highest possible land value.

HOME EQUITY CONVERSION MORTGAGE (HECM)
Also known as a reverse annuity mortgage. It allows home owners (usually older) to convert equity in the home into cash. Normally paid by the lender in monthly payments. HECMs typically don’t have to be repaid until the borrower is no longer occupying the home.

HOME EQUITY LINE OF CREDIT
A type of mortgage loan that allows the borrower to draw cash against the equity in his home.

HOME INSPECTION
A complete examination of a building to determine its structural integrity and uncover any defects in materials or workmanship that may adversely affect the property or decrease its value.

HOMEOWNERS WARRANTY
An insurance policy covering the repair of systems and appliances within the home for the coverage period.

HUD MEDIAN INCOME
Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 STATEMENT
A standardized, itemized list, published by the U.S. Department of Housing and Urban Development (HUD), of all anticipated CLOSING COSTS connected with a particular property purchase.

IMPROVED LAND
A parcel of land which has been changed from its natural state through the creation of roads, buildings, or other structures.

IMPROVEMENT
An item added to vacant land with the intent of increasing its value or usability.

IMPROVEMENT RATIO
The comparative value of an improved piece of land to its natural, unaltered state.

INCOME APPROACH
The process of estimating the value of property by considering the present value of a stream of income generated by the property.

INCOME PROPERTY
A piece of property whose highest and best use is the generation of income through rents or other sources.

INDEPENDENT APPRAISAL
An estimation of value created by a professional, certified appraiser with no vested interest in the value of the property.

INSPECTION
The examination of a piece of property, its buildings, or other amenities.

INSURABLE TITLE
The title to property which has been sufficiently reviewed by a title insurance company, such that they are willing to insure it as free and clear.

INTEREST RATE
A percentage of a loan or mortgage value that is paid to the lender as compensation for loaning funds.

INVESTMENT PROPERTY
A piece of property that is expected to generate a financial return, which may come as the result of periodic rents or through appreciation of the property value over time.

JOINT TENANCY
A situation in which two or more parties own a piece of property together. Each of the owners has an equal share and may not dispose of or alter that share without the consent of the other owners.

JUDGMENT
An official court decision. If the judgment requires payment from one party to another, the court may put a lien against the payee’s property as collateral.

JUDICIAL FORECLOSURE
A type of foreclosure conducted as a civil suit in a court of law.

JUMBO LOAN
A mortgage loan for an amount greater than the limits set by Fannie Mae and Freddie Mac. Often called non-conforming loans.

LATE CHARGE
An extra charge or penalty added to a regular mortgage payment when the payment is made late given the time specified in the original loan document.

LATENT DEFECTS
A defect in a piece of property which is not readily apparent, but which has an impact of the value. Structural damage or termite infestation are examples of latent defects.

LEASE
A contract between a property owner and a tenant specifying the payment amount, terms, and conditions, as well as the length of time the contract will be in force.

LEASEHOLD ESTATE
A type of property "ownership," but the buyer actually has a long-term lease on the property.

LEASE OPTION
A lease agreement that gives the tenant an option to buy the property. Usually, a portion of the regular monthly rent payment will be applied towards the down payment.

LEGAL DESCRIPTION
The description of a piece of property, identifying its specific location in terms established by the municipality or other jurisdiction in which the property resides. Often related in specific distances from a known landmark or intersection.

LENDER
The person or entity who loans funds to a buyer. In return, the lender receives periodic payments, including principal and interest amounts.

LIABILITIES
A person’s outstanding debt obligations.

LIABILITY INSURANCE
Insurance that covers against potential lawsuit brought against a property owner for alleged negligence resulting in damage to another party.

LIEN
A claim against a piece of property resulting from a debt or other obligation.

LIFE CAP
A limit on how far the interest rate can move for an Adjustable Rate Mortgage.

LIKE-KIND PROPERTY
A property which is substantially similar to another property.

LINE OF CREDIT
An extension of credit for a certain amount for a specific amount of time. To be used at the borrower’s discretion.

LIQUID ASSET
An asset which can be quickly converted into cash at little or no cost, or cash itself.

LOAN
Money borrowed to be repaid with interest according to the specific terms and conditions of the loan.

LOAN OFFICER

A person that sells loans, representing the lender to the borrower and the borrower to the lender.

LOAN ORIGINATION
How a lender refers to the process of writing new loans.

LOAN SERVICING
The processing of payments, mailing of monthly statements, management and disbursement of escrow funds, *etc*., typically carried out by the company issuing the loan.

LOAN-TO-VALUE RATIO (LTV)
The comparison of the amount owed on a mortgaged property to its fair market value.

LOCK-IN
An agreement between a lender and a borrower, guaranteeing an interest rate for a loan if the loan is closed by certain time.

LOCK-IN PERIOD
The amount of time the lender has guaranteed an interest rate to a borrower.

MANUFACTURED HOUSING
Once known as "mobile homes," manufactured housing is a building which has been constructed off site, then moved onto a piece of real property.

MARGIN
The difference between the interest rate and the index on an adjustable rate mortgage.

MARGINAL LAND
Land value that has been diminished due to some internal defect or external condition. In most cases, the cost to correct the flaw or condition is as much or more than the expected return from the property.

MATURITY
The date on which the principal balance of a financial instrument becomes due and payable.

MERGED CREDIT REPORT
A credit report derived from data obtained from multiple credit agencies.

METES AND BOUNDS
A traditional way of describing property, generally expressed in terms of distance from a known landmark or intersection, and then following the boundaries of the property back to its origin.

METROPOLITAN AREA
The accumulated land in and around a city or other municipality which falls under the political and economic influence of that entity.

MINERAL RIGHTS
The legal right to exploit and enjoy the benefits of minerals located below the surface of a parcel of land.

MISREPRESENTATION
A statement by one party in a transaction that is incorrect or misleading. Most misrepresentations are deemed to be intentional and thus may constitute fraud. Others, however, some are rendered through simple mistakes, oversights, or negligence.

MORTGAGE

A financial arrangement wherein an individual borrows money to purchase real property and secures the loan with the property as collateral.

MORTGAGE BANKER
A financial institution that provides primary and secondary mortgages to home buyers.

MORTGAGE BROKER
A person or organization that serves as a middleman to facilitate the mortgage process. Brokers often represent multiple mortgage bankers and offer the most appropriate deal to each buyer.

MORTGAGEE
The entity that lends money in a real estate transaction.

MORTGAGE INSURANCE
A policy that fulfills that obligations of a mortgage when the policy holder defaults or is no longer able to make payments.

MORTGAGE INSURANCE PREMIUM (MIP)
A fee that is often included in mortgage payments that pays for mortgage insurance coverage.

MORTGAGE LIFE INSURANCE
A policy that fulfills the obligations of a mortgage when the policy holder dies.

MORTGAGOR
The entity that borrows money in a real estate transaction.

NATIONAL SOCIETY OF REAL ESTATE APPRAISERS
An organization founded in 1956 which promotes standards of professionalism in its members.

NATURAL VACANCY RATE
The percentage of vacant properties in a given area that is the result of natural turnover and market forces.

NEGATIVE AMORTIZATION
When the balance of a loan increases instead of decreases. This circumstance is usually due to a borrower making a minimum payment on an Adjustable Rate Mortgage during a period when the rate fluctuates to a high enough point that the minimum payment does not cover all of the interest.

NET LEASABLE AREA
The space in a development outside of the common areas that can be rented to tenants.

NO-COST LOAN
Many lenders offer loans at "no cost." Prospective borrowers, however, should inquire whether there are no "lender" costs associated with the loan, or if it also covers the other costs normally incurred in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others. These are fees and costs which may be associated with buying a home or obtaining a loan, but not charged directly by the lender. Like a "no-point" loan, however, the interest rate will be higher than loans with costs associated with it.

NO-POINT LOAN
A loan with no points. The interest rate on such a loan will be higher than a loan with points paid. A no-point loan is sometimes referred to a refinance loan that has closing costs are included in the loan.

NON-CONFORMING USE

The use of land for purposes contrary to the applicable municipal zoning specifications. Often occurs when zoning changes after a property is in use.

NONLIQUID ASSET
An asset which cannot be quickly converted into cash at little or no cost.

NOTE
A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

NOTE RATE
The interest rate stated on a mortgage note.

NOTICE OF DEFAULT
Formal written notice from a lender to a borrower that default has occurred.

OBSOLESCENCE
The process of an asset's value diminishing due to the development of more desirable alternatives or because of the degradation of its capabilities.

OCCUPANCY
A physical presence within and control of a property.

OCCUPANCY RATE
The percentage of properties in a given area that are occupied.

OFF-SITE IMPROVEMENTS
Buildings, structures, or other amenities not located on a piece of property, but are necessary to maximize the use of the property or in some way contribute to the value of the property.

ON-SITE IMPROVEMENTS
Buildings, structures, or other amenities that are erected on a piece of property and contribute to its value.

OPEN SPACE
Land that has not had significant buildings or structures erected on it. Most often used to describe desirable neighborhood features like parks.

ORIGINAL EQUITY
The amount of cash a home buyer initially invests in the home.

ORIGINAL PRINCIPAL BALANCE
The total amount of principal owed on a mortgage loan at the time of closing.

ORIGINATION FEE
The total number of points paid by a borrower at closing.

OWNER FINANCING
A transaction where the property owner provides all or part of the financing.

OWNER OCCUPIED
The state of property wherein the owner occupies at least some portion of the property.

PARTIAL INTEREST

A shared ownership in a piece of property. May be divided among two or more parties.

PARTIAL PAYMENT
A payment of less than the regular monthly amount. Usually, a lender will not accept partial payments.

PERIODIC PAYMENT CAP
The limit on how much the regular monthly payments on an Adjustable Rate Mortgage can change during one adjustment period.

PERIODIC RATE CAP
The limit on how much the interest rate on an Adjustable Rate Mortgage can change during any one adjustment period.

PERSONAL PROPERTY
Owned items that are not permanently affixed to the land.

PLANNED UNIT DEVELOPMENT (PUD)
A coordinated, real estate development that has common areas shared and maintained by an owner's association or other entity.

PLAT
A plan or chart of a piece of land which lays out existing or planned streets, lots, or other improvements.

POINT
A percentage of a mortgage amount (one point = 1 percent).

PRE-APPROVAL
The process of applying for a mortgage loan and becoming approved for a certain amount and interest rate before a property has been chosen. Pre-approval allows the borrower greater freedom in negotiations with sellers.

PREFABRICATED
A building or portion of it which is manufactured and assembled off site, then erected on a property.

PREPAYMENT
Payment made that reduces the principal balance of a loan before the due date and before the loan has become fully amortized.

PREPAYMENT PENALTY
A fee that may be charged to a borrower who pays off a loan before it is due.

PRE-QUALIFICATION
Less formal that pre-approval, pre-qualification usually means a written statement from a loan officer indicating the officer’s opinion that the borrower will be able to become approved for a mortgage loan.

PRIME RATE
The interest rate that banks and other lending institutions charge other banks or preferred customers.

PRINCIPAL
The amount owed on a mortgage which does not include interest or other fees.

PRINCIPAL BALANCE
The outstanding balance of principal on a mortgage. Does not included interest due.

PRINCIPAL, INTEREST, TAXES, AND INSURANCE (PITI)

The most common constituents of a monthly mortgage payment.

PRIVATE MORTGAGE INSURANCE (PMI)
A form of mortgage insurance provided by private, non-government entities. Normally required when the LOAN TO VALUE RATIO is less than 20%.

PROPERTY
An item which is owned or possessed.

PURCHASE AGREEMENT
A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

QUALIFYING RATIOS
Two ratios used in determining credit worthiness for a mortgage loan. One is the ratio of a borrower's monthly housing costs to monthly income. The other is a ratio of all monthly debt to monthly income.

QUITCLAIM DEED
A legal document which transfers any ownership an individual has in a piece of property. Often used when the amount of ownership is not known or is unclear.

RATE LOCK
A guarantee from a lender of a specific interest rate for a period of time.

RAW LAND
Land that has not been developed.

REAL ESTATE
A piece of land and any improvements or fixtures located on that land.

REAL ESTATE AGENT
A licensed professional who facilitates the buying and selling of real estate.

REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)
A federal law requiring lenders to give full disclosure of closing costs to borrowers.

REAL PROPERTY
Land, improvements, and appurtenances, and the interest and benefits thereof.

REALTOR
A real estate agent or broker who is a member of the National Association of Realtors.

RECORDER
A local government employee whose role it is to keep records of all real estate transactions within the jurisdiction.

RECORDING
The filing of a real estate transaction with the appropriate government agent (normally the RECORDER). A real estate transaction is considered final when it is recorded.

REFINANCE TRANSACTION
A new loan to pay off an existing loan, typically to gain a lower interest rate or convert equity into cash.

RELOCATION SERVICE

A company or agency that assists corporate employees in relocating from one place to another. Services may include hiring and coordinating real estate agents, moving companies, utilities and the like.

REMAINING BALANCE
The amount of principal, interest, and other costs that has not yet been repaid.

REMAINING TERM
The amount of time remaining on the original amortization schedule.

REMODEL
An activity designed to improve the value or desirability of a property through rebuilding, refurbishing, redecorating, or adding on to it.

REPAYMENT PLAN
A plan to repay delinquent payments, agreed upon between a lender and borrower, in an effort to avoid foreclosure.

REPLACEMENT RESERVE FUND
An account, or fund, setup for the replacement of short-life items, such as carpeting, in the common areas of a cooperative property.

RESIDENTIAL PROPERTY
A piece of property whose highest and best use is the maintenance of a residence.

REVOLVING DEBT
A type of credit that allows the borrower/customer to make charges against a predetermined line of credit. The customer then pays monthly installments on the amount borrowed, plus interest.

RIGHT OF FIRST REFUSAL
An agreement giving a person the first opportunity to buy or lease a property before the owner offers it for sale to others.

RURAL
An area outside of an established urban area or metropolitan district.

SALE PRICE
The actual price a property sells for, exclusive of any special financing concessions.

SALES COMPARISON APPROACH
An appraisal practice which estimates the value of a property by comparing it to comparable properties recently sold.

SCARCITY
An economic principle that dictates the price of a good or service through the interaction of supply and demand. When an item is scarce, its price tends to rise, given a constant demand. Real estate is a classic example of scarcity.

SECOND MORTGAGE
A loan secured by the equity in a home when a primary mortgage already exists.

SECONDARY MORTGAGE MARKET
An economic marketplace comprising mortgage bankers that buy and sell existing mortgages.

SECURED LOAN
A loan that is backed by collateral. In the case of a mortgage loan, the collateral is the house.

SECURITY

The property used as collateral for a loan.

SERVICER
A financial institution that collects mortgage payments from borrowers and applies the appropriate portions to principal, interest, and any escrow accounts.

SERVICING
The processing of payments, mailing of monthly statements, management and disbursement of escrow funds, *etc*., typically carried out by the company issuing the loan.

SUBJECT PROPERTY
A term which indicates a property that is being appraised.

SURVEY
A specific map of a piece of property which includes the legal boundaries and any improvements or features of the land. Surveys may also depict rights-of-way, encroachments, or easements.

SWEAT EQUITY
The method whereby a home owner develops equity in a property, either during the purchase or throughout its life, by personally constructing improvements rather than paying to have them built.

TAX-EXEMPT PROPERTY
Property that is not taxed.

TENANCY
The right to occupy a building or unit.

TENANCY IN COMMON
A form of holding title, whereby there are two or more people on title to a property, ownership does not pass on to the others upon the death of one individual.

THIRD PARTY ORIGINATION
When a lender uses a third party to originate and package loans for sale to the secondary market (Fannie Mae, Freddie Mac).

TITLE
A specific document which serves as proof of ownership.

TITLE COMPANY
An organization that researches and certifies ownership of real estate before it is bought or sold. Title companies also act at the facilitator to ensure all parties are paid during the real estate transaction.

TITLE INSURANCE
A policy that insures a property owner should a prior claim arise against the property after the purchase has been completed. This type of policy also covers a lender should a question of ownership arise.

TITLE SEARCH
The process whereby the TITLE COMPANY researches a property's title history and ensures that no outstanding claims exist.

TRANSFER OF OWNERSHIP
The means by which the ownership of a property changes hands.

TRANSFER OF TAX

Taxes payable when title passes from one owner to another.

TRUSTEE
A fiduciary that holds or controls property for the benefit of another.

TRUTH IN LENDING
A federal law requiring full disclosure by lenders to borrowers of all terms, conditions, and costs of a mortgage.

UNDER IMPROVED LAND
A piece of land which has been improved, but not to the full extent of its potential.

UNENCUMBERED PROPERTY
Property that has no outstanding claims or liens against it.

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE (USPAP)
Developed in 1986 by the Ad Hoc Committee on Uniform Standards and copyrighted in 1987 by The Appraisal Foundation, USPAP forms the guidelines followed by every licensed and certified real estate appraiser in the United States. The purpose of these standards is to establish requirements for professional appraisal practice, which includes appraisal, appraisal review, and appraisal consulting. The intent of these standards is to promote and maintain a high level of public trust in professional appraisal practice.

USEFUL LIFE
The span of time over which a property can be used or can provide benefits to its owner.

VACANCY RATE
The current percentage of vacant properties in a given area, regardless of why they are vacant.

VA MORTGAGE
A mortgage that is guaranteed by the Department of Veterans Affairs (VA).

VARIANCE
An exception to municipal zoning regulations granted for a specific time period to allow for non-conforming use of the land.

VESTED
Having the right to use a portion of a fund such as an IRA. Typically vesting occurs over time. If you are 100 percent vested, you have a right to 100 percent of the fund.

WALK-THROUGH INSPECTION
A process whereby an appraiser examines a property in preparation for estimating its value. Also, the process of inspecting a property for any damage before that property is bought or sold.

WARRANTY
An affidavit given to stipulate the condition of a property. The person giving the warranty assumes liability if the condition turns out to be untrue.

WEAR AND TEAR
A term used to indicate the normal damage inflicted on a property through everyday use.

ZERO LOT LINE
A municipal zoning category wherein a building or other fixture may abut the property line.