

ASPECTS REGARDING THE BEST USE OF LAND IN EXPROPRIATED REAL ESTATE VALUATION

Voichița Angela ROIB, PhD. Eng. Lecturer –Technical University of Cluj-Napoca, Faculty of Civil Engineering, Voichita.ROIB@ggi.utcluj.

Abstract: *The paper presents aspects regarding the best and highest use concept of land and the particularities of expropriated land appraisal, the determining the land market value taking into account the physical characteristics (topography, dimensions), the use permitted by law and the use of the most feasible and maximum productive of the land.*

Keywords: *use of land, expropriated land, market value.*

1. The concept concerning the highest and best use of land

In market economy, a major importance is represented by the awareness of the market value of real estate properties. Properties appraisal process is formed by a set of coherent and clear procedures having for purpose to correctly estimate the value of the respective real estate properties.

In order to appraise the market value, it is necessary to determine the highest and best use (HBU) of the property, this representing the fundament of the market value. The highest and best use is estimated following a complex and correct analysis procedure, based on which a credible opinion may be issued, concerning the market value. The fundament for identifying the HBU is the market analysis which provides the necessary data in order to become aware and to understand the market's behaviour, essential for the HBU concept.

The appraisal process is composed by a set of coherent and clear procedures having the purpose of determining the correct value. The main features of the appraisal process are: HBU analysis and the application of the approaches for value estimates.

In order to determine the HBU, the following must be taken into consideration:

-establish if a use is physically possible, given what would be considered as reasonable by the market participants;

-reflecting the requirement of legally allowable, as it is compulsory to take into consideration any and all restrictions in assets use;

-the requirement that the use be financially feasible, view that if an alternative use, physically possible and legally allowable, would generate enough profit for a typical market participant, once the conversion costs for that particular use were taken into account, over the profit generated by the existent use [1].

There are four criteria that HBU must undergo: legally allowable, physically possible, financially feasible and maximally productive. These criteria apply both for the land considered free and for the built land. Once those factors were considered and analysed, the results split in 3 categories: physical use, duration of use and the most likely user and buyer of the respective use. In determining the HBU of a property a decisive role is played by the notions of reasonable probability and adequate fundament.

Any and all use that is physically possible, legally allowable and financially feasible has the potential of becoming the maximally productive use of the respective property (Venn diagram), Fig. 1, [2].

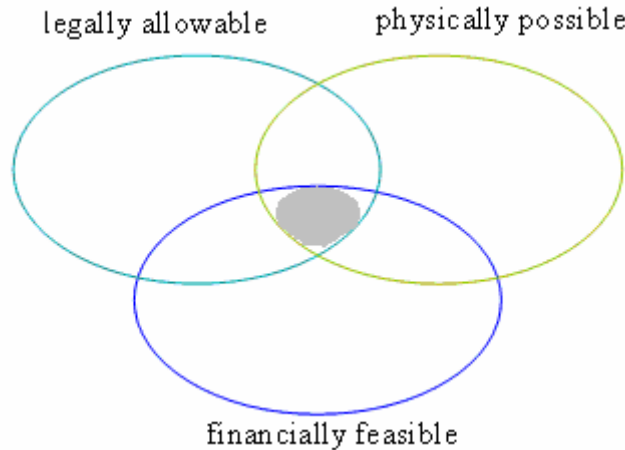


Fig. 1. Maximum Productivity (Venn diagram)

Generally, several alternative uses are analysed, thus selecting the maximally productive use satisfying all the criteria.

In estimating the market value, the HBU analysis is performed in order to identify 3 features of the property: the physical use, the duration of use, the market participants associated to that use.

2. The analyse of the highest and best use for the expropriated real estate properties

In the process of evaluating expropriated property, the ways of establishing the value of lands and buildings which cannot be restituted in – kind to entitled persons, are regulated by the provisions of Law 10/2001.

The highest and best use analysis for lands which cannot be given back to their former owners included the appraisal of the following occurrences:

- the land was free at the time of the expropriation, and subsequently constructions were raised on it;

- the land was built at the time of the expropriation, the constructions were demolished, and subsequently other constructions were raised on it.

In order to appraise the value for the reimbursement of expropriated real estates – lands, for the HBU analysis the current use was selected, in this case this being the one fructifying the highest value of the property.

Thus, considering the current use as the best use, for the expropriated land considered free, the following items were analyzed:

- Physical possibility: physical limits/restrictions: land topography, emplacement features, size and dimensions of the land.
- Legal allowance: restrictions concerning the use of the land. The current location and other restrictions considering land’s use were taken into account.
- Financial feasibility: analysis of the current specific real estate market: recent sales, quotations, market conditions, indicators concerning the activity in the field of constructions, balance between utility, demand and rarity.
- Maximal productivity: current use of the property leading to the highest value of the land.

2.1 Appraisal of land value based on the highest and best use

Once the HBU of the land considered free is analyzed and identified is completed, the identification of the ideal constructions is considered. The ideal construction or upgrading is the one obtaining the maximal advantage following the location potential, view the demands on the specific market and considering any and all aspects regarding building project and urban indicators.

The following recognized methods of evaluation are being applied regarding land evaluation for establishing compensations: sales comparison technique, parceling and development technique, repartition (allocation), extraction, residual land technique, ground rent capitalization (rent) [1].

In the occurrences studied and focusing on reimbursement rights, the best use supposes the development of some construction works, so that the appraiser determined the type and features of the construction by taking into account the current use and the urban indicators, the estimated costs for land amenities and building development (direct, indirect expenses, design costs, taxes, entrepreneur profit), financing, commissions, incomes obtained from constructions, thus obtaining the value of the land by applying the extraction approach.

A case study is presented herein bellow: 3 real estates situated in the same zone, having the same surface, properties 1 and 2 being at the time of the expropriation free lands and property 3 land with constructions. At the present time, the lands are part of a residential complex, on the lands 1 and 3 there are accommodation buildings ground floor + 10, and on the land 2 a residential building ground floor + 10 with commercial ground floor, Fig. 2.

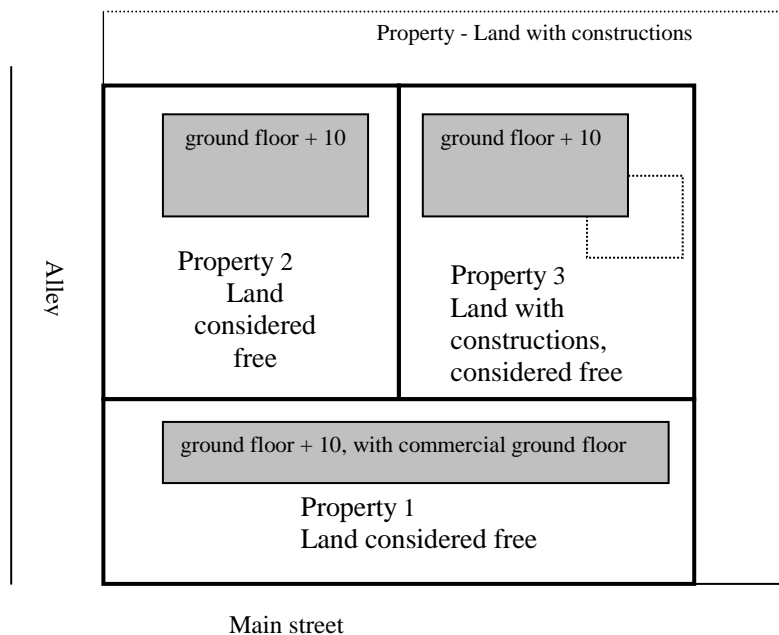


Fig. 2. Expropriated land

According to the approved General Urban Plan, in this zone it is permitted to build constructions with a height regime of ground floor+10. The analysed lands are considered free; in respect to the physical and utility features, no internal, nor external improvements and upgrading are necessary.

The use ensuring the highest and best profit and the optimal use of property for the studied cases is considered to be the current one: land to be built on – residential buildings.

The Table 1, presents the HBU analysis and property value appraisal.

Table 1. HBU analysis and property value appraisal

Land surface	3000 m²	3000 m²	3000 m²
Estimates			
Build surface	680 m ²	680 m ²	680 m ²
Free surface	2320 m ²	2320 m ²	2320 m ²
Land occupation percentage	23%	23%	23%
No. of stories	ground floor + 10	ground floor + 10	ground floor + 10
Total useful area	4840 m ²	4840 m ²	4840 m ²
Parking lot	1150 m ²	1150 m ²	1150 m ²
Costs	euro	euro	euro
Construction costs (building, parking)	4.335.000	4.133.250	4.335.000
Construction demolition costs			30000
Total costs	4.335.000	4.133.250	4.365.000
Income			
Total income from construction valorisation (apartments, parking lots, commercial locations)	7.524.000	7.744.000	7.524.000
Financing			
Financing expenses	942.500	898.600	949.000
Commissions	376.200	387.200	376.200
Net outcome	1.870.300	2.324.950	1.833.800

Despite the fact that all the lands have the same surface and are situated in the same area, following the analyses, considering the current HBU, the values resulted were positive, but different.

3. Conclusions

The highest and best use of land is estimated following a complex and correct analysis procedure, based on which a credible opinion may be issued, concerning the market value. The highest and best use must undergo the criteria: legally allowable, physically possible, financially feasible and maximally productive. Generally, several alternative uses are analysed, thus selecting the maximally productive use satisfying all the criteria. In order to appraise the value for the reimbursement of expropriated real estates – lands, for the HBU analysis the current use was selected, in this case this being the one fructifying the highest value of the property.

4. References

1. *International Valuation Standards. International Valuation Standards Council, 2011;*
2. *Spic D-29 “Introduction to the Analysis of the Best Uses”, seminar ANEVAR, 2011;*
3. *Law no. 10/2001, regarding the legal status of the real estate abusively taken over by the State between March 6, 1945 and December 22, 1989. M.O.798/2005*