**Unit 16 Outline**

**Learning Objectives**

Study of this unit should enable the student to

* define common partial interests, such as the condominium and tenancy in common;
* explain the difference between a time-share estate and a time-share use;
* identify when Fannie Mae Form 1073 is appropriate;
* state the differences between a tenancy in common and joint tenancy;
* define the terms applicable to leased fee and leasehold interests; and
* use a basic method for valuing leased fee and leasehold interests.

**Unit Outline**

I. Overview

II. Types of Partial Interests

A. Condominiums—special appraisal considerations (Figure 16.1)

1. Specify both private and public areas

2. Mention of exact location of the subject within the building

3. Consideration of upkeep of both public areas and other units

B. Planned unit developments (PUDs)

1. May feature detached residences, condominiums or townhouses

2. May include both residential and commercial property

C. Fannie Mae Form 1073 (Figure 16.2)—Individual Condominium Unit Appraisal Report

1. Describes the scope of work to be performed

2. Identifies the intended use of the appraiser’s opinions and conclusions

3. Identifies the client and other intended users

4. Defines market value

5. Lists the appraiser’s assumptions and limiting conditions

6. Lists the appraiser’s certifications

D. Time-Share Projects

1. Time-share estate includes estate (ownership) interest

2. Time-share use does not include estate interest

3. Appraiser should note local market carefully, including resale activity

E. Manufactured Homes

1. Almost one-third of all new single-family home purchases in the United States

2. Must meet federal standards and state requirements

3. Manufactured-home parks are regulated by the state

4. Usually more affordable than alternative housing

5. Strict zoning has limited their availability in most urban areas

F. Other Forms of Ownership—other partial interests include the life estate, easement, cooperative and various forms of co-ownership, such as tenants in common and joint tenancy

## Exercise 16-1

III. Appraising Lease Interests—how lessor's and lessee's interests are defined and evaluated

A. Lease Terminology

1. Leased fee—lessor's interest

2. Leasehold estate—lessee's interest

3. Ground lease—lease of land only, on which the tenant usually owns a building or is required to build as specified in the lease

4. Sandwich lease—created when a lessee sublets the leased premises to a sublessee

B. Creation of Lease Interests—lease agreement may cover one or more of the following topics:

1. Gross lease—tenant pays a fixed rental and the landlord pays all expenses of ownership

2. Net lease—tenant pays rent plus part or all of the property charges, such as taxes, assessments, insurance and maintenance

3. Triple net lease—tenant pays rent plus all operating and other expenses—also called a net, net, net lease

4. Percentage lease—tenant pays a minimum guaranteed base amount plus a percentage of gross income

5. Excess rent and deficit rent

a. Excess rent—amount by which scheduled rent exceeds market rent at time of appraisal

b. Deficit rent—amount by which market rent exceeds scheduled rent at time of appraisal

6. Escalator clause—provides for an increase in payments based on an increase in one of many price indexes

7. Renewal options—provides that the lessee has right to renew the lease for the same term or some other stated period

8. Tenant improvements—either lessor or lessee may be obligated to pay, as the lease provides

9. Other lease provisions

a. Tax-stop clause—allows the landlord to charge the tenant for any increase in taxes over a specified level

b. Expense-stop clause—passes increases in building maintenance expenses on to tenants on a pro rata basis

c. Purchase option—or right of first refusal

## Exercise 16-2

IV. Leased Fee and Leasehold Valuations

A. Existing leases may be for amounts above or below current market figures

B. If market rent exceeds contract rent, the lessee has a positive leasehold interest

C. If contract rent exceeds market rent, a negative leasehold interest exists

D. If contract rent and market rent are the same, tenant's interest in property is of zero value

E. The value of the property is divided into separate values attributable to each of the various interests

F. Generally, the total value of the various interests will not exceed the value of the property under free and clear ownership

## Exercise 16-3

## Summary

Review Questions