8 Approaches to the Valuation of Temporary Easements

Dwight Pattison, SR/WA

A concise summary of various ways to determine what should be paid for a temporary easement.

Dwight Pattison, a member of Ch. 29, is an Independent Fee Appraiser in Sacramento and Chairman of the Intl. Valuation Committee.

This article was a portion of a presentation made at the 32nd Annual IRWA International Educational Seminar in Winnipeg, June 1986.

The Valuation Committee researched in different parts of the United States, philosophies and ideas on the valuation of temporary easements. We would like to go over 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 necessary 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 2 acre strip from Farmer Bill's 40 acres. This 2 acre strip will be needed for 2 years.

Joe Igetumdeeds, the top right of way agent in the area, will be doing the acquisition for the water company. First, Joe needs an appraisal so he can make an offer to Farmer Bill.

Full 100% Value

This method would pay Farmer Bill the 100% fee simple value for his 2 acres. In other words, the water company would acquire this 2-acre parcel and then either keep it as access into perpetuity or sell it back to Farmer Bill after the 2 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 43,560 square feet x 2 x $2.50 = $217,800 for his 2 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% 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% for 2 years. This would be the rate of return on the land.

Normal Rent

Farmer Bill has a farm just like Farmer Joe and Farmer Tom. However, Farmer Joe and Farmer Tom sub-rent 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 yr. 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 1.69 (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%, of fee value for temporary easements. Let's just say that the water company decides to pay 10% 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%, 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 $5000. For argument's sake, let's stay in the middle and say that the lump sum payment that the water company derives is $2500 per year. Therefore, the water company will pay $2500 per year times 2 years or $5000 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 renumeration for his property.

Recapitulation

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

1. Full 100% 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)

We are not stating that any or all of these are the correct methods of valuing temporary easement. What we want to do is to get everyone to think a little bit about methods that can be used for valuing temporary easements. These 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.

IRWA Membership Contest Leaders:

Kenneth Gardner	Chapter 1
Richard Terpstra	Chapter 7
William Burns	Chapter 12
Dean Simcox	Chapter 12
Gary Monday	Chapter 13
Robert Seitz	Chapter 20
Jerry Cordell	Chapter 24
Carol Hagenau	Chapter 26
John Hardin	Chapter 27
Kay Stevens	Chapter 28
Darlene Davies	Chapter 29
Dortha Ford	Chapter 33
Pete Brown, III	Chapter 36
William Milton	Chapter 40
Betsy Tarrant	Chapter 45
Jennifer Letourneau	Chapter 62

Who will be vacationing in Hawaii??