

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /
Or Sponsoring Organization Is Missing

2. Appraisal Topics

t. "Notes on Urban Renewal Land use
Appraising", "Comment on Re-Use
Appraisal", no dates

NOTES ON URBAN RENEWAL LAND USE APPRAISING

1. Reuse of land in urban renewal areas may be by public or private agencies and is always subject to highest and best use as it is seen by the planning agency rather than as it may be understood by the user or the appraiser.

A. The appraiser ~~who is trained to appraise what is~~ must appraise urban renewal land from what might be if certain conditions did or did not prevail. For instance:

1. If the LPA will sell the land to another government agency he must appraise the lands as though they would be utilized by an appropriate private use compatible with the redevelopment plan.
2. If he is appraising land to be offered for development he must keep in mind whether the developer would do and pay for the opportunity to operate within tight ownership and use controls imposed by an urban renewal agency concerned with social rather than economic requirements.
3. While demand statistics must be general for lack of clearly established linkages, projects proposed by the appraiser must be easily demonstrable as justified by demand and not overly speculative. ~~xxx~~
4. Political variables and municipal schedules may be indeterminant so that the time period of present value calculations is unknown.

B. The best tool of the appraiser is market comparison but it is difficult to find comparables or ~~xxx~~ sites of the size and location of those in the urban renewal areas.

1. The geographic area of ^ocomparables expands to the community at large or the national market for certain kinds of projects.
2. The definition of ^ocomparable remains broad and relative to the planners intended use rather than highest and best use.
3. The appraiser has to ~~sketch~~ broadly the fictitious market-place in terms of urban renewal participants more often than ^{by} highest best use - most probable buyer.

~~xxx~~ C. In reuse appraisals the appraiser is a combination urban land economist, city planner, and broker who is asked to find an economic rationale for what the planners wish to do, generally for non-economic reasons.

1. The acquisition ~~estimate~~ is a mass appraisal problem and then evolves into individual eminent domain appraisals.
2. The land-use market ^{ability} study is an urban land economics study supporting a proposed plan and at least identifies the planners definition of highest and best use.
3. The reuse appraisal is the most difficult because it is advisory and requires a combination of economic and social interpretation as well as broadly analysed alternative use sales comparables within the standards the local planning agency is likely to

impose in regard to unit density, ground coverage, building height, rental ranges etc.

- II. It may be that the appraiser is establishing in a reuse study ^aparameters of demand, rents, operating ratios, and land to improvement ratios for alternative land uses to guide the planners in their final allocations of space.
 - A. For example the appraiser may collect land sales prices for recent projects which suggest prices developers are willing to consider. For example assume a developer pays \$50,000 for a 100,000 sq. ft. sight for an office building. Ground coverage of the specific building is 25% and the building is two stories high or has 25,000 sq. ft. of rentable area. It follows that the developer is willing to pay \$2 a sq. ft. for land for such a low rise office building.
 - B. On the other hand the appraiser may heed to determine reuse values for rent levels prescribed by the planner rather than the free market. The rationale for the value of land might be based on a residual land value assuming comprable operating ratios and construction costs of certain selected properties and current or forecasted debt service requirements. Comprables are used to justify expense or cost estimates rather than land values.
- III. The reuse appraisal may become a prospectus, in short, for a land development project and the supporting evidence may be summarized in terms of proforma statements for the development company.
 - A. The land development prospectus - Max J. Derbes, Jr. - page 38 - March 1969 THE REAL ESTATE APPRAISER
 - B. Valuation of land acreages - Paul Fullerton

- I. Urban renewal administratives shape final plans for re-use of cleared areas and negotiate prices for resale with the aid of guidelines for the highest and best use as established by a re-use and value appraisal.
 - A. Generally the LPA is interested in selling the land for the highest price possible to reduce the write down and for the greatest improvement value possible to increase assessable tax values.
 - B. The redevelopment plan must therefore be not only socially desirable but also good business for the developer.
 - C. Since use and value are inseparable, land utilization studies to identify the best available use for cleared land and the proper allocation of land among different uses is, in fact, a valuation study.
 - D. The object is the combination of uses that will produce the highest present value for the land, and the appraiser cannot pre suppose a determination of best use. Therefore he must structure his report to some theoretical and logical framework.
 - E. A point of departure is the principle of substitution. A well informed potential buyer will consider all alternative sites to the one under consideration, comparing them feature for feature. The appraiser must think in terms of how the buyer actually does this and identify what reasonable alternatives are available to the buyer.
 - F. When the renewal site is relatively small and there are a number of satisfactory substitutes, this approach boils down to the usual form of market comparison techniques. However, the appraiser should be aware of who would qualify as a developer, for it may be necessary to attract the out-of-town developer. Prices of similar renewal sites in other communities may place a ceiling on local prices.
- II. The problem is that many urban renewal sites are unlike anything else in town so far as scale and location are concerned. Nevertheless comparability calls for at least the following:
 - A. "Each comparable site should be suitable or adaptable for substantially the same use as the land being appraised, and such use should represent the best use for both sites. If the sites used for comparison can meet this test of being competitive, they are called "comparable".
 - B. Since a cleared site may not be sufficiently similar to meet overall comparison, it may be possible to measure the degree of inferiority or superiority of one site over another by separate comparisons of each attribute of the site.
 - C. Differences between appraisal site and comparable sites may affect utility and value as they affect on cost of improvement, income power, or expense requirements. Using common denominators such as a square foot of land or building, each deficiency or advantage can be reduced:
 1. A lump sum difference in land value, or
 2. A lump sum difference in development cost
 3. A difference in annual capital value of developed property

- D. James McCormick of URA purges that analysis of variance rather than absolute amounts can produce more accurate appraisals. He urges breaking down income, expense, and cost analysis to partial aggregate analysis. It is his opinion that the probability of error is reduced as variables for comparison purposes are reduced in size and increased in number. Presumably the errors will be smaller while the increase in numbers will permit the law of compensating errors to have more effect in stabilizing results.
- E. McCormick calls this the variate-difference valuation method. To simplify partial comparisons, McCormick suggests that urban renewal sites will differ to a greater degree from competitive sites than the latter would differ from each other. Therefore he thinks a two stage appraisal process would reduce the number of detailed comparisons by resolving the comparables into a hyperthetical synthesis of established value. Then compare the synthesis to the urban renewal site. Thus market data would be distilled into bench marks broken down into partial aggregates that would reveal significant differences in cost and operation.
- F. Having isolated differences in terms of net annual income, the differences could be capitalized according to the land residual method and these differences then added or subtracted to the basic market value for land with the supposed use.

III. The appraiser has a major role in urban renewal. Two sets of acquisition appraisals are generally requires. Generally one set is done on a mass appraisal basis, like that for tax assessment purposes, when a project is first put together and proposed for approval by various government agencies.

- A. When the project reaches the execution stage, properties must be valuated again as of the date of taking. These are similar for others we studied for eminent domain. However it does have some special problems worth noting:
 - 1. In partial takings of property, the before and after value requires special imagination as to how the new uses of cleared land will affect the value of land not taken.
 - 2. How does the appraiser penalize structures which are violating building codes. Urban renewal officials tend to feel that value should be diminished by the cost of cure for the deficiency.
 - 4. On the other hand those representing owners argue that slum structures are freely traded in a market which will take its chances with possible code enforcement so that returns and prices reflect the probabilities of such enforcement. Hence they should not be subject to a double penalty.
 - 3. Generally the appraisal committees take the position that if sufficient market data is available, the market's reaction to the prospective code enforcement is implied in the risk rate and therefore in the price.
 - 4. Then there are the problems of the Mamie Reilly's in this world. This is the classic urban renewal case in which the present values of a series of financial interests in a rooming house exceeded the market value by a considerable amount so that it was necessary to condemn each individual interest to avoid leaving the nominal owner without land or solvency.

- B. Land utilization studies and market ability studies are often referred to as lums. The appraiser is interested in trends and movements of local economic activity affecting the market. It is both land use study and urban economics, and many appraisers and engineers come apart at the seams. Much garbage has been done in this field.
- C. Review of the existing local market for land and building suggests what kinds of land use are in demand, but the appraiser must adjust his view of the existing scene to the interjection of a new neighborhood in the urban renewal area before he can project future land and building needs. In short the future almost never duplicates the past and so the appraiser must estimate how the future statistics will vary from the past and why.
- D. In recent years the appraiser has been called on to provide not only guide lines on pricing but in addition a marketing plan by which these prices can be realized. Real estate is generally not bought, it is sold.
- E. Reuse appraisal requires an inter-exchange of ideas between the planner and the appraiser as the project develops, so that the appraisers suggestions as to highest and best use can be reduced to concrete unit proposals which meet the planners design for density, social uses, etc.

IV. The usual approaches to value in urban land reuse studies falter for lack of information or truly comparable properties.

- A. The market approach has its troubles as noted before. Some appraisers have tried to create special units of value which will better provide comparability between and among sites. Land value per dwelling unit or land value per square foot of building area permitted on a commercial site. Many urban renewal markets are regional or national. Apartment developers and motel operators may indicate in their last deal in another town what they feel land to be worth in a new development.
- B. The income approach and residual land method means that land value is sensitive to income and cost projections, and because reuse plans are fairly vague at the time of appraisal, the residual land value has the potential of high error.
- C. Special value attaches from the high leverage financing possible with FHA-220 and FHA-221.
- D. Some appraisal reports are directed to special studies as to absorption rate, price trends, or special proposed land uses not included in the original plan.

- V. Urban renewal introduces technical problems on every aspect of our study of urban economics. In our discussion today and Friday I would like to touch on four typical questions of policy and applied urban economics -

What value should the owner of condemned land be paid?
How should the residents of a renewal area be relocated?
How should cleared land be sold to the developer?
How do we accomplish rehabilitation and conservation?

- A. The real estate appraiser has a heavy responsibility in the urban renewal process.

1. First he must provide an acquisition appraisal which attempts to estimate the cost of acquiring an entire area so that the planning department can have preliminary budget figures to determine feasibility.
2. The appraiser will be required to provide land utilization and marketability studies for the community in order to recommend land use possibilities for the area under study as a possible renewal site.
3. An appraiser will do a reuse appraisal which attempts to determine value of cleared land when it is available for specified reuse purchases under the special conditions and standards which will run with the land sold by the urban renewal authority.
4. There is also opportunity for special study reports and consulting with both public agencies and private investors.

As you can see the demand for appraisal talent has increased much faster than the personnel available. Those in the field with established reputations command high fees and a young man can enter the field and do very well.

- B. The appraiser is concerned with value. There is a tendency for the appraiser to emphasize technique in resolving value in any given situation but since his decisions determine the dollar and cents of renewal, he is in a sensitive position of equity.
- C. There are two basic problems in the acquisition of condemned property for a fair value. The first arises from the city's failure to strictly enforce the housing code. Rental property is valued at the capitalized present value of future income. If actual income is projected one value might be the result. But if income were adjusted to provide money for repairs, income would be lower, and hence value.

It does not seem right that the government should have to value a building which required immediate repairs to the fire escape using a net income figure which includes deferred maintenance and avoidance of legal responsibility. Such is the case, however.

The sellers may argue that the city never enforced the building code and that slum buildings were bought and sold at prices which ignored cost of repair because no one expected to have to make them. Since appraisal deals with the price that would be paid by a willing buyer and willing seller, the appraiser too would overlook a charge on value to make repairs required by the building code.

Recently courts have been willing to accept cost of repair for major code violations at a deduction to capitalized income value.

- D. Another inequity occurring in slum areas and a frequent problem in acquisition involves the poor owner who has saddled himself with mortgages worth more than his property. Payment for the property at market rates would leave him in debt without any house.

The famous case of Mayme Riley of Washington, D.C. involved a poor old lady who had 3 or 4 mortgages on her boarding house which far exceeded market value as determined by the appraiser. With her room rent she could meet the payments but without the property she would be bankrupt.

Her attorney's argued that the value of her house was what she had paid for it, and the sum of her 3 mortgages represented what she paid for it. The court did not agree with this measure of value but it did feel that there was inequity and demanded that the case be retried and a new price set by appraisal.

Perhaps it would be more fair in the case of Mayme Riley to condemn the interests ahead of hers. Assume Mayme bought the property on a land contract and that the seller still had a first mortgage on the property. Mayme would look on herself as the owner though technically title remained with the seller. If the renewal authority wanted to look after the Mayme Rileys in life they might condemn the first mortgage holder and seller on the land contract, and buy a quit claim deed from Mayme.

However, the problem is then one of measuring the true value of a mortgage interest. If the property has serious violations of the code, is located in a slum area, it is unlikely that the purchaser could borrow from the bank.

Therefore most such properties are traded on land contracts, purchase money mortgages, trades, and the like. However, prices are inflated to reflect the cost of financing. We might sell a rooming house for \$25,000 cash or \$40,000 on land contracts.

The appraiser must be very careful to differentiate between the values paid for property itself and inflated values representing the premium paid for financing an illegally operated property. True of all real estate markets, this problem is just much more prevalent in slum areas.

E. City administration also causes another problem. Often the central city areas have not been reassessed for tax purposes for many years. Annual tax expense is therefore understated while income is overstated so the property is overvalued.

1. The city could save itself much money if it would enforce the housing code and keep tax assessments current, for these would hasten the economic exhaustion of slum properties.
2. However, cities have not done so for many years and so a change in policy would devalue the home value of many innocent purchasers who would lose their entire equity interest.
3. The second step would have unfortunate political consequences to local officials. On the other hand overpayment for properties means all the tax payers are suffering to pay to protect a few. Fortunately for the local politicians Uncle Sam pays 2/3 of the net cost and hence 2/3 of any overpayment. Local tax payers aren't hurt as much and local aldermen can continue to protect their ward from aggressive enforcement of the housing code or tax assessment.

VI. Relocation of businesses and families within an area slated for renewal is perhaps the most critical problem for the local renewal agency.

- A. If the relocation phase is not managed successfully renewal can do enough damage to families and businesses to create a wave of reaction which will generate sufficient political force to stop the urban renewal process itself.
- B. On the other hand relocation is a difficult business at best, slow, and tied to a tremendous variety of human problems. For example, in Madison in relocating one family it was discovered that the husband was an escaped ~~prisoner~~ prisoner, and he was relocated to Waupau. Mother was found to have mental and narcotic problems and she too was relocated to a state institution. The children were relocated to foster homes in and around Madison.
- C. Urban renewal is the only program of condemnation which requires the public agency to find suitable alternate quarters for those moved. At the end of 1960 it was estimated that 260,000 families were to be relocated from 495 federal projects in the planning stage. Today we have almost 700 projects, and it is estimated that total annual displacement from all urban construction programs may be three times that caused by urban renewal alone.
- D. If relocation takes too long, is too gentle in bumping people out of the area, the project drags on and sun flowers sprout in empty lots and vacant parcels surrounding lonely and stubborn survivors. The voting citizens, seeing this lack of progress, would again challenge the need for urban renewal. The urban renewal director walks a thin and difficult line between political reaction from aggressive progress and loss of political support for failure to move ahead.

- E. Relocation is not all bad. Records indicate that 80% of families moved were living in substandard housing before the move but that only 7% were known to have relocated into substandard housing. There are numerous stories of people who began new lives with relocation and new business quarters for many sparked a tremendous renewal of morale and business spirit.
- F. In order to qualify for federal aid a local public renewal agency must have its plan for relocation and standards approved by the federal urban renewal authority. The law goes further and provides federal funds up to a limit of \$200 per family and \$3000 per business for reasonable and necessary moving expenses and losses of property, since these costs are not included in a condemnation award.
- G. This same concern for relocation has been suggested as an amendment to the federal highway program and several states have passed laws requiring payment of moving costs to those displaced by any form of public acquisition.
- H. Before obtaining a federal grant the local public agency must show that the supply of public and private housing is sufficient to supply the displaced families with acceptable housing units at rents they can afford, in acceptable areas, and properly located to the place of employment.
- I. While a majority of people in a slum area qualify for public housing surveys indicate that only a small percentage want to live in public housing. It should be pointed out that most slum families qualify for public housing on the basis of income but are excluded as undesirable because of police records, alcoholism, rent delinquency, mental disease, or juvenile delinquency.
- J. Consequently relocation is more complex than just building public housing someplace else. Since the supply of private housing suitable to slum dwellers is reduced by the renewal program, presumably the rents of these units goes up and fewer alternatives are available. To keep rents inline public housing has been used to create additional supplies from time to time and now some agencies are purchasing used homes in other areas from V.A. and FHA foreclosure sales, and using these for public housing. These additional units cost less than half the cost of new ones and successfully scatter slum dwellers about the community.
- K. It is particularly difficult to relocate the non-white minority in the face of urban renewal. Fewer alternatives are open to them because of prejudice, lack of income, and abuse by sharpie real estate interests.

Elderly people and large families of limited means also have difficulty relocating with the right cost for the physical areas occupied.

Business relocation is most difficult. Hardest hit are the small firms such as the corner druggist or grocer who relied entirely on neighborhood clientele and then the neighborhood is gone.

L. These problems are perhaps technical and questions of economic valuation. The reverse of the viewpoint of the middle class planner and renewal administrator is that of the displaced person.

1. Short term reaction is almost always negative but the majority soon come to appreciate the advantages of their new location.
2. Not everybody who lives in a slum would rather live someplace else. We must always provide minimum housing for the social outcast, the indolent, fugitives, and immigrants trapped by economic necessity. We must always have a skid row for those who would resign from society.
3. Sociologists can show that the slum represents a way of life which has a different value basis than middle class life. Privacy and status symbols are less valued and social groupings are around family and ethnic connections. Moreover studies show that these people are happy in many ways and have no desire to have middle class values. The slum also shelters a major portion of the social problems of the city, the whole gamut of social misery, and relocation and better environment won't correct these problems.

M. Relocation and urban renewal is more than locating physical alternative quarters. Whether you are speaking of clearance, conservation, or rehabilitation solution of a family housing problem will often require the prior solution of a serious social, financial, or legal problem.

VII. Condemnation and relocation are of negative value without speedy and proper redevelopment. A basic tenant of the program is that redevelopment should be by private business. Urban renewal is therefore an assembly line for land beginning with preliminary planning and ending with disposition.

- A. Lagging disposition of cleared land quickly brings political disenchantment and an end of popular support, because money poured into the assembly line at one end seems to be producing nothing on the other.
- B. Land disposition never takes care of itself, it has to be sold, and land cannot be partly sold anymore than one can be just a little pregnant. Urban renewal land must be sold aggressively and with imagination.
- C. However, urban renewal land must compete with other lands in the community subject to a great number of use restrictions and unique competitive aspects which are not too appealing to the investor.
 1. First purchase requires competitive bidding in most situations.
 2. Acquired title comes subject to a good number of restrictions and conditions, many of which reflect a fear on the part of the LPA that the developer will make too much money.

3. Operation of an urban renewal project is subject to considerable public relations and financial risk related to urban renewal problems rather than real estate ones.
- D. Assuming a developer finds the site and the economic factors appropriate for development consistent with the redevelopment plan, he will have to acquire the site under one of the following plans:
1. Sealed bid offering.
 2. Public auction. ~~with minimum acceptable price~~
 3. Public auction with minimum acceptable price.
 4. Negotiated disposal.
 5. Fixed price offering with design bidding.
 6. Predetermined price offering.
 7. Non-competitive negotiated disposal.
- E. The successful developer will ^{be} required to make a good faith deposit of 5% of land cost in cash, government bonds, or surety bonds. The winning bidder must generally be approved by the city council or the local LPA after a public hearing.
- F. Then the bidder and LPA begin to negotiate the land contract in detail. There are hundreds of issues which can appear. For example:
1. How much time shall the developer have to initiate and complete construction?
 2. What kind of anti-speculation provisions should be included to prevent resale, exorbitant rents, or changes in use?
 3. Sometimes the LPA agency is ignorant or unsympathetic with the title characteristics required by big lenders, and so they insist on deed provisions which would make it impossible for the developer to secure his financing.
- G. Now the developer wants to make a profit and the government wants to minimize its write-down loss. This leads into conflict with the planner who would like to see the land used to best add to the character of the city, or to the tax revenue of the city.
1. Suppose the area might best be used as a park and for low row-house or garden apartments in the modest rent range. The park would return nothing in tax revenue and add to the city operating budget. Low rent low density housing would mean a very low value for the land and hence a large write-down, 1/3 of which must come from the city.
 2. On the other hand high-rise development for middle income families would mean a higher value on the land so there would be a smaller write-down on the project. Tall apartment buildings would also mean a higher assessment value and hence more future tax revenue, perhaps a tax surplus.

3. Almost always the planner chooses high density development to take tax base rather than a better looking city. Perhaps he will compromise and put some land in park and build taller buildings on the remaining land to offset revenue lost on the park.
4. Along comes a politician who demands that these high-rise apartments be for the common people. Rather than sell the land cheaper, the community promises a tax abatement to the developer if he will lower rents. After all, real estate taxes represent more than 20% of the cost of the building.
5. Assuming the land is worth \$100,000, and it would support a \$700,000 development, taxes might be 4% of assessed value or 2% of total value or perhaps \$16,000 a year, assume there are 80 units in the building, so that rents could be reduced \$100 /year /unit by reducing taxes to \$8,000 for the first 15 years of the project. This reduction is legal in Wisconsin. In effect the city will give up \$120,000 to get low rent housing for tenants rather than owners, hence a less stable neighborhood. If they had given away the lot for nothing they would have done better and a garden apartment would have helped in terms of neighborhood stability, write-down loss, and probably future taxes paid.
6. However, giving away the land so that the developer could afford to do some of the things which the community should have but does not because land at the necessary price is not available, is political suicide. City councils can never understand why land is of a residual value dependent on high level, high density planning. These dilemmas leave the planning officials in doubt about their own plans.

VIII. Total demolition and reconstruction has been necessary in many areas, but it has proven so expensive and so expensive politically to officials standing firm against home owners. More extensive renewal with funds available is possible through a conservation program - a kind of super fix-up and paint-up derby.

A. Rehabilitation preserves the neighborhood population while conservation in marginal areas improves ownership morale. It improves the market for existing properties at the same time that it discourages moving away from old neighborhoods.

1. We have already talked about some of the programs and their problems before.
2. Communities provide special counseling and some grants-in-aid.
3. However, substantial improvements will raise the tax assessment. Moreover, bank loans are expensive in slum areas and expensive improvements can be delayed in hopes of moving away soon, and soon the incentive is gone.
4. Therefore the government must find some way for home owners to find reason to rehabilitate and conserve their property.

As public finance experts frown on a direct grant-in-aid, it is necessary to reduce cost of rehabilitation indirectly and accept for city guidance centers and low cost FHA loans, nothing has been done. In terms of technique the home owner is comparable to the farmer in 1933. How about an urban agent?