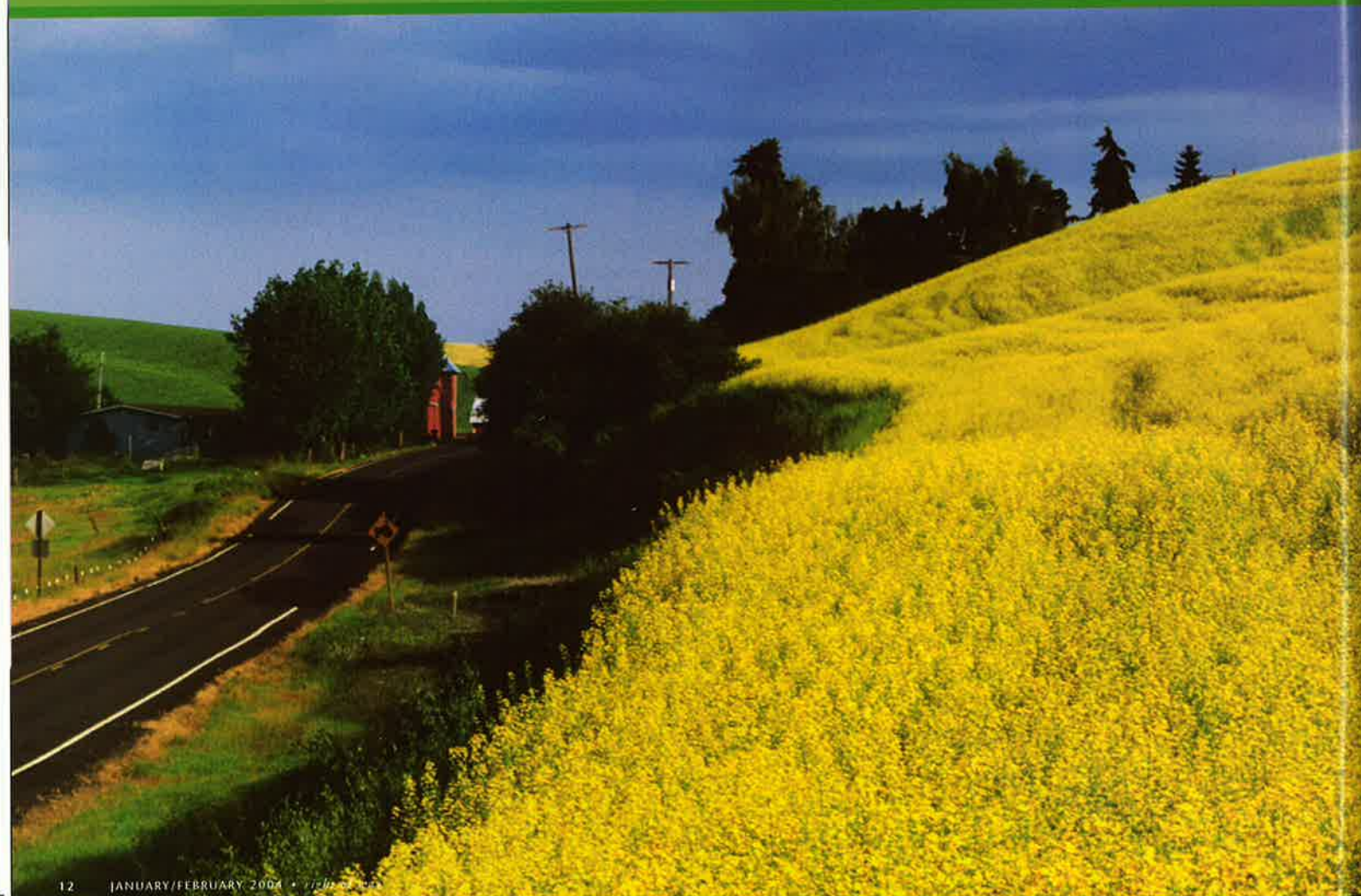




VALUE IN CONTRIBUTION & LANDLOCKING

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Introduction

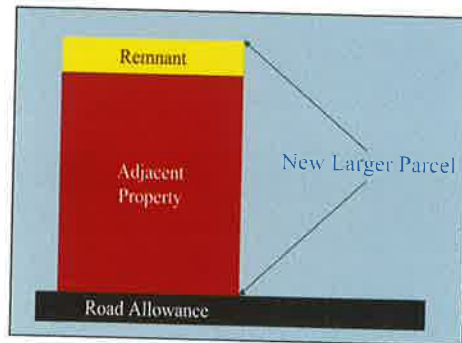
From an appraisal viewpoint, there is very little information on the concept of landlocking and even less on the topic of value in contribution. Employed with the City of Ottawa, I am continually faced with the challenge of estimating value in contribution for the disposal of remnant¹ parcels and from time to time we encounter landlocking situations as a result of acquisitions.

Value in Contribution

There are many different examples of where value in contribution could apply. The typical situation is where an authority owns a remnant parcel and the adjacent owner has expressed an interest in acquiring it. In this instance, the authority will look at what incremental value the remnant parcel will add or detract to the adjacent landowner's parcel. It is the City of Ottawa's practice to look at what the value in contribution of the remnant property is in relation to the adjacent property as part of the new larger parcel² (refer to Illustration A). A definition for value in contribution is "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."³ I define value in contribution as the difference in value that a particular component adds or detracts in its contribution to the new larger parcel.

Illustration A



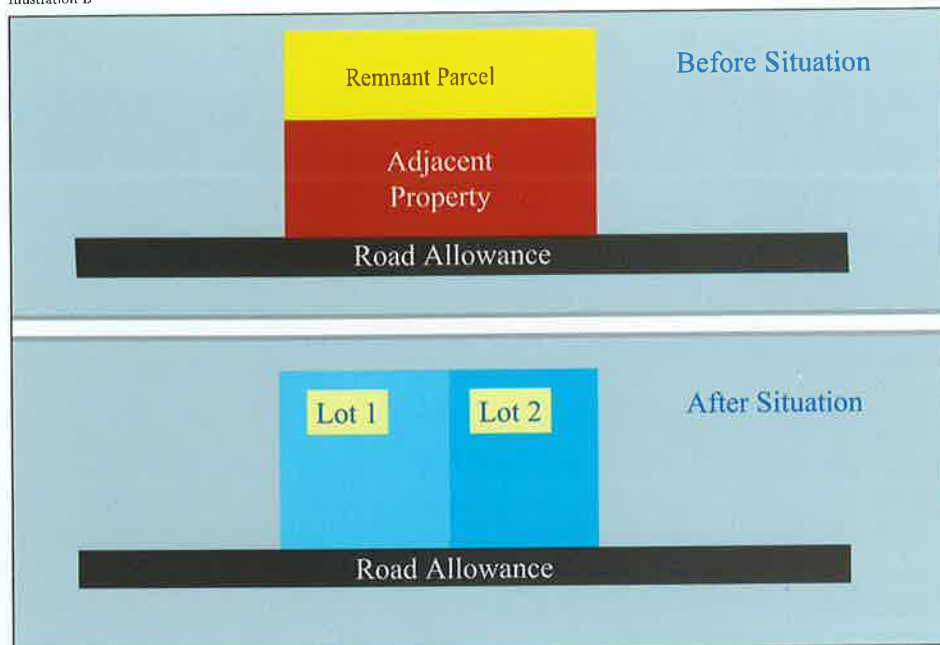
Typically, the appraiser is asked to arrive at market value⁴ when estimating value in contribution. This assumes typical market conditions i.e., buyer and seller are typically motivated. In this instance, there could be only one potential seller and purchaser and furthermore a market may not even exist. It is

recognized there are situations with more than one purchaser. For the purposes of this article, there is only one adjacent landowner as this is a common occurrence with remnant parcels. As a result, it boils down to how motivated the purchaser is to buy the remnant parcel. Conversely, how motivated is the seller to dispose of the parcel? What you really have in this instance, as pointed out in David Enns article "Property Markets & Monopoly Elements," is a bilateral market. "A bilateral market is a market structure that is far removed from a competitive market of many buyers and sellers. A bilateral market is a market structure that has only one seller and only one buyer."⁵

Based on the above premise, value in contribution represents a position for one party and should not be considered as market value. The next step is the negotiation game and the final price will depend on a number of things including the experience of the people negotiating the transaction and their motivation to reach a deal. I've seen ranges of 0 percent to 100 percent for the estimate of

value in contribution. Simply put, there have been instances where the authority has agreed to dispose of the remnant parcel for \$1 to avoid potential liability issues and generate tax revenue. On the other hand, there have been situations where the purchaser was motivated and the authority was able to obtain 100 percent of the value. As an example, if a remnant parcel is surrounded by commercial land, the contribution could be as high as a 100 percent on the basis of the utility that it provides for the new larger parcel. This can be illustrated as follows:

Illustration B



Adjacent Parcel - 10,000 sq.ft.
and is valued at \$ 10.00/sq.ft. = \$ 100,000

*Remnant Parcel - 1,000 sq.ft.
and is valued at \$ 10.00/sq.ft. = \$ 10,000

New Larger Parcel - = \$ 110,000
11,000 sq.ft. @ \$10/sq.ft.

*provides similar FSI and utility

In another situation, the remnant parcel might only be providing excess land to an adjacent residential parcel. Therefore the utility is a lot less desirable and might only add 10 percent to the value of the new larger parcel. It should also be mentioned that there are situations

where the remnant parcel when combined with the adjacent parcel creates plottage.⁶ An example of plottage is outlined in Illustration B, which demonstrates that the combined utility is proportionately greater than the sum of the individual parts. In this instance, with the addition of the remnant parcel to the adjacent parcel, it has created two viable lots. The adjacent parcel in the before situation was estimated to have a market value of \$75,000. However, with the addition of the remnant

parcel, the highest and best use has changed since the combination of both parts created two residential lots. In the after situation, based on the value of contribution, two lots have been created with an estimated value of \$135,000. The price has not doubled since an allowance must be considered for factors such as the cost for a new survey, planning requirements, timing issues, and other incidental costs related to creating two lots. With value in contribution, the appraiser must

Examples of remnant parcels sold based on value in contribution:

REMNANT PARCEL		NEW LARGER PARCEL	REMNANT PARCEL (Value in Contribution)	NEGOTIATED PRICE			
PIN # AND LAND AREA	USE	AREA	MARKET VALUE RATE (PER APPRAISAL) & PROPOSED USE	APPRAISED UNIT RATE	% OF APPRAISED LARGER PARCEL RATE	% OF APPRAISED LARGER PARCEL RATE	INSTRUMENT & SALE DATE
part of PIN 14525-1444 17,578 sq.ft.	Road Allowance	91.17 Ac	\$60,000/acre (\$1.37/sq. ft.) Future Residential	1.37/sq. ft.	100%	100%	OC67323 May 01/02
part of PIN 04093-0020 2,096 sq.ft.	Laneway	18,144 sq. ft. (C) 198,950 sq. ft. (I)	\$25-\$30/sq. ft. (C) & \$5.50-\$6/sq. ft. (I) Commercial & Institutional	\$12.50-\$15/sq. ft. \$2.75-\$3/sq. ft.	50%	50%	OC188803 April 16/03
new PIN 04029-0128 1,438 sq.ft.	Laneway	4,786 sq. ft.	\$18-\$20/sq. ft. Residential	\$4.50-\$5/sq. ft.	25%	18%	OC154481 Dec 20/02
closed road PIN 04545-0124 5,378 sq.ft.	Road Allowance	18,565 sq. ft.	\$8,000-\$10,000/lot (\$0.43-\$0.54/sq. ft.) Residential	\$0.21-\$0.27/sq. ft.	50%	50%	OC133011 Oct 23/02
part of closed road PIN 14525-2131 15,494 sq.ft.	Road Allowance	5.63 acres 245,055 sq. ft.	\$60,000-\$70,000/acre (\$1.37-\$1.61/sq. ft.) Residential Development	\$70,000/AC (\$1.61/sq. ft.)	100%	100%	OC196553 May 09/03
04522-0267 391 sq.ft.	Daylight Triangle	2,994 sq. ft.	\$12 - \$15 /sq. ft. Residential	\$12-\$15/sq. ft.	100%	100%	OC252107 Sep 29/03

*It is important to note that the above sale prices do not always reflect the appraised value. The sale price is based on the bilateral monopoly theory. In other words, the sale price will depend on the motivation of the parties.

Courtesy of the City of Ottawa