**Unit 9 Outline**

**Learning Objectives**

Study of this unit should enable the student to

* distinguish vacant land from a building site;
* list reasons why a separate site valuation may be necessary;
* explain the concept of highest and best use;
* explain the importance of zoning in land valuation;
* describe some of the environmental concerns that can affect land value; and
* identify and demonstrate methods of site valuation.

**Unit Outline**

I. Overview

II. Separate Site Valuations—when required

A. Cost Approach—cost of improvements new less depreciation on improvements plus site value equals property value

B. Assessments and Taxation

C. Condemnation Appraisals

D. Income Capitalization—building residual technique—method of capitalization using the net income remaining to the building after land value has been deducted

E. Highest and Best Use

1. Four tests

a. Physically possible—site's use may be limited by its size, shape, and topography

b. Legally permitted—zoning and other regulations, as well as private restrictions

c. Financially (or economically) feasible—financial return must justify the cost to develop

d. Maximally productive—physically possible, legally permitted and economically feasible use which will also produce the highest financial return and highest price for the property

2. Vacant (or as if vacant)—traditional approach to determining highest and best use is to analyze vacant land, or if land is improved, to study it as if vacant

3. As improved—use that should be made of an improved property in light of its improvements

4. Interim use—appraisal of property at a time when it is not yet at its expected highest and best use

## Exercise 9-1

III. Site Data

A. Identification—legally accurate description—plot plan showing site's property line dimensions and its location within a given block

B. Analysis—should include

1. Highest and best use study

2. Important features of site—including size and shape, location in block, utilities, improvements, soil composition, whether it is located in flood or earthquake fault zone

3. Determination of current zoning or imminent rezoning of surrounding properties in area

4. Determination of any easements or deed restrictions

IV. Environmental Concerns—appraiser needs to identify potential or actual environmental factors that are likely to impact property value—in some cases, an environmental site assessment (ESA) or environmental property assessment (EPRA) should be performed as part of the property inspection process

A. Inspect subject property and note suspicious conditions

B. Brownfields—abandoned or underutilized property that may or may not be contaminated

V. Methods of Site Valuation

A. Sales comparison method

1. Compares sales of comparable sites

2. Generally provides the most reliable indicator of market value

## Exercise 9-2

B. Allocation method

1. Utilizes site-to-building value ratios—for example, a neighborhood may tend to have a one-to-three land-to-building ratio—meaning that the building value is three times the land value

2. Formula—sales price minus all improvement costs (less depreciation) equals land value

3. Used only when there is a lack of current sales data for vacant sites similar to and competitive with the subject site

**Exercise 9-3**

C. Abstraction (extraction) method—similar to allocation method—improvement costs less depreciation are deducted from the sales price and the amount remaining is attributed to land value (see Figure 9.1)

D. Subdivision development method (also called land development method)—costs of development compared to projected sales income

## Exercise 9-4

E. Ground rent capitalization—analysis of income expectation for land alone

## Summary

## Review Questions