

On commercial and industrial properties where there are fixtures, a fixture and equipment report will be completed. Fixtures are personal property which have been attached to the land and therefore are considered realty. The report will contain:

1. Inventory List
2. Photo Record
3. Classification Letter
4. Valuation Report

Prior to the appraisal assignment the Region shall complete the Inventory List, Photo Record and Classification Letter. The Valuation Report may be completed independent of the real property report or included in the assignment given to the Real Property Appraiser. The Appraisal Specification sheet will denote those specialty reports supplied by the State. A Specialty Report Specifications sheet will be included with the Appraisal Specification sheet if the real property appraiser is to complete the Valuation Report.

The Inventory List & Photo Record:

The process begins with contacting the business owner and setting up an appointment to make an inventory of the equipment, photograph it, and determine its ownership.

As the equipment is being inspected, the pertinent information must be obtained; make, model, serial number, size, quantity, etc. The condition, method of attachment, ownership, and location in the building should also be noted. Each item is to be assigned a number which will become the State ID number.

A photograph of each piece of equipment is to provide a visual record of the condition of the item plus a visible numbered tag, which corresponds to the State ID number of the item. The Photo Record is to be completed on the Fixture/Equipment Photo Sheet, form 734-3736.

Classification Letter:

After the inspection and inventory the Fixture and Equipment Classification Letter is to be completed. All items inventoried are to be classified as realty, fixture, or personal property.

A. Category I - Real Property

Those items, although they may be of a nature somewhat peculiar to the subject property, which are normally considered part of the real property itself and are included in the values found in the market are considered real property and classed under Category I.

B. Category II -Fixtures

Fixtures are personal property that has been attached to realty (land and/or improvements) in such a manner as intended not to be removed without substantial damage to the realty. The personal property is therefore considered realty. If fixtures are severed from the land they are then considered personal property. The application of the following three tests determines whether an item is a fixture and included under Category II.

1. Annexation

This test is concerned with the permanency and firmness of an item's physical attachment to the real property. In order to be considered a fixture due to annexation alone, the item must be so firmly annexed that it could not be removed without substantial injury to itself or the realty.

However, a lesser degree of attachment, or a complete lack of attachment does not necessarily preclude an item from being considered a fixture. In those cases the tests of adaptation and intention must be applied to determine whether an item is a fixture.

2. Adaptation

The test for adaptation focuses on whether an item's use is applied to or integrated with the primary use of the realty. The elements generally considered in evaluating the adaptation of an item to the use of the realty consist of the following. Is there:

- a. Consequent loss of value of an item if removed?
- b. Need for the item in order to accomplish the purpose to which the realty is devoted?
- c. Permanency of dedication of the item to the use of the real property? Is the item's use limited to use in the specific real property in question (e.g. hotel waste basket with the name of the hotel permanently attached)?

3. Intention

This test considers evidence of a party's intention in bringing an item onto real property. If the intention at that time was to make the item a permanent part of the realty, and this is supported by evidence of some degree of adaptation or annexation, then the item is considered a fixture. The intent which is considered by this test is that which is readily perceived or inferred, not any uncommunicated or hidden intention.

Tenant-owned improvements concluded to be fixtures are treated as realty and must be appraised for purchase, even though the landlord-tenant agreement may require their removal at its expiration.

Category III - Personal Property

Personal property not concluded to be a fixture remains personal property. They may be attached or freestanding. They can be removed by uncoupling, unplugging, or otherwise disconnected or removed with no material loss of value to the item or to the real property. They are not an integral part of the function to which the realty is devoted without which all or part of the remaining fixtures could not be used to perform this function.

CLASSIFICATION LETTER EXAMPLE

An example of the language to be used in the Classification letter follows:

Date:
To: Region Appraiser
From: Appraiser
Subject: File #: CLASSIFICATION LETTER
Name:

Section:
County:
FAP#:

For the purpose of establishing the property basis to be used by the real estate appraisers in estimating just compensation, the subject property has been inspected and those items which are not normally found in real property and/or which are peculiar to the specific operation conducted upon the subject property have been listed.

Based upon the manner of annexation or attachment to the realty, the adaptation of the item to the realty and the apparent intention at the time of annexation or attachment, determinations are set forth as follows:

CATEGORY I

The following items are so attached as to be considered part of the real property itself, and while of a nature somewhat peculiar to the subject property, they would normally be included in the values as found by the real estate appraiser. The real estate appraiser must value these items and adjust the comparable sales data to reflect their contributory value if functionally similar items are not included in the sale price.

This classification letter contains all items in the Inventory List and is numbered using the State ID number. Attached is the Inventory List and Photo Record.
(Classed items listed here)

Valuation Report:

The valuation report will list the fixtures and equipment under categories I and II giving a detailed description. Identification of the item, such as model number, size, etc., that would be necessary to determine the cost new must be part of the description. The list shall contain the present market value, replacement/reproduction cost, and salvage value for each item. The report will provide documentation of the sources used to arrive at the reproduction cost or cost new for each item. The report will also provide an estimate of the total depreciation present with a documented analysis for the conclusion.

Salvage value is defined as the probable sale price of an item, if offered for sale on the condition that it will be removed from the property at the buyer's expense, allowing reasonable time to find a person buying with knowledge of the uses and purposes for which it is adaptable and capable of being used, including separate use of serviceable components and scrap when there is no reasonable prospect of sale except on that basis.

As stated the valuation report will list values for each individual item rather than a total for each category or a total for all fixtures. The real property appraiser shall determine how each individual item may contribute to the over all value of the property. This determination is listed under paragraph 16 of the appraisal reports. The individual valuation is very important to the State's acquisition program; it is paramount that this section be complete and accurate. A copy of the Fixture and Equipment Report (all four parts) is to be included with the appraisal report unless otherwise specified by the Region Right of Way Project Manager and agreed to by the Project Appraisal Reviewer.