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Estimating assemblage value to help buyers and sellers

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Why would an abutting property owner (or a neighboring property owner) be willing to pay more than current market value to purchase an abutting property? Why would an investor pay above market value to assemble property for a specific use? Why would someone pay a premium for a specific property right (i.e. driveway easement, parking easement, etc.)? The answers are in the simple economic theories of supply and demand.

The buyer wants a specific finite product creating demand. The seller holds the only commodity that will work for the buyer creating the supply. In an active market with steady demand and supply, the two reconcile an exchange of the product in the form of a price, hence creating the current market value of that product. However, if the seller is not willing to sell, the point of equilibrium of the exchange has to shift in order to reach a point where both parties can make a satisfying exchange. For an abutting / assembling property owner, this often means a premium has to be paid to entice the seller to make the exchange.

As part of a comparison analysis, appraisers routinely have to confirm sales in order to determine the motivations of both buyer and seller. This is because the scope of work for the appraisal assignment is typically to estimate current "market value." Though there are varying definitions of market value, all tend to be based on five principles: 1) both parties are well informed and acting in what they consider their own best interests, 2) the property is openly exposed to the market for a reasonable period of time, 3) the medium of exchange is in cash, 4) the price reflects that paid for similar property in the market unaffected by any special deals, creative financing, sale concessions, etc. and finally, 5) both the buyer and seller are typically motivated. When the buyer is highly motivated to generate a return by the assemblage, yet the seller is not motivated to sell, a premium is almost always involved in the conveyance. For motivated sales, the appraiser is taxed to extract that premium in order to equate the market price paid to make a comparison.

In confirming a sale, the appraiser has several tools to determine the premium paid. Usually, the buyer and seller are aware of the premium because the price is negotiated above an appraised value. When this information is disclosed, the process of adjusting the sale price to reflect the market price is simple. When an appraisal is not conducted prior to the sale, parties involved often disclose a percentage amount they were willing to pay, or accept, over what they felt was the market value of the property. Sometimes the premium is not disclosed; thus, the appraiser is left trying to estimate it. Typically, there is an adequate amount of comparable sale data to exclude the motivated sale from the considered data set or extract the premium paid by a comparison analysis.

On the other hand, what if the scope of work requires the appraiser to estimate a premium a buyer should pay for a property? The answer is almost always specific to the parties involved, but is based on the economic factor of "opportunity cost." A buyer is willing to pay a premium until the point where assembly is no longer feasible. The appraisal industry, and the courts, has struggled labeling this premium over the years. Historically, the industry has identified this premium as "plottage value," however, more recently it is referenced as "assemblage value."

The Dictionary of Real Estate Appraisal, the most widely used appraisal dictionary in the industry, does not define "assemblage value," but it does define plottage and assemblage as follows:

Plottage: The increment of value created when two or more sites are combined to produce greater utility.

Assemblage: 1) The combining of two or more parcels, usually, but not necessary contiguous, into one ownership or use; the process that creates plottage value 2) The combining of separate properties into units, set, or groups, i.e. integration or combination under unified ownership.

The Connecticut case of City of Norwich v. Styx Investors in Norwich, LLC et al, known as the "Assemblage Doctrine," provides a basis for defining "assemblage value." In this case, the city of Norwich, by eminent domain, took a 1,600 s/f parcel of land adjacent to the Wauregan Hotel, where President Lincoln once gave a stump speech. The land was required to support an elevator shaft in order to maintain the historical integrity of the hotel. This was necessary to attain historical tax credits that could be sold.

The court awarded the market value of the fee simple interest in the amount of $20,000 to the property owner. The court gave no consideration to the assemblage in the decision. The case was appealed and the Appellate Court reversed the decision. The premium could be quantified in this case, as plans were already filed with the Norwich Planning and Zoning Commission. These detailed ground floor retail space, and two apartments, in addition to the elevator shaft on the 1,600 s/f parcel. Consequently, market rents could be estimated, along with the cost to construct, allowing a "land residual analysis" to be completed. This analysis concluded the residual value of the land for this particular project of approximately $95,000.

The premium the buyer would be willing to pay would be between the $20,000 market value of the fee simple interest, but less than $95,000. Anything over $95,000 would not be feasible for the buyer, unless there were other undisclosed financial incentives (the case was settled before that information was made public). The parties agreed to an undisclosed amount instead of retrying the case. This example is one where there was enough facts provided to allow the appraiser to estimate the premium when the buyer was not willing to share all of the information used to make their investment decision(s). When the buyer is willing to share this information, analyzing the premium is simply a matter of estimating the buyer's opportunity cost.

Sometimes the "assemblage value" is not enough to entice a seller to depart with their property or property rights. One notorious example of this was the "Chicken-man" case in Downtown Hartford. In 1969, Travelers Insurance Co. offered the owner of the Connecticut Live Poultry Market on Grove Street and Columbus Boulevard a sum of $110,000 for his small retail facility. This was considered a very high price for the time period, reflecting the premium the buyer was willing to pay above the fee simple market value of the property.

The owner, Dominic LaTorre, who became nationally known as the "Chicken-man," refused to sell out on the grounds that he was essentially "standing up for the little guy." Travelers Insurance Company ended up redesigning their class A office building around the small retail store (Hartford Courant, July 7, 1993).

Professional Real Estate Appraisers are experienced in a wide range of appraisal methodology. This experience can be used to estimate assemblage value or analyze a premium paid by a motivated party in order to properly adjust a comparable sale. Even in situations where not all of the information may be available to quantify the exact premium range, an experienced appraiser has the means to estimate an assemblage value. This data can be very useful in helping buyers and sellers make competent business decisions.

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