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Avoiding Confusion with the Valuation of Double-Lot Properties

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Imagine a scenario in which a property owner wishes to finance a property that has a site with one or more parcels in addition to the lot that the home sits on. In this case, there are several factors the appraiser, lender and owner must consider. For the following discussion, we will consider the property to consist of two parcels owned by the same party, described as lots "A" and "B" (where "A" is a legally-platted parcel with a dwelling and "B" is an adjoining legally-platted vacant parcel).

First, the appraiser must be aware of what is included in the mortgage. Public records may list the two parcels under one "property identification number" or two. If the parcels are legally separate, and a mortgage is only being taken on parcel "A", the appraiser must be aware of this fact so that they don't inadvertently include the value of parcel "B". This dangerous scenario can be avoided when the appraiser and client have a clear understanding of the legal description of the property to be appraised.

In the event that the appraisal is to include both parcels, the appraiser must research and analyze the effect the additional parcel has on the property as a whole. What is the contributory value of Parcel "B"? If the property is located in an area where there is no, or limited, market demand for vacant building sites, parcel "B" could have little value other than additional green space/yard. In this case, the appraiser would likely compare it to other comparable sales with uniquely large sites.

If there is a market demand for vacant sites that can be developed, then the contributory value might be significant. The caution is that the contributory value is not necessarily the same as the value of a stand alone vacant site that is being sold in the area. The contributory value of parcel "B" should take into consideration that it is part of a larger property (parcel "A" and "B"). The prudent purchaser of the whole property ("A" and "B") would not simply add the stand-alone value of parcel "B" to the value of parcel "A", because they would not be able to recoup all their costs when they sell off the adjoining parcel "B". The value of parcel "B" would have to be discounted for, among other factors, marketing fees, holding costs, entrepreneurial profit, and legal expense. Thus, the estimated value of parcels "A" and "B" appraised as one unit will be less than the sum of the individual values of "A" and "B" appraised separately.



Lenders may have to consider secondary market guidelines in order to determine the best approach to valuation of a two-site property.

You are invited to contact Forsythe Appraisals' President, John C. Forsythe, SRA, with any questions or comments at ForsytheInfo@ForsytheAppraisals.com

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