



CONTRIBUTORY VALUE

# A MATTER OF CONSISTENCY

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In a world where the reality of an absolute truth is often debated, there are many analogies that can be used for discussion. Real estate appraising, and specifically appraising for the purposes of an eminent domain acquisition, is fertile ground for purveyors of opinion. The primary players are opinion-frothing attorneys and appraisers who pontificate as often as they breathe. Opinions espoused by property owners (but not “wooden” opinions) are sympathetically considered, but not as a basis for establishing compensation.

It would be nice if appraising were as concise as  $2 + 1 = 3$ , and  $3 - 1 = 2$ . Unfortunately, the nature of appraising is that there is opinion involved, and where there is an opinion, there will be a difference of opinion. It seems that if you put two appraisers in a room with a yes or no question to deliberate, you're likely to end up with three or more answers. Nonetheless, one of the criteria for a good appraiser is they at least be consistent, whether you agree with the value or not.

Eminent domain acquisitions sometimes pose extremely complex problems with regard to consistency. The appraiser involved in the typical eminent domain assignment is asked to identify the “contributory value” of items in the proposed acquisition. Exactly what is contributory value? The Appraisal Institute's Dictionary of

Real Estate, Third Edition, defines contribution as, “The concept that the value of a particular component is measured in terms of its contribution to the value of the whole property, or as the amount that its absence would detract from the value of the whole.”<sup>1</sup>

The Uniform Appraisal Standards for Federal Land Acquisitions utilized by the Federal Highway Administration (FHWA) addresses this issue in the description of the unit rule: “A second aspect of the unit rule is that different elements or components of a tract of land are not to be separately valued and added together ... In discussing the separate elements of the property in their analyses in the appraisal reports, appraisers should always clearly state that these elements were considered with respect to their enhancement of the value of the whole.”<sup>2</sup>

As applied in an eminent domain appraisal this means the appraiser is quite often responsible for identifying the contributory value of exciting items such as grass, bushes, concrete, fencing and sprinkler heads. The methodology and opinions related to the valuation of these items is certainly varied; however, each appraiser should strive for a methodology that is reasonable and consistent in all aspects of the appraisal.

### Consistency With the Scope of the Project

The right of way appraiser traversing this treacherous road must avoid a number of potholes. One of the most common tendencies is to accept a contractor's opinion as the basis for contributory value without discerning whether he understood the scope of the estimate.

Since there is no sales comparison approach for bushes, a contractor's estimate is often used as a guide for the appraiser in establishing the contributory value by deducting applicable depreciation. A purely

academic appraiser might suggest that sales could be found with and without the bushes to prepare a matched pair comparison. Such sales only exist in appraiser utopia.

“Depreciation” for landscaping can be somewhat of a misnomer. The appraiser might use the cost to replace the item with an allowance for physical condition. Another method is to tie in the life of the site improvement to the life of the main building if redevelopment would likely result in the site improvement being replaced.

When a landscaping contractor provides an estimate of what it would cost to replace the bush in your front yard, the estimated cost to replace this individual component is not the same price included in a general contractor's overall cost of development. Small projects are usually associated with a larger per unit cost because of the cost of mobilization, and lack of economies of scale.

Consideration has to be given to whether the contractor's estimate or an estimate from a cost manual properly reflects the economies of scale, mobilization fees appropriate with the scope of the entire project, allocated overhead, and contractor's profit. This is certainly more difficult for the contractor; however, it is practical, possible, and necessary if the appraiser is using this as a basis for establishing value as part of the whole.

### Consistency With the Overall Value

Another requirement for an accurate estimate of contributory value is the necessity to consider how the individual items compare to the

total value of the property. Landscaping for instance may typically constitute 3 percent to 10 percent of the residential property's value. This varies depending on the quality of the home and market expectations. However, if the appraiser values each of the 40 bushes in the taking at what seems to be a reasonable \$50 per bush, \$2,000 for the value of the landscaping in the taking may be out of proportion with the total landscaping package for the property.

ALLOCATION OF TAKING				
COMPONENT	VALUE	TAKING	VALUE OF TAKING	PERCENT OF COMPONENT
LAND	\$15,000	15%	\$2,500	23%
BUILDING	\$80,000	80%	0	0
SITE IMPROVEMENTS	\$5,000	5%	\$2,000	40%
TOTAL VALUE	\$100,000	100%	\$4,000	6%

As shown in the Allocation of a Taking table above, the total value of the taking is only 6 percent of the overall value. The value of the land taken can be supported through accepted appraisal techniques. In this example it is 23 percent of the total land value. None of the building improvements are taken. The \$2,000 estimate for the site improvements, however, seems peculiarly large at 40 percent of the total site improvement package for this property. This analysis must be done by the appraiser in some form in order to provide a checks and balances for the value estimate.

### Before and After Consistency

The true test for consistency with contributory value actually comes when the appraiser estimates the value before and after the taking.



## What About Bob?

Once upon a time there was a bush named Bob. Bob came from a long line of bushes along Main Street that had pretty white flowers in the spring, and a dark green overcoat of shiny leaves the rest of the year. Bob took pride in being a part of Mr. Johnson's front yard.

Mr. Johnson valued Bob immensely and attended to him regularly. Once a year Mr. Johnson would trim him, but Bob didn't mind his stumpy limbs. He knew he would grow even stronger and more beautiful later in the year.

One day, Mr. Johnson and several other individuals were paying special attention

to Bob and his fellow bushes. They were obviously admiring how Bob added value to Mr. Johnson's property. After all, Bob does protect the property from the whirring cars and annoying dogs. Who knows, maybe they were planning to promote Bob to the corner?

Six months later, Bob and his fellow bushes were blindsided by a large front-end loader. Ironically, Mr. Johnson was only paid a small amount of money for Bob and the other bushes.

What was Bob's contributory value?

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As the definition of contribution states, the measure is based on how much a component adds to or subtracts from the value of the whole property.



Therefore, when a before and after analysis is properly executed, the comparison between the two values will accurately reflect the difference between what components of the taking added to and subtracted from the property as a whole. This becomes clear in states

such as Florida where the value of the part taken is estimated individually, and then subtracted from the value of the whole. The resulting calculation is referred to as the “remainder as part of the whole.” This is compared to the “remainder value as appraised” to determine damages. If the value of the remainder is equal to the value of the remainder as part of the whole then there are no damages.

COMPONENT	VALUE	TAKING	REMAINDER AS PART OF THE WHOLE	REMAINDER VALUE AS APPRAISED
LAND	\$15,000	\$3,500	\$11,500	\$11,500
BUILDING	\$80,000	0	\$80,000	\$80,000
SITE IMPROVEMENTS	\$5,000	\$2,000	\$3,000	\$3,500
TOTAL VALUE	\$100,000	\$6,000	\$94,000	\$95,000

As this example shows, there is also the possibility that the remainder value can show something greater than the remainder as part of the whole. The overall value of \$95,000 may be well supported, as well as a land valuation at \$11,500. The building is unaffected by the taking; therefore its value remains at \$80,000. The value allocation of the site improvements, therefore, comes to \$3,500. Since this is greater than the remainder as part of the whole it appears that there may be some inconsistency in the estimation of the contributory value of the site improvements either before or after the taking.

Additional problems arise when damages are present. If the remainder is appraised without the same consideration of the contributory value for the site improvements before the taking, this increase can actually offset damages.

### Summary

The principle of contribution is a common thread that is woven throughout every appraisal. Accurately and consistently estimating the contributory value of site improvements is especially critical in eminent domain assignments.



The attentive appraiser will recognize the potential for inconsistency and will make every effort to determine if items in the taking are appraised as part of the whole. Contractors need to be managed and cost manuals need to be examined to make sure the support data represents the value as a component of the entire project.

Studying typical allocations between site improvements and overall value is a good way to measure the validity of contributory value. In addition, the percentage of the site improvements taken compared to the remaining site improvements may point to areas of concern. The principle of consistency becomes very clear in a before and after valuation. Additional problems can occur if the contributory value is not reflected as the same amount when it was missing from the remainder value as was determined when it was added before the taking.

This concept is merely one aspect of an eminent domain appraisal. However, it is also one of the more commonly overlooked areas of consistency even though federal appraisal requirements speak to this issue. The virtue of consistency is the key to contributory value. ♦

### REFERENCES

<sup>1</sup>Contribution, The Dictionary of Real Estate Appraisal, 3rd Edition, Appraisal Institute, p. 76.

<sup>2</sup>Unit Rule, Uniform Appraisal Standards for Federal Land Acquisitions, pp. 53-55.

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