(916) 445-4982

848.0041

July 23, 1996

John N. Scott, MAI, Assessor
County of Alameda
1221 Oak Street
Oakland, CA 94612-4288

Attn: Bruce D. Fletcher

Dear Mr. Fletcher:

This is in response to your letter of March 26, 1996 in which you requested our opinion on whether 1911 and 1915 bond payments made by a lessee constitute income to the lessor when valuing property by the income approach. You also asked if these bond payments should be deducted from net income as an operating expense.

The income to be used in the income approach is the economic income that comparable income producing real property would generate if exposed for lease on the open market. Presumably, the income generated will be used in various ways by the lessor. It may be used for debt service, bonded indebtedness, and other purposes of the lessor including net income. In this sense, it makes no difference how the lese is worded and what the lease payments may be used for by the lessor. If the income received from the lessee is an economic income, it should be used to estimate value via the income approach.

The 1911 and 1915 improvement bonds are used to finance off site improvements that directly benefit specific properties. They are a debt that is secured by specific property and are as much a lien on the property as a mortgage. When valuing a property, the cash equivalent of the bond is added to the nominal sales price because it is an obligation secured by that property.

I trust this is responsive to your questions. If you have any further questions, please feel free to contact me.

Sincerely,

Gene Palmer
Supervising Property Appraiser
Assessment Standards Division

GP:rfs

cc: Mr. J.E. Speed
Mr. Richard Johnson
Mr. Bill Minor
Legal Section