

# Eight Approaches to the Valuation of Temporary Easements

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In the 1980s, the Valuation Committee researched philosophies and ideas on the valuation of temporary easements in different parts of the United States. This article reviews most of these methods of reaching the cost of a temporary easement. There are many different methods and many different philosophies. To illustrate the various approaches, a fictitious request for a temporary easement has been used.

## FARMER BILL'S FARM

This farm is near a large city and is 40 acres in size. It is zoned M-1, industrial, as there is a large industrial plant for food processing adjacent and an industrial park adjacent to the large plant. Farmer Bill has been on this property for 45 years, and his family for 50 years before that. He farms garlic for use in pizzas, spaghetti and other Italian dishes. The Lotsawater Utility Company needs to put a water line project behind Farmer Bill's farm. The company needs to acquire access across the westerly portion of Bill's farm property to get to and from their project and to bring in their heavy equipment. To do this, they will need to acquire a two-acre strip from Farmer Bill's 40 acres. This two-acre strip will be needed for two years.

Joe Igetumdeeds, the top right-of-way agent in the area, will be doing the acquisition for the water com-

pany. First, Joe needs an appraisal so he can make an offer to Farmer Bill.

## FULL 100 PERCENT VALUE

This method would pay Farmer Bill the 100 percent fee simple value for his two acres. In other words, the water company would acquire this two-acre parcel and then either keep it as access into perpetuity or sell it back to Farmer Bill after the two years are over. Based on the market value of the area, this property is worth \$2.50 per square foot so Farmer Bill would receive \$217,800 (43,560 square feet x 2 x \$2.50) for his two acres based on this method of valuation.

## RATE OF RETURN OF LAND

This method is based on the market value of the property and what the property would bring as an investment. The value of the property based on the appraisal by the top appraiser in the land was \$2.50 per square foot. The rate of return based on the local savings and loans with 12 percent interest rate for a two year period would be \$52,272. This is arrived at by a market value of the property of \$217,800 at 12 percent for two years. This would be the rate of return on the land. Normal rent Farmer Bill has a farm just like Farmer Joe and Farmer

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Tom. However, Farmer Joe and Farmer Tom subrent their property to the local garlic manufacturing company for \$300 per acre per year. Based on this analysis, the two acres needed by the water company would be \$600 per year, or \$1,200 for the two years necessary. This is the amount Farmer Bill would receive if he were to rent the land as a garlic farm, which is the present use.



## CAPITALIZED RENT LOSS

The rental for the property at \$600 per year would be capitalized at the going rate for approximately two years. To do this, one would go to the tables and find out what he would receive now to pay him for the next two years. This figure is as follows: the \$600 would be multiplied by what \$1.00 payable yearly would be worth today to arrive at the capitalized rent loss for the two years. Farmer Bill would receive \$1,014 from the water company if they wanted to pay him the capitalized rent loss based on the rental of his property.

## PERCENTAGE OF FEE VALUE

Some companies in parts of the United States pay a percentage, anywhere from 10 to 15 percent, of fee value for temporary easements. Let's just say that the water company decides to pay 10 percent of fee value. We have already determined the fee value of the two acres is \$217,800 based on the highest and best use.

Therefore, if the water company were to use this method and pay 10 percent, they would pay Farmer Bill \$21,870 for the use of his property.

## LUMP SUM

Certain utilities pay a lump sum for temporary easements, usually on a per year basis. These lump sums range from \$250 to as high as \$5,000. For argument's sake, let's stay in the

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middle range and say that the lump sum payment that the water company derives is \$2,500 per year. Therefore, the water company will pay \$2,500 per year times two years, or \$5,000 for the temporary easement.

### No Payment

There are certain government amenities that have a philosophy that they are for the good of the people, and they do not feel it is necessary to pay for a temporary easement. Therefore, since the water company provides water to the area, Farmer Bill will receive some of this water someday and it should make his property appreciate. Thus, he will receive no money for the temporary easement.


### SPECIAL BENEFITS

Under some circumstances, the federal government and some agencies require the property owner to actually pay back an amount. Let's say Farmer Bill's property was going to now receive additional water from this water line, resulting in an increase in value to \$3.00 per square foot. Farmer Bill would be paying approximately \$40,000 to the agency for the new water project without receiving any remuneration for his property.

### RECAP

Based on the aforementioned methods, the following are figures Farmer Bill could receive:

1. Full 100 percent value—\$217,800
2. Rate of return on land—\$52,300
3. Normal rent—\$1,200
4. Capitalized rent loss—\$1,014
5. Percentage of fee value—\$21,870
6. Lump sum—\$5,708
7. No payment
8. Special benefits—(-\$40,000)

The author does not claim that any or all of these are the correct methods of valuing temporary easements. The purpose is to get people to think about methods that can be used for valuing temporary easements. There doesn't seem to be an exact method, and policies of different governmental agencies restrict the use of some of the methods described. However, this should cause discussion and we hope that it will be of help for those who face this problem. 



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