

## **EXAMPLE #1 - SFR ON OVERSIZED RESIDENTIAL LOT**

**Background Data:** The displacement property is an SFR situated on land that exceeds the size of the typical dwelling site. The displacement property lot contains 12,000 SF, whereas a typical dwelling site has only 8,000 SF. The highest and best use of the land is for continued use as a single-family residence. This is a total acquisition.

**Task:** To prepare a Replacement Housing Valuation (RHV) Report on the displacement property in a manner that is both equitable and fair to the State and the displaced person. To do so, we need to segregate the “contributory value” of the “surplus land area” from the total displacement property valuation as set forth in the FMV appraisal.

When preparing the RAP valuation, if you suspect the displacement dwelling is located on an oversized lot, and there are no available improved comparable replacement properties on similar sized lots, proceed as follows:

First, determine the size of a typical dwelling site for the neighborhood (or project area) and confirm that you do in fact have an oversized lot. This is a judgment call, and you may want to consult with the local planning department or assessor’s office for guidance. When you do have an oversized lot, think of the additional area as the surplus land area.

Second, determine the value of the typical dwelling site by any approved appraisal method. Subtract the value of the typical dwelling site from the total site valuation placed on the displacement property in the FMV appraisal. The difference is the contributory value of the surplus land area and should be deducted from the acquisition cost of the displacement property like any other major exterior attribute in the basic computation of the price differential entitlement.

In valuing the typical dwelling site, you should proceed as follows:

- Step 1,** determine if there are any available improved comparable replacement properties that have 12,000 SF lots. If so, these comparables may be used in the RHV. If none are available, go to
  - Step 2,** attempt to locate bare land sales (or listings) of typical dwelling sites. If none, go to
  - Step 3,** look for sales of improved properties where the sales occurred within a short time of each other, the improvements are nearly identical, and the only major difference between the two is that one lot is larger than the other. With all other things being nearly equal, a higher selling price of one could be attributed to the surplus land area. A difference in sales prices between the two properties would represent the contributory value of the surplus land area. If no such property sales have taken place, go to
-

**EXAMPLE #1 - SFR ON OVERSIZED RESIDENTIAL LOT (Continued)**

**Step 4,** estimate the value of the typical dwelling site based on the best available data. You might consider the opinion of the FMV appraiser, other fee appraisers in the area, real estate brokers, etc. Document your source of data. If no such data is available, the only other alternative is

**Step 5,** estimate the contributory value of the surplus land area itself based on the best available data. The question is how much extra would a homebuyer pay for the additional land area. This, too, is a judgment call and the opinions of fee appraisers and brokers who are familiar with the area are probably the best source of information.

**FOR EXAMPLE:**

Displacement lot	12,000 SF	
Typical dwelling site	8,000 SF	
Surplus	4,000 SF	
Contributory value		\$8,000
Displacement property, total FMV appraisal		\$240,000
Contributory value		<u>- \$8,000</u>
Adjusted RHV for acquisition price		\$232,000

Special valuation procedures for an “undersized lot” normally would not be necessary because there is no major exterior attribute.

---

**EXAMPLE #2 - DWELLING ON LAND WITH HIGHER AND BETTER USE - Full or Part Take**

The displacement value applied to the residential part of an acquired property with a highest and best use other than residential shall be determined as follows:

**A. Carve-Out Method:**

1. Determine the land area occupied by the residential use.
2. Apply the nonresidential land value from the FMV appraisal (the amount actually paid) to the land area occupied by the residential use.
3. Add the contributory value of the residential improvements from the FMV.

The total of Steps 2 and 3 is the residential displacement value based on the carve-out method.

**B. Calculate Price Differential:**

Subtract the displacement value from the cost of the comparable replacement dwelling to arrive at the price differential.

**FOR EXAMPLE (Full Take):**

The displacement is a larger, commercially zoned property that includes a single-family residence. Fair Market Value of entire property is \$281,000 as follows:

Land - 20,000 SF of commercially zoned land @ \$14/SF (commercial value)	\$280,000
Improvements - Single family residence and appurtenances (interim value)	<u>\$1,000</u>
Total Acquisition Price	\$281,000

Land area attributed to residential use - 10,000 SF, the same size as a typical dwelling site.

Value of improvements if located on a typical dwelling site - \$85,000

---

**EXAMPLE #2 - DWELLING ON LAND WITH HIGHER AND BETTER USE - Full or Part Take  
(Continued)**

**Carve-Out Method:**

Acquisition price of land (10,000 SF* @ \$14/SF commercial value)	\$140,000
Add acquisition price of SFR and appurtenances	<u>\$1,000</u>
Residential displacement value based on "carve-out" method	\$141,000

(\* If the area attributable to residential use were 8,000 SF, that area would be used since it is less than the typical dwelling site. However, if the area attributable to residential use were 12,000 SF, then the typical dwelling site of 10,000 SF would be used.)

**Calculate the Price Differential:** Residential displacement value based on the "carve-out method" is used to calculate price differential.

Most comparable replacement dwelling	\$150,000
Less residential displacement value based on "carve-out method"	<u>- \$141,000</u>
Price differential	\$9,000

**FOR EXAMPLE (Part Take):**

The displacement is a larger, commercially zoned property that includes a single-family residence. In this example, the area of the displacement property attributed to residential use is 10,000 SF, the same size as a typical dwelling site. However, only 5,000 SF of land is being acquired along with the residence.

Land - 5,000 SF (of the 20,000 SF) commercially zoned land @ \$14/SF (commercial value)	\$70,000
Improvements - Single family residence and appurtenances (interim value)	<u>\$1,000</u>
Total Acquisition Price	\$71,000

Land area attributed to residential use - 10,000 SF, the same size as a typical dwelling site.

Value of improvements if located on a typical dwelling site - \$85,000

---

**EXAMPLE #2 - DWELLING ON LAND WITH HIGHER AND BETTER USE - Full or Part Take  
(Continued)**

**Carve-Out Method:**

Acquisition price of land (5,000 SF* @ \$14/SF commercial value)	\$70,000
Acquisition price of SFR and appurtenances (interim value) of	<u>\$1,000</u>
Residential displacement value based on "carve-out" method	\$71,000

(\* Area attributable to residential use up to, but not exceeding, a typical dwelling site.)

**Calculate the Price Differential:** Residential displacement value based on the "carve-out method" is used to calculate price differential.

Cost of comparable replacement dwelling	\$150,000
Less residential displacement value based on carve-out method	<u>-\$71,000</u>
Price differential	\$79,000

---

**EXAMPLE #3 - DWELLING ON MIXED LAND USE**

A dwelling unit may be located on or within a commercial or industrial building. When the housing unit is separate and apart from the commercial or industrial building, it is valued in the same manner as shown in Example #2. Frequently, the dwelling is integrated within the business or industrial improvement. Examples are an owner's or operator's upstairs apartment or a backroom dwelling area.

For consistency, the land value for determining the dwelling displacement value must be the land area actually occupied by the dwelling, or a prorated share of the land value when there is a vertical, dual use of the land, such as an upstairs or basement dwelling unit, or a loft living area.

**FOR EXAMPLE:**

Assume the displacement property is a grocery store with a second floor apartment.

Land value of entire property 5,000 SF @ \$15/SF	\$75,000
Ground Floor - Store (Improvements) 4,000 SF @ \$20/SF	\$80,000
2nd Floor - Apartment (Improvements) 1,000 SF @ \$18/SF	<u>\$18,000</u>
Total value of land and improvements	\$173,000

This displacement value is the value of the dwelling improvement plus the prorated value (50% of \$15/SF) of the land encumbered by the dwelling unit.

2nd Floor - Improvements 1,000 SF @ \$18/SF	\$18,000
Land value (area encumbered by dwelling 1,000 SF @ \$7.50/SF)	<u>\$7,500*</u>
Total Displacement Value	\$25,500

(\*The unit land value for the improvements is at one-half the total unit land value.)  
If the 1,000 square feet of land that is not encumbered by improvements is reasonably appurtenant to the living area and/or designated as a residential use, then an additional calculation is required.

Unencumbered land that is jointly used - 500 SF @ \$7.50/SF	\$3,750
Unencumbered land that is strictly for the residential use - 250 SF @ \$15/SF	<u>\$3,750</u>
	\$7,500
	Added to \$25,500

(Remaining unencumbered land is strictly for the business use)

## REPLACEMENT HOUSING VALUATIONS (Cont.)

### EXAMPLE #3 - DWELLING ON MIXED LAND USE (Continued)

The business displacement is valued as  $\$173,000 - \$33,000 = \$140,000$ . Verified as follows:

Improvements (Ground Floor - Store)	\$80,000
Land Encumbered 3,000 SF @ \$15/SF	\$45,000
Land Encumbered 1,000 SF @ \$7.50/SF	\$7,500
Land not encumbered (jointly used) 500 SF @ \$7.50/SF	\$3,750
Land not encumbered (business only) 250 SF @ \$15/SF	\$3,750