
CHAPTER 2. MARKET VALUE OF LAND

2-1. MARKET VALUE OF LAND FULLY IMPROVED. Additional discussion and instructions relative to land valuation can be found under Form FHA 2264, Section J in Reference 2 of the Foreword.

- a. Principle of Substitution. All estimates of value by market comparison make use of the Substitution Principle. The site is compared with other sites which have recently sold or are offered for sale, which offer similar elements of utility and desirability for the type and size of the proposed development. Those prices and the site in question are then brought into proper relationship by making adjustments to compensate for important differences. In determining comparability the sole basis for determining whether a comparable sale will be utilized is the determination of physical and locational similarities and dissimilarities. The race, color, religion, sex, or national origin of the residents of the area have no bearing upon the estimate of value and shall not be considered or mentioned on the appraisal report. *

- (1) It is not essential that the sites chosen for comparison be in the immediate vicinity of the site being appraised, but it is necessary that they be competitive thereto and that they be deemed to offer:
- (a) Adequate size to meet generally the requirements of the proposed project.
 - (b) Comparable appeal to tenants of the household type and rent paying capacity contemplated for occupancy of the proposed project.
 - (c) Sufficient other similar attributes of utility and desirability to make the comparison reasonable and true.
- (2) Significant differences between each comparable and the subject site are noted and adjustments are made by percentages which indicate the degree of superiority or inferiority the subject has in relation to that comparable sale. After such adjustments are made, each comparable sales will provide an indicated price for the subject site. The range of these prices indicated by the several comparables establishes the upper and lower limits within which the estimated market price of

* site will be found. Care should be taken however, in the analysis of this range, to avoid picking an unwarranted figure as the estimated land value. The estimate of Fair Market Value of Land within the meaning contemplated by HUD, shall be based upon the proposed use of the site. This limit is imposed in recognition of the fact that the construction of a project upon the land will tend to fix the value of the land for the economic life of the project whether or not the site might have produced greater returns in combination with another type of structure. Valuation for multifamily use must always take into consideration zoning, and deed restrictions imposed upon the property.

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- b. Fully Improved Condition. During location analysis, any requirements to make the site suitable for use or eligible for HUD insurance are noted and are made assumptions in the estimate of value of land fully improved and are made mandatory conditions of the commitment for insurance.
- (1) The appraiser will assume that the subject site will require no unusual site costs or that conditions leading to such costs have been corrected.
 - (2) Unusual site conditions that are expected to increase foundation and site cost will be treated as though the conditions had been corrected. Unusual site conditions that will result in reduced site utilization rather than increase the cost to cure the conditions will be reflected in the Land Value Fully Improved. The appraiser will assume that all off-site improvements have been completed and any required demolition has been accomplished.

2-2. WARRANTED PRICE OF LAND FULLY IMPROVED.

a. Unusual Land Improvements.

- (1) In many localities the need for extensive cut and fill in the development of a site would be an unusual occurrence. In such a case the value of the site fully improved would be based upon the assumption that the cut and fill work had already been done. The appraiser

would then consult with the Cost Analyst to determine which conditions are to be considered unusual land improvements. The Cost Analyst will supply the appraiser with not only the estimated cost of such improvements (Line 36a on the Form FHA 2264), but also with the prorated amount applicable to these improvements based on the percentages of general requirements and other fees used by the Cost Analyst in his portion of Section G of the Form FHA 2264a. If BSPRA is applicable to the case being processed, the appraiser will calculate the amount based on the sum of the unusual land improvements and the prorated fees supplied by the Cost Analyst.

(2) In other localities all competitive sites require similar site preparation because of locally prevalent conditions. An example would be soil composition requiring extensive footings to bedrock for certain types of structures. Where such a condition is common to all competitive sites, it will not be treated as unusual site preparation within the meaning of this paragraph since it is not a deficiency peculiar to the subject site alone.

* b. Warranted Price of Land. The Value of Site Fully Improved less the sum of the unusual land improvements, fees applicable to such improvements as supplied by the Cost Analyst and, if applicable, the 10% BSPRA based on these items will equal the Warranted Price of Land Fully Improved. This figure, the Warranted Price of Land Fully Improved is used in estimating the Total Replacement Cost of the project. The replacement cost estimate must not contain separate entries for net demolition or for off-site improvements. *

2-3. "AS IS" VALUE OF LAND.

* a. "As is" Value of Land by Direct Comparison with Similar Sites. Unlike the Fair Market Value of Land Fully Improved, the Value of Site "As Is" does not reflect proposed or mandatory improvements, either off-site or on-site. Comparisons are made of sales and offers to buy or sell sites similar to the subject site in its "as is" condition as of the date of the appraisal. However, this value estimate will reflect consideration of any streets and utilities, on-site or off-site, which are present at the time of the appraisal. The value will also reflect any superiorities or deficiencies in the subject site as compared to competitive sites, such as the necessity for unusual site preparation (piling, rock out-cropping, etc.) which will require expenditures and influence

downward the "as is" value of the subject site.

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- (1) Comparisons and the resulting value and market price estimates are made on the basis of the proposed use.
- (2) Where the total cost to the sponsor is less than the "as is" value, full documentation to explain the reasons for the difference must be contained in Section J of FHA Form 2264.

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- (2-3) b. Net Demolition and Off-Site Costs. When comparable sales are available for competing sites in a fully improved condition (that is with all off-site utilities installed and no existing buildings on-site), and when other comparable sales are available for competing sites "as is" (without off-site utilities installed, and/or without buildings having been removed), two market values will be estimated by comparison: (1) Fair Market Value of Land Fully Improved, and (2) Value of Site "As Is" by comparison. The difference between these two values, as estimated for the same subject site, is that the Fair Market Value of Land Fully Improved represents the market price after any required demolition has been accomplished and paid for; after any required off-site construction has been completed and paid for and assumes the absence of any unusual land improvements; whereas, the Value of the Site "As is" by comparison represents the estimated market price of the site before any required demolition or off-site construction (for utilities, etc.) has been accomplished. The "as is" value of the site will also reflect the presence of any unusual site condition that may exist. Since these two price estimates are arrived at by independent analysis of different sets of data, it is possible that the difference between them will be greater than the estimated cost of these three items. However, in most cases the difference between these two market estimates will be approximately the same as the expected cost of off-site improvements plus net demolition and unusual site cost.
- (1) When there are no off-site costs, demolition or unusual site work to be performed, only one estimate is required.
 - (2) When comparables are available on an "as is" basis only, the Value of Site "As Is" by Comparison should be estimated by market comparison, and the cost of net demolition and required off-site construction added to arrive at the Warranted Price of Land Fully Improved. By adding the cost of unusual site preparation, if any,

an estimate of the Value of Land Fully Improved is developed.

- c. "As Is" Value by Subtraction. When comparables are available only on a fully improved basis, the Value of Site Fully Improved should be estimated by market comparison, and the cost of unusual site preparation, net demolition and off-site improvements subtracted to arrive at the Estimate of "As Is" Value by Subtraction From improved Value.

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2-4. SITES SOLD BY A PUBLIC BODY.

- a. Fair Market Value of Land Fully Improved. Where sites are sold by a public body to the developer for a specific re-use purpose, the Fair Market Value of Land Fully Improved is the lesser of:
 - (1) The amount found by comparison with other sites having the improvements and amenities that the subject site will have upon completion.
 - (2) The dollar amount paid by the purchaser as set forth under the terms of the purchase contract with the public body, plus an estimate of those costs, if any, additionally imposed under its terms or by HUD-FHA.

Costs referred to here are those to be borne by the purchaser because of terms of the purchase contract, e.g., real estate taxes and special assessments accruing from date of purchase to date of commitment, legal fees incident to the land purchase, re-zoning costs, installation of certain designated off-site improvements, interest on investment in site from date of purchase to date of appraisal, razing structures and clearance of the site (after allowance for any income to the purchaser). This is not a complete list of items covered but these will be a guide to such costs required by the purchase contract.

- b. "As Is" Value of Land. The Assistant Secretary FHA Commissioner's Estimated Value of Land "As Is" for Cost Certification may include all of the items in paragraph 2-4.a.(2) above except two: installation of off-site improvements and cost of razing structures and clearing the site (less income received). The reason for this is to avoid duplication of costs that might be reflected in the Estimated Value of Land "As Is" and also allowed the sponsor as separate items in Cost Certification which includes both off-site costs and demolition. The dollar amount of the land purchase contract plus a breakdown of

the estimate of additional costs, must be fully itemized and documented.

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- 2-5. ON-SITE ROADS TO BE DEDICATED. Where a property involves required on-site road construction that will be dedicated to a public authority on or after the time of final endorsement, the improvements will be treated as on-site for the purpose of the land appraisal and replacement cost estimate. The appraiser must consider the following factors:
- a. Cost. Because the street will be an on-site cost item at the time that the construction loan is in effect, the land value will not include the street improvements. The entire cost of the street will be included in replacement cost in Line 36c, Section G of FHA Form 2264.
 - b. Site Area. No reduction in site area will be made for the right-of-way which will be dedicated to the public authority at a later date. Consideration will, however, be given to any situation which results in a reduction in the number of units that will be built on the site, because the street will be built to public street design rather than private road criteria.
 - c. Excess Cost. The normal cost of developing an on-site street is included in "Other Land Improvements" in Line 36b, Section G of FHA Form 2264. The appraiser will work with the cost processor to determine if there will be any cost which will be in excess of the normal cost which would be required to develop the site if no public street were involved. Where the requirements of the public authority are such that the public road will be more expensive than a private street, the appraiser must determine whether the added cost is warranted in terms of greater benefits to the project.
 - (1) Examples of greater benefits that could warrant added cost are additional street parking because of increased street width, public maintenance of the street, and the probability of a better market exposure of a public through street.
 - (2) When it is determined that there are excess costs which are not warranted by increased site utility, the unsupported cost will be treated in the same manner as unusual site cost and is entered in Line 36a, Section G and Line 14(2), Section J of FHA Form 2264. Although this excess cost is not an unusual site cost inherent in the physical characteristics of the site, it is an actual cost that should not be added to the value of the site fully improved in computing the estimated replacement cost of the project.

