Beginning With the End in Mind

The framework for the valuation analysis

BY KENNETH CANTRELL, MAI

Just like any appraisal, the beginning point is identifying the property to be appraised. However, when condemnation is involved, the parcel from which the taking will occur must be properly identified as the starting point.

Since the highest and best use sets the framework for the valuation analysis, the appraiser must first arrive at an opinion of the highest and best use of the property from which the taking will occur. This requires that the appraiser be able to read and understand clearly the right of way plans, cross-sections, drive profiles and any other applicable plans. Understanding the acquisition plans as they relate specifically to the property being appraised allows the appraiser to form an opinion of whether there may be an impact beyond the part acquired.

Determining What Changed

Several years ago I appraised a multi-parcel project in the Atlanta, Georgia area that included a vacant wooded tract with a low-density residential zoning. If I had appraised

the property as a low-density residential tract, the value would have been tragically missed. Here's why: the property had recently been approved for development with a townhome complex, and the new roadway would bisect the tract. On top of that, by the time we chose an effective valuation date, site development was well underway and more development was occurring each day.

The acquisition plans and the property identification are what lead you down the road of whether it's full or partial and then the kind of impact, particularly regarding highest and best use. For example, an initial review of the acquisition plans in the townhome example suggested a simple strip take. However, clear identification and understanding of the property from which the taking occurs—known as the larger parcel—resulted in more complex issues.

In this assignment, we had to consider what changed as a result of the acquisition. The approved development's access changed—from direct access from a lightly travelled secondary road—to access from the new road alignment, which caused even more physical issues due to grade changes. Also, since fewer lots could be developed, there was a significant value impact. The physical and legal changes resulted in a highest and best use that was different from the before situation, that being a smaller less marketable townhome development.

With the townhome development take, clear communication among our office, the condemning authority, the engineer and the property owner played an essential role in identifying the impact of the take. In that assignment, agreed upon appraisal deadlines had to be flexible due to the complexity of the issues at hand. In the end, the DOT has to write a substantial check to the developer, demonstrating the scope of the take and its impact.

> **"The physical and legal changes resulted in a highest and best use that was different from the before situation..."**

A Scientific Approach

The assumptions related to highest and best use are akin to a hypothesis. Essentially, you're following the scientific method where you need to test various components against each other.

Since the highest and best use lays the foundation for the valuation analysis, differing conclusions can result in dramatically different values. In the townhome example, the value difference between a vacant low-density tract and the value as an approved townhome development was significant.

In other instances, there could be a divergence of opinion in what could legally be developed on a vacant site with certain restrictions in place. The appraiser must understand restrictions and allowances of the parcel's current zoning, and whether any zoning conditions specific to the subject property exist.

For example, what if a zoning restriction applies to a commercial site being appraised that excludes fast food restaurants? The resulting value may be different than if this restriction did not exist. The future land use plan's impact on the property must be understood, and the probability of rezoning must be considered. These issues are typically ascertained through discussions with local planning and zoning officials.

Value differences can also result from other circumstances, but in the end, an appraiser is not an advocate. That responsibility is left to the attorneys.

In Summary

Some will say that a value is just an opinion. While that may be true, a value opinion isn't a number that an appraiser can pull out of thin air. Our opinions are based on specific market research into a specific property type, and the application of techniques, analytical tools and experienced professional judgment to arrive at that opinion of value. ✪

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