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depreciation factors should be checked in the Cost Approach; the sales data should be further documented and analyzed in the Market Approach; and the Income Method may require a recheck of the soundness of the capitalization rate.

(d) *Partial takings.* (1) A substantial number of acquisitions require only portions of an ownership necessitating a ''partial taking.'' In these cases the appraiser is required to estimate the value of the whole ownership before the taking; the value of the remainder—the difference being the value of the part taken. Many times the remainder is of less value after the taking, indicating a ''severance damage.'' The appraiser is usually required to allocate the total taking value between the value of the part acquired and the severance damage to the remainder by reason of the taking.

(2) In order to promote uniformity in the reporting format, the following example of the ''before'' and ''after'' method is presented for guidance:

A 220-acre parcel of land is to be acquired from a 420-acre farm:	
Value ''before'' the taking ($300 p/ac)	$126,000
Value of remainder ''after'' taking ($200 p/ac)	40,000
Total Value of part taken, including severance damage to remainder	$86,000
Value of 220 acres taken ($300 p/ac)	66,000
Severance Damage to Remainder	$20,000

(3) The appraisal of the property before the taking must be a complete narrative-type appraisal containing adequate market data to support the total value. The report then must also include a full appraisal on the remainder portion of the property consisting of a full description of the residue immediately after the taking and a complete set of market data and sales other than those used in the ''before'' evaluation. If the remainder parcel has diminished in value as a result of the taking, the appraiser must have adequate support and justification for the reduction in value.

(4) In the case of partial takings, consideration must also be given to offsetting benefits applicable to the remaining property. A combination of legal interpretation of the law and judicial decisions with regard to such benefits must be used in determining whether offsetting benefits are applicable. Reference is made to paragraph A-9 and A-10 in the ''Uniform Appraisal Standards For Federal Land Acquisitions.''

(5) Paragraph A-13 of the ''Uniform Appraisal Standards'' is also referenced in connection with guidance regarding ''navigation servitude.''

(e) *Appraisal Certificate.* (1) No appraisal report will be considered acceptable without appropriate certification by the appraiser responsible for the contents of the report and the conclusion of values. The certification can be in the front or the back of the report, consistent with Division or District policy.

(2) An appropriate certification shall be substantially in accordance with the following: I certify that I have carefully examined the property described herein and that the estimates as developed in the report represent my unbiased opinion and judgment. I further certify that I have no interest, past, present or prospective, in the subject property which would affect my opinion and that the present fair market value of the (*insert estate appraisal*) is subject only to all the assumptions and limitations as specifically set forth. (Date and signature of appraiser.)

§ 644.45 Rental value.

(a) *Definition.* (1) The fair rental value of the property is the amount which, in a competitive market, a well-informed and willing lessee would pay and which a well-informed and willing lessor would accept for the temporary use and enjoyment of the property.

(2) Appraisals to establish fair rental values will be made in accordance with acceptable standards of appraisal applicable to the particular type of property and in accordance with general appraisal practices and procedures heretofore described in relating to all appraisal work. The preparation of time-consuming and lengthy appraisal reports should be kept to a minimum, particularly with regard to rental properties of low value. A brief summary of the essential facts will be sufficient to support leases by the Government of building space or unimproved land where the net rental value is not in excess of $3,600 per annum.

(b) *Applicability.* All provisions of this subpart are applicable to ''inleasing'' of

real property for use of the Government, and equally applicable to ''outleasing'' of Government-owned real property. Section 644.45(l) Government Quarters, is normally applicable only to ''outleasing'' of quarters to civilian employees. The provisions are, however, also considered valid considerations in appraising ''inleases,'' wherein privately-owned housing is being rented for occupancy by military personnel in lieu of quarters allowances.

(c) *Services.* In the absence of an agreement or contract, a lessor is not bound to furnish any utilities or building services of any kind, and such services may not be acquired under the power of eminent domain. It is, therefore, necessary for the appraiser to include in his report as separate items the estimated cost of all customary services that may be required to permit the normal use and occupancy of the property.

(d) *Market value of fee.* (1) Where temporary use of an entire building or other independent unit of an ownership is proposed, the appraisal will ordinarily report both the market value of the fee title and the fair annual rental value. However, no appraisal of fair market value of fee title is required in any case where assessed value, supported by statement of the assessor and ENG Form 869–R (15% Valuation Certificate), can be used for compliance with existing law, Section 322 of the Act of June 30, 1932 (40 U.S.C. 278a), known as the ''Economy Act.'' Fee value is not required for land only leases, as the Economy Act is not applicable.

(2) An exception to the above procedure is in regard to the appraisal of family housing units. As an alternative, the appraiser can support his rental valuation by use of comparable rentals and a statement that the lease value does not exceed 15% of the fair market value.

(e) *Lease of minor portions of buildings.* Where appraisals are required to establish rental value of a minor portion of a building, it will not be necessary to estimate the fee value of the entire property, provided that the net annual rental does not exceed $2,000. A sound rental value can ordinarily be estimated by comparison with established rentals in subject property and in adjacent similar properties in the community. However, care should be exercised to insure the reasonableness of the reported comparable rental values. The appraiser's report must include sufficient data on these current rentals to support adequately the rental estimate for the subject space.

(f) *Unexpired lease.* Where the premises to be acquired are occupied by tenants under leases which cannot be terminated at will by the landlord, the appraiser's report will set forth in detail the terms of the existing leases and will show the value of the tenant's interest. The value of the tenant's interest is based on the fair rental value (economic rent) of the part of the property occupied by the tenant for the unexpired term of the lease, or for the term condemned, whichever is shorter, less the rent which the tenant is obligated to pay (contract rent) under the existing lease. The difference between the economic and contract rent is known as ''bonus rent.''

(g) *Bonus value.* Wherein a ''bonus rent'' is reflected as being the difference between economic and contract rent, a full narrative discussion will be included in the report. It is of paramount importance that the present economic rental be supported by the rental market data. The ''bonus value'' is the present worth of the discounted bonus rent.

(h) *Rental appraisal report.* The appraisal report will contain adequate facts and discussions relative to the following:

(1) Land description, showing street frontages and lot depths.

(2) Adequate description of improvements and furnishings, including type of construction, total floor space, floor load for storage space, number of rentable rooms, or income-producing space, nonproductive or public space, total cubic content, and reproduction cost of improvements less depreciation.

(3) Assessed valuation and lawful ratio to market value, if the annual rental value exceeds $2,000.

(4) Analysis and discussions of current rentals of similar properties and rental history of the property appraised.

(5) Discussion of the appraisal process and rental rates applicable to the terms of the proposed lease, particularly as to any differential in the rate of return applicable to customary long term rentals.

(6) Statement showing distribution of appraised annual rental as allocated to fixed charges and fair rate of return on land, buildings, and any furnishings or equipment that are included in the proposed taking.

(i) *Special purpose properties.* Appraisals to estimate the rental value of hotels, clubs, hospitals, and other highly specialized properties will include full information on the income capacity of the property under average competent management and under accepted standards of operation for the particular type of property involved. The appraisal reports will, among other things, contain an analysis and discussion of the following items:

(1) Financial history of property, including indebtedness, the actual past income or earnings of the property based upon audit reports for the past five years or longer, and any unaudited current months of the fiscal year. In the absence of audits, corporate statements may be furnished if properly certified.

(2) Discussion of the past operation and management methods with comments relative to any excessive or insufficient charges appearing in the financial statements obtained.

(3) Appraiser's estimate of the stabilized income of the property.

(4) Appraiser's estimate of profits available for typical lessee-operator.

(5) Recommendations of the appraiser as to the relative merits of acquiring fee title to the property as against acquiring a leasehold interest.

(j) *Farms and rural properties.* Appraisals to estimate the rental value of farms and other types of rural properties will report the present market value of the fee title, the fair annual rental value, and any direct damage to growing crops, standing timber, or improvements to be removed or destroyed. The damage will be reported separately from the rental value in order to permit the reflection of the damage in the primary rental term.

(k) *Industrial installations.* (1) Appraisal reports will be obtained to support all leases of industrial installations or portions thereof. It is important that appraisals of operating industrial installations be prepared by specially qualified appraisers or consultants intimately familiar with the particular processes and production capabilities and related factors having any bearing on the value of a particular plant.

(2) The appraisers selected to estimate the rental value should be fully informed as to all known prospective lessees and the amount of any bids, or offers made for the use of the property, and as to all terms, conditions, and limitations under which the property will be made available for use or operation.

(3) The appraisal reports will include a detailed inventory setting forth all physical factors pertaining to the land, buildings, machinery, and equipment and an adequate discussion of all local factors influencing the profitable use of the facility. Data pertinent to the prevailing rentals for other Government and privately-owned industrial plants and warehouses considered reasonably similar to the facilities to be leased will also be included. The conclusions of the appraiser as to other matters of importance to the Department of the Army in its leasing operations will likewise be presented. The appraiser should bear in mind that idle manufacturing plants, and all industrial properties, as a general rule, are valuable only to the extent and degree that they are usable in actual production. It is also a generally accepted economic fact that the plant and fixed equipment (real estate) is the production factor for which a return can ordinarily be realized after the cost of all other factors in production has been provided. Military necessity has required the construction of many plants which are designed for special purposes and which may tend to defeat the ordinary approaches to the market rental value problem. In the absence of comparable rentals of similar properties or other reliable comparative guides to value for temporary use, market rental

value should be estimated with particular consideration to the following methods:

(i) *Reasonable return on estimated fair value.* For this purpose ''fair value'' is defined as the prudent cost of reproduction less depreciation of only that portion of the property that is readily adaptable or capable of competition with alternative properties which may be available to or constructed by the proposed lessees. Items of equipment and any portions of a plant that do not directly contribute to the specific use may be eliminated from consideration and the rental return estimated only on items and space actually adaptable for use in the proposed enterprise. The appraiser is particularly concerned with any competitive disadvantages or penalties accruing to subject property by comparison with the alternatives available to prospective users. The rental estimate should therefore be appropriately modified with respect to adequate allowances for amortization of necessary alterations to be made by the lessee. Other operating disadvantages that might tend, from the competitive viewpoint, to result in increased operating cost or other penalties that might in any way be brought forward in negotiations to establish an acceptable rental price must also be considered.

(ii) *Ratio of plant costs to productive capacity.* In many lines of industrial enterprise, it may be possible to obtain comparable operating experience ratios with reference to relation of average annual real estate costs or plant investment charges to the gross annual production. The difficulties of estimating production levels and obtaining sufficiently accurate data as to actual operating experience are fully appreciated. Suggested sources of such information are annual statements of prospective lessees and their competitors. It is believed that this approach to the appraisal problem is fundamentally sound, particularly so when there is an indicated demand for the full capacity of an industrial plant as originally designed, and that this method will serve as a reasonable check and balance against return on ''fair value.'' It should also be very helpful as a guide to the rate of capitalization in the ''fair value'' approach to the rental problem.

(iii) *Taxes.* The appraisal will not be influenced by the fact that the Government is not presently required to pay taxes on the property.

(iv) *Savings.* When appropriate, the estimated savings in maintenance, protection, repair and restoration, if any, will be obtained by the Management and Disposal Branch from the using service or other competent authority and furnished to the appraiser preparing the appraisal report.

(l) *Government quarters.* (1) Rental schedules for Government quarters furnished to civilian employees will be supported by written appraisal reports reflecting adequate coverage of the following items:

(i) *Construction details.* Physical description of quarters will include the general grade of construction work, materials and decorations, number of rooms, floor space, porches, garages, general appearance and condition.

(ii) *Equipment and accessories:*

Refrigeration
Cooking facilities
Kitchen cabinets
Closet space
Built-in conveniences
Screening
Elevators
Telephone service
Utilities
Plumbing

(iii) *Furniture and furnishings.*

(iv) *Site conditions:*

Lot size
Lot size per living unit
Access (street and road frontage)
Restrictions
Land improvements (walks, driveways, shrubbery, lawns, topography, etc.)
Hazards and/or amenities

(v) *Neighborhood development and data:*

Local zoning regulation
Public transportation
Schools
Shopping facilities
Recreational facilities
Supply and demand for housing
Population statistics
General trends

(vi) *Comparable rental data.* Data will include results of a comprehensive survey of current rental rates applicable

to the most similar privately-owned housing in the nearest competitive or comparable neighborhood or community. Typical rental rates will be compiled, analyzed and tabulated, and subject properties identified and described in the same manner as prescribed above for Government quarters. The appraisal report should include a vicinity map showing location of rental units listed for comparison in relation to the location of the quarters being appraised.

(vii) *Comparative relationships.* The appraisal report will include a discussion of relative merits of Government quarters by comparison with private housing units. Rental rates of housing controlled by governmental agencies or subsidized by private industry will not be used as a basis for comparison.

(viii) *Correlation of rental units.* A discussion of basic reasoning supporting the final rental value unit for each distinctive rental bracket is imperative.

(ix) *Photographs.* Photographs of typical views of the quarters appraised and typical private housing units cited as comparable rentals will be included in each report.

(x) *Appraisal certificate.* Rental appraisal reports will not be considered acceptable without appropriate certification substantially in accordance with: ''I certify that the above rental values represent my unbiased opinion of the present fair market rental value of the quarters described. I am not now a tenant residing in such quarters nor do I have any intention of becoming a tenant therein.''

(2) Reappraisals of rental quarters are required every fifth year subsequent to previous appraisal. Rental rates will be adjusted annually between appraisals by application of the Consumer Price Index (CPI) maintained by the Bureau of Labor Statistics, Department of Labor, and as further required in accordance with Transmittal Memorandum No. 2, OMB Circular A-45, revised October 30, 1974.

§ 644.46 Easements.

(a) *Definition.* An easement is a property right of specified use and enjoyment falling short of fee ownership. It follows that the value of an easement is less than the market value of fee title to the same portion of property (exclusive of severance damages to residual portions).

(b) *Measure of value.* The measure of compensation for an easement is the amount by which market value of the ownership is diminished by the imposition of the easement. This should be developed by use of the ''before'' and ''after'' method of appraisal, the difference being the value of the taking.

(c) *Flowage easements.* (1) The appraisal of flowage easements will not be undertaken until flood frequency surveys have been completed and approved by proper authority. The flood frequency data will be made available to the appraisers with the definite understanding that it is to be accepted as one of the controlling factors in estimating the market value of the easements. The appraiser's certificate should be qualified to include the assumption that the frequency data is correct and that he has no responsibility therefore.

(2) The market value of fee simple title to each property over which a flowage easement is required will first be appraised in the usual manner. This estimate will be followed by appraisal of the market value of the property after imposition of the easement. The market value of the easement is then computed on the basis of the amount the market value of fee title is reduced by imposition of the easement. The appraiser will give full consideration to all factors having a bearing on the reduction in value of the parcel on which the easement is to be imposed. Each appraisal report will include complete information as to estimated flood frequency pertaining to each parcel appraised.

(3) The appraiser's major problem in appraising tracts having considerable value is the development of his value estimate after the imposition of the easement. The market data approach to value is limited in this phase of the appraisal to index sales of land reflecting the ''use adaptability'' of lands to a less profitable purpose. Typical of such change in highest and best use are the conversion of row crop land and orchard land to pasture and forestry. Likewise, the cost approach to value is applicable only to land improvements