Appraisal of a property with excess land can be challenging - by Steven Spangle

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The appraisal of a property with excess land can be challenging. Excess land is land that is not needed to serve or support the existing use. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land has the potential to be sold separately.

The broad principles used in the identification and valuation of excess land are similar for either residential or commercial properties.

The zoning requirements as well as the expectations of the market are researched in determining excess land. The next issue is research into market demand for a buildable parcel. If a parcel can legally be separated the issue of value is then addressed. It is not simply an issue of determining it can be separated and thus there is value. Excess land that has no one market demand may have an interim use as surplus land until a demand exists.

For example: A commercial property is located on a one acre site. Zoning is only requiring ½ acre as long as the parking conforms to zoning requirements for the building size and use. The subject improvement as well as the required parking space are located on half the site. The remaining half is not developed. The commercial area is growing rapidly and there is high demand for building sites. The excess land could be valued as a separate parcel.

Assuming there is market demand the appraiser must determine the potential impact separating the excess parcel may have on the value of the existing property. If separating the parcels would reduce needed parking, or remove a required curb cut proving secondary access it may not be financially feasible to separate the parcels. In this case separation would not be feasible and for the time being the excess land would be treated as surplus land.

If this is to be an “as is” appraisal the excess contribution to the entire parcel is valued. If there are sales of improved parcels with excess land, matched pairs can be used to demonstrate the contribution of the excess land and what someone would pay for the entire “as is” parcel. If improved, sales with excess land are not readily available the sales of parcels similar to the excess land can be used. These sales are stand-alone parcels and reflect the value of an already separated parcel. The appraiser must consider the costs associated with the separation and sale of the excess land. These costs would include the fees required to separate the parcels, sales expenses and profit.

Depending on the length of the marketing time the value may need to be discounted from some future time back to the effective date of value. In this situation all holding costs such as taxes and insurance would be deducted.

This value should then be representative of the contribution of the excess land to the entire “as is” parcel.

The client’s scope of work could include the development of the “as separated” value of the excess land or the individual values of each parcel after separation. If comparable sales of properties similar to the excess land are used and no expenses are deducted the value of the subject site or sites would be a hypothetical value since it does not exist as of the effective date of value.

The appraisal of excess land is not as simple as saying that the value of the excess land is a specific amount. There are a number of steps, including the needs and expectation of the client, that must be satisfied before developing a supported value.

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