



nerelj

It's just land but also a challenging appraisal

August 12, 2010 - Appraisal & Consulting

I have long contended that the appraisal of land is the single most challenging appraisal assignment, not to mention often being the least profitable. While there are instances where the subject land may be a typical industrial or commercial parcel in an active market with recent comparable sales data, this is the exception. As much of eastern Massachusetts is built up, vacant land makes up a small percentage of transactions even in a balanced market. Data sources often produce only leads as the verification process can be lengthy.

Value expectations are sometimes unfounded. When pharmacy site demand is fulfilled in a market area, how many other parcel owners expect a value at a similar unit price? When a tract of 30 acres is acquired through public open space funding at a price supported by its highest and best use, owners of parcels of similar size yet dissimilar highest use sometimes expect an appraisal that will achieve an equivalent unit price for "open space".

A wide disparity in value opinions can result from different uses. In a prior down market cycle, I recall a suburban office site that was the subject a Boston Globe article regarding the owner's inability to sell it at any kind of a reasonable value for its already permitted office use. This concern was followed by a pundit's expression that the site was worthless. Shortly thereafter, a warehouse retailer acquired the parcel at a price that was superior to land unit prices when office sites were in demand.

Ultimately, most difficulties in appraising land stem from support of highest and best use. Putting aside extraordinary assumptions that may have been requested or that were simply found convenient and thereby inserted by the appraiser, there exist enough valid reasons for differing estimates. So, it is a credit to appraiser education that similar results often occur among competent appraisers. At this point I am compelled to mention the Appraisal Institute's Market Analysis and Highest & Best Use course as one the best educational experiences available.

Once again, highest and best use analysis remains the key to success. The process requires market research into demand for the end use, infrastructure and building costs, completed property unit values and multiple valuations for the feasible and competing alternatives.

Today, land use controls have become so complex that analysis of a parcel or tract's feasible alternatives requires more time than ever. The easiest part occurs when the highest use is supported and the valuation can be presented. Overall, those of us that enjoy the appraisal of land feel a particular satisfaction in producing a well-supported appraisal of this property type.

It is therefore worthy of note that Massachusetts land planners have backed a bill known as The Comprehensive Land Use Reform and Partnerships Act. If enacted, this bill will be the largest overhaul of state land use regulations in decades and it should be a concern to anyone owning vacant land. In particular, my interpretation of the bill is that the "Approval Not Required" lot that was never intended to be discretionary may become so. If adopted, ANR lots will become "minor

subdivisions" subject to added control by planners. Site Plan Approval, a creation of local government rather than statute, will also enter the Zoning Act as a process applied to uses allowed by right.

It appears that a lack of full control must have been a problem for those whose professional purpose is control. Yet to be fair, the bill may make consistent the myriad of differing municipal requirements concerning such items as road width and consistency with a master plan.

Suffice to say, this is complex legislation that gives and takes. The "unintended consequences" are potentially substantial and I hope that they get it right. If passed, appraisers will need to educate themselves regarding its impact on highest and best use. Otherwise how will they respond regarding a fee when clients ask, "why so much, it's just land?"

William LaChance, MAI, SRA, is the 2010 president of the Mass. chapter of the Appraisal Institute and partner at Petersen/LaChance Realty Advisors, Danvers, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540