
Easement Valuation Along Highway Frontage

Valuation of the type of easement that essentially does not affect use or value

■ EDWARD A. COREY

This article deals with the valuation of the type of easement that essentially does not constitute a detriment to the property's value in itself, such as a narrow water and wastewater easement along the front property line. "Fair" compensation (market value) for the taking of this type of easement is directed more toward compensation for the use of the surface rights and, possibly, the inconvenience of business disruptions during utility installations and subsequent maintenance than toward the value of the easement itself. The computation of this compensation tends to be more a matter of accepted convention in any particular locality than the analysis of the situation. This article outlines an analytical method as the basis of compensation as a preferable alternative to accepted convention, which varies widely and haphazardly from area to area.

I investigated this problem by first sampling actual appraisal practice. Second, I sampled developer's opinions on the subject. Third, I researched the impact of easements on the actual land sales data in the area that I was working with at the time I wrote this article. And finally, I surveyed the site uses for the easement portion of the properties in the same area and analytically arrived at an estimate of compensation.

Edward A. Corey, MAI, SRPA, is President of Capital Foresight, Inc., a real estate appraisal firm located in Austin, Texas.

Appraisal Practice

I conducted an informal interview of appraisers regarding how they would go about performing the type of valuation problem noted above and what would be their general level of compensation or estimate of market value for it. I spoke with appraisers in six cities, and each city tended to have their accepted level of compensation for an easement of this type. The compensation amount varied an incredible amount, from 0% to 100% of the fee simple market value of the land contained within the easement (one end of the spectrum to the other). Five of the six cities ranged from 0% to 10% and averaged approximately 5%, a fairly tight range. The sixth city stood out at far above the others at a range of 25% to 100% and usually tended to be at the lower end of their respective range. This "Sixth City" was the reason for the wild results from the interviewing process. None of the appraisers in any of the cities questioned could explain how they arrived at their level of compensation, other than referring to accepted practice in the area.

The sixth city was looked at a little closer than the others. In this city, it was noted that for ROW taking appraisal work, as considered separate from Easement taking appraisal work, no adjustments were ever made to the part taken due to any easements that it contained. It should be emphasized here that if the easement has an effect on land value, then its effect on the part taken should usually be much larger than on the whole property, due to the

easement usually being a much larger proportion of the part taken as compared to the whole property. If no adjustments were made for the easement contained within the ROW taking, then the effect which these easements had on land value, in the opinion of these appraisers, was zero. This was, of course, a direct contradiction to the value recognized for the easement taking itself, for the same property, at the same point in time.

The results from this simple interviewing clearly indicated that accepted practice in any one area varied widely and haphazardly from the other areas and could not be relied on to give consistent results nor adequate explanation for the basis of those results. If the accepted convention from area to area agreed with each other fairly well, then there would be some validity to using it. Due to the amount of variability in its use, however, I feel that it cannot be relied on in this instance.

Developer's Opinion

In sampling developers' opinions, the results were unanimous, every one agreed that an easement of this sort would have no adverse effect on the land value, as long

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as the overall development potential of the site remained the same. They also agreed in saying that having a water and wastewater easement along the front of the site would probably add to the site's value, due to eliminating the potential costs of having to extend the utilities to the site.

It should be emphasized here that the opinions of the developers were unanimous and were expressed with certainty. Since developers are the prime buyers of commercial land along highways, this form of market data should weigh heavily in forming an opinion for an appraiser.

Land Sales Data

Land Sales activity in the area that I was analyzing were relatively slow and I chose the last five sales that occurred, which span

a period from 1985 to 1988. The results of these sales are indicated below:

- a. Closed 2/8/85; \$13.10/SF; 2.85 acres; 25' front yard setback; 7.5' side yard utility easement; 28% of area affected by setbacks or easements.
- b. Closed 5/1/85; \$12.45/SF; 1.08 acre; 10' front yard utility easement, 25' rear setback, 5' side yard utility easement; 16% of area affected by setbacks or easements.
- c. Closed 7/27/87; \$16.58/SF; 0.429 acre; 25' front yard setback; 17% of area affected setbacks or by easements.
- d. Closed 12/30/87; \$12.85/SF; 2.18 acres; a corner lot with 25' setbacks on both street frontages, 30' side yard drainage and utility easement; 27% of area affected setbacks or by easements.
- e. Contract Pending 1/88; \$14.50/SF; 0.554 acre; 25' front yard setback; 10' rear drainage easement; 20% of area affected by setbacks or easements.

As can be seen from the data, the market has been very flat with no applicable time

adjustments indicated. All the properties were similarly zoned and located, and all had easements present. It is doubtful if any property could be found in the area without some sort of easement present, so this condition is the norm for the market. Comparables a, b, and d were similar in size in price; however, their percentage affected by easements varied from 17% to 28%. The

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small amount that these comparables varied in price was in an inverse relationship with the proportion encumbered, showing that the presence of the easements did not have any particular bearing on their value. Comparables c and e were smaller sites and sold for more per square foot due to their

small size. Each had approximately the same proportion encumbered, but c sold for more because of its relationship with two large "anchor" retailers on each side of it. Again, no relationship of value and the easements were noted.

As can be seen from this data, underground easements of this sort are routinely run along the property lines because of their not usually affecting the use or value of the property. Based on these data, there appeared to be no relationship between value and the amount of area encumbered with this kind of easement.

Survey of Land Use And An Analytical Approach To Estimate The Level of Compensation For An Easement of This Type

After sampling the actual appraisal practice and developer's opinions in the area, and after researching the impact of easements on the actual land sales data in the area, the following analytical approach was developed to solve the issue of compensation for the taking of an easement of this sort.

To clarify exactly the type of easement being considered here, it was a proposed water and wastewater easement that consisted of a narrow strip, 15' in width, which ran parallel to, and abutted the highway ROW. The improvements that existed on the proposed easement were asphalt pavement and concrete curbing. The following conditions pertained to the easement:

1. The rights being conveyed in the easement were the rights for the construction, operation, and maintenance of the subsurface water and wastewater systems by the city, its successors, and its assigns.
2. The surface improvements contained over the easement area would be repaired at the expense of the city if and whenever they are damaged or destroyed by accessing the utilities contained within the easement.
3. The surface area over the easement can be used as an integral part of the site, except for the construction of a building.

A review of all properties along both sides of the highway revealed that not a single property had structural improvements within 15 feet of their front property line. This clearly demonstrated that there was

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