

Appraisal:

May the Best Approach Win

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The Across the Fence (ATF) methodology has been in use for almost 100 years and has been the principal method of valuation in thousands of corridor transactions. And yet, there are still questions being raised about its efficacy. The March/April 2007 issue of *Right of Way* magazine carries a third article by John Schmick entitled, "Appraising Public Utility Easements in a Railroad Corridor" in which he responds to my review of his two previous articles.

As was pointed out, there is much common ground with which we both agree, but there are major differences in certain areas which I feel go to the very heart of the methodology. For example, there seems to be basic misunderstanding of how ATF values are derived. The corridor is divided into segments or districts which are compatible with adjacent land uses. An ATF value is assigned to that portion of the corridor based on the value of a typical parcel of adjacent land. The idea is that if the corridor was not there, the land comprising the corridor would be part of the adjacent lands and have their same value. There is no synergism involved here. This is straight market economics. When these zones are joined together into one parcel - the corridor - then a synergism is created to recognize the greater utility of the combined parcels. This synergism, called an enhancement factor, railroad factor or corridor factor, is not made up from whole cloth. It is determined by analyzing how other corridor sales were completed. Again, straight market economics. How this can be construed as a violation of Uniform Standards of Professional Appraisal Practice (USPAP) completely escapes me.

Last week I was reviewing some historical data about the Interstate Commerce Commission (ICC) in general and the Bureau of Valuation in particular. This Bureau was established in 1916 as the successor to the Division of Valuation and assumed the primary responsibility for preparing inventories of fixed physical properties and assets of domestic railway carriers in support of the ICC's work authorized by acts of Congress. The Land Section of the Bureau has records which contain the field notes of the ICC appraisers relating to the (then) current value of real estate adjacent to railroads between 1915 and 1928, arranged alphabetically by the name of the railroad company. These notes each pertain to a land appraisal

zone established at each point where property adjacent to the railroad changed in value. The process used back then is the same process used today.

Mr. Schmick's article goes on to demonstrate how the application of occupancy factors for longitudinal easements can lead to a corridor owner being able to sell more than he owns. But this theoretical discussion has little to do with real world situations. I can't imagine any situation where a power transmission line would be erected on top of a pipeline. The pipeline owner simply would not permit such construction. Conversely, I can't believe a pipeline owner would attempt to place a pipeline under an established power transmission line. The article contains a photograph entitled "Powerline easement over a private road easement over a pipeline easement . . .," however the powerline is a crossing easement and not a longitudinal easement, which is an entirely different situation.

It is true that sometimes nonpermanent surface uses are permitted over the pipeline, but the lessees understand very clearly that if pipeline maintenance is required, their surface use can be interrupted or even destroyed, and there would be no reimbursement from either the pipeline company or the railroad. Further, neither company has any liability for an accident that might damage the lessee's interest. I doubt any power company would accept such conditions regarding the safety of their transmission lines.

The occupancy factors discussed in my previous article only apply to the area affected by the particular easement. If a pipeline easement was 15 feet wide, then the occupancy factor for that use—say 70% for discussion purposes—would only apply to that easement area. If the ATF value for that segment or district, derived from the analysis of sales of typical parcels in the area, was \$3.00 per square foot, the easement value would be \$2.10 per square foot. The remaining 30% of the fee interest would probably generate very little market interest. This same procedure would apply to the easement width of any or all other occupants of the corridor. Additionally, there are portions of the corridor which would remain unused and which could probably never be used.

I do not know of a single corridor in the United States that is 100% occupied. The argument that a corridor owner can sell more than is owned does not stand up to critical analysis. If the unlikely situation actually arose where one easement was on top of another, the owner would need to balance the occupancy factors so that they did not exceed 100%.

Let us consider a hypothetical example with a 100-foot corridor

being encumbered with a double-track railroad and easements for a 10-foot subsurface pipeline, a 25-foot wide power transmission line, a 5-foot wide subsurface sewer line and a 5-foot wide subsurface water line as shown below. How much of the total ownership rights has the owner sold to other parties?

The following diagram is a vertical view of the corridor which illustrates the encumbrances describe above.

Type of Easement	Width	Occupancy Factor
Subsurface Pipeline	10 feet wide	70%
Vacant Land		
Subsurface Sewer Line	5 feet wide	35%
Vacant Land		
Double Track Railroad	35 feet wide	100%
Subsurface Water Line	5 feet wide	35%
Vacant Land		
Overhead Power Transmission Line	25 feet wide	50%

Total Corridor Width = 100 feet

Type of Easement	Occupancy Factor	Percentage of the corridor affected	Percentage of the total fee interest affected
Railroad	100%	$35/100 = 35\%$	$100 \times .35 = 35\%$
Pipeline	70%	$10/100 = 10\%$	$.70 \times .10 = 7\%$
Transmission Line	50%	$25/100 = 25\%$	$.50 \times .25 = 12.5\%$
Sewer Line	35%	$05/100 = 5\%$	$.35 \times .05 = 1.75\%$
Water Line	35%	$05/100 = 5\%$	$.35 \times .05 = 1.75\%$
Unused land	0	$20/100 = 20\%$	0.00

As can be seen, even with a corridor heavily impacted with five users, only 58% of the total property rights have been sold, and 20% of the land area remains vacant and produces no income. This would be a far more typical example of corridor usage as opposed to the scenario posed in Mr. Schmick's article. This also illustrates the difficulty in using the Income Approach in corridor valuation.

Finally, the article refers to the Karvel decision tree as a need to correctly demonstrate knowledge of the appraisal subject. I have no argument with whatever method an appraiser uses in preparing

his analysis of the subject as long as it leads to a valid conclusion. My approach is somewhat simpler. I would ask these questions: What is the highest and best use of the property? Is there a continuing or proposed corridor use on the property, be it pipeline, power transmission line, fiber optic, water and sewer or commuter rail? If so, then the ATF approach is the correct approach. If not, then the net liquidation approach is probably the most likely candidate to be used for valuation. It is not necessary for there to be an active railroad on the property for it to be considered a corridor. ●