

Appraising a Transportation Corridor

By Gary S. Valentine, ASA, SR/WA

Appraising a transportation corridor requires understanding definitions of certain fundamental terminology, being aware of potential corridor uses, knowing which interest is to be appraised, determining the purpose of the appraisal, defining the subject area, arriving at its highest and best use (as a corridor or by dividing it into several parcels for liquidation) and finally, understanding the applications and methods of appraising the transportation corridor.

Fundamental Terminology

Right of way

- The right to pass over property owned by another party.
- The path or thoroughfare on which such passage is made.
- The strip of land over which facilities such as highways, railroads, or power lines are built.
- The customary or legal right of a person, vessel, or vehicle to pass in front of another.¹

Corridor

- A narrow hallway, passageway, or gallery, often with rooms or apartments opening onto it.
- A tract of land forming a passageway, such as one that allows an inland country access to sea through another country.
- A restricted tract of land for the passage of trains.
- Restricted air space for the passage of aircraft.
- The restricted path followed by a spacecraft on a particular mission.
- A thickly populated strip of land connecting two or more urban areas, for example, the Boston-Washington corridor.²

Transportation/Communication Corridor

- The transportation/communication corridor is a long, narrow strip of property rights, which includes surface,

subsurface and air rights and is consistent for transportation and/or communication purposes.³

Transportation Corridor

- The transportation corridor is a passageway connecting two or more areas restricted to subsurface, surface and air rights for the transportation of goods and passengers.

Potential Corridor Uses

- Railroad and mass transit lines
- Public/private roads
- Pipelines, including oil, gas, water and sewer lines
- Fiber optics
- Pedestrian pathways
- Aqueducts and canals
- Television cable
- Electrical transmission lines

Identify Interest Appraised

Fee simple: "Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by governmental powers of taxation, eminent domain, police power and escheat."

Leased fee: "An ownership interest held by a landlord with



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the rights of use and occupancy conveyed by lease to others.”

Leasehold: “The interest held by the lessee (the tenant or renter) through a lease carrying the rights of use and occupancy for a stated term under certain conditions.”

Easement: “An interest in real property that conveys use, but not ownership, of a portion of an owner’s property.”

Franchise: “A privilege or right that is conferred by grant on an individual or a group of individuals.”

License: “A formal agreement from a lawful source that allows a business or profession to be conducted.”⁴

Determine Purpose of Appraisal

- Sale
- Acquisition
- Merger
- Condemnation
- Financing
- Market Rents

Define Subject Property and Area

- Valuation maps or engineering maps define the area using both mileposts and engineering stations as checks against one another.
- Be careful with equations in order to measure accurately the distance of the corridor.

Determine Highest and Best Use

Transportation Corridor versus Liquidation

- The Four Criteria
 - Legally permissible
 - Physically possible
 - Financially feasible
 - Maximally productive
- Going Concern Value (GCV) versus Net Liquidation Value (NLV) test

CORRIDOR APPRAISAL

Six Appraisal Methods

Replacement Cost New Less Depreciation (RCNLD)

This method is based on the principle of substitution and is more commonly referred to as the "cost of assemblage." It includes the cost of the part taken, appraisal cost, negotiations cost, title costs, grading costs, project management costs and the acquisition and demolition of buildings.⁵ According to Dolman and Seymour, this cost can range from two to six times the Across the Fence (ATF) value. Clifford Zoll conducted a survey and concluded that this cost can range from four to six times the ATF.⁶ The Court of Appeals in *People v. Southern Pacific Transportation Company* (1978), 85 Cal App 2D 315, 324 held that "The cost of reproduction is an acceptable

approach to a determination of just compensation."

Corridor Value (CV)

This method is based on the principle of substitution. When several similar commensurate commodities, goods or services are available, the one with the lowest price attracts the greatest demand and widest distribution.⁷ A passageway has value because there are social and economic benefits of two connecting points. The value of the whole is greater than the sum of its parts.⁸

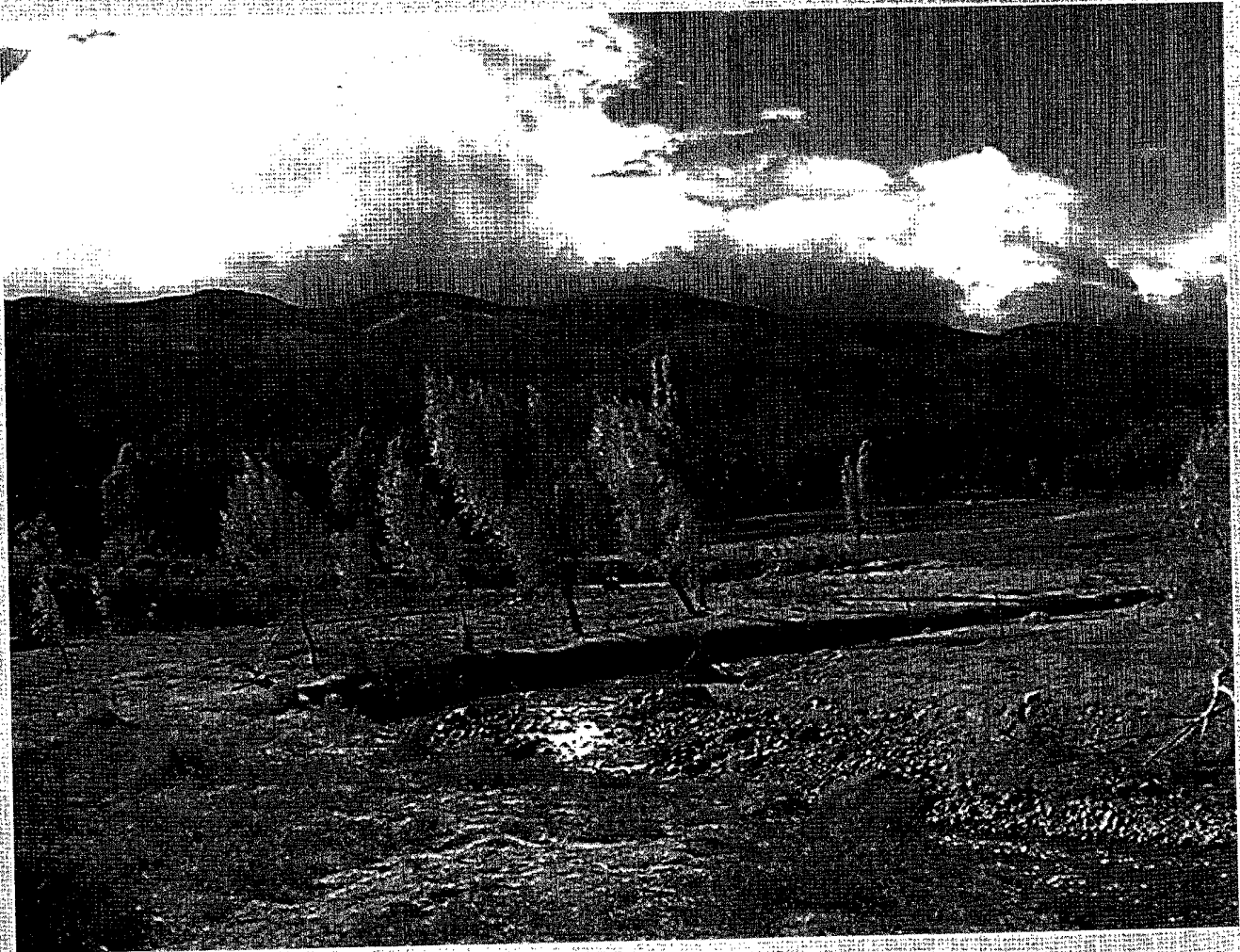
To arrive at the corridor value, the appraiser must multiply the ATF value to the enhancement factor. The enhancement factor is arrived by dividing the sales price of a corridor by its ATF value.⁹ Mr. Zoll's 1991 survey concluded

typical enhancement factors range from 1.00 to 1.74.¹⁰

The enhancement factors generally are not time sensitive. No market condition adjustments are warranted if the market conditions are similar between the ATF value and when the sale of the corridor occurred.

Sales Comparison Approach

This approach is most applicable when several sales or comparables have sold in subject's market area. The sales or comparables are then adjusted after considering several elements of comparison. The Sales Comparison Approach is seldom used since there are relatively few transactions of transportation corridors that sell in the same market area and each transaction is unique in and of itself.



GCV Cash Flow Calculations

+	Revenues
-	Operating expenses
=	Earnings before interest and taxes (EBIT)
-	Interest expense
=	Earnings before taxes (EBT)
-	Taxes
+	Depreciation
=	Gross cash flow
-	Cost of capital expenditures
=	Net cash flow
x	Discount factor
=	GCV associated with a single given year

Across the Fence Value (ATF)

The ATF methodology is based on the concept of alternative use as assignable to land segments within the overall corridor. In theory the segments are divided down the centerline as each half is joined to the adjacent parcel along with the adjacent property's highest and best use and unit value.

The ATF is the sales comparison approach modified to the degree that shape, size, topography and access are disregarded. The corridor is uniquely configured to meet the highest and best use as a right of way and should not be penalized for the special physical characteristics when compared with vacant parcels in the neighborhood.

The ATF method has precedence in the practices of the State Board of Equalization, railroad companies, utility companies and public agencies.

These private and public agencies have utilized this method for tax assessment, for operating and non-operating property and have used it as a basis for ground rent and for estimating value for

public and private streets.

Adjustments are made only for the differences in marketing conditions (time) and location.

The underlying assumption of this method is that land in the transportation corridor is equal to the value of adjoining lands. This method in and of itself is not reflective of corridor use, but when it is compared with actual corridor sales in arriving at an enhancement value, it becomes an integral part of arriving at a corridor value.

Net Liquidation Value (NLV)

The net liquidation value is the present value of the net amount the owner will realize if the corridor is sold piecemeal over a reasonable time period. Net proceeds are determined after the following costs are deducted from the gross revenues:

- Administrative
- Marketing
- Real estate taxes
- Cleanup

Other adjustments include the following:

- Plus salvage value
- Less demolition costs
- Alternate uses require adjustments for shape, size, topography, access and utilities.

• Parcels with marketable access and usable shape can be sold to the public. Other parcels, which cannot stand on their own, can be sold only to adjacent landowners for assemblage.

Going Concern Value (GCV)

"The going concern value is the value created by a proven property operations; considered as a separate entity to be valued with a specific business establishment."¹¹ *The Guide to Business Valuations*, published by Practitioners Publishing Company (p. 205.30), states that, "The going concern value is a permissive value and refers to the intangible elements of a business arising from such factors as having in place a trained, qualified work force, an operating plant and the required licenses, systems and procedures."

National Railroad Passenger Corporation, *Supra* for ICC 2d 761 ICC adopted GCV and rejected RCNLD because it was deemed not a reliable indication as to the current worth of a business. The methodology of going concern value is the expected future profits discounted to today's value at a rate reflecting the quantity, quality and durability of that income.

The following are samples of revenue generated from transportation corridors:

- Franchise fees
- License agreements
- Rent
- Usage fees
- Joint facility uses
- Leases

The following are samples of operating expenses in transportation corridors:

- Administrative support
- Insurance
- Repair and maintenance of structures including pipelines, conduits, poles, ballasts and rails, roads, general mainte-

nance of equipment and of substations, yard operations and other specialized services.

Each of the annual net cash flows for the projected holding period are added together with the present value of the reversion to arrive at the going concern value (GCV).

Conclusion

As land becomes more densely populated and as the demand for transportation corridors increases, due to deregulation of utilities, appreciation of land and increasing cost of development from expanding local environmental regulations, transportation corridors will become increasingly valuable. Correspondingly, it will become less common for transportation companies to abandon their corridors and to sell them at liquidation.

Appraising transportation corridors

is a challenging endeavor. But as the demand for rights of way continues to grow, appraisers have the duty to become innovative in creating new techniques and methodologies to accommodate the ever-changing right-of-way industry. ■

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Gary Valentine began his appraisal career in Fresno, California in 1983. After two years in Fresno, he moved to San Francisco and was hired as an associate appraiser for Southern Pacific Transportation Company, specializing in right-of-way valuations. After five years with Southern Pacific, he accepted an offer to work as a senior appraiser with Marshall and Stevens, one of the largest appraisal firms in the United States. Mr. Valentine is now the principal appraiser with Valentine Appraisal and Associates in Los Angeles. He is a past President of the IRWA Chapter 1 and has served as Chair for that chapter's Program and Nominations and Elections Committees.

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