

Property management: an electric utility view

by R.J. Smith

It seems unavoidable that any corporation that is to be successful in property management must get into land development.

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Like most of you involved in real estate for the electric utilities, our primary interest has been land acquisition and right of way acquisition for as long as anyone can remember. We were kept busy acquiring land or land rights for power plants, substations, and transmission lines until the late 1970's. Over the past few years the demand for electricity has not been growing as rapidly as anticipated and the requirement for land has decreased. In fact in the Eastern U.S. the acquisition of land for utilities has decreased to almost nothing for many utilities. Figure 1 illustrates this point quite well. There has been a marked decrease in land acquisition at Baltimore Gas and Electric over the past ten years. For example, 31 parcels of land for right of way were acquired in 1975 and only 7 in 1983.

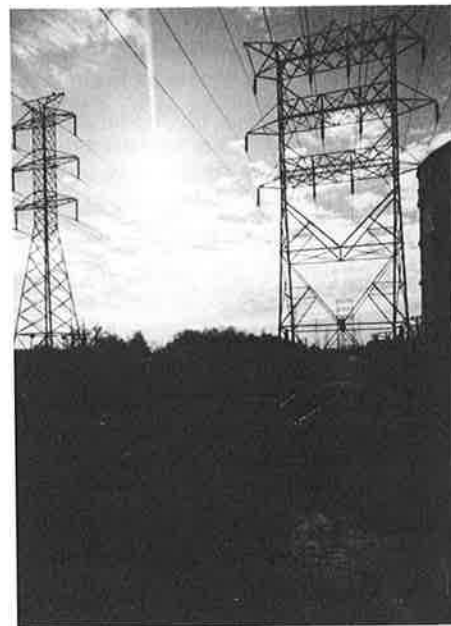
Figure 1. Acquisitions of Land

	<i>Land Acquisition</i>		<i>R/W Acquisitions</i>	
	<i>Parcels</i>	<i>Acres</i>	<i>Parcels</i>	<i>Acres</i>
1974	12	225.6		
1975	2	40	31	34.7
1976	—	—	31	34.7
1977	2	11	26	97.6
1978	2	41.5	97	217.3
1979	3	.24	56	151.6
1980	—	—	19	74.8
1981	7	305	17	75.2
1982	2	77	9	3.8
1983	1	.04	7	15.5
Totals	126	1611.6	299	746.8

Many other utilities are experiencing the same reduction in work load. The question is what is to be done with a real estate staff of highly trained professional people who have many years of experience when there is very little acquisition work to do?

Over a long period of time most electric utilities found they had accumulated large amounts of land for various uses such as:

1. Power plant sites
2. Water reservoirs
3. Transmission lines



4. Hydro-electric projects
5. Substation sites

Some of this land is fully utilized, but much of it is not. Transmission lines are a good example of this underutilization. The large structures are several hundred feet apart depending on the voltage in the lines, but the land between the structures is only required for a wire crossing. A note must be inserted here regarding transmission lines. Many of the large electric utilities in the East, particularly those operating in metropolitan areas, acquire transmission line right of way in fee simple rather than by easement. Easement acquisition is the traditional method of acquiring transmission line right of way, and is still used by many utilities. However those that made the decision to acquire all transmission line right of way in fee simple 10 or 15 years ago had a good reason. In densely populated metropolitan areas such as the Baltimore-Washington area it is often very difficult to acquire right of way for an electric transmission line. If the right of way is acquired in fee simple the utility has more flexibility in planning new facilities since the right of way is available for future use. Economics can also be a factor. If you go back to construct three lines on one right of way you probably

will pay about three times the fee simple value of the right of way and you will still only have an easement. Therefore, in metropolitan areas where right of way is quite often used for multiple facilities, it is advantageous to acquire it in fee simple.

Regardless of whether a utility acquired transmission line right of way by easement or fee simple ownership the utility in all probability has vast land holdings. As was the case with most corporations in the U.S. these land holdings were generally ignored over the years. If someone contacted the real estate department and requested to lease a piece of unused land the utility might have agreed to accommodate the request. It was also very unusual to sell any unused land. Almost everything was held for possible future use. Many of you reading this article, who are in utility real estate departments, will recognize the following scenario.

The utility has a ten acre parcel of land in a growing community on a major highway that was acquired about twenty years ago. The use for which the property was intended never materialized, but now it is in the untouchable category "held for future use." The property has very good potential for development. In fact, many developers have inquired about its availability. There is no specific plan for this property, but the Planning Department has stated that they might build a substation there some day. The Real Estate Department, realizing the potential of the property, has tried several times to convince the Planning Department that there are other sites that could be acquired for a substation in the future when it is required. However the standard reply always seems to be, "We must retain this property for future use. What does it matter anyhow? We are not in the real estate business."

Where do we stand today?

We have seen already that there are probably vast amounts of underutilized land held by utilities. To manage these land holdings requires highly trained, experienced people who are often already in the Real Estate Department Staff. Many utility Real Estate Departments have been long involved in most of the following activities, if not all of them.

1. Acquisition of property including the determination of requirements, locating sites, making or obtaining an appraisal, negotiating, and closing the purchase. The above are all included in acquiring properties in fee simple or acquiring easements. Property exchanges which are becoming more popular would also be included in this area, as would condemnation.
2. Disposal of property including determination of value by appraisal, advertising or some other method of getting information on the property to prospective purchasers, negotiating with prospective purchasers, and closing the sale. Contributions and gifts of property are also included.
3. Granting easements including obtaining approval from Operating Departments, determination of value, negotiation of consideration, and execution of deeds.
4. Management of land includes leasing land held for future use and underutilized land, leasing company owned houses, and protection against trespassing and encroachments. Licensing transmission line right of way would also be included in this category.
5. Leasing of office space primarily for the corporation's use. Coordination of space needs, space availability surveys, negotiating lease proposals, negotiating rentals and terms of the lease are the functions that are performed. It is possible that leasing company owned space could be included if there is any to lease.
6. Leasing warehouse space and miscellaneous property includes studies for the location of the facility, studies of lease versus purchase or build, availability surveys, negotiation of rental and terms of lease.
7. Assistance to relocated employees could include purchasing the home from a relocated employee by the company or coordinating the activities of a contractor to purchase the home. In either case the home is resold and the company pays all or a part of the transaction depending on the Company's Employee Relocation Policy.

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8. Review of tax assessments and determination of tax liability, and discussing increases in assessment with the tax assessor. Any Real Estate Department that is capable of performing all of the above functions has the capability of handling any real estate transaction regardless of its complexity. Most utilities have very competent people who can be depended on to handle matters of the utmost complexity and importance.

Where do we go from here?

Nothing has value unless it has use for someone, and land many times requires the expenditure of large amounts of cash before it can be made useful. A parcel of unimproved land that is zoned improperly has little value until the zoning is changed. For example a large parcel of land zoned for agricultural use may be valued at \$3,000 per acre in Maryland. If the zoning is changed to light manufacturing, that land can suddenly be valued at \$70,000 per acre. The act of rezoning has increased the value of the land \$63,000 per acre. The land has not changed, but the use of it has. Carrying our example farther, if roads are constructed and sewer and water installed, the value of the land may increase to \$100,000 per acre. The changes that have taken place have cost someone something, probably several hundred thousand dollars, but the expected return is very high; therefore the investment is worth making.

In addition a property may have an excellent location but may not be large enough or have sufficient road frontage