**APPRAISAL REPORT OF**

The Theodore R and Olivia J Halbur Property

Project ID: 1440-15-22 Parcel #243 & 1243 State Highway 23

W3858 State Highway 23

Town of Empire

Fond du Lac County, Wisconsin

**EFFECTIVE DATE OF THE APPRAISAL**

April 16, 2019

**REPORT DATE**

April 16, 2019

**CLIENT**

Wisconsin Department of Transportation

Northeast Region

944 Vanderperren Way

Green Bay, WI 54304

**APPRAISED BY**

Abigail Ringel

Wisconsin Department of Transportation

Northeast Region

944 Vanderperren Way

Green Bay, WI 54304

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Table of Contents

[CERTIFICATE OF APPRAISER 3](#_Toc7006412)

[EXECUTIVE SUMMARY 3](#_Toc7006413)

[AERIAL PHOTO 3](#_Toc7006414)

[STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS 3](#_Toc7006415)

[SCOPE OF WORK 3](#_Toc7006416)

[ASSIGNMENT CONDITIONS 3](#_Toc7006417)

[Hypothetical Conditions 3](#_Toc7006418)

[Extraordinary Assumptions 3](#_Toc7006419)

[Jurisdictional Exception 3](#_Toc7006420)

[PROJECT INFORMATION 3](#_Toc7006421)

[MARKET AREA AND NEIGHBORHOOD DESCRIPTION 3](#_Toc7006422)

[SUBJECT PROPERTY INFORMATION – BEFORE CONDITION 3](#_Toc7006423)

[HIGHEST AND BEST USE – BEFORE CONDITION 3](#_Toc7006424)

[LARGER PARCEL ANALYSIS 3](#_Toc7006425)

[APPROACHES TO VALUE 3](#_Toc7006426)

[SALES COMPARISON APPROACH – BEFORE CONDITION 3](#_Toc7006427)

[Land Value – Before Condition 3](#_Toc7006428)

[Value of Larger Parcel as Improved – Before Condition 3](#_Toc7006429)

[COST APPROACH – BEFORE CONDITION 3](#_Toc7006430)

[Estimated Contributory Value of Site Improvements 3](#_Toc7006431)

[INCOME CAPITALIZATION APPROACH – BEFORE CONDITION 3](#_Toc7006432)

[RECONCILIATION AND MARKET VALUE – BEFORE CONDITION 3](#_Toc7006433)

[ACQUISITION 3](#_Toc7006434)

[SEPARATE ENTITY 3](#_Toc7006435)

[SEVERANCE DAMAGES 3](#_Toc7006436)

[SPECIAL BENEFITS 3](#_Toc7006437)

[SUBJECT PROPERTY INFORMATION – AFTER CONDITION 3](#_Toc7006438)

[HIGHEST AND BEST USE – AFTER CONDITION 3](#_Toc7006439)

[APPROACHES TO VALUE – AFTER CONDITION 3](#_Toc7006440)

[SALES COMPARISON APPROACH – AFTER CONDITION 3](#_Toc7006441)

[Land Value – After Condition 3](#_Toc7006442)

[Value of Larger Parcel as Improved – After Condition 3](#_Toc7006443)

[COST APPROACH – AFTER CONDITION 3](#_Toc7006444)

[Estimated Contributory Value of Site Improvements **Error! Bookmark not defined.**](#_Toc7006445)

[INCOME CAPITALIZATION APPROACH – AFTER CONDITION 3](#_Toc7006446)

[PERMANENT LIMITED EASEMENT ACQUISITION 3](#_Toc7006447)

[OTHER COMPENSABLE DAMAGES **Error! Bookmark not defined.**](#_Toc7006448)

[RECONCILIATION AND MARKET VALUE – AFTER CONDITION 3](#_Toc7006449)

[BEFORE AND AFTER ANALYSIS VS. VALUE OF THE PART TAKEN 3](#_Toc7006450)

[BEFORE AND AFTER ANALYSIS VS. VALUE OF THE PART TAKEN CONCLUSION **Error! Bookmark not defined.**](#_Toc7006451)

[TLE ACQUISITION 3](#_Toc7006452)

[TOTAL DAMAGES AND ALLOCATION 3](#_Toc7006453)

[ADDENDA 3](#_Toc7006454)

[Photos of Subject Property 3](#_Toc7006455)

[Maps of Subject Property 3](#_Toc7006456)

[Comparable Sales Map 3](#_Toc7006457)

[Sales Data Sheets 3](#_Toc7006458)

[Soil Information 3](#_Toc7006459)

[Floodplain Information 3](#_Toc7006460)

[Qualifications of Appraiser 3](#_Toc7006461)

# CERTIFICATE OF APPRAISER

I certify that, to the best of my knowledge and belief:

1. The statements contained in the appraisal report are true and the information upon which the opinions expressed herein are based are correct, subject to the limiting conditions herein set forth,
2. This appraisal has been made in conformity with appropriate Wisconsin Statutes, regulations, policies and procedures applicable to the appraisal of right of way.
3. To the best of my knowledge, no portion of the value assigned to this property consists of items that are non-compensable under Wisconsin laws.
4. I have not given consideration to nor included in this appraisal any relocation assistance benefits.
5. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions.
6. I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
7. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
8. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
9. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
10. Neither my compensation nor my employment is contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the appraisal.
11. My analyses, opinions and conclusions were developed, and this report has been prepared in compliance with the Relocation Assistance and Real Property Acquisition Policy Act of 1970, as amended, and is consistent with Uniform Standards of Professional Appraisal Practice (USPAP).
12. Choose an item.provided significant real property appraisal assistance to me in making this report, unless noted. If someone provided significant appraisal assistance, list their name and what they contributed here.
13. I have not revealed the findings and results of this appraisal to anyone other than the proper officials of the acquiring agency or the Federal Highway Administration and I will not do so until authorized by said officials, or until I am required to do so by due process of law, or until I am released from this obligation by having publicly testified as to such findings.
14. On Click or tap to enter a date., I Choose an item. invited       to accompany me on an inspection of the property. My invitation was Choose an item.. If the invitation was declined, explain what permissions they gave you. If you never received a response, document here how many times, what method and when you attempted contact. On Click or tap to enter a date., I made a personal inspection of the property. I have made a field inspection of and verified the sales relied upon in making this appraisal. The subject and sales relied upon in making this appraisal are as represented in this appraisal. It is my opinion that as of Click or tap to enter a date., the total loss in market value to the property herein described is $     .



# EXECUTIVE SUMMARY

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Parcel Information** | | | | |
| Property Owner | | Theodore R and Olivia J Halbur  Contact: (920) 878-0168 | |
| Property Address | | W3858 State Road 23  Fond du Lac, WI 54937 | |
| Assessor’s Parcel Number(s) in Larger Parcel | | T08-15-18-09-14-006-00 | |
| Assessed Value | | Land: $24,500  Improvements: $142,500  Total: $167,000 | |
| Present Use | | Single Family Residence | |
| Current Zoning | | Residential District (R-1) | |
| Property Rights Being Appraised | | Fee Simple | |
| **Before Condition** | | | | |
| Larger Parcel Size | | 1.74 acres | |
| Improvements / Other Items | | Single family residence, site improvements | |
| Highest & Best Use | | Single Family Residence | |
| Before Value | | $ | |
| **Project Details** | | | | |
| Plat Page(s): | | |  |  |  | | --- | --- | --- | | 4.39  Amended #X | Date: | Plat date  Approved date  Recorded date | | |
| Acquisition Type | | Partial Acquisition | |
| **Highway Project**  **Area and Interests to be Acquired**  **Allocation of Acquisition Impacts** | | | |
| Interests Acquired | | Fee  Temporary Limited Easement (TLE) | 0.184 acres  0.126 acres |
| Other Impacts | |  | |
| **After Highway Project Condition** | | | | |
| Larger Parcel Size | | 1.556 acres | |
| Improvements / Other Items | |  | |
| Highest & Best Use | | Single Family Residence | |
| After Value | | $ | |
| **Trail Project**  **Area and Interests to be Acquired**  **Allocation of Acquisition Impacts** | | | | |
| Interests Acquired | Fee | | 0.107 acres | |
| Other Impacts |  | | | |
| **After Highway & Trail Project Condition** | | | | |
| Larger Parcel Size | 1.449 acres | | | |
| Improvements / Other Items |  | | | |
| Highest & Best Use | Single Family Residence | | | |
| After Value | $ | | | |
| **Before and After Summary** | | | | |
| Before Value | | $ | |
| After Value | | $ | |
| Total Damages | | $ | |
| Effective Date of the Appraisal | |  | |
| Date of Appraisal Report | |  | |
| **Allocation of Damages** | | | | |
| Fee  Fee  Temporary Limited Easement (TLE)  Other  Rounding  Choose an item.  Choose an item.  Choose an item. | | $  $  $  $  $  $  $  $ | |
| Total Damages | | $ | |

# AERIAL PHOTO

|  |
| --- |
|  |

# STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

1. The legal description is presumed to be correct. No responsibility for matters in legal character is assumed nor is any opinion rendered as to the title, which is assumed good and marketable. All existing liens and encumbrances, if any, will be discussed in the report and their impact, if any, will be addressed at that time. The property is appraised as though free and clear, under responsible ownership and competent management.
2. The appraiser assumes there are no hidden conditions of the property that would render it more or less valuable than otherwise comparable property. The appraiser assumes no responsibility for such conditions or engineering required for discovery of such things. The appraiser assumes no merchantable mineral deposits are present. Unless otherwise noted in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such substances on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property causing a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
3. Certain data in compiling this report was secured from sources that were considered reliable. The appraiser does not guarantee the correctness of such data, although as far as is reasonably possible, it has been checked and is believed to be correct.
4. It is assumed there are no encroachments, zoning violations or restrictions existing in the subject property.
5. It is assumed that surveys and/or plat furnished to or acquired by the appraiser and used in this report are correct. The appraiser has not made a land survey or cause one to be made and therefore, assumes no responsibility for their accuracy. Any sketches included in this report are to assist the reader in visualizing the property and are not guaranteed to be to scale.
6. Opinions regarding zoning and other land use regulations rendered by local governments are not binding, although they may be used in this report to provide a reasonable analysis of uses to which the property may legally be put. Final decisions on questionable land use policies rest on a vote of the appropriate board.
7. The dates of value to which the opinions expressed in this report apply are set forth in this report. The appraiser assumes no responsibility for economic or physical factors occurring at some point later, which may affect the opinions stated herein. The forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors. These forecasts are, therefore, subject to changes with future conditions.
8. No soil analysis has been made by the appraiser, and any reference to the soil type or classification herein, is taken from U.S.D.A., Soil Conservation Service Maps and interpretive data, or was made by visual inspection and is believed by the appraiser to be correct. The appraiser did not carry out soil tests (H65 Wisconsin Administrative Code). Any reference to minimum lot area in relation to soil conditions was based upon visual inspection, market information, and other sources, and not actual percolation tests or soil borings.
9. The values for land and/or improvements, as contained in this report, are constituent parts of the total value reported and neither is (or are) to be used in making a summation appraisal of a combination of values created by another appraiser. Either is invalidated if so used.
10. This report may not be used for any purpose other than the purpose for which it was prepared. Its use is restricted to consideration of its entire contents.
11. This valuation relates to a portion of real estate that is part of a larger interest in the real estate: (1) The value reported is for such real estate as outlined only and should not be construed as applying with equal validity to other portions of a larger portion or interest. (2) The sum of values estimated for individual portions of the property may not equal the value of the property considered in its entirety.
12. The appraiser examined available flood maps provided by the Federal Emergency Management Agency (or other source data) and noted in the appraisal report, whether the subject site is located in an Identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding the determination.
13. The appraiser is not required to give testimony or appear in court because of having made this appraisal, regarding the property in question, unless arrangements are previously agreed upon.
14. The appraiser will not disclose the contents of the appraisal report except as provided in the Uniform Standards of Professional Appraiser Practice.
15. Neither all nor any part of the contents of this report shall be used for any purpose without the client's consent or conveyed to the public, through advertising, public relations, news, sales, or other media, without the written consent and approval of the author, particularly as to valuation conclusions, the identity of the appraiser, or a firm with which he/she is connected, or any reference to any professional society or any initial designations conferred upon the appraiser.
16. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey and the analysis of this property to determine whether it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property does not comply with one or more of the requirements of the act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, they did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.
17. This appraisal should not be considered a report on physical items that are a part of this property. Although the appraisal may contain information about the physical items being appraised (including their adequacy and/or condition), it should be clearly understood that this information is only to be used as a general guide for property valuation and not as a complete or detailed physical report. The appraiser is not a construction, engineering, or legal expert and any opinion given on these matters in this report should be considered preliminary in nature.
18. It is assumed there are no hidden or unapparent conditions of the property, sub-soil, or structure rendering it more or less valuable. No responsibility is assumed for such conditions or the engineering that may be required to discover such factors. Since no engineering or percolation tests were made, no liability is assumed for soil conditions. Sub-surface rights (mineral and oil) were not considered in making the appraisal.
19. Because no detailed inspection was made, and because such knowledge goes beyond the scope of this appraisal, any observed condition comments given in this appraisal should not be taken as a guarantee that a problem does not exist.
20. The stamps and/or consideration placed on deeds used to indicate sales are in correct relationship to the actual dollar amount of the transaction.
21. The value opinion provided herein is subject to any and all predications set forth in this report.
22. This appraisal does not guarantee compliance with building code and life safety code requirements of the local jurisdiction. It is assumed that all required licenses, consents, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value conclusion contained in this report is based unless specifically stated to the contrary.
23. The appraiser attempted to reconcile sources of data discovered or provided during the appraisal process, including assessment department data. Ultimately, the measurements that are deemed the most accurate and/or reliable are used within this report. While the measurements and any accompanying sketches are considered reasonably accurate and reliable, the appraiser cannot guarantee their accuracy. Should the client desire a greater level of measuring detail, they are urged to retain the measurement services of a qualified professional (space planner, architect or building engineer). The appraiser reserves the right to use an alternative source of building size and amend the analysis, narrative and concluded values should this alternative measurement source reflect or reveal substantial differences with the measurements used within the report.
24. If only preliminary plans and specifications were available for use in the preparation of this appraisal, then this appraisal is subject to a review of the final plans and specifications when available and the appraiser reserves the right to amend this appraisal if substantial differences are discovered.
25. Acceptance of and/or use of this appraisal report constitutes acceptance of the foregoing underlying assumptions and contingent conditions.
26. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.
27. Information, estimates and opinions furnished to the appraiser and contained in this report were obtained from sources considered reliable and believed to be true and correct. The appraiser does not assume responsibility for the accuracy of the information provided by these sources, although as far as reasonably possible, they have been checked and are believed to be correct.
28. Maps, sketches and photos included in this report are merely to assist the reader to better visualize and clarify portion(s) of the appraisal. Sketches and maps may not be to scale.
29. No opinion is intended to be expressed on matters that require legal expertise or specialized investigation or knowledge beyond what is customarily employed by real estate appraisers.

# SCOPE OF WORK

Driveway to the rear

2 ways

Driveway paid for in app

Well

Describe what you did and how you got there. Should be tailored to the specific appraisal problem. Include unique or complicating property characteristics and how they impact the scope of work

* The scope of this appraisal requires the appraiser’s compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), which were adopted by the Appraisal Standards Board. This is an Appraisal Report, which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of USPAP. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser’s opinion of value. Supporting documentation not provided in the report concerning the data, reasoning, and analyses may be retained in the appraiser’s file.
* This appraisal report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and appraisal guidelines for the Wisconsin Department of Transportation. This appraisal assignment is also intended to conform to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, (The Uniform Act), as amended; 49 CFR 24 (Code of Federal Regulations), and Wisconsin State Statutes Chapter 32 regarding eminent domain appraisal.
* In the case of eminent domain proceedings in Wisconsin, the appraiser must adhere to the “unit rule”. The “unit rule”, sometimes called the “undivided fee rule”, is a manner of valuing property in eminent domain when the property being acquired is subject to multiple ownership interests. Compensation is determined based on the fair market value of the property as a whole, as if there were one owner.
* The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated in the report. The appraiser is not responsible for unauthorized use of this report.
* This appraisal assignment required the appraiser to estimate the market value of the subject property. The appraiser has physically inspected the subject site to note the characteristics of the property that are relevant to its valuation. The property owner was asked to accompany the appraiser on the inspection of the property. The property was inspected for the last time on January 4, 2010. Kathleen Stachura, the property owner accompanied the appraiser on the initial inspection of the property and pointed out the boundaries and property highlights. The inspection included an interior inspection of the improvements and exterior inspection of the site including the proposed acquisition area.
* A strip of land along the existing right of way is being taken. Therefore, a land value analysis is considered the appropriate method for this strip acquisition. A before and after appraisal report format will be developed where the loss in value will include the valuation of recent vacant land sales that compare to the subject property. The improvements on the property will be valued based on the assessment data. This is considered the appropriate method because the building is set back from the project area and will not be affected by the project. It is an assignment condition within this report that the assessor’s estimated fair market value will be used for the value of the improvements. They will have the same value in the after as in the before. The appraiser reserves the right to amend the appraisal to value the improvements, if necessary.
* The appraisal includes photo, neighborhood description, site characteristics, any improvements on the site, a zoning description, a highest and best use analysis, a summary of the most important sales used in the appraiser’s valuation, a reconciliation and conclusion, a map illustrating both the sales and the subject property, and other subject data deemed relevant to the assignment by the appraiser. Pertinent data and analyses not included in the report is retained in the appraiser’s files.
* The appraiser investigated available market data for use in a sales comparison approach to value and, if appropriate, cost and income capitalization approaches. The appraiser’s investigations included research of public records using commercial sources of data such as printed and computerized MLS databases, the State of Wisconsin’s supervisor of assessment records, local assessor’s records, and information provided from other realtors, appraisers and from the appraiser’s own records.
* Search parameters such as dates of sales, leases, locations, sizes, types of properties, and distances from the subject started with relatively narrow constraints and, if necessary, were expanded until the appraiser either retrieved data sufficient (in the appraiser’s opinion) to estimate market value, or until the appraiser believed that she has reasonably exhausted the available pool of data. Researched sales data were viewed and efforts made to verify the data with persons directly involved in the transactions such as buyers, seller, brokers or agents. At the appraiser’s discretion, some data may have been used without personal verification if, in the appraiser’s opinion, the data appeared to be correct. At times secondary sources such as assessors may have been used to verify a particular sale when after all attempts failed at contacting persons directly involved in a transaction.
* In addition, the appraiser considered any appropriate listings or properties found through observation during the appraiser’s data collection process. The appraiser reported only the data deemed pertinent to the valuation problem. After selecting the sales, a comparative analysis of relevant factors that influence value was undertaken to adjust the sales to the subject property based upon the actions and preferences demonstrated by the participants in the marketplace.
* The appraiser searched the available data sources over the past several years to find market data to compare to the subject property. The appraiser also researched available data from the county register of deeds office along with the county treasurer and zoning offices to obtain sales history, tax information and zoning on the subject property. The physical and legal characteristics of the subject property were evaluated in the highest and best use analysis found within the report.
* The value conclusions found within this report are based upon a market analysis of the subject property based on comparisons with similar competing properties within the current market conditions. The appraiser analyzed the highest and best use of the subject property and gathered market sales with a similar highest and best use. The appraiser used both qualitative and quantitative analysis techniques and found both superior and inferior market sales. By using a bracketing technique, the market data accurately supports the conclusions found within the report. The sales were reconciled into a final conclusion of value for the subject property.
* There are three traditional approaches to the valuation of real estate which include the 1) Direct Sales Comparison Approach, 2) the Cost Approach and 3) the Income approach. Only the Direct Sales Comparison Approach is considered applicable for this report. The other approaches to value will not be developed for this report.
* The appraiser reviewed the approved project Right-of Way-Plat, Plan and Profile pages as well as familiarized themselves with applicable portions of the Project Design Study Report.
* The appraiser also analyzed and determined the highest and best use of the subject property both as vacant and as improved.
* The appraiser analyzed and determined the “larger parcel” as it relates to the subject property.
* The acquisition is a fee simple strip acquisition of 3,726 square feet from a commercial building site with existing improvements. The proposed roadway project will affect the front strip of the site adjacent to the existing right of way.
* The project will move the right of way closer to the existing improvements; however, the existing improvements will not measurably be impacted by the project. The improvements are considered to have the same contributory value in both the before and after conditions. The major impact to the property because of the proposed right of way project is the difference in the size of the land. The only other potential impact of the project is that there will be enter/exit signs that will need to be moved out of the new right-of-way. The appraiser contacted a local contractor to estimate the loss of these items from the property. The subject property will not be losing any access points, however, it’s western most driveway will now be a shared drive with the adjacent property. According to the project engineer, the existing driveway is an approximately 12 foot wide driveway. The proposed shared driveway will be approximately 32 feet wide. This should provide better access into the property from Velp Avenue.

**Client:** The Wisconsin Department of Transportation is the client for this appraisal assignment.

**Intended User:** The intended user is the Wisconsin Department of Transportation. A copy of the appraisal report will be provided to the subject property owner as a consequence of disclosure requirements established by Wisconsin Statute 32.05.

**Intended Use:** The value determinations of the appraisal will be used to form the basis for the establishment of just compensation for a proposed acquisition of real estate, under the threat of eminent domain. This appraisal was developed in accordance with the provisions of Sections 32.09 Wisconsin Statutes, which states that compensation shall be based on Market Value.

**Purpose of Appraisal Report:** Partial Taking

**Type of Value:** Fair Market Value

**Definition of Value:** 2 CFR Part 34.42(g), which regulates real estate lending and appraisals, defines market value as*: “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

*(1) Buyer and seller are typically motivated;*

*(2) Both parties are well informed or well advised, and acting in what they consider their own best interests;*

*(3) A reasonable time is allowed for exposure in the open market;*

*(4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”*

**Exposure Time:** USPAP defines exposure time as the “estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market” When exposure time is a component of the definition for the value opinion being developed, the appraiser must also develop an opinion of reasonable exposure time linked to that value opinion. The reasonable exposure period is a function of price, time, and use, not an isolated opinion of time alone.

The appraiser has developed an opinion of exposure time for the subject property. Based on statistical information about days on market, information gathered through sales verification and interviews of market participants; the appraiser estimates the reasonable exposure time for a property of this type at the value stated in this report would be      .

**Subject Property Inspection:** I physically inspected the subject site to note the characteristics of the property that are relevant to its valuation. The property owner was given the opportunity to accompany the appraiser on the property inspection. On Click or tap to enter a date.,       accompanied the appraiser on the initial inspection of the property. The inspection included      . The property owner accompanied the appraiser on the initial inspection of the property and pointed out the boundaries and property highlights. The inspection included an interior inspection of the improvements and exterior inspection of the site including the proposed acquisition area.

**Effective Date of Appraisal:** The effective date of this appraisal is Click or tap to enter a date., the last date of physical inspection by the appraiser.

**Rights Being Appraised:** Fee Simple Estate. **The Appraisal Institutes’ Dictionary of Real Estate Appraisal 6th Edition defines fee simple estate as *“Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”***

# ASSIGNMENT CONDITIONS

Assignment conditions are special appraisal instructions received from the client. USPAP addresses that though an appraisal assignment may involve conditions; it must be developed in accordance with the standards.

**Special Appraisal Instructions:** According to the WisDOT project manager, the construction start date and completion date for this project should be March 2021 through October 2021 (10 months). The duration of the Temporary Limited Easement is the period between the date of appraisal (November 12, 2015) and the scheduled construction completion date (October 2021) or approximately 72 months.

The building improvements are not impacted by the acquisition therefore, appraising the improvements is considered outside of the scope of this appraisal. As the roadway construction project will not affect the highest and best use or utility of the building improvements, there are no damages to these improvements. It is an assignment condition within this report that a value estimate will not be given. They will have the same value in the after as in the before. The appraiser reserves the right to amend the appraisal to value the improvements, if necessary.

Add any other if applicable

## Hypothetical Conditions

That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical Conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

**A hypothetical condition, that the proposed public improvements, the acquisition for which this appraisal analysis has been performed, do not exist, and have not been proposed, has been adopted for the before-condition analysis of the subject property. This hypothetical condition is based upon a federal requirement established by 49 CFR, Part 24.103(b)** - **“Influences of the Project on Just Compensation, which states that *“The appraiser shall disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired, or by the likelihood that the property would be acquired for the project, other than that due to physical deterioration within the reasonable control of the owner.”* This hypothetical condition is further based upon Wisconsin Statute 32.09(5)(b) which states that *“Any increase or decrease in the fair market value of real property prior to the date of evaluation caused by the public improvement for which such property is acquired, or by the likelihood that the property would be acquired for such improvement, other than that due to physical deterioration within the reasonable control of the owner, may not be taken into account in determining the just compensation for the property.”*** The use of this hypothetical condition may have altered the appraisal results.

A hypothetical condition, that the construction of the proposed public improvements, the acquisition for which this appraisal analysis has been performed, are completed as of the effective date of this appraisal, has been adopted for the after-condition analysis of the subject property. This hypothetical condition is based upon Wisconsin Statute Sec. 32.09(6) which states that “In the case of a partial taking of property other than an easement, the compensation to be paid by the condemnor shall be the greater of either the fair market value of the property taken as of the date of evaluation or the sum determined by deducting from the fair market value of the whole property immediately before the date of evaluation, the fair market value of the remainder immediately after the date of evaluation, assuming the completion of the public improvement and giving effect, without allowance of offset for general benefits, and without restriction because of enumeration but without duplication, to the following items of loss or damage to the property where shown to exist:” The use of this hypothetical condition may have altered the appraisal results.

## Extraordinary Assumptions

An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions. Extraordinary Assumptions presume as fact otherwise uncertain information about physical, legal, and economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Generally, a contractor is unlikely to know the exact timing when the subject property will be utilized for its specific purpose under the TLE. Because of this uncertainty of timing, the engineer who gives this information to the appraiser estimates the determination of the period during which the TLE will actually require physical possession of the property. The appraiser employs this as an extraordinary assumption within the appraisal report. The use of this extraordinary assumption may have altered the appraisal results.

As the roadway, construction project will not affect the highest and best use or utility of the building improvements; there are no damages to the building improvements. It is an extraordinary assumption of the appraisal that the improvements’ tax fair market value is equivalent to the market value of the improvements. The appraiser reserves the right to amend the appraisal to value the improvements, if necessary. The use of this extraordinary assumption may have altered the appraisal results.

**Add others as needed as determined by scope of work**

There are no other extraordinary assumptions or hypothetical conditions reported in this appraisal report.

## Jurisdictional Exception

The appraisers must comply with the state and federal laws, rules and regulations, including the Uniform Relocation and Real Property Acquisitions Policies Act of 1970, as amended, 49 Code of Federal Regulations (CFR) Part 24.103 and Wisconsin Statute 32.09. However, if an appraiser encounters a situation where the assignment conditions, based on federal or state law or regulation, precludes him/her from complying with a part of USPAP, the appraisers must identify in the report, the law or regulation that precludes compliance with USPAP, and clearly state in the report, the part of USPAP that is voided by that law or regulation. The appraisers shall then comply with the law or regulation.

There are no Jurisdictional Exceptions that were made as part of this appraisal.

# PROJECT INFORMATION

The following information is from the Wisconsin Department of Transportation’s website. “The Wisconsin Department of Transportation (WisDOT) is proposing improvements to a 19-mile stretch of WIS 23 from US 151 to County P in Fond du Lac and Sheboygan counties. In this area, WIS 23 is a critical east-west connector between two Interstate highways, I-41 in Fond du Lac and I-43 in Sheboygan, serving freight and local, regional, and statewide traffic. The majority of WIS 23 from US 151 to County P is a rural, 2-lane highway, with safety, access, and operational concerns. Improvements are being considered to address these concerns. WIS 23 improvements will provide the following benefits:

* Provide a safe and dependable highway connection to and from regional communities while reducing conflicts between local and through traffic.
* Improve the highway facility to meet current design standards for this Connector route in Wisconsin.
* Complete the system link of US 41 to I-43 between the cities of Fond du Lac and Sheboygan.
* Improve safety at intersections and farm crossings.
* Increase corridor mobility and minimizing public and private access.
* Preserve the corridor for future transportation use by coordinating local governmental land use plans.
* This will alleviate development pressures on WIS 23 and intersecting roads, preserving the corridor for future transportation use.
* Maintain a rural highway-type facility while addressing the increased traffic needs of the expanding urban area.”

**LOCATION MAP**

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# MARKET AREA AND NEIGHBORHOOD DESCRIPTION

SAMPLE The Village of Ephraim has a total of 7.16 square miles. Approximately 47% of this area is water. The village is located in northern door county (north of Sturgeon bay). It is primarily residential and recreational in nature with pockets of commercial development. The primary commercial development is along STH 42. This is a tourist driven area with many restaurants, recreational businesses and features, resorts, hotels and other service businesses. The area is serviced by the Gibraltar Elementary School and Gibraltar High School. The Ephraim-Gibraltar Airport in Fish Creek services the village. The village is known for its views of Eagle Harbor and the bluffs of Green Bay. Since its founding, the village prohibited alcohol sales or manufacture within the village; it was, until 2016, the only dry municipality in the state of Wisconsin. There have been two referenda concerning the sale of liquor within the village, in 1934 and 1992. Both times the citizenry voted decisively to keep the village dry (with majorities of 59% and 74%, respectively). On April 5, 2016, village residents voted on two separate referenda to allow beer and/or wine sales within the village, both of which passed by 56% and 68% majorities.

The village has strict zoning to ensure the preservation of the historic character. Ephraim established the first zoning ordinances in Door County, in 1948. Discharge of weapons has been prohibited since the beginning. Ephraim's bathing beach was established in 1934 and later expanded to its present size. In the last decade, Ephraim has acquired and developed park and recreation land including – the park next to the Village Hall, a park across from the Hall, and a waterside park across from Wilson's restaurant.  A wetland almost destroyed by a developer was purchased by the Village and was turned into a wetland preserve. A municipal dock with a launch ramp and one other marina provide access to Eagle Harbor. Seasonal businesses include numerous retail shops. The only businesses open, on a regular basis, in the wintertime are a restaurant, coffee shop, and an art gallery. The village has its own library, open year-around on an irregular basis.

Ephraim has shown slow but steady growth over the years, with a major jump in population between 1970 and 1980. This was also when most of the single-family homes were built. Most of the growth has been in the form of new residences, particularly residences serving as separate “vacation” homes. The footprint of new buildings has been limited by ordinance, but recently the footprint limit was raised as a response to pressure to allow larger structures, both residential and commercial.

As of the 2010 census, there were 288 people consisting of 138 households. There were 654 total housing units. Of those, approximately 79% were vacant. The majority of the vacant units were for seasonal or recreational type use. This is reflected in the real estate market. Those lands selling are typically selling for construction of second homes for families. The average household size was 2.09 individuals with the average family size being slightly higher at 2.52 individuals. The median age was 58.8 years.

As of the 2015 census bureau estimates, there were 269 people consisting of 138 households. The population has been trending down since 2000. The median age was 63.5 years. The average age of people living in Ephraim is about 10 percentage points above that of the Wisconsin and U.S. populations. Approximately 96.9% of the population 18 years old and above are high school graduates or higher. The residents are primarily (83.7%) married couples with no children living at home. The poverty level is 2.6%. 98.9% of the population has health insurance.

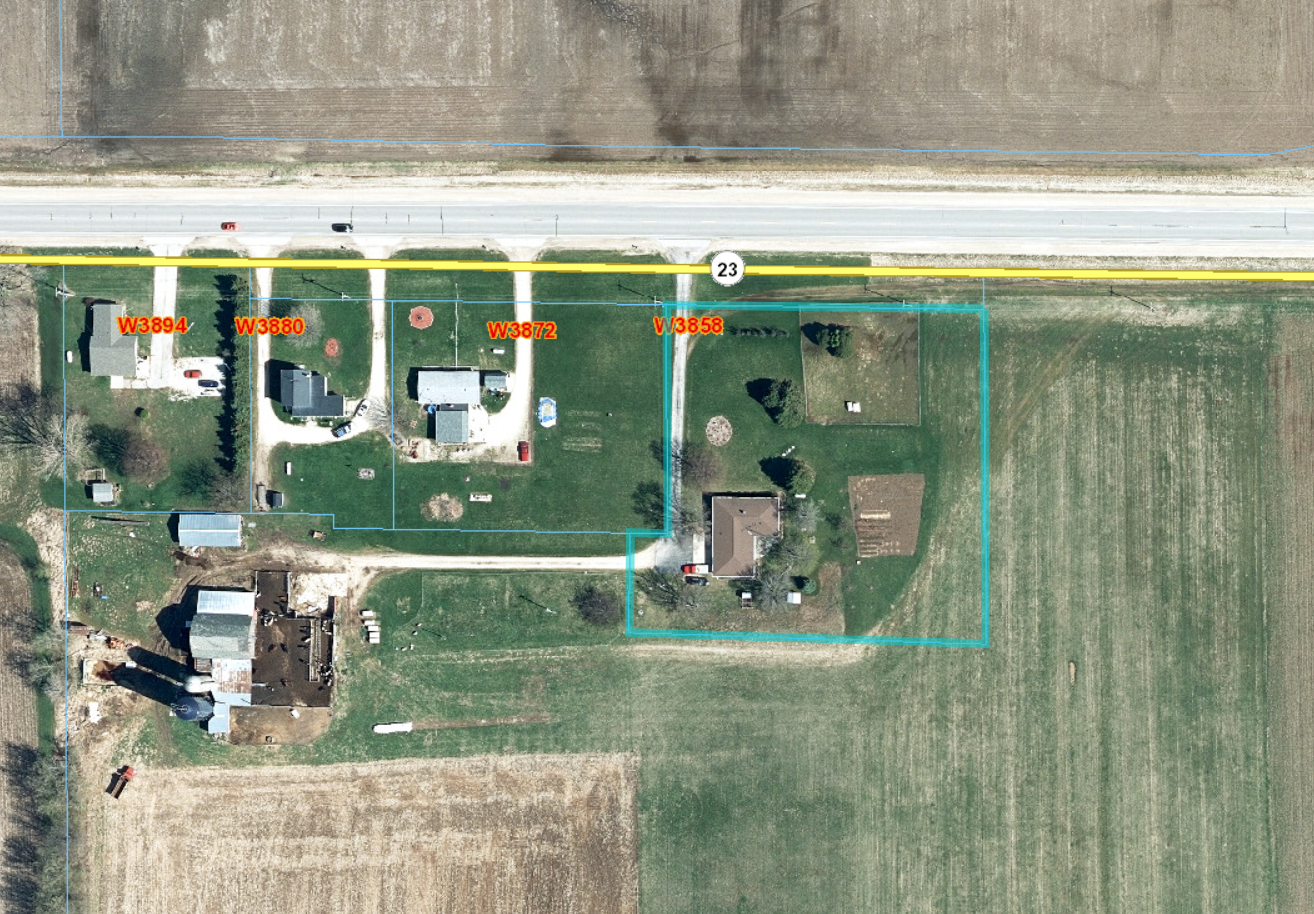
There were 700 total housing units. Of those, approximately 81% were vacant. Approximately 76% of the total housing units are single-family detached residences. They were primarily built between 1960 and 1989. The median owner occupied home was $371,900.

The highest sector of employment is management followed by service and then sales. The highest sector of industry is Arts, entertainment, and recreation, and accommodation and food services followed closely by Professional, scientific, and management, and administrative and waste management services and then manufacturing. Approximately 73% of the work force drive to work, 57% have a less than 10 minute commute to work and the mean travel time is 9.3 minutes to work. The median household income is $51,458 with the mean being $69,287.

The economic vitality of Ephraim is very much seasonal. The low year round population as shown above swells in the summer. During the month of July, the population swells to around 3,500 (according to Gregory Lamb, Door County University Extension). This great increase is due to visitors staying at lodging establishments and, more importantly property owners occupying their summer residences. Non-resident property owners pay about 68% of the property taxes of Ephraim.

The Village of Ephraim is heavily dependent on tourism for their economy. Most of the homes in the area are second homes. The town has an aging population and has seen little population growth since 2000.

# SUBJECT PROPERTY INFORMATION – BEFORE CONDITION

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**Size:** 1.74 acres

**Shape:** The parcel is basically rectangular.

**Topography:** The property is basically level to rolling toward the southern property line. The appraiser did not observe any major slopes on the property at the time of inspection.

**Road Frontage and Access:** The property has approximately 265.06’ of frontage and a single access point along STH 23. The access was previously acquired. The subject and the neighboring lands to the east and south (T08-15-18-09-14-001-00) were limited to a single access point. After the access restriction, the property was subdivided into 2 parcels. This does not change the access restriction. Therefore, the frontage of the subject and the referenced adjacent tract may have a total of only one access point along STH 23. STH 23 is a state highway. This roadway connects the city of Sheboygan to western Fond du Lac county. The property is considered to have average access and road frontage for its highest and best use.

**Soils:** The property consists of buildable soils. The soil map shows there are some slopes and erosion concerns and the northern 1/3 of the property is limited due to wetness and drainage.

**Wetlands:** According to the available GIS mapping, the subject property is not located with an area of WDNR designated wetlands.

**Water Frontage:** There are no water features located on the site.

**Floodplain:** According to the FEMA Flood Insurance Rate Map, Community Panel No. 55039C0315F, Map Date November 4, 2009, the subject property is not located in a designated flood hazard area.

**Utilities**: The property has public utilities that includes electrical, gas and telephone service. It is serviced by a private well and private on-site waste treatment.

**Environmental Problems:** The appraiser did not observe any potential environmental problems. The WI DNR Bureau for Remediation and Redevelopment Tracking System (BRRTS) website was reviewed and a report of a known environmental issue was not found. The subject property is appraised as if there are no environmental problems. A property inspection and review of the information available from the state website does not mean that environmental problems are not present. An environmental study goes beyond the scope of this appraisal though may be necessary to determine if there are any potential environmental problems.

**Easements**: There may be typical utility and roadway right of way access easements located on or near the property. There are no known restrictive easements having a detrimental impact to the subject property.

**Encumbrances**: The appraiser is not aware of the status or present loan balance on the property. The appraiser is not aware of any other mortgages on the property. There may in fact be a mortgage on the property however; it should not affect market value. There are no known liens such as mortgages, taxes or judgments against the property. The property is appraised as if free and clear. There are no known restrictions, easements or reservations placed on the property.

**Existing Land Use Regulations**: No known land use regulations have been placed on the property.

**Site Improvements:** There are several large shade trees in the front yard. The well is located in the northwest corner of the property. The septic system is in the southeast corner of the property.

**Building Improvements:** IF NOT VALUING IMPROVEMENTS: An existing two family residential dwelling is on the site. According to the assessor, the property is a bi-level structure with aluminum and vinyl siding. It is 2,304 square feet and was built in 1984. The building appears to be in below average to average condition.

As a point of clarification: The improvements are set back from both the existing right of way and the acquisition area and will not be impacted by the proposed acquisition. Therefore, a standard abbreviated appraisal report format is being implemented where the improvement value is being based from the property assessment records in both the before and after conditions.

IF VALUING IMPROVEMENTS: There is an existing single-family residential home located on the site. According to the assessor, the home was built in 1956, making it 60 years old. It is considered to be in average condition having some updates over the past 6-10 years. The representative indicated that a new metal roof, well and 200 AMP service were installed in the past 7-8 years. A new mound system was installed within the past 5-6 years. The furnace is original. The old well is still on site and has some elements for a heat pump system. The interior was dated and did not appear to have had cosmetic updates for several years. The exterior is wood sided and the paint is chipping in places. There are double hung and casement windows with screens, a stone patio with landscaping and ledge rock and a front porch. There is a two stall detached garage across from the attached one stall garage. The detached garage is older, has wood siding and is approximately 585 square feet in size. There are two smaller sheds on the site and a large stone fire pit.

The home has approximately 1,246 square feet of living area. The single story home consists of a living room, kitchen / dinette, full bath, sewing room and three bedrooms. The kitchen is carpeted, has sliding windows, built in microwave, pantry and dinette. The living room is carpeted, has a large corner window, fireplace, and plaster walls. There is a hall closest. There is one full bath with fiberglass surround, a freestanding sink, toilet, carpeting, and a built in vanity. One of the bedrooms has knotty pine walls and is carpeted. There is a sewing room, which lacks a closet and has laminate flooring. There is a crawl space attic access in this room. There is another bedroom with wood flooring and the third bedroom has plaster walls and carpeting. The home exhibits wood trim and flush doors.

There is a full unfinished basement with a shower stall and commode. The basement foundation is concrete block. According to the owner, part of the patio and perhaps part of the basement are built into the rock ledge. The home has 200 AMP electrical service. During the inspection, the basement appeared dry and there was no sign of water issues. There is a dry bar in the basement. There is an oil tank and older unused well pump in the basement. There is a one stall attached garage with basement access.

Overall, the home is considered to be in average condition. According to the assessor, the age of the home is 60 years old. The effective age is somewhat younger than the actual age. The remaining economic life is estimated to be 25+ years.

**Encroachments:** WisDOT provided the appraiser with an encroachment report. This report states that the two southernmost parallel stalls are encroachments. The staking (and photos) clearly show a permanent right of way point (PRW 254) within the second parallel stall south of the building. This is where the new right of way meets the existing right of way. Therefore, this stall is encroaching and is non-compensable.

**Legal Description of Property Appraised:** This legal description of the larger parcel is from the title work provided to the appraiser: Lot 1 of Certified Survey Map No. 7084, recorded in the Fond du Lac Registry on July 7, 2006 in Volume 50 of Certified Survey Maps on pages 91, 91A and 91B, as Document No. 875550, and being a part of the Northwest 1/4 of the Southeast 1/4 of Section 9, Township 15 North, Range 18 East, in the Town of Empire, Fond du Lac County, Wisconsin.

**Zoning**: The property is currently zoned R-1 Residential District

**Purpose.** The R-1 District is intended to provide for high quality, year-round residential development in areas where the reasonable provision of municipal services is feasible. This District is designed to provide single-family home sites in those developing areas that offer “rural residential” amenities, services and facilities.

**Permitted Uses.** Single-family dwellings, two family dwellings, subdivisions, community living arrangements, family day cares.

**Conditional Uses.** Bed and breakfast, home office

**Minimum lot size requirements:** 1 acre without public sewer and water

**Minimum width:** 100’

**Setbacks:** 110’ from the centerline or 50’ from right of way line of a state highway and 100’ from the centerline or 50’ from right of way line of a town road.

**Density:** 1 dwelling unit/acre minimum density

**Present Use**: The property is currently used as a single family residence.

**Zoning Conformance**: The present use and the highest and best use are permitted by zoning. According to the local zoning authority, a zoning change is not likely to be made for the subject property.

**Personal Property/Equipment/Fixtures**: None

**Special Amenities or Adverse conditions**: There are no special amenities or adverse conditions noted that would affect the property’s value.

**2018 Assessment and Taxes**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Tax ID | Assessed Land Value | Assessed Improvement Value | Estimated Fair Market Value | Taxes |
| T08-15-18-09-14-006-00 | $24,500 | $142,500 | Use Value Assessed | $2,584.34 |

**FIVE YEAR SALES HISTORY OF SUBJECT PROPERTY**

The last recorded transfer was dated June 14, 1991. The grantor Philip Lee conveyed the property to Alan Stachura. Via Warranty Deed Jacket 17075 Image 30, the transfer fee was $135, which equates to $45,000.

The subject property is not currently for sale on the open market.

# HIGHEST AND BEST USE – BEFORE CONDITION

USPAP mandates the inclusion of a Highest and Best Use section in an appraisal when the purpose of the report is to determine market value. The depth and detail required in this section of the report is set by its significance to the appraisal. If the Highest and Best Use of the subject is clear and obvious to the appraiser and report users, it need not be prepared as a thesis. If the Highest and Best Use determination is difficult and critical to the value conclusion, it needs to be thoroughly developed and presented.

Good appraisal practice requires a highest and best use analysis for the property being appraised in this report. It is a basic principle of real estate valuation that vacant land or improved properties tend to be put to the use, which will produce the greatest net return for the property over a given period. This is the basis for decision-making concerning the allocation of space among alternative competing uses. Hence, it is the basis for valuation, since the owner, potential purchaser, or user is presumed to plan to put the land to the use that will produce the greatest return.

The economic concepts of [utility](http://en.wikipedia.org/wiki/Utility) and [substitution](http://en.wikipedia.org/wiki/Substitute_good) drive the highest and best use analysis. The highest and best use of a property determines its utility to a potential purchaser. The purchaser of such a property would pay no more for a competing property with the same utility while a seller would accept no less than a seller of a comparable property would.

Highest and Best Use can be defined as the reasonable probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are physical possibility, legal permissibility, financial feasibility, and maximum profitability.

The highest and best use of a property must be financially feasible: the proposed use of a property must generate adequate revenue to justify the costs of construction plus a profit for the developer. In the case of an improved property, with obvious remaining economic life, the question of financial feasibility is somewhat irrelevant. In the case of an improved property with limited remaining economic life, the question of financial feasibility becomes a question of the maximally productive use of the site. If the value of the land as vacant exceeds the value of the property as improved less reversion/demolition costs, then redevelopment of the site becomes the maximally productive use of the property. Continued use of the existing improvements that do not represent the highest net value of the site is considered financially unfeasible.

The highest and best use analysis involves two separate estimates: 1) the site as if vacant and available to be put to its highest and best use and 2) the property as improved. It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until, land value in its highest and best use exceeds the total value of the property in its existing use.

**Highest and Best Use “as if” vacant:**

*Legally Permissible:* The first consideration in arriving at the highest and best use of the subject is to determine the legally permissible uses. Primarily, this is the zoning of the property but may also include any covenants, conditions, restrictions, or easements placed on the property. The availability of adequate legal access for the allowable uses is another consideration.

The property is zoned R-1 Residential district. This district allows for residential uses and requires a one acre minimum size. Therefore, a residential use is legally permissible.

*Physically Possible*: The next step is to determine which of the legally permissible uses is physically possible. In many cases, factors such as the location of wetlands, insufficient access to buildable areas of the site, or parcel dimensions may preclude certain uses. The appraiser reviewed the available public information and physically inspected the subject property. From my review of public records and soil studies, the soils, topography, hydrology, and other physical characteristics of the property appear supportive of the legally permissible uses.

Any of the legally permissible uses of the site is physically possible.

*Financially Feasible*: The financially feasible use of a property is the ability of a proposed land use or change of land use to justify itself from an economic point of view. Financial feasibility is defined as "any physically possible and legal use of vacant land or land as though vacant that produces a positive return to the land after considering risk and all costs to create and maintain the use; any use that results in a positive land value."

The property is a rural residential, partially wooded lot with access to a county road. A residential use would be a financially feasible use of the site and would result in a positive land value.

*Maximally Productive:* The final step in determining the highest and best use of the subject is to analyze those uses that are legally permissible, physically possible, and financially feasible and determine which among them would produce the highest net return or the highest net present value to the property.

There are similar sized rural residential lots in the area. These lots transfer in the market. A residential use is the maximally productive use of the land.

*Highest and Best Use “if vacant”:* Residential Use

**Highest and Best Use as Improved:** The subject is currently improved with a single family residence. The existing improvements are in average condition and retain a substantial contributory value to the property. The land values in the area would not support a land use change nor would the site be more suitable for removing the existing structures and placing new buildings on the site.

The existing use is a legally conforming use and meets the test of physically possible and financially feasible. The existing structures have remaining economic life and provide the maximally productive use for the site. Therefore, the highest and best use of the property is at its existing use as a single family residence.

**Highest and Best Use:** Existing Use as single family residence

*User:* The typical user or purchasers for these types of properties are owner occupants and investors.

*Timing:* Proper highest and best use analysis should not fail to take into consideration the impact of timing on financial feasibility. Acknowledgment of timing as a factor recognizes the possibility that the maximally productive use of a property may not be currently financially feasible and, until such time, an interim use of the property is appropriate.

The subject is an improved residential home site. The continued use of the property for this use is the highest and best use of the property; this is not an interim use for the site. Therefore, there is no time restriction for this use.

# LARGER PARCEL ANALYSIS

The Uniform Appraisal Standards for Federal Land Acquisitions (The Yellow Book) defines the larger parcel as that tract, or those tracts of land, which possess a unity of ownership and have the same, or an integrated, highest and best use. Elements of consideration by the appraiser in making a determination in this regard are contiguity, or proximity, as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use.

The subject property is an approximately 1.74 acre improved single family residential site. The property owner does not own any adjacent properties that would or might be impacted by the acquisition of the subject property. The property meets the test of unity of ownership and unity of highest and best use. The 1.74 acre improved site is considered the larger parcel for this appraisal assignment.

# APPROACHES TO VALUE

An appraisal is an estimate of value based upon the highest and best use of the property. A market analysis uses the concepts of an individual appraisal assignment only its scope is based on a broader ranged project such as a corridor expansion project. The three approaches normally used in estimating the value of a property are the market or direct sales comparison approach, the cost approach and the income approach. After reviewing the value indications for each of the three approaches, the appraiser reconciles the indicated values into a single value. The type of property involved, the nature of the market, and the availability of appropriate data all factor in to the reliability of any of the three approaches.

The appraiser should consider each of these approaches in every appraisal, even though subsequent analysis may reveal that one or more of these approaches are inapplicable in the case at hand. The applicability of any approach in a given appraisal problem depends on the character of the problem, the type of property involved, the nature of the market, and the availability of required data of appropriate quality and sufficient quantity.

The sales comparison approach is based on the principle of substitution where an informed buyer would not pay more for a particular property and its amenities than the value of a similar competing property with equal amenities. It is the most common and preferred method of valuation when recent comparable sales data is available.

The sales comparison approach involves the comparison of similar properties that have recently sold, or similar properties that are currently offered for sale, with the subject property. Many comparable properties were considered in developing this sales study report. The comparable sales used are considered the most comparable and the best indicators of value for each individual property type as of the effective date of the appraisal. The adjustments made to the comparable sales are reasonable, supportable and accurately reflect the actions of a typical buyer in today’s market.

The Before and After Rule: In eminent domain valuation, it is a procedure in which damages are measured as the difference between the value of the entire property before the acquisition and the value of the remainder after the acquisition. This requires two separate valuations of the property. The first is an appraisal of the larger parcel “before” acquisition. The before valuation requires market research to identify sales of land with similar zoning, size and use as the subject property. The second is an appraisal of the remainder after acquisition. The after valuation takes into consideration the remaining uses of the land after the acquisition.

The preferred method of adjusting comparable sales is using quantitative adjustments whenever adequate market data exists to support them: “quantitative adjustments are developed as either dollar or percentage amounts. Factors that cannot be quantified are dealt with in qualitative analysis.” (UASFLA, Section A-17 page 21) In order to estimate the appropriate adjustments for the dissimilar characteristics, both qualitative and quantitative analysis will be used in this appraisal report.

The qualitative analysis compares sales based on their characteristics being inferior, superior or equal to the subject property. Qualitative data is based on subjective measures and are usually described in a narrative way. An amenity such as view may indeed affect market value but is nevertheless difficult to measure and quantify. Although more subjective in nature, qualitative data is still valuable as a source of information and when correctly ranked or systematically treated can significantly improve the appraisal valuation process.

When using a qualitative analysis it is essential to find comparable sales that are either overall inferior or overall superior to the subject when using a qualitative analysis. When an appraiser determines a probable range of values for a property by applying qualitative techniques of comparative analysis to a group of comparable sales, this process is called bracketing. The array of comparables may be divided into two groups - those superior to the subject and those inferior to the subject. The adjusted sale prices reflected by these two groups limit the probable range of values for the subject and identify a bracket in which the final value opinion will fall. The most comparable sales will typically fall near the middle of the range.

Quantitative data, on the other hand, is more objective, in that it is based on interval data that can be measured and compared with much more precision. The quantitative method uses a matched paired analysis where two sales are compared that are similar in all respects except for the characteristic for which an adjustment is to be derived, thereby isolating the variable in question.

Another method to extract market-based adjustments is by interviewing market participants. The appraiser will attempt to quantify adjustments in the sales comparison approach by interviewing individuals actively engaged in real estate transactions. Primary market participants are those who invest equity in real property or use real estate, e.g., buyers, sellers, owners, lenders, and tenants. Secondary market participants include those who advise primary participants, e.g., advisors, counselors, underwriters, and appraisers.

The cost approach is based on the assumption that a potential buyer will not pay more for a property than it would cost to build a new property identical to, and intended for the same use as, the property being appraised. The cost approach is generally most applicable when the property being appraised is relatively new and suffers from minimal depreciation. With older properties, it becomes more difficult to accurately estimate the accrued depreciation of the improvements making the cost approach less reliable.

In the cost approach, the value of the land as if vacant and ready to be developed to its Highest and Best use, is first estimated based on sales of similar type properties. The replacement cost new of the improvements is then estimated and depreciation from all sources including any physical or functional, and obsolescence is deducted from the replacement cost giving the present depreciated value of the improvements. The depreciated value of the improvements is then added to the value of the land resulting in an indication of value by the cost approach.

The Cost Approach is used in conjunction with the valuation of improvements. Given the advanced age of the subject improvements, and the unreliable nature of depreciation estimates under such circumstances, the Cost Approach was not developed for this report. The omission of the Cost Approach is not considered misleading or inappropriate.

In the Income Approach, an estimate is made of the market rent, which the subject property should command, based on the rental of competitive space. Estimates are also made for appropriate vacancy rate and expenses for the subject, based on information developed from similar properties in the market. The estimated gross rental income is reduced by the estimated expenses leaving a net income, which the subject property is capable of producing. This is the basis for any of the various capitalization techniques. The rate of return on investments in similar type properties is derived from the market, and this rate of return is used to capitalize the indicated net income into an indication of value by the income approach.

Single-family residential properties are not typically purchased for income production and are normally owner occupied. They are typically purchased on their perceived market value not on capitalization rates or multipliers. There is insufficient market data to conclude a value for the subject property based on the income approach. The omission of the income approach is not considered misleading or inappropriate for this valuation assignment.

In this market, land leases are not prevalent for the subject land types. In this market, this land type is not purchased for any income or rental potential. In this market, vacant land is typically purchased based on its perceived market value not on any type of income capitalization rate; therefore, the income approach does not apply. The omission of the income approach is not considered misleading or inappropriate.

The subject property consists of land types that are leased in this market area. Based on a Wisconsin Supreme Court decision in Leathem Smith Lodge, Inc. vs. State of Wisconsin (1980), the Income Approach is considered inapplicable in Eminent Domain valuations (so long as sufficient market data is available). Therefore, the Income approach will not be developed in this appraisal report. The omission of the income approach is not considered misleading or inappropriate for this valuation assignment.

# SALES COMPARISON APPROACH – BEFORE CONDITION

Since two properties are usually not identical, an appraiser must make adjustments within the Sales Comparison Approach. The adjustments made by the appraiser should reflect the market. Adjustments may include, but are not limited to, location, size, view and topography for a property if these are characteristics that the typical buyer would take into consideration. Appraisers use either quantitative or qualitative adjustments (or a combination of both).

Generally, quantitative adjustments consist of either percentage or dollar adjustments accounting for differences between the subject and the comparable sales. These adjustments are extracted from the market using other sales. Quantitative adjustments use specific numbers (percent or dollar amounts). This analysis uses various techniques to quantify adjustments to the sale prices of comparable properties including paired sales analysis, statistical analysis and cost-related adjustments. The main limitation of this analysis is that there is not typically enough data to provide paired sales for all the required adjustments. Often, the quantitative adjustments made are simply qualitative adjustments presented as percentages. They are not directly supported by market data. Appraisers should quantify adjustments based on market data whenever possible.

Qualitative adjustments require the appraiser to rank the comparable sales in terms of inferiority/superiority to the subject. These adjustments are purely relative (inferior, similar and superior). This analysis recognizes the inefficiencies of real estate markets and the difficulty in expressing adjustments with mathematical precision. It is imperative that the appraiser explains the analytical process and logic applied in reconciling the value indications using qualitative analysis techniques such as trend analysis, relative comparison analysis or ranking analysis.

Qualitative analysis recognizes the relationships of differing factors recognized in the market data without mathematically quantifying them. Appraisers use this technique because it reflects the imperfect nature of real estate markets. Reliable results can be achieved by bracketing the subject between superior and inferior comparable sales. The appraiser must search the market diligently to obtain and analyze sufficient pertinent data to bracket the value of the subject.

Qualitative adjustments are more subjective in nature because they do not include direct quantification. However, their biggest strength is that they match the typical behavior of most market participants. It is often more common for a buyer to compare property attributes on a scale of superior or inferior (ranking of importance to them) than to quantify the differences using market derived data.

Each of these techniques has its own weaknesses and strengths. No difference exists in terms of appraiser research and analysis between qualitative and quantitative techniques. They simply represent two forms of presentation. The appraiser needs to consider the dependability of the market data in support of an adjustment and how market participants would make similar adjustments. Due to the imperfect nature of the real estate market, the judgment and experience of the appraiser is always a factor in determining what type of adjustments to use. Above all, the appraiser must be careful to ensure that adjustments made to the comparable sales reflect the reactions of market participants.

In the following analyses, the appraiser used a combination of both techniques. Where there was sufficient data to extract a market derived adjustment, one was made. In the case where there was insufficient data for a mathematical adjustment, an arrow was used. The number of arrows should not be considered an effort to quantify the adjustment, rather a means to see the degree of overall adjustment considered appropriate.

**Comparable Sales Map**

|  |
| --- |
| Insert Comp Map |

Discuss transactional elements considered and explain why you did or did not make adjustments and how you came up with your adjustments, but do not reference the adjustment amount

Discuss physical elements considered and explain why you did or did not make adjustments and how you came up with your adjustments, but do not reference the adjustment amount

Discuss if you are just appraising the site or both or what and explain.

## Land Value – Before Condition

In the chart below, the subject property and the comparable sale properties have been compared, and adjustments have been made to account for the differences between them. Please see the following page for the reasons for the adjustments. Please see the comparable sales data sheets for more complete information about the sales.

Double Click to enter chart





As a point of clarification the adjustment chart was done using an excel spreadsheet where the decimal points were visible only to two places. This might account for slight discrepancies in rounding. However, the excel spreadsheet internally calculates further. Therefore, the net adjustments are considered accurate.

**Comments on comparable sales:** The comparable sales are all non-governmental transactions that are considered arm’s length transactions. All sales are located in a similar rural use market area as the subject property.

**ADJUSTMENTS TO COMPARABLE SALES**

**Market Conditions:** Like most areas of the country and the state, this area has seen a significant slowing of the real estate market that followed the general economic decline. While some realtors report that values of homes in urban areas have decreased by varying amounts, most have reported that rural land has kept its value as owners are willing to wait for the economy to rebound. Those selling their land at significantly less than desired do so typically because of economic hardship or other reasons and these sales are not considered arm’s length sales.

There is no definitive market data with which to extract a general percentage adjustment to account for the current market conditions. The lack of sales and resale data along with limited market data due to the overall lack of transactions has made it difficult to make a market derived adjustment. Therefore, the appraiser relied on their discussions with landowners and local real estate experts. Local realtors indicated that land values have remained basically stable with no noticeable appreciation or depreciation over the past 24 months. The realtors indicated that the number of sales has declined and the marketing times have increased.

Based on review of MLS, Department of Revenue information, and their own research, the appraiser concluded that the local real estate market in the subject’s area is relatively flat with virtually no change in property values over the past 24 months. The comparable sales all sold within the past 24 months. They are considered to represent the current economic conditions. There does not appear to be any market conditions adjustment warranted for the past 12 to 24 months. The sales occurred within the past 24 months. They were not adjusted for market conditions of the time interval from the sale dates to the appraisal's effective date.

**Motivation**: All sales are considered open market and not influenced by any excessive motivational factors.

**Location**: The subject property is located in the Town of Peshtigo within a close proximity to Hwy 41. Sale 1 is located within a close proximity to the subject and is considered equal. Sales 2, 3 and 4 are located in slightly more rural areas in the Town of Grover and were adjusted upward +5%.

**Land Size**: When a property is bought on a per-acre basis market evidence proves that economies of scale apply to the real estate market and the typical buyer expects some degree of “discount” when buying a larger property compared to a smaller property. Therefore, because smaller properties typically sell for more on a per-acre basis than do similar but larger properties, Sale 1 was adjusted -5%, Sales 2 and 4 were adjusted +5%. Sale 3 was adjusted +10%.

**Cover type:** The subject property has a stand of mature growth along the roadway that consists of primarily pine with scattered hardwood species; however, the majority of the site has been recently logged off using a clear cut method whereas the majority of the site is covered in thick popple regrowth. This not an attractive feature for anything but recreational type uses of the site. The mature growth areas of the site would be suitable for building site development with the remainder being more recreational in use. Sale 1 has a good stand of mature tree species that has not been logged off and therefore was adjusted -15%. Sale 2 is partially wooded with a good stand of mature timber and was adjusted -10%. Sale 3 is a larger acreage tract with approximately 25% mature timber species and was adjusted -5%. Sale 4 is primarily an open agricultural site that is considered to be similar to the subject in overall market appeal.

**Soil Quality:** The subject and sales 1 and 2 have low wet soils that are very limited for building site uses. Sales 3 and 4 have approximately 70% higher quality soils considered superior. Each is adjusted -10%.

**Access:** The subject and sales 1, 2 and 4 have similar access for rural residential type uses. Sale 3 has a superior amount of road frontage on two roadways making the parcel more suitable for future divisions. Therefore, it was adjusted downward -5%.

**Water features:** Sale 3 has a small amount of frontage along the Little Peshtigo River and is superior to the subject that lacks any water features. Sale 3 was adjusted downward -5%.

All other factors are considered generally equal not requiring any further adjustments.

The adjusted per-acre values for the comparable sales range from $2,167 to $2,430 per acre. The mean is $2,267 per acre. Overall, the comparable sales are considered to provide a good representation for the market value for the subject property. Ideally, finding a sale with recently cut over timber similar to the subject would be preferable; however, there were no such sales found. The comparable sales indicate the market for rural residential type properties with recreational features similar to the subject. They are considered reliable indicators of value. Sales 1 and 2 are considered the most similar to the subject followed by sales 3 and 4.

Due to the cut over timber, the subject would likely fall closer to the lower end of the value range and below the mean. Therefore, when considering the comparable sales and the adjustments made to them, the most probable indicated value the subject property is $2,200 per acre as of the effective date of the appraisal report.

|  |  |
| --- | --- |
| $2,200 per acre x 13.44 acres | $29,568 |
| Rounded to | $29,600 |

Based on the comparable sales the most probable indicated value for the subject property as of the effective date of the appraisal is estimated to be $29,600

**Reconciliation**

Overall, there have been minimal sales of vacant tracts in older areas that compete with Velp Avenue. Lacking any sales on Velp Avenue the appraiser searched the metro Green Bay market. The comparable sales range from $2.43 to $6.25 per square foot. Sale 9 is considered significantly superior due to its location along a developing corridor in a fast growing area. Sales 6 and 7 are both located in somewhat superior locations in more growing areas compared to the Velp Avenue corridor that has seen minimal development or transition. Sale 8 is likely the most similar to the Velp Ave. corridor.

Velp Avenue is an older area that has seen minimal development over the past 20 years. The businesses that are located on Velp Avenue are destination type businesses. The Velp Avenue corridor does not have a significant amount of primary traffic that entices commercial type businesses. Sale 8 is located in a similar location. It was developed by a local photography business as a destination site. It is likely that if a business were to locate on Velp Avenue, it would require a similar site value. However, Velp Ave has a higher traffic count and likely requires a somewhat higher unit value.

The adjusted sales range in value from $2.66/ sq. ft. to $4.68/ sq. ft. The Mean is $3.60/ sq. ft. Sale 8 is likely the most similar; however, it falls below the other sales in the data set. Sales 6 and 7 fall within a closer range and were given more consideration. Sale 9 required a significant downward adjustment. It was given the least consideration. Giving the most weight to sales 8, 6 and 7 with less weight placed on sale 9, the most probable indicated value for the subject property’s vacant land is estimated to be $3.50 per square foot. 112,472 sq. ft. x $3.50 = $393,652

The comparable sales are of vacant lots within the similar competing areas that would represent properties similar to the smaller inland residential tracts along the corridor. Overall, the five sales are considered good indicators of value for what sites along the corridor would command on the open market. Sales 1 and 2 required upward adjustments. Sale 3 is considered most similar. Sales 4 and 5 required downward adjustments.

Comparable sales of inland mid-sized vacant lots suitable for single-family residences in similar competing neighborhoods range in value from $35,000 to $86,500. Sale 3 is considered overall most similar and is given most consideration. Sale 2 is given less consideration than Sale 3, but more than sales, 1, 4 and 5. Sales 1, 4 and 5 required more adjustments and are considered less similar to the corridor properties. Based on the analysis and the chart below, it appears reasonable to conclude a value of $15,500 / acre as a land value for the mid-sized inland residential properties along the corridor.

**Final Value Estimate for Mid-Sized Inland Residential Land**

**$15,500 per acre**

|  |  |  |
| --- | --- | --- |
| Sale 5 |  | $21,523 |
| Sale 4 |  | $17,074 |
| Corridor Properties |  |  |
| Sale 3 | = | $15,339 |
| Sale 2 |  | $11,777 |
| Sale 1 |  | $9,935 |

**Estimated Land value for Subject Property**

112,472 sq. ft. x $3.50 = $393,652

**$393,652**

## Value of Larger Parcel as Improved – Before Condition

After analyzing several comparable sales, the most realistic comparison factor was considered the sale price per improved property. Therefore, the price per property technique will be used to analyze the sales and compare them to the subject property. The location, quality of the improvements, condition of the improvements, size of the lots, and the overall appeal of the properties were considered in the valuation of the most probable sale price for the subject property. Following is the adjustment chart showing the adjustments, and the reasoning for the adjustments for each valuation factor. See the comparable sales data sheets for more complete information about each comparable sale. As a point of clarification, the adjustment chart was created using an Excel spreadsheet wherein the decimal points are not visible. This feature might account for slight discrepancies in rounding. However, the Excel spreadsheet internally calculates for decimal points. Therefore, the net adjustments are considered accurate for the purposes of the report calculations.

**Residential Sales Comparison Grid**





**Explanation of Adjustments to Comparable Sales**

**Market Conditions:**  Based on review of MLS, Department of Revenue information, and my own research, I concluded that the local residential real estate market in the subject’s area is relatively flat with virtually no change in property values over the past 24 months. Some data indicates a slight decline in residential property values. However, the price range that these properties fall into is considered first-time homebuyer homes that have basically remained stable over the past year. The overall market statistics considering higher end valued homes indicate a slight decline of approximately 2%-4% over the past year. Since these homes are considered to be in the first-time homebuyer classification, there does not appear to be any market conditions adjustment warranted for the past 24 months. Except for sale 4, the sales occurred within the past 24 months. Therefore, they were not adjusted for market conditions. Sale 4 falls just outside of the 24-month timeframe; however, the overall market conditions are considered similar. Therefore, sale 4 was not adjusted for market conditions.

**Location:** The subject is located in the Village of Wrightstown and is similar to sales 1 and 4. Sales 2 and 3 are located in the Town of Freedom a similar community located between Metro Green Bay and the Appleton Fox Cities area. Both Wrightstown and Freedom offer similar amenities with good public school systems and have similar vacant land values. Local realtors indicated that there is no measurable distinguishing difference in market values due to location factors between either of the communities; therefore, no adjustment was necessary for location factors between Wrightstown and Freedom.

**Site/View:** The subject is located on a residential site on a more heavily traveled roadway considered inferior to a less-traveled roadway. The subject does not have neighbors to the rear due to a conservancy providing privacy. Sale 1 is located on a more heavily traveled roadway. It does, however, have views of the Fox River across the road. Therefore, it is considered to have similar amenities to the subject’s conservancy and is not adjusted. Sales 2 and 3 are located on a busier county highway with similar traffic issues as the subject. The settings are more private and are considered similar to the subject. Sale 4 is located on a less traveled residential roadway; however, it is located within a more dense residential area. The two factors tend to offset the subject’s more heavily traveled roadway with private conservancy back yard. Therefore, sale 4 was not adjusted.

**Land Size:** The subject property has a lot size of approximately 19,039 square feet. Sale 1 is considered similar in size. Sale 2 is a larger, approximately 1 acre, site and is adjusted -$5,000. Sale 3 is a larger, approximately 1.73 acre, site and is adjusted -$10,000. Sale 4 is a smaller, approximately 7,308 square foot, site and is adjusted +$2,500. The market generally reflects a higher premium on larger residential lots and therefore the sales were adjusted accordingly based on their size differences.

**Condition:** The subject and all sales are older homes having recent updates; however, they vary in both the amount of updating and overall condition. The subject and sales 1 and 3 are considered nicely maintained of similar condition and are not adjusted. Sales 2 and 4 have less recent updating and were adjusted upward +$7,500.

**Living Area:** All sales were adjusted $10 per square foot of difference in living area. This is considered reasonable for a home of this age and quality. Typically, a buyer is willing to pay more for a property that is larger however, with older homes the overall price is more a component of size, quality, condition and price range that have a more significant impact on market value than the overall size of a particular house. This differs with newer homes or new construction where costs are compared more directly to the overall market value.

New construction costs range from $80.00 to $100.00 for a newly constructed home. It is unlikely that a buyer is willing to pay today’s cost for an older home. Generally, a size adjustment is warranted, however with existing homes typically the size adjustment depending on the age of the house can range from approximately 25%-75% of the construction cost new. A typical buyer does not usually distinguish a size difference between two houses of similar size. The typical buyer is looking for 3 bedrooms, 2 baths and a two-car garage within a particular price range; they typically will not pay considerably more for a slightly larger home with the same amenities. Again, when interviewing realtors, the indication is that all things being equal the larger home will sell before a smaller home. However, the replacement cost of the size difference would not translate into the contributory value. The realtors indicated that typically, when pricing a home, they use a range from $10.00 to $30.00 for size differences depending on the age and style of the home. They indicated that with homes over 50 years old, the lower end of this range is more reasonable. Therefore, a $10.00 adjustment for any size differences is considered reasonable for the subject property.

**Bedrooms/Baths:** The subject has 3 bedrooms with 1.5 bathrooms. The sales vary in the number of bedrooms and bathrooms. Overall, no adjustment was made for the difference between bedrooms; this is because any size differences would have been taken into consideration in the living area adjustment. Typically, there is no measurable difference in the market between the numbers of bedrooms. Bathrooms however, are an important feature in the market. A half bathroom was adjusted $1,500. The sales were adjusted accordingly to the number of bathrooms.

**Basement:** The subject has a full unfinished basement. Sales 1 and 4 are similar in this regard and are not adjusted. Sale 2 has only a partial basement and was therefore adjusted +$2,500. Sale 3 has a full basement that is partially finished. This was considered superior to the subject and was adjusted -$2,500.

**Garage:** The subject has a detached 2-car garage. Sales 1 and 2 are considered similar. Sale 3 has a superior 3 stall garage and was adjusted -$2,500. Sale 4 has no garage. It was adjusted $10,000. This adjustment is based in part on cost to cure figures and conversations with realtor and market participants.

**Extras:** The subject has central air conditioning and an extra detached garage. Sale 1 has central AC, deck and enclosed porch, which is considered to have a similar contributory value to the subject. Sale 2 has a shed and central air, is inferior to the subject and was adjusted +$5,000. Sale 3 has central AC, Fence, Shed and deck, which is considered to have a similar contributory value to the subject. Sale 4 has an enclosed porch and fence and was adjusted +$4,000.

**Reconciliation**

Overall, the comparable sales are considered to provide a good indication of the market value for the subject property. The comparable sales and the subject are similar in age, quality and condition and are considered a good representation for this property type. The adjusted sales range in value from $114,670 to $119,850. The mean is $117,210. Most weight was placed on sale 1. It requires the least amount of adjustments and is located in the Village of Wrightstown. Sales 2 and 3 were given the next consideration however, required adjustments that are more significant. Each was located in a similar competing area within the Town of Freedom. Sale 4 was given the least consideration, requiring adjustments that are more significant. It was a slightly older sale located within the Village of Wrightstown. All four sales are considered to be a fair representation for the current market and fall within a close value range. The subject would most likely command a value near the middle of the value range if exposed to the open market. Based on the comparable sales the most probable indicated value for the subject property by the market approach as of the effective date of the appraisal report is $118,000.

**Estimated value for the subject property by Market Approach**

$118,000

**Before Value Land & Improvements Allocation**

|  |  |
| --- | --- |
| Total | $139,000 |
| Land Value: | $36,285 |
| Improvement Allocation: | **$102,715** |

# COST APPROACH – BEFORE CONDITION

Explain what you used and how you got here



## Estimated Contributory Value of Site Improvements

$

Explain how you allocated that and show

# INCOME CAPITALIZATION APPROACH – BEFORE CONDITION

The Income Approach is a valuation method where an annual net operating income is estimated and then capitalized into an estimate of value for the property. The Income Approach requires an analysis of a probable market rent and/or income generating potential of the property in order to estimate the potential gross income, which may differ from the actual gross income. The estimate of the potential gross income is then reduced by an estimate for vacancy and collection losses and for expenses in order to estimate the net operating income. The estimate of net operating income provides for recapture of money invested in depreciating improvements as well as a return on equity.

An appropriate capitalization rate is then estimated for the subject property. A direct capitalization rate is estimated from an analysis of properties acquired based upon the income. A capitalization rate is also estimated from a formula that incorporates multiple factors such as an interest rate, return on equity, and holding period. A real estate investor survey and other publications, along with listings, are also reviewed and used to provide additional support for the selection of a capitalization rate. In the comparative analysis of income information and capitalization rates, factors that would most likely influence the market acceptance of the property, such as location, building size and leasable area, building design and other amenities, age/condition, along with existing occupancy levels and income, if applicable, along with general market conditions, are considered.

COMPARABLE LISTINGS

The appraisers review listings for area properties that are available on the websites of commercial realtors and listing services and discuss the market for properties with space available for lease with commercial agents, property owners and managers. Current listings provide information about properties that would compete with the subject property if it was listed along with information as to current market trends and conditions.

The information presented below establishes a range of the listed properties.

The information presented below is for properties considered the most similar to the subject property that are currently listed for lease or have recently been listed for lease.

|  |  |
| --- | --- |
|  | 812 Cormier Road  Ashwaubenon, Brown County |

The **fifth** available property is located on a well-travelled commercial street just east of the intersection with South Oneida Street and just north of the Bay Park Square Mall in the southwest side of metro Green Bay. According to the listing, the Class B office building is 8,400 square feet in size. The owners have slashed the lease rate and are ready to offer a tenant a significantly below market rate for a short or long term lease. The building has an attractive two story foyer, significant open cubicle space as well as many perimeter offices, four separate heating/cooling zones. The site has ample parking. Will not divide the space at such a low lease rate but will consider offers if only one floor is needed. The current listing has been active since the end of January 2012. The property has been unoccupied for multiple years.

COMPARABLE LEASE INFORMATION

Property specific information – check supporting information file for retail/office/restaurant/industrial, etc.

**Comparable Lease 1:** A strip center located on South Military Avenue in the west side of Green Bay was recently listed for lease. The listing expired in September 2011. According to the available property information, the site consists of a 24,200 square foot strip center constructed in 1965. The property has been renovated. According to a recent listing, the building had three suites available, one suite nearly 2,000 square feet in size and two nearly 4,000 square feet in size. The suites were listed at $8.00 per square foot plus utilities. The realtor stated that the listing expired as the building has been filled. Suites in the 1,500 to 2,000 square foot range were leased at the listed $8.00 per square foot plus utilities rate. In July 2009, a different realtor was listing suites in the property for $12.00 per square foot on a triple net basis.

**Comparable Lease 2:** A property located in the southwest side of metro Green Bay, in a commercial area south of the Bay Park Square Mall. The property is comparable lease listing number five. According to the information available from the CoStar real estate information service, the site is improved with a multi-tenant neighborhood center that is 33,000 square feet in size. The tenant, Sir Bounce A Lot moved into a 15,000 square foot retail space on 03/15/11. The lease is five years and the estimated rent is $8.92 per square foot on a triple net basis.

**Comparable Lease 3:** A property located in downtown De Pere is improved with a large, quality, two-story building constructed in 2001. Most of the second floor office area, just over 17,000 square feet in size, was recently leased to a government entity. The leased area includes a large open office area and a section with a higher level professional use that includes private offices. The lease rate is $9.00 per square foot plus utilities. The lease has a ten year term however; the tenant can leave at any time after year five. In addition, the first year of the term is at a lease rate reduced by $3.51 per square foot. The reduction spread over a five year term results in an effective lease rate of $8.30 per square foot plus utilities.

**Comparable Lease 4:** A property located on Holmgren Way in the southwest side of metro Green Bay includes two multi-tenant office buildings that include lower levels. They are leased to multiple tenants. The buildings were constructed in a range of fifteen to twenty years ago, have a brick exterior and an above average level of build out. There are ten suites ranging up to 2,500 square feet in size. The average overall lease rate is nearly $11.00 per square foot. The average lower level lease rate is nearly $9.00 per square foot. The average ground level lease rate is nearly $13.00 per square foot. In general, the property includes tenants that have renewed leases with no increases and new tenants acquired at reduced rates.

ESTIMATED NET OPERATING INCOME

Listings of properties located in northeast Wisconsin on a commercial real estate listing website along with the websites of area commercial realtors have been reviewed along with lease information from a subscription based provider of commercial real estate information. Market conditions for comparable properties with space available for lease or have recently been leased has been discussed with area commercial agents, property managers and owners. The most applicable information has been presented in the Comparable Listings and Comparable Lease Information sections of the Income Approach. A market lease rate is estimated in this section, which is utilized to provide an estimate of value from the Income Approach for the subject property.

Limited information is available for properties located in a small city in a rural area. In addition, limited information is available for properties improved with a building that is a size comparable to the subject building and includes a significant mezzanine area, a significant detached unheated storage building, and a large site with significant gravel paved storage area.

Based on an analysis of the available income information and the characteristics of the subject property, and the current market conditions, a lease rate in a range of $3.50 per square foot to $4.00 per square foot on a triple net basis is considered reasonable for the subject property, with $3.75 per square foot utilized in this appraisal.

|  |  |  |  |
| --- | --- | --- | --- |
| **Estimated Gross Income** | **Size** **Sq. Ft.** | **Lease Rate Sq. Ft.** | **Annual Rent** |
| Subject Building | 12,768 | X $6.00 | = $76,608 |

|  |  |
| --- | --- |
| **Estimated Net Operating Income** | |
| Potential Gross Income (as if fully leased) | $76,608 |
| Less Vacancy & Collection Loss (est. 10%) | - $ 7,661 |
| Equals Effective Gross Income | $68,947 |
| Less Expenses (est. 10%) | - $ 6,895 |
| Estimated Net Operating Income | $62,052 |

**Vacancy & Collection Loss**

The effective gross income of a rental property is typically anticipated to be less than the potential gross income due to losses from unoccupied area (vacancy) and the non-payment of rent (collection). Structural vacancy is the normal rate of vacancy in a balanced market. The generated income can also be impacted by area remaining unoccupied due to tenant turnover as finding a new tenant can take time and the use of free rent at the start of a new lease term.

According to the PwC Real Estate Investor Survey for the fourth quarter of 2011, for the central business district office market, the overall vacancy trends shows a rate of 9.8% in the third quarter 2007 to a high of 14.8% in the second quarter 2010 and decreasing to 13.8% in the third quarter 2011.

According to the PwC Real Estate Investor Survey for the third quarter 2011, for the suburban office market, “Positive leasing trends are occurring in the majority of office markets across the country. However, for the most part these improvements continue to happen very slowly. At midyear 2011, 25 of the 37 U.S. suburban areas tracked by Cushman & Wakefield (C&W) reported year-over-year declines in overall vacancy while 11 reported increases and one was unchanged.” However, “12 of the individual markets that reported year-over-year declines still post overall vacancy rates above the national figure of 19.3%, as of the second quarter of 2011. In addition, the initial year market rent change rate is on average 1.27%, which has increased from .55% in the second quarter and .42% in the first quarter. The basis point change is plus 190 from the third quarter of 2010. The four quarters in 2010 and the last two quarters in 2009 were all negative. The average structural vacancy rate was 9.8%.

According to the May 2011 Office Outlook report released by Marcus & Millichap, “The quarterly reduction in vacancy in this year’s opening period was modest, yet meaningful, as it marked the first vacancy improvement in more than three years. The national office vacancy rate climbed for 12 consecutive quarters before plateauing at 17.6 percent in the third quarter of 2010. Two successive quarters of positive net absorption turned the tide, nudging down vacancy to 17.5 percent during the first three months of this year. While this is good news for the office sector, demand remains well below trend and this nascent stability is attributable to limited new office stock additions through 2010 and the first quarter of this year. The change in momentum carried through to rents in the first quarter, as both asking and effective rents rose a modest 0.5 percent from the previous quarter. In addition, “the inventory of underutilized office space in the market presents a greater challenge because companies can quickly fulfill their expansion needs internally, diminishing an important component of market demand and net absorption.“

The above information is for national metro areas. In general, commercial development was more restrained in northeast Wisconsin than national metro areas, however the local area has been impacted by the same trends, with tenants requiring less space and requesting decreases in lease rates.

A 10% adjustment for vacancy/collection loss is considered reasonable for the subject property.

**Expenses**

The estimated lease rate is on a triple net basis, with the tenant(s) paying the operating expenses, though the property owner does still incur some non-reimbursable expenses.

The estimated lease rate is on a triple net basis, with the tenant paying the operating expenses. The property owner does still incur expenses such as setting aside reserves for the replacement or repair of major property components, property management, commercial broker fees, and miscellaneous expenses such as insurance. The PwC Investor Survey states for a national suburban office, the average replacement reserves were $.52 per square foot which equates to $6,639, management fees were 3.33% of effective gross revenue which equates to $2,296 and leasing commissions for new leases were 5.55% and for renewal leases 3.20% of effective gross revenue. The average is 4.38%, which equates to $3,020. The total of the three items is $11,955, which equates to 17% of the effective gross income and $.94 per square foot. The investor survey information is for investment grade properties located in large cities, and therefore it appears reasonable that the estimates for the subject property should be at a lower rate however, insurance and other miscellaneous expenses should be considered. In addition, real estate taxes and operating expenses are assigned to tenants based on a proportional share of the leased area therefore the share of the expenses that is the responsibility of the property owner due to unoccupied areas should be taken into consideration, when applicable.

An adjustment for expenses of 10% of the effective gross revenue, which equates to $.54 per square foot, is considered reasonable and is utilized in this report.

CAPITALIZATION RATE INFORMATION

The appraisers research and analyze capitalization rates when completing an appraisal assignment. A capitalization rate can be calculated with a formula that takes into consideration mortgage financing and the return on equity of the investment. Capitalization rates can be extracted from the market by analyzing sales of commercial properties. Information can also be found in publications that analyze investor surveys and perform market research. The appraisers will review the available information and then estimate a capitalization rate for the subject property that is utilized to calculate an estimate of value from the Income Approach.

**Mortgage Equity Yield Capitalization**

The unique feature of the mortgage-equity system of capitalization is the consideration of mortgage terms and equity yields as factors influencing the capitalization rate. Unlike other systems, mortgage equity capitalization does not disregard mortgage terms or view a property as if owned free and clear of debt. Instead, mortgage financing is taken into consideration in the estimation of a capitalization rate. This recognizes that the typical investor will utilize the best available mortgage financing in order to maximize the yield on a minimum down payment. The Mortgage Equity technique is considered a realistic system of analyzing and judging the relative attractiveness of real estate investments based on the impact of mortgage financing on the commercial real estate market.

The capitalization rate derived by the Mortgage Equity Technique is based on information from our appraisal files, on the terms of recent loans, current market conditions and conservative estimates of future market conditions. The following assumptions are estimated to reflect the expectations of typical investors in the real estate market. The interest rate is based on a projected average interest rate that an investor would expect to achieve over the projected holding period. A current interest rate may differ from this projected average however, the market is expected to change over the projected holding period and a different interest rate may be charged during the later portions of the estimated holding period. Commercial real estate loans typically have a short term, often 3 to 5 years with a balloon payment due at the end of the term therefore an investor would expect to refinance a loan over the projected holding period. A conservative property appreciation rate of less than 1% per year of the holding period is also used.

SAMPLE



**Direct Capitalization Rate Information**

Direct capitalization is a method used to convert an estimate of income for a single year into an estimate of value. A direct capitalization rate can be calculated by dividing an estimate of the net operating income at the time of the sale by the sale price. When the net operating income is not known, an estimate can be made based on listing and lease information from comparable properties. Commercial properties that are listed for sale can also include a direct capitalization rate. Listing information can provide insight into trends in the capitalization rates of commercial properties and in estimating the net operating income of the listed property.

In general, a property acquired for the generated income tends to be leased to a quality tenant(s) and to have a high occupancy rate; therefore, such properties would be expected to be at the lower end of the capitalization rate range. Based on conversations with area real estate professionals that specialize in leased properties and the available information from listings, for a fully leased investment property leased on a triple net basis, a deduction of 5% for vacancy and collection losses and 5% for expenses/reserves is considered reasonable and typical for the calculation of a capitalization rate and is utilized in the following section unless otherwise noted.

**Direct Capitalization Rate 1:** A property located on Enterprise Drive in the north side of the City of Appleton in a more recently developed office/business park along the north side of U.S. 41. The property was listed for sale in September 2009 as an income producing investment property for $795,000. The property was sold in November 2010 for $685,000. According to the available property information, the site is 2.375 acres in size and improved with an 11,250 square foot building with an office/warehouse use, constructed in 1999, has a steel frame, concrete block exterior walls, a 17 foot wall height, and an office area that is 16% of the building size. According to the listing, the investment property was listed with a 9.7% capitalization rate. The listed capitalization rate equates to an NOI of $77,155. According the listing agent, the transfer was an arm’s length investment sale. The grantee does not intend to occupy the property. The tenant, Cintas Corporation, had a couple of years remaining on an existing lease and the transfer was contingent upon a five-year extension. The agent does not know the terms of the extension. The grantee is to install a sprinkler system and make some other improvements as part of the lease extension. Another positive of the property was the additional site area allows for building expansion. Based upon an estimated NOI of $77,155 and the sale price, a direct capitalization rate of 11.26% was calculated. Taking into consideration the sale price plus an assumed $50,000 investment for the indicated improvements, a direct capitalization rate of 10.50% was calculated. Based on conversations with knowledgeable real estate professionals in the area, for a fully leased investment property, a 5% deduction for vacancy and collection loss and a 5% deduction for reserves/expenses are reasonable allowances when calculating a capitalization rate. Applying these allowances to the aforementioned income estimate equates to a direct capitalization rate of 10.17%. Applying these allowances plus the assumed $50,000 investment for the indicated improvements, equates to a direct capitalization rate of 9.47%.

**Direct Capitalization Rate 2:** A property located at the southwest corner of N. Main Street and Harbor View Drive in the City of Fond du Lac sold in July of 2011. According to the City of Fond du Lac assessor’s office, the 6,120 square foot building was originally constructed in 1973. The building is of a stud frame construction on a concrete slab foundation with masonry façade along the front office area, and ribbed metal panel exterior along the shop areas. Above the masonry façade on the eastern section of the building is a metal parapet exterior. The roof is metal panel. The building has two at-grade overhead doors along the eastern wall, and one along the rear, or west wall. The shop area has a 14 foot ceiling height. The building appears to be serviced by a rooftop mounted HVAC unit. According to the grantee, the building consists of approximately 1,000 square feet of finished area, which includes a reception area, two private offices and restrooms. The property was purchased as an investment property and was fully leased to a national tenant, Safelite Auto Glass. The grantee stated that there was between three and five years remaining on the lease at the time of sale, and the tenant had plans to invest approximately $100,000 in improving the property in 2012, which indicated their long-term intentions. The property was originally listed for sale for $325,000 at an 8.15% capitalization rate.

According to the Wisconsin Department of Revenue Real Estate Transfer Returns Database, the property was transferred via warranty deed on July 29, 2011. The grantor was 550 N. Main Street, LLC and the grantee was Seaside, LLC. The sale price was $265,000, which equates to $43.30 per square foot. According to listing information for the property, the lease rate was $4.33 per square foot on a triple net basis. Applying this lease rate to the 6,120 square foot building equates to $26,499.60. Previous listing information stated that the lease features 2% annual increases for years 3 through 5 and a five year renewal option. The sale price based on the listed NOI equates to a 10% capitalization rate. According to the grantee, he purchased the building based on the 10% capitalization rate. Based on conversations with other knowledgeable real estate professionals in the area, for a fully leased investment property, a 5% deduction for vacancy and collection loss and a 5% deduction for reserves/expenses are reasonable allowances when calculating a capitalization rate. Applying these allowances to the aforementioned income estimate, equates to a direct capitalization rate of 9.02%. The capitalization rate of 10% was considered the most notable as the investor stated he purchased this property based on this capitalization rate.

**PwC Real Estate Investor Survey**

The survey for the first quarter 2013 states that the average national market overall capitalization rate (OAR) for an institutional grade property was 5.73% for a national apartment, 7.50% for a national suburban office, 7.04% for a national strip shopping center, and 6.63% for a national warehouse. Each category is down significantly from capitalization rates of 7.85%, 8.79%, 8.49%, and 8.73% seen in the first quarter of 2010, and is even below the pre-recession levels of 6.13%, 7.59%, 7.33%, and 6.73% seen in the fourth quarter of 2008.

For the national strip shopping center, the average overall cap rate of 7.04% is the lowest average ever reported for this market since it debuted in 1991.

A recently added category is the national secondary office market, which had an overall capitalization rate (OAR) of 8.31% for the suburbs and 7.80% for the central business district.

As the survey information was from large cities, it appears reasonable that a higher rate should be utilized for the subject property, as it is not in an investment grade property nor is it located in a major metropolitan region. The survey states that the spread from a non-institutional to an institutional grade property was on average 156 points for a national apartment (7.29%) and 321 basis points for a national strip shopping center (10.25%), which is higher than one year ago. Survey participants are not currently pursing non-institutional properties in the national suburban office and national warehouse categories. The appraisers cannot recall this being noted in the survey in the past few years. Information was available for each category in the fourth quarter of 2012. The spread from a non-institutional to an institutional grade property was on average 113 basis points for a national suburban office (8.63%) and 200 basis points for a national warehouse (8.83%).

The investor survey reports “the average overall capitalization (cap) rate decreased in 21 Survey markets, held steady in two, and increased in ten of them. The number of markets reporting increasing this quarter is the highest total over the past two years.” In general, positive trends are expected in commercial real estate in 2013 due to an economy that is still growing, though at a slow rate, pent-up capital, and low interest rates.

**Estimate of Value from the Income Approach**

The capitalization rate derived by the Mortgage Equity Technique, the direct capitalization rates derived from the sale of area commercial properties and the investor survey information establish a range of applicable capitalization rates. The Mortgage Equity Technique calculated a capitalization rate of rounded to 9%. A review of direct capitalization rates derived from the sale of area commercial properties helps to establish a general range from the 8.00% area for high quality properties with national type tenants to a high of the 10% area.

Based upon the investor survey information, the average overall capitalization rate for a non-institutional grade property was 7.43% for a national apartment, 8.97% for a national suburban office, 9.72% for a national strip shopping center, and 9.65% for a national warehouse.

Based upon capitalization rates in general having declined over the past few years from the higher capitalization rates seen in 2009, and taking the subject improvements and location into consideration along with the information available for properties with a similar existing use, a capitalization rate of 9.75% is considered reasonable for the calculation of the estimate of value from the Income Approach.

**Estimate of Value**

Estimated Net Operating Income divided by Capitalization Rate = Estimate of Value

|  |  |
| --- | --- |
| Estimated NOI $62,052 / .0975 Cap Rate = | $636,431 |

The most probable value of the subject property based on the Income Approach is estimated to be $636,000 (rounded).

# RECONCILIATION AND MARKET VALUE – BEFORE CONDITION

This appraisal assignment required the appraisers to estimate the market value of the subject property.

The Sales Comparison Approach indicated a value of $

The Cost Approach indicated a value of $

The Income Approach indicated a value of $

WRITE UP THOROUGHLY THE STRENGTHS AND WEAKNESSES OF EACH APPROACH

The Cost Approach was not considered applicable to this appraisal assignment. The omission of the cost approach was not considered inappropriate or misleading.

The Market Approach was impacted by the lack of the similar income producing properties being sold under the current market conditions. One suite of the subject property is currently vacant therefore; the Income Approach utilized an estimated lease rate for the suite. The subject property has a good rental history. With essentially equal weight placed on both approaches, the most probable market value of the subject property was estimated to be $      as of Click or tap to enter a date..

**FINAL ESTIMATE OF VALUE**

**$**

**EIGHT HUNDRED FORTY FIVE THOUSAND DOLLARS**

# ACQUISITION

Describe land types and whether they are to be acquired in fee or easement. Any temporary interests or construction permits, TLEs. State reason they are needed, for what length of time and what change will take place in these areas. List in detail, any improvements located on the land being acquired. Note any access restrictions. Indicate the location and relationships of the acquisition area to the rest of the property. State the amount of existing r/w being acquired and that there is no monetary consideration for it.

The subject property is a 2.21 acre improved residential home site. According to the property lister, the parcel size is the county’s best estimate, as no survey for the parcel exists and includes existing right of way. According to WisDOT’s plat and the engineer’s calculation, the acquisition area consists of 1.23 acres fee, 0.44 acres existing right of way and a remainder of 0.54 acres, making the parcel size 2.21 acres total or 1.77 acres excluding existing right of way. As part of the acquisition, WisDOT is acquiring the building improvements and site improvements. The proposed land acquisition is a fee simple acquisition of approximately 1.23 acres for the improvement of the intersection of STH 45 and CTH H. There is a 0.44-acre acquisition of existing right of way. This area is currently used for highway purposes and is non-compensable. There is also a proposed temporary limited easement (TLE) encumbrance on the property for the length of construction of the Velp Avenue Roadway Project. The Wisconsin Department of Transportation needs this TLE for roadway construction purposes. Given that heavy construction equipment and other vehicles will be operating at this junction, action of this kind compensates the property owner for temporary use of the land, if needed by construction crews. Any damage done in the TLE area to improvements such as asphalt areas and concrete aprons will be replaced in like materials. The cost for this will be paid for as part of the roadway construction and will not be calculated as part of this appraisal assignment. The square footage breakdown is as follows:

|  |
| --- |
| **Subject Property Size** **Before Acquisition:**       Choose an item.  **Type of Acquisition:** Choose an item.  **Interests Required:**       Choose an item. Choose an item.  **Interests Required:**       Choose an item. Choose an item.  **Interests Required:**       Choose an item. Choose an item.  **Interests Required:**       Choose an item. Choose an item.  **Interests Required:**       Choose an item. Choose an item.  **Interests Required:**       Choose an item. Choose an item.  **Interests Required:**       Choose an item. Choose an item.  **Subject Property Size** **After Acquisition:**       Choose an item. |

According to the project engineer, the improvements will not be removed because of this roadway project. The remainder will be an improved site. The TLE is a temporary easement encumbrance. There are no improvements located within the TLE area. There is a marquee sign and landscaping that according to the project engineer will not be impacted or disturbed as part of the construction project. The TLE is considered to have a minimal impact on the remainder. No other damages were given for the TLE other than a rental fee for the encumbered land.

**LEGAL DESCRIPTION OF PROPOSED ACQUISITION**

The client provided this legal description to the appraiser. LEGAL DESCRIPTION

**DAMAGES**

Describe the damages to the remainder.

The major loss in value because of the right of way acquisition is due to the reduction of the size of the land. The owner should also be compensated for the cost to move the entrance/exit signs.

# SEPARATE ENTITY

In a partial acquisition appraisal, an appraiser must consider the value of the part taken as a separate entity. The just compensation is the greater of the value produced by the before and after analysis or the value of the parcel as a separate entity.

The appraiser has considered the property evaluated in this appraisal, both from the before and after, as well as the part taken. They have concluded as of result of this comparison, that the value of the part taken does not exceed the value attained by the before and after approach.

The acquisition is a small strip acquisition that will not result in any type of separate entity.

# SEVERANCE DAMAGES

Damage to the remaining property in condemnation, caused by the partial taking and subsequent construction of the road, building, or other use for which the taking took place (International Right of Way Association, The Real Estate Dictionary, eighth edition)

Generally used to mean those damages to a remainder property that are compensable. (Dictionary of Real Estate Appraisal, 4th edition, Appraisal Institute)

CONSIDER SEVERANCE

# SPECIAL BENEFITS

Describe any betterment’s or special benefits, which have the effect of increasing the value of the property remaining. These benefits may be used to offset other damages, land and improvements acquired. The added value of a betterment should be based on its contributing market value not cost.

The acquisition is a small strip acquisition that will not result in any type of special benefits that could potentially increase the value of the property.

# SUBJECT PROPERTY INFORMATION – AFTER CONDITION

**Size:** 87,120 square feet

**Shape:** The property is an irregular shape surrounded by three roads.

**Topography:** The property is basically level. The appraiser did not see any major slopes on the property at the time of inspection.

**Road Frontage and Access:** The property has approximately 431.3 feet of frontage along CTH MM. This is an asphalt paved, county road connecting CTH M and STH 76. There is a single existing access point to the subject from along this roadway. The property also has approximately 128.91 feet of frontage along N. Nash Street. This is an asphalt paved, municipal road through the village. There is no existing access point to the subject from along this roadway. The property is considered to have average access and road frontage for its highest and best use.

**Soils:** The soils located on the property are somewhat limited for dwellings with basements and limited for small commercial buildings due to slope. There are many homes and small commercial buildings in the area on similar soils. This property would likely require some additional design standards due to the soil limitations.

| **Outagamie County, Wisconsin (WI087)** | | |
| --- | --- | --- |
| Map Unit Symbol | Map Unit Name | Percent of AOI |
| CcC2 | Casco loam, 6 to 12 percent slopes, eroded | 95.1% |
| MsB | Menominee loamy fine sand, loamy substratum, 2 to 6 percent slopes | 4.9% |
| Totals for Area of Interest | | 100.0% |

**Wetlands:** According to the available GIS mapping, the subject property is not located with an area of WDNR designated wetlands.

**Water Frontage:** There are no water features located on the site. OR There is approximately 347 front feet of water frontage on the eastern bank of the Bay of Green Bay. The Bay in Door County has approximately 300 miles of shoreline. Fish include Walleye, bass, brown trout, northern pike, lake trout, salmon, and pan fish. The Bay’s water in Door County is moderately clear.

**Water View:** There is approximately 216 front feet of an obstructed water view on the eastern bank of the Bay of Green Bay.

**Floodplain:** According to the FEMA Flood Insurance Rate Map, Community Panel No. 55009C0166F, Map Date August 18, 2009, the subject property is not located in a designated flood hazard area.

**Utilities**: The property has public utilities that include sewer, water, electrical, gas and telephone service.

**Environmental Problems:** The appraiser did not observe any potential environmental problems. The WI DNR Bureau for Remediation and Redevelopment Tracking System (BRRTS) website was reviewed and a report of a known environmental issue was not found. The subject property is appraised as if there are no environmental problems. A property inspection and review of the information available from the state website does not mean that environmental problems are not present. An environmental study goes beyond the scope of this appraisal though may be necessary to determine if there are any potential environmental problems.

**Easements**: There may be typical utility and roadway right of way access easements located on or near the property. There are no known restrictive easements having a detrimental impact to the subject property.

**Encumbrances**: The appraiser was not provided information about an active mortgage on the property. The appraiser is not aware of the status or present loan balance on the property. The appraiser is not aware of any other mortgages on the property. There may in fact be a mortgage on the property however; it should not affect market value. There are no known liens such as mortgages, taxes or judgments against the property. The property is appraised as if free and clear. There are no known restrictions, easements or reservations placed on the property.

**Existing Land Use Regulations**: No known land use regulations have been placed on the property.

**Site Improvements:** There are several large shade trees in the front yard. The well is located in the northwest corner of the property. The septic system is in the southeast corner of the property.

**Building Improvements:** IF NOT VALUING IMPROVEMENTS: An existing two family residential dwelling is on the site. According to the assessor, the property is a bi-level structure with aluminum and vinyl siding. It is 2,304 square feet and was built in 1984. The building appears to be in below average to average condition.

As a point of clarification: The improvements are set back from both the existing right of way and the acquisition area and will not be impacted by the proposed acquisition. Therefore, a standard abbreviated appraisal report format is being implemented where the improvement value is being based from the property assessment records in both the before and after conditions.

IF VALUING IMPROVEMENTS: There is an existing single-family residential home located on the site. According to the assessor, the home was built in 1956, making it 60 years old. It is considered to be in average condition having some updates over the past 6-10 years. The representative indicated that a new metal roof, well and 200 AMP service were installed in the past 7-8 years. A new mound system was installed within the past 5-6 years. The furnace is original. The old well is still on site and has some elements for a heat pump system. The interior was dated and did not appear to have had cosmetic updates for several years. The exterior is wood sided and the paint is chipping in places. There are double hung and casement windows with screens, a stone patio with landscaping and ledge rock and a front porch. There is a two stall detached garage across from the attached one stall garage. The detached garage is older, has wood siding and is approximately 585 square feet in size. There are two smaller sheds on the site and a large stone fire pit.

The home has approximately 1,246 square feet of living area. The single story home consists of a living room, kitchen / dinette, full bath, sewing room and three bedrooms. The kitchen is carpeted, has sliding windows, built in microwave, pantry and dinette. The living room is carpeted, has a large corner window, fireplace, and plaster walls. There is a hall closest. There is one full bath with fiberglass surround, a freestanding sink, toilet, carpeting, and a built in vanity. One of the bedrooms has knotty pine walls and is carpeted. There is a sewing room, which lacks a closet and has laminate flooring. There is a crawl space attic access in this room. There is another bedroom with wood flooring and the third bedroom has plaster walls and carpeting. The home exhibits wood trim and flush doors.

There is a full unfinished basement with a shower stall and commode. The basement foundation is concrete block. According to the owner, part of the patio and perhaps part of the basement are built into the rock ledge. The home has 200 AMP electrical service. During the inspection, the basement appeared dry and there was no sign of water issues. There is a dry bar in the basement. There is an oil tank and older unused well pump in the basement. There is a one stall attached garage with basement access.

Overall, the home is considered to be in average condition. According to the assessor, the age of the home is 60 years old. The effective age is somewhat younger than the actual age. The remaining economic life is estimated to be 25+ years.

**Encroachments:** WisDOT provided the appraiser with an encroachment report. This report states that the two southernmost parallel stalls are encroachments. The staking (and photos) clearly show a permanent right of way point (PRW 254) within the second parallel stall south of the building. This is where the new right of way meets the existing right of way. Therefore, this stall is encroaching and is non-compensable.

**Legal Description of Property Appraised:** This legal description of the larger parcel is from the title work provided to the appraiser: LEGAL DESCRIPTION

**Zoning**: The property is currently zoned R-1 Residential District

**Purpose.** The R-1 District is intended to provide for high quality, year-round residential development in areas where the reasonable provision of municipal services is feasible. This District is designed to provide single-family home sites in those developing areas that offer “rural residential” amenities, services and facilities.

**Permitted Uses.** Single-family dwellings, two family dwellings, subdivisions, community living arrangements, family day cares.

**Conditional Uses.** Bed and breakfast, home office

**Minimum lot size requirements:** 1 acre without public sewer and water

**Minimum width:** 100’

**Minimum Depth:** 80’

**Setbacks: 2**0’ from right of way

**Maximum Site Coverage:** 40%

**Parking requirements:** none

**Present Use**: The property is currently used as a commercial business with a child day care facility.

**Zoning Conformance**: The present use and the highest and best use are permitted by zoning. According to the local zoning authority, a zoning change is not likely to be made for the subject property.

**Personal Property/Equipment/Fixtures**: None

**Special Amenities or Adverse conditions**: There are no special amenities or adverse conditions noted that would affect the property’s value.

# HIGHEST AND BEST USE – AFTER CONDITION

USPAP mandates the inclusion of a Highest and Best Use section in an appraisal when the purpose of the report is to determine market value. The depth and detail required in this section of the report is set by its significance to the appraisal. If the Highest and Best Use of the subject is clear and obvious to the appraiser and report users, it need not be prepared as a thesis. If the Highest and Best Use determination is difficult and critical to the value conclusion, it needs to be thoroughly developed and presented.

Good appraisal practice requires a highest and best use analysis for the property being appraised in this report. It is a basic principle of real estate valuation that vacant land or improved properties tend to be put to the use, which will produce the greatest net return for the property over a given period. This is the basis for decision-making concerning the allocation of space among alternative competing uses. Hence, it is the basis for valuation, since the owner, potential purchaser, or user is presumed to plan to put the land to the use that will produce the greatest return.

The economic concepts of [utility](http://en.wikipedia.org/wiki/Utility) and [substitution](http://en.wikipedia.org/wiki/Substitute_good) drive the highest and best use analysis. The highest and best use of a property determines its utility to a potential purchaser. The purchaser of such a property would pay no more for a competing property with the same utility while a seller would accept no less than a seller of a comparable property would.

Highest and Best Use can be defined as the reasonable probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are physical possibility, legal permissibility, financial feasibility, and maximum profitability.

The highest and best use of a property must be financially feasible: the proposed use of a property must generate adequate revenue to justify the costs of construction plus a profit for the developer. In the case of an improved property, with obvious remaining economic life, the question of financial feasibility is somewhat irrelevant. In the case of an improved property with limited remaining economic life, the question of financial feasibility becomes a question of the maximally productive use of the site. If the value of the land as vacant exceeds the value of the property as improved less reversion/demolition costs, then redevelopment of the site becomes the maximally productive use of the property. Continued use of the existing improvements that do not represent the highest net value of the site is considered financially unfeasible.

The highest and best use analysis involves two separate estimates: 1) the site as if vacant and available to be put to its highest and best use and 2) the property as improved. It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until, land value in its highest and best use exceeds the total value of the property in its existing use.

**Highest and Best Use “as if” vacant:**

*Legally Permissible:* The first consideration in arriving at the highest and best use of the subject is to determine the legally permissible uses. Primarily, this is the zoning of the property but may also include any covenants, conditions, restrictions, or easements placed on the property. The availability of adequate legal access for the allowable uses is another consideration.

The subject property is zoned R-1 Residential District. It is also within a tax incremental district. The future land use plan shows the subject in the village’s Priority Mixed Use Growth Area.

The purpose of the R-1 district is to provide a quiet, pleasant and relatively spacious living area. The minimum lot size is 12,500 square feet. The Priority Mixed Use Growth Area encompasses about 362 acres. Environmentally sensitive areas comprise only about 1.4% of the area. Current development consists mainly of large lot residential development, institutional (Hortonville Area School District facilities) and commercial development near Main Street. Short-term development within this area includes the new municipal services building and proposed commercial development north of Main Street. According to the village administrator, the subject could be used for a mixed use purpose.

Therefore, a mixed use, residential, agricultural and recreational type uses are permitted.

*Physically Possible*: The next step is to determine which of the legally permissible uses is physically possible. In many cases, factors such as the location of wetlands, insufficient access to buildable areas of the site, or parcel dimensions may preclude certain uses. The appraiser reviewed the available public information and physically inspected the subject property.

From my review of public records and soil studies, the soils, topography, hydrology, and other physical characteristics of the property appear supportive of the legally permissible uses. Any of the legally permissible uses of the site is physically possible.

*Financially Feasible*: The financially feasible use of a property is the ability of a proposed land use or change of land use to justify itself from an economic point of view. Financial feasibility is defined as "any physically possible and legal use of vacant land or land as though vacant that produces a positive return to the land after considering risk and all costs to create and maintain the use; any use that results in a positive land value."

The property is a larger tract of land within the village limits serviced by public utilities. The area is primarily developed with residential homes and scattered agricultural uses. Any of the physically possible uses would be financially feasible.

*Maximally Productive:* The final step in determining the highest and best use of the subject is to analyze those uses that are legally permissible, physically possible, and financially feasible and determine which among them would produce the highest net return or the highest net present value to the property.

The property, while technically large enough, would be very small for a stable and thus would not be the maximally productive use. A residential use, especially considering the adjacency to the golf course would be the maximally productive use of the property.

*Highest and Best Use “if vacant”:* Recreational Commercial Use

**Highest and Best Use as Improved:** The subject is currently improved with a single family residence. The existing improvements are in average condition and retain a substantial contributory value to the property. The land values in the area would not support a land use change nor would the site be more suitable for removing the existing structures and placing new buildings on the site.

The existing use is a legally conforming use and meets the test of physically possible and financially feasible. The existing structures have remaining economic life and provide the maximally productive use for the site. Therefore, the highest and best use of the property is at its existing use as a single family residence.

**Highest and Best Use:** Existing Use as improved campground

# APPROACHES TO VALUE – AFTER CONDITION

The sales comparison approach is based on the principle of substitution where an informed buyer would not pay more for a particular property and its amenities than the value of a similar competing property with equal amenities. It is the most common and preferred method of valuation when recent comparable sales data is available.

The sales comparison approach involves the comparison of similar properties that have recently sold, or similar properties that are currently offered for sale, with the subject property. Many comparable properties were considered in developing this sales study report. The comparable sales used are considered the most comparable and the best indicators of value for each individual property type as of the effective date of the appraisal. The adjustments made to the comparable sales are reasonable, supportable and accurately reflect the actions of a typical buyer in today’s market.

The Cost Approach is used in conjunction with the valuation of improvements. Given the advanced age of the subject improvements, and the unreliable nature of depreciation estimates under such circumstances, the Cost Approach was not developed for this report. The omission of the Cost Approach is not considered misleading or inappropriate.

In the Income Approach, an estimate is made of the market rent, which the subject property should command, based on the rental of competitive space. Estimates are also made for appropriate vacancy rate and expenses for the subject, based on information developed from similar properties in the market. The estimated gross rental income is reduced by the estimated expenses leaving a net income, which the subject property is capable of producing. This is the basis for any of the various capitalization techniques. The rate of return on investments in similar type properties is derived from the market, and this rate of return is used to capitalize the indicated net income into an indication of value by the income approach.

Single-family residential properties are not typically purchased for income production and are normally owner occupied. They are typically purchased on their perceived market value not on capitalization rates or multipliers. There is insufficient market data to conclude a value for the subject property based on the income approach. The omission of the income approach is not considered misleading or inappropriate for this valuation assignment.

In this market, land leases are not prevalent for the subject land types. In this market, this land type is not purchased for any income or rental potential. In this market, vacant land is typically purchased based on its perceived market value not on any type of income capitalization rate; therefore, the income approach does not apply. The omission of the income approach is not considered misleading or inappropriate.

The subject property consists of land types that are leased in this market area. Based on a Wisconsin Supreme Court decision in Leathem Smith Lodge, Inc. vs. State of Wisconsin (1980), the Income Approach is considered inapplicable in Eminent Domain valuations (so long as sufficient market data is available). Therefore, the Income approach will not be developed in this appraisal report. The omission of the income approach is not considered misleading or inappropriate for this valuation assignment.

# SALES COMPARISON APPROACH – AFTER CONDITION

**Comparable Sale Map**

|  |
| --- |
| Insert Comp Map |

Discuss transactional elements considered and explain why you did or did not make adjustments and how you came up with your adjustments, but do not reference the adjustment amount

Discuss physical elements considered and explain why you did or did not make adjustments and how you came up with your adjustments, but do not reference the adjustment amount

Discuss if you are just appraising the site or both or what and explain.

## Land Value – After Condition

In the chart below, the subject property and the comparable sale properties have been compared, and adjustments have been made to account for the differences between them. Please see the following page for the reasons for the adjustments. Please see the comparable sales data sheets for more complete information about the sales.

Double Click to enter chart





As a point of clarification the adjustment chart was done using an excel spreadsheet where the decimal points were visible only to two places. This might account for slight discrepancies in rounding. However, the excel spreadsheet internally calculates further. Therefore, the net adjustments are considered accurate.

**Comments on comparable sales:** The comparable sales are all non-governmental transactions that are considered arm’s length transactions. All sales are located in a similar rural use market area as the subject property.

**ADJUSTMENTS TO COMPARABLE SALES**

**Market Conditions:** Like most areas of the country and the state, this area has seen a significant slowing of the real estate market that followed the general economic decline. While some realtors report that values of homes in urban areas have decreased by varying amounts, most have reported that rural land has kept its value as owners are willing to wait for the economy to rebound. Those selling their land at significantly less than desired do so typically because of economic hardship or other reasons and these sales are not considered arm’s length sales.

There is no definitive market data with which to extract a general percentage adjustment to account for the current market conditions. The lack of sales and resale data along with limited market data due to the overall lack of transactions has made it difficult to make a market derived adjustment. Therefore, the appraiser relied on their discussions with landowners and local real estate experts. Local realtors indicated that land values have remained basically stable with no noticeable appreciation or depreciation over the past 24 months. The realtors indicated that the number of sales has declined and the marketing times have increased.

Based on review of MLS, Department of Revenue information, and their own research, the appraiser concluded that the local real estate market in the subject’s area is relatively flat with virtually no change in property values over the past 24 months. The comparable sales all sold within the past 24 months. They are considered to represent the current economic conditions. There does not appear to be any market conditions adjustment warranted for the past 12 to 24 months. The sales occurred within the past 24 months. They were not adjusted for market conditions of the time interval from the sale dates to the appraisal's effective date.

**Motivation**: All sales are considered open market and not influenced by any excessive motivational factors.

**Location**: The subject property is located in the Town of Peshtigo within a close proximity to Hwy 41. Sale 1 is located within a close proximity to the subject and is considered equal. Sales 2, 3 and 4 are located in slightly more rural areas in the Town of Grover and were adjusted upward +5%.

**Land Size**: When a property is bought on a per-acre basis market evidence proves that economies of scale apply to the real estate market and the typical buyer expects some degree of “discount” when buying a larger property compared to a smaller property. Therefore, because smaller properties typically sell for more on a per-acre basis than do similar but larger properties, Sale 1 was adjusted -5%, Sales 2 and 4 were adjusted +5%. Sale 3 was adjusted +10%.

**Cover type:** The subject property has a stand of mature growth along the roadway that consists of primarily pine with scattered hardwood species; however, the majority of the site has been recently logged off using a clear cut method whereas the majority of the site is covered in thick popple regrowth. This not an attractive feature for anything but recreational type uses of the site. The mature growth areas of the site would be suitable for building site development with the remainder being more recreational in use. Sale 1 has a good stand of mature tree species that has not been logged off and therefore was adjusted -15%. Sale 2 is partially wooded with a good stand of mature timber and was adjusted -10%. Sale 3 is a larger acreage tract with approximately 25% mature timber species and was adjusted -5%. Sale 4 is primarily an open agricultural site that is considered to be similar to the subject in overall market appeal.

**Soil Quality:** The subject and sales 1 and 2 have low wet soils that are very limited for building site uses. Sales 3 and 4 have approximately 70% higher quality soils considered superior. Each is adjusted -10%.

**Access:** The subject and sales 1, 2 and 4 have similar access for rural residential type uses. Sale 3 has a superior amount of road frontage on two roadways making the parcel more suitable for future divisions. Therefore, it was adjusted downward -5%.

**Water features:** Sale 3 has a small amount of frontage along the Little Peshtigo River and is superior to the subject that lacks any water features. Sale 3 was adjusted downward -5%.

All other factors are considered generally equal not requiring any further adjustments.

The adjusted per-acre values for the comparable sales range from $2,167 to $2,430 per acre. The mean is $2,267 per acre. Overall, the comparable sales are considered to provide a good representation for the market value for the subject property. Ideally, finding a sale with recently cut over timber similar to the subject would be preferable; however, there were no such sales found. The comparable sales indicate the market for rural residential type properties with recreational features similar to the subject. They are considered reliable indicators of value. Sales 1 and 2 are considered the most similar to the subject followed by sales 3 and 4.

Due to the cut over timber, the subject would likely fall closer to the lower end of the value range and below the mean. Therefore, when considering the comparable sales and the adjustments made to them, the most probable indicated value the subject property is $2,200 per acre as of the effective date of the appraisal report.

|  |  |
| --- | --- |
| $2,200 per acre x 13.44 acres | $29,568 |
| Rounded to | $29,600 |

Based on the comparable sales the most probable indicated value for the subject property as of the effective date of the appraisal is estimated to be $29,600

**Reconciliation**

Overall, there have been minimal sales of vacant tracts in older areas that compete with Velp Avenue. Lacking any sales on Velp Avenue the appraiser searched the metro Green Bay market. The comparable sales range from $2.43 to $6.25 per square foot. Sale 9 is considered significantly superior due to its location along a developing corridor in a fast growing area. Sales 6 and 7 are both located in somewhat superior locations in more growing areas compared to the Velp Avenue corridor that has seen minimal development or transition. Sale 8 is likely the most similar to the Velp Ave. corridor.

Velp Avenue is an older area that has seen minimal development over the past 20 years. The businesses that are located on Velp Avenue are destination type businesses. The Velp Avenue corridor does not have a significant amount of primary traffic that entices commercial type businesses. Sale 8 is located in a similar location. It was developed by a local photography business as a destination site. It is likely that if a business were to locate on Velp Avenue, it would require a similar site value. However, Velp Ave has a higher traffic count and likely requires a somewhat higher unit value.

The adjusted sales range in value from $2.66/ sq. ft. to $4.68/ sq. ft. The Mean is $3.60/ sq. ft. Sale 8 is likely the most similar; however, it falls below the other sales in the data set. Sales 6 and 7 fall within a closer range and were given more consideration. Sale 9 required a significant downward adjustment. It was given the least consideration. Giving the most weight to sales 8, 6 and 7 with less weight placed on sale 9, the most probable indicated value for the subject property’s vacant land is estimated to be $3.50 per square foot. 112,472 sq. ft. x $3.50 = $393,652

The comparable sales are of vacant lots within the similar competing areas that would represent properties similar to the smaller inland residential tracts along the corridor. Overall, the five sales are considered good indicators of value for what sites along the corridor would command on the open market. Sales 1 and 2 required upward adjustments. Sale 3 is considered most similar. Sales 4 and 5 required downward adjustments.

Comparable sales of inland mid-sized vacant lots suitable for single-family residences in similar competing neighborhoods range in value from $35,000 to $86,500. Sale 3 is considered overall most similar and is given most consideration. Sale 2 is given less consideration than Sale 3, but more than sales, 1, 4 and 5. Sales 1, 4 and 5 required more adjustments and are considered less similar to the corridor properties. Based on the analysis and the chart below, it appears reasonable to conclude a value of $15,500 / acre as a land value for the mid-sized inland residential properties along the corridor.

**Final Value Estimate for Mid-Sized Inland Residential Land**

**$15,500 per acre**

|  |  |  |
| --- | --- | --- |
| Sale 5 |  | $21,523 |
| Sale 4 |  | $17,074 |
| Corridor Properties |  |  |
| Sale 3 | = | $15,339 |
| Sale 2 |  | $11,777 |
| Sale 1 |  | $9,935 |

**Estimated Land value for Subject Property**

112,472 sq. ft. x $3.50 = $393,652

**$393,652**

## Value of Larger Parcel as Improved – After Condition

After analyzing several comparable sales, the most realistic comparison factor was considered the sale price per improved property. Therefore, the price per property technique will be used to analyze the sales and compare them to the subject property. The location, quality of the improvements, condition of the improvements, size of the lots, and the overall appeal of the properties were considered in the valuation of the most probable sale price for the subject property. Following is the adjustment chart showing the adjustments, and the reasoning for the adjustments for each valuation factor. See the comparable sales data sheets for more complete information about each comparable sale. As a point of clarification, the adjustment chart was created using an Excel spreadsheet wherein the decimal points are not visible. This feature might account for slight discrepancies in rounding. However, the Excel spreadsheet internally calculates for decimal points. Therefore, the net adjustments are considered accurate for the purposes of the report calculations.

**Residential Sales Comparison Grid**





**Explanation of Adjustments to Comparable Sales**

**Market Conditions:**  Based on review of MLS, Department of Revenue information, and my own research, I concluded that the local residential real estate market in the subject’s area is relatively flat with virtually no change in property values over the past 24 months. Some data indicates a slight decline in residential property values. However, the price range that these properties fall into is considered first-time homebuyer homes that have basically remained stable over the past year. The overall market statistics considering higher end valued homes indicate a slight decline of approximately 2%-4% over the past year. Since these homes are considered to be in the first-time homebuyer classification, there does not appear to be any market conditions adjustment warranted for the past 24 months. Except for sale 4, the sales occurred within the past 24 months. Therefore, they were not adjusted for market conditions. Sale 4 falls just outside of the 24-month timeframe; however, the overall market conditions are considered similar. Therefore, sale 4 was not adjusted for market conditions.

**Location:** The subject is located in the Village of Wrightstown and is similar to sales 1 and 4. Sales 2 and 3 are located in the Town of Freedom a similar community located between Metro Green Bay and the Appleton Fox Cities area. Both Wrightstown and Freedom offer similar amenities with good public school systems and have similar vacant land values. Local realtors indicated that there is no measurable distinguishing difference in market values due to location factors between either of the communities; therefore, no adjustment was necessary for location factors between Wrightstown and Freedom.

**Site/View:** The subject is located on a residential site on a more heavily traveled roadway considered inferior to a less-traveled roadway. The subject does not have neighbors to the rear due to a conservancy providing privacy. Sale 1 is located on a more heavily traveled roadway. It does, however, have views of the Fox River across the road. Therefore, it is considered to have similar amenities to the subject’s conservancy and is not adjusted. Sales 2 and 3 are located on a busier county highway with similar traffic issues as the subject. The settings are more private and are considered similar to the subject. Sale 4 is located on a less traveled residential roadway; however, it is located within a more dense residential area. The two factors tend to offset the subject’s more heavily traveled roadway with private conservancy back yard. Therefore, sale 4 was not adjusted.

**Land Size:** The subject property has a lot size of approximately 19,039 square feet. Sale 1 is considered similar in size. Sale 2 is a larger, approximately 1 acre, site and is adjusted -$5,000. Sale 3 is a larger, approximately 1.73 acre, site and is adjusted -$10,000. Sale 4 is a smaller, approximately 7,308 square foot, site and is adjusted +$2,500. The market generally reflects a higher premium on larger residential lots and therefore the sales were adjusted accordingly based on their size differences.

**Condition:** The subject and all sales are older homes having recent updates; however, they vary in both the amount of updating and overall condition. The subject and sales 1 and 3 are considered nicely maintained of similar condition and are not adjusted. Sales 2 and 4 have less recent updating and were adjusted upward +$7,500.

**Living Area:** All sales were adjusted $10 per square foot of difference in living area. This is considered reasonable for a home of this age and quality. Typically, a buyer is willing to pay more for a property that is larger however, with older homes the overall price is more a component of size, quality, condition and price range that have a more significant impact on market value than the overall size of a particular house. This differs with newer homes or new construction where costs are compared more directly to the overall market value.

New construction costs range from $80.00 to $100.00 for a newly constructed home. It is unlikely that a buyer is willing to pay today’s cost for an older home. Generally, a size adjustment is warranted, however with existing homes typically the size adjustment depending on the age of the house can range from approximately 25%-75% of the construction cost new. A typical buyer does not usually distinguish a size difference between two houses of similar size. The typical buyer is looking for 3 bedrooms, 2 baths and a two-car garage within a particular price range; they typically will not pay considerably more for a slightly larger home with the same amenities. Again, when interviewing realtors, the indication is that all things being equal the larger home will sell before a smaller home. However, the replacement cost of the size difference would not translate into the contributory value. The realtors indicated that typically, when pricing a home, they use a range from $10.00 to $30.00 for size differences depending on the age and style of the home. They indicated that with homes over 50 years old, the lower end of this range is more reasonable. Therefore, a $10.00 adjustment for any size differences is considered reasonable for the subject property.

**Bedrooms/Baths:** The subject has 3 bedrooms with 1.5 bathrooms. The sales vary in the number of bedrooms and bathrooms. Overall, no adjustment was made for the difference between bedrooms; this is because any size differences would have been taken into consideration in the living area adjustment. Typically, there is no measurable difference in the market between the numbers of bedrooms. Bathrooms however, are an important feature in the market. A half bathroom was adjusted $1,500. The sales were adjusted accordingly to the number of bathrooms.

**Basement:** The subject has a full unfinished basement. Sales 1 and 4 are similar in this regard and are not adjusted. Sale 2 has only a partial basement and was therefore adjusted +$2,500. Sale 3 has a full basement that is partially finished. This was considered superior to the subject and was adjusted -$2,500.

**Garage:** The subject has a detached 2-car garage. Sales 1 and 2 are considered similar. Sale 3 has a superior 3 stall garage and was adjusted -$2,500. Sale 4 has no garage. It was adjusted $10,000. This adjustment is based in part on cost to cure figures and conversations with realtor and market participants.

**Extras:** The subject has central air conditioning and an extra detached garage. Sale 1 has central AC, deck and enclosed porch, which is considered to have a similar contributory value to the subject. Sale 2 has a shed and central air, is inferior to the subject and was adjusted +$5,000. Sale 3 has central AC, Fence, Shed and deck, which is considered to have a similar contributory value to the subject. Sale 4 has an enclosed porch and fence and was adjusted +$4,000.

**Reconciliation**

Overall, the comparable sales are considered to provide a good indication of the market value for the subject property. The comparable sales and the subject are similar in age, quality and condition and are considered a good representation for this property type. The adjusted sales range in value from $114,670 to $119,850. The mean is $117,210. Most weight was placed on sale 1. It requires the least amount of adjustments and is located in the Village of Wrightstown. Sales 2 and 3 were given the next consideration however, required adjustments that are more significant. Each was located in a similar competing area within the Town of Freedom. Sale 4 was given the least consideration, requiring adjustments that are more significant. It was a slightly older sale located within the Village of Wrightstown. All four sales are considered to be a fair representation for the current market and fall within a close value range. The subject would most likely command a value near the middle of the value range if exposed to the open market. Based on the comparable sales the most probable indicated value for the subject property by the market approach as of the effective date of the appraisal report is $118,000.

**Estimated value for the subject property by Market Approach**

$118,000

**After Value Land & Improvements**

|  |  |
| --- | --- |
| Total | $139,000 |
| Land Value: | $36,285 |
| Improvement Allocation: | **$102,715** |

# COST APPROACH – AFTER CONDITION

Explain what you used and how you got here



## Estimated Contributory Value of Site Improvements

$

Explain how you allocated that and show

# INCOME CAPITALIZATION APPROACH – AFTER CONDITION

The Income Approach is a valuation method where an annual net operating income is estimated and then capitalized into an estimate of value for the property. The Income Approach requires an analysis of a probable market rent and/or income generating potential of the property in order to estimate the potential gross income, which may differ from the actual gross income. The estimate of the potential gross income is then reduced by an estimate for vacancy and collection losses and for expenses in order to estimate the net operating income. The estimate of net operating income provides for recapture of money invested in depreciating improvements as well as a return on equity.

An appropriate capitalization rate is then estimated for the subject property. A direct capitalization rate is estimated from an analysis of properties acquired based upon the income. A capitalization rate is also estimated from a formula that incorporates multiple factors such as an interest rate, return on equity, and holding period. A real estate investor survey and other publications, along with listings, are also reviewed and used to provide additional support for the selection of a capitalization rate. In the comparative analysis of income information and capitalization rates, factors that would most likely influence the market acceptance of the property, such as location, building size and leasable area, building design and other amenities, age/condition, along with existing occupancy levels and income, if applicable, along with general market conditions, are considered.

Comparable Listings

The appraisers review listings for area properties that are available on the websites of commercial realtors and listing services and discuss the market for properties with space available for lease with commercial agents, property owners and managers. Current listings provide information about properties that would compete with the subject property if it was listed along with information as to current market trends and conditions.

The information presented below establishes a range of the listed properties.

The information presented below is for properties considered the most similar to the subject property that are currently listed for lease or have recently been listed for lease.

|  |  |
| --- | --- |
|  | 812 Cormier Road  Ashwaubenon, Brown County |

The **fifth** available property is located on a well-travelled commercial street just east of the intersection with South Oneida Street and just north of the Bay Park Square Mall in the southwest side of metro Green Bay. According to the listing, the Class B office building is 8,400 square feet in size. The owners have slashed the lease rate and are ready to offer a tenant a significantly below market rate for a short or long term lease. The building has an attractive two story foyer, significant open cubicle space as well as many perimeter offices, four separate heating/cooling zones. The site has ample parking. Will not divide the space at such a low lease rate but will consider offers if only one floor is needed. The current listing has been active since the end of January 2012. The property has been unoccupied for multiple years.

Comparable Lease Information

Property specific information – check supporting information file for retail/office/restaurant/industrial, etc.

**Comparable Lease 1:** A strip center located on South Military Avenue in the west side of Green Bay was recently listed for lease. The listing expired in September 2011. According to the available property information, the site consists of a 24,200 square foot strip center constructed in 1965. The property has been renovated. According to a recent listing, the building had three suites available, one suite nearly 2,000 square feet in size and two nearly 4,000 square feet in size. The suites were listed at $8.00 per square foot plus utilities. The realtor stated that the listing expired as the building has been filled. Suites in the 1,500 to 2,000 square foot range were leased at the listed $8.00 per square foot plus utilities rate. In July 2009, a different realtor was listing suites in the property for $12.00 per square foot on a triple net basis.

**Comparable Lease 2:** A property located in the southwest side of metro Green Bay, in a commercial area south of the Bay Park Square Mall. The property is comparable lease listing number five. According to the information available from the CoStar real estate information service, the site is improved with a multi-tenant neighborhood center that is 33,000 square feet in size. The tenant, Sir Bounce A Lot moved into a 15,000 square foot retail space on 03/15/11. The lease is five years and the estimated rent is $8.92 per square foot on a triple net basis.

**Comparable Lease 3:** A property located in downtown De Pere is improved with a large, quality, two-story building constructed in 2001. Most of the second floor office area, just over 17,000 square feet in size, was recently leased to a government entity. The leased area includes a large open office area and a section with a higher level professional use that includes private offices. The lease rate is $9.00 per square foot plus utilities. The lease has a ten year term however; the tenant can leave at any time after year five. In addition, the first year of the term is at a lease rate reduced by $3.51 per square foot. The reduction spread over a five year term results in an effective lease rate of $8.30 per square foot plus utilities.

**Comparable Lease 4:** A property located on Holmgren Way in the southwest side of metro Green Bay includes two multi-tenant office buildings that include lower levels. They are leased to multiple tenants. The buildings were constructed in a range of fifteen to twenty years ago, have a brick exterior and an above average level of build out. There are ten suites ranging up to 2,500 square feet in size. The average overall lease rate is nearly $11.00 per square foot. The average lower level lease rate is nearly $9.00 per square foot. The average ground level lease rate is nearly $13.00 per square foot. In general, the property includes tenants that have renewed leases with no increases and new tenants acquired at reduced rates.

Estimated Net Operating Income

Listings of properties located in northeast Wisconsin on a commercial real estate listing website along with the websites of area commercial realtors have been reviewed along with lease information from a subscription based provider of commercial real estate information. Market conditions for comparable properties with space available for lease or have recently been leased has been discussed with area commercial agents, property managers and owners. The most applicable information has been presented in the Comparable Listings and Comparable Lease Information sections of the Income Approach. A market lease rate is estimated in this section, which is utilized to provide an estimate of value from the Income Approach for the subject property.

Limited information is available for properties located in a small city in a rural area. In addition, limited information is available for properties improved with a building that is a size comparable to the subject building and includes a significant mezzanine area, a significant detached unheated storage building, and a large site with significant gravel paved storage area.

Based on an analysis of the available income information and the characteristics of the subject property, and the current market conditions, a lease rate in a range of $3.50 per square foot to $4.00 per square foot on a triple net basis is considered reasonable for the subject property, with $3.75 per square foot utilized in this appraisal.

|  |  |  |  |
| --- | --- | --- | --- |
| **Estimated Gross Income** | **Size** **Sq. Ft.** | **Lease Rate Sq. Ft.** | **Annual Rent** |
| Subject Building | 12,768 | X $6.00 | = $76,608 |

|  |  |
| --- | --- |
| **Estimated Net Operating Income** | |
| Potential Gross Income (as if fully leased) | $76,608 |
| Less Vacancy & Collection Loss (est. 10%) | - $ 7,661 |
| Equals Effective Gross Income | $68,947 |
| Less Expenses (est. 10%) | - $ 6,895 |
| Estimated Net Operating Income | $62,052 |

**Vacancy & Collection Loss**

The effective gross income of a rental property is typically anticipated to be less than the potential gross income due to losses from unoccupied area (vacancy) and the non-payment of rent (collection). Structural vacancy is the normal rate of vacancy in a balanced market. The generated income can also be impacted by area remaining unoccupied due to tenant turnover as finding a new tenant can take time and the use of free rent at the start of a new lease term.

According to the PwC Real Estate Investor Survey for the fourth quarter of 2011, for the central business district office market, the overall vacancy trends shows a rate of 9.8% in the third quarter 2007 to a high of 14.8% in the second quarter 2010 and decreasing to 13.8% in the third quarter 2011.

According to the PwC Real Estate Investor Survey for the third quarter 2011, for the suburban office market, “Positive leasing trends are occurring in the majority of office markets across the country. However, for the most part these improvements continue to happen very slowly. At midyear 2011, 25 of the 37 U.S. suburban areas tracked by Cushman & Wakefield (C&W) reported year-over-year declines in overall vacancy while 11 reported increases and one was unchanged.” However, “12 of the individual markets that reported year-over-year declines still post overall vacancy rates above the national figure of 19.3%, as of the second quarter of 2011. In addition, the initial year market rent change rate is on average 1.27%, which has increased from .55% in the second quarter and .42% in the first quarter. The basis point change is plus 190 from the third quarter of 2010. The four quarters in 2010 and the last two quarters in 2009 were all negative. The average structural vacancy rate was 9.8%.

According to the May 2011 Office Outlook report released by Marcus & Millichap, “The quarterly reduction in vacancy in this year’s opening period was modest, yet meaningful, as it marked the first vacancy improvement in more than three years. The national office vacancy rate climbed for 12 consecutive quarters before plateauing at 17.6 percent in the third quarter of 2010. Two successive quarters of positive net absorption turned the tide, nudging down vacancy to 17.5 percent during the first three months of this year. While this is good news for the office sector, demand remains well below trend and this nascent stability is attributable to limited new office stock additions through 2010 and the first quarter of this year. The change in momentum carried through to rents in the first quarter, as both asking and effective rents rose a modest 0.5 percent from the previous quarter. In addition, “the inventory of underutilized office space in the market presents a greater challenge because companies can quickly fulfill their expansion needs internally, diminishing an important component of market demand and net absorption.“

The above information is for national metro areas. In general, commercial development was more restrained in northeast Wisconsin than national metro areas, however the local area has been impacted by the same trends, with tenants requiring less space and requesting decreases in lease rates.

A 10% adjustment for vacancy/collection loss is considered reasonable for the subject property.

**Expenses**

The estimated lease rate is on a triple net basis, with the tenant(s) paying the operating expenses, though the property owner does still incur some non-reimbursable expenses.

The estimated lease rate is on a triple net basis, with the tenant paying the operating expenses. The property owner does still incur expenses such as setting aside reserves for the replacement or repair of major property components, property management, commercial broker fees, and miscellaneous expenses such as insurance. The PwC Investor Survey states for a national suburban office, the average replacement reserves were $.52 per square foot which equates to $6,639, management fees were 3.33% of effective gross revenue which equates to $2,296 and leasing commissions for new leases were 5.55% and for renewal leases 3.20% of effective gross revenue. The average is 4.38%, which equates to $3,020. The total of the three items is $11,955, which equates to 17% of the effective gross income and $.94 per square foot. The investor survey information is for investment grade properties located in large cities, and therefore it appears reasonable that the estimates for the subject property should be at a lower rate however, insurance and other miscellaneous expenses should be considered. In addition, real estate taxes and operating expenses are assigned to tenants based on a proportional share of the leased area therefore the share of the expenses that is the responsibility of the property owner due to unoccupied areas should be taken into consideration, when applicable.

An adjustment for expenses of 10% of the effective gross revenue, which equates to $.54 per square foot, is considered reasonable and is utilized in this report.

Capitalization Rate Information

The appraisers research and analyze capitalization rates when completing an appraisal assignment. A capitalization rate can be calculated with a formula that takes into consideration mortgage financing and the return on equity of the investment. Capitalization rates can be extracted from the market by analyzing sales of commercial properties. Information can also be found in publications that analyze investor surveys and perform market research. The appraisers will review the available information and then estimate a capitalization rate for the subject property that is utilized to calculate an estimate of value from the Income Approach.

**Mortgage Equity Yield Capitalization**

The unique feature of the mortgage-equity system of capitalization is the consideration of mortgage terms and equity yields as factors influencing the capitalization rate. Unlike other systems, mortgage equity capitalization does not disregard mortgage terms or view a property as if owned free and clear of debt. Instead, mortgage financing is taken into consideration in the estimation of a capitalization rate. This recognizes that the typical investor will utilize the best available mortgage financing in order to maximize the yield on a minimum down payment. The Mortgage Equity technique is considered a realistic system of analyzing and judging the relative attractiveness of real estate investments based on the impact of mortgage financing on the commercial real estate market.

The capitalization rate derived by the Mortgage Equity Technique is based on information from our appraisal files, on the terms of recent loans, current market conditions and conservative estimates of future market conditions. The following assumptions are estimated to reflect the expectations of typical investors in the real estate market. The interest rate is based on a projected average interest rate that an investor would expect to achieve over the projected holding period. A current interest rate may differ from this projected average however, the market is expected to change over the projected holding period and a different interest rate may be charged during the later portions of the estimated holding period. Commercial real estate loans typically have a short term, often 3 to 5 years with a balloon payment due at the end of the term therefore an investor would expect to refinance a loan over the projected holding period. A conservative property appreciation rate of less than 1% per year of the holding period is also used.



**Direct Capitalization Rate Information**

Direct capitalization is a method used to convert an estimate of income for a single year into an estimate of value. A direct capitalization rate can be calculated by dividing an estimate of the net operating income at the time of the sale by the sale price. When the net operating income is not known, an estimate can be made based on listing and lease information from comparable properties. Commercial properties that are listed for sale can also include a direct capitalization rate. Listing information can provide insight into trends in the capitalization rates of commercial properties and in estimating the net operating income of the listed property.

In general, a property acquired for the generated income tends to be leased to a quality tenant(s) and to have a high occupancy rate; therefore, such properties would be expected to be at the lower end of the capitalization rate range. Based on conversations with area real estate professionals that specialize in leased properties and the available information from listings, for a fully leased investment property leased on a triple net basis, a deduction of 5% for vacancy and collection losses and 5% for expenses/reserves is considered reasonable and typical for the calculation of a capitalization rate and is utilized in the following section unless otherwise noted.

**Direct Capitalization Rate 1:** A property located on Enterprise Drive in the north side of the City of Appleton in a more recently developed office/business park along the north side of U.S. 41. The property was listed for sale in September 2009 as an income producing investment property for $795,000. The property was sold in November 2010 for $685,000. According to the available property information, the site is 2.375 acres in size and improved with an 11,250 square foot building with an office/warehouse use, constructed in 1999, has a steel frame, concrete block exterior walls, a 17 foot wall height, and an office area that is 16% of the building size. According to the listing, the investment property was listed with a 9.7% capitalization rate. The listed capitalization rate equates to an NOI of $77,155. According the listing agent, the transfer was an arm’s length investment sale. The grantee does not intend to occupy the property. The tenant, Cintas Corporation, had a couple of years remaining on an existing lease and the transfer was contingent upon a five-year extension. The agent does not know the terms of the extension. The grantee is to install a sprinkler system and make some other improvements as part of the lease extension. Another positive of the property was the additional site area allows for building expansion. Based upon an estimated NOI of $77,155 and the sale price, a direct capitalization rate of 11.26% was calculated. Taking into consideration the sale price plus an assumed $50,000 investment for the indicated improvements, a direct capitalization rate of 10.50% was calculated. Based on conversations with knowledgeable real estate professionals in the area, for a fully leased investment property, a 5% deduction for vacancy and collection loss and a 5% deduction for reserves/expenses are reasonable allowances when calculating a capitalization rate. Applying these allowances to the aforementioned income estimate equates to a direct capitalization rate of 10.17%. Applying these allowances plus the assumed $50,000 investment for the indicated improvements, equates to a direct capitalization rate of 9.47%.

**Direct Capitalization Rate 2:** A property located at the southwest corner of N. Main Street and Harbor View Drive in the City of Fond du Lac sold in July of 2011. According to the City of Fond du Lac assessor’s office, the 6,120 square foot building was originally constructed in 1973. The building is of a stud frame construction on a concrete slab foundation with masonry façade along the front office area, and ribbed metal panel exterior along the shop areas. Above the masonry façade on the eastern section of the building is a metal parapet exterior. The roof is metal panel. The building has two at-grade overhead doors along the eastern wall, and one along the rear, or west wall. The shop area has a 14 foot ceiling height. The building appears to be serviced by a rooftop mounted HVAC unit. According to the grantee, the building consists of approximately 1,000 square feet of finished area, which includes a reception area, two private offices and restrooms. The property was purchased as an investment property and was fully leased to a national tenant, Safelite Auto Glass. The grantee stated that there was between three and five years remaining on the lease at the time of sale, and the tenant had plans to invest approximately $100,000 in improving the property in 2012, which indicated their long-term intentions. The property was originally listed for sale for $325,000 at an 8.15% capitalization rate.

According to the Wisconsin Department of Revenue Real Estate Transfer Returns Database, the property was transferred via warranty deed on July 29, 2011. The grantor was 550 N. Main Street, LLC and the grantee was Seaside, LLC. The sale price was $265,000, which equates to $43.30 per square foot. According to listing information for the property, the lease rate was $4.33 per square foot on a triple net basis. Applying this lease rate to the 6,120 square foot building equates to $26,499.60. Previous listing information stated that the lease features 2% annual increases for years 3 through 5 and a five year renewal option. The sale price based on the listed NOI equates to a 10% capitalization rate. According to the grantee, he purchased the building based on the 10% capitalization rate. Based on conversations with other knowledgeable real estate professionals in the area, for a fully leased investment property, a 5% deduction for vacancy and collection loss and a 5% deduction for reserves/expenses are reasonable allowances when calculating a capitalization rate. Applying these allowances to the aforementioned income estimate, equates to a direct capitalization rate of 9.02%. The capitalization rate of 10% was considered the most notable as the investor stated he purchased this property based on this capitalization rate.

**PwC Real Estate Investor Survey**

The survey for the first quarter 2013 states that the average national market overall capitalization rate (OAR) for an institutional grade property was 5.73% for a national apartment, 7.50% for a national suburban office, 7.04% for a national strip shopping center, and 6.63% for a national warehouse. Each category is down significantly from capitalization rates of 7.85%, 8.79%, 8.49%, and 8.73% seen in the first quarter of 2010, and is even below the pre-recession levels of 6.13%, 7.59%, 7.33%, and 6.73% seen in the fourth quarter of 2008.

For the national strip shopping center, the average overall cap rate of 7.04% is the lowest average ever reported for this market since it debuted in 1991.

A recently added category is the national secondary office market, which had an overall capitalization rate (OAR) of 8.31% for the suburbs and 7.80% for the central business district.

As the survey information was from large cities, it appears reasonable that a higher rate should be utilized for the subject property, as it is not in an investment grade property nor is it located in a major metropolitan region. The survey states that the spread from a non-institutional to an institutional grade property was on average 156 points for a national apartment (7.29%) and 321 basis points for a national strip shopping center (10.25%), which is higher than one year ago. Survey participants are not currently pursing non-institutional properties in the national suburban office and national warehouse categories. The appraisers cannot recall this being noted in the survey in the past few years. Information was available for each category in the fourth quarter of 2012. The spread from a non-institutional to an institutional grade property was on average 113 basis points for a national suburban office (8.63%) and 200 basis points for a national warehouse (8.83%).

The investor survey reports “the average overall capitalization (cap) rate decreased in 21 Survey markets, held steady in two, and increased in ten of them. The number of markets reporting increasing this quarter is the highest total over the past two years.” In general, positive trends are expected in commercial real estate in 2013 due to an economy that is still growing, though at a slow rate, pent-up capital, and low interest rates.

**Estimate of Value from the Income Approach**

The capitalization rate derived by the Mortgage Equity Technique, the direct capitalization rates derived from the sale of area commercial properties and the investor survey information establish a range of applicable capitalization rates. The Mortgage Equity Technique calculated a capitalization rate of rounded to 9%. A review of direct capitalization rates derived from the sale of area commercial properties helps to establish a general range from the 8.00% area for high quality properties with national type tenants to a high of the 10% area.

Based upon the investor survey information, the average overall capitalization rate for a non-institutional grade property was 7.43% for a national apartment, 8.97% for a national suburban office, 9.72% for a national strip shopping center, and 9.65% for a national warehouse.

Based upon capitalization rates in general having declined over the past few years from the higher capitalization rates seen in 2009, and taking the subject improvements and location into consideration along with the information available for properties with a similar existing use, a capitalization rate of 9.75% is considered reasonable for the calculation of the estimate of value from the Income Approach.

**Estimate of Value**

Estimated Net Operating Income divided by Capitalization Rate = Estimate of Value

|  |  |
| --- | --- |
| Estimated NOI $62,052 / .0975 Cap Rate = | $636,431 |

The most probable value of the subject property based on the Income Approach is estimated to be $636,000 (rounded).

# PERMANENT LIMITED EASEMENT ACQUISITION

A permanent limited easement (PLE) is an acquisition of property rights for a limited purpose. A PLE is for a specific purpose normally identified and narrowly defined within the right of way plat. It is typically used for construction outside the normal right-of-way that does not seriously impair the property owner’s use but does require occasional access for maintenance purposes. Some typical applications are riprap of drainage ditches, channel changes, yard drains, culvert outlets, and construction of storm sewer outfall lines. This type of acquisition is also used in areas where the acquiring agency will jointly use the same lands with others: e.g., the Department may have need for periodic access to land as does the Department of Natural Resources, railroads, or utility companies. A PLE requires compensation in most cases.

An easement is an interest in real property that conveys limited use, but not ownership of a portion of the owner’s property. Each easement document contains specific controls and restrictions. It must be carefully analyzed to determine how it affects the encumbered property. The appraiser should always keep in mind the before and after concept when valuing an easement. The appraiser should use sound reasoning and logic to determine what percentage of the total ownership is affected.

A before and after analysis using comparable sales affected by permanent easements may be helpful if the data is available. If sales with easements are used, the easements should be having similar effects on the sales properties as the easement being considered affects the subject. If there is no sales data to support the valuation of the easement, the appraiser’s justification should include an analysis of how the easement will affect the use of the property. Any percentage of loss of value for an easement should be proportionate to the loss of use of the property by the owner. It is possible that a permanent easement could also cause severance damage or benefit to the property remaining. Either of these would be evident if the value of the remainder is permanently changed as a result of the easement.

The subject property will be encumbered by a permanent limited easement for a sanitary sewer. Per the proposed easement, “*the right to enter upon the Easement Parcel and such lands of Owner contiguous to the Easement Parcel as may be necessary to construct, install, operate, maintain, repair and replace the sanitary sewer. Owner further hereby grants and conveys to Grantee the right to remove trees, bushes and other vegetation as well as the right to plant and protect any trees, bushes or other vegetation on the Easement Parcel. The Owner, its heirs, successors and assigns covenants and agrees that no building or structure will be erected over and/or under the Easement Parcel or within ten (10) feet of the Easement Parcel. The Grantee and its agents only to the extent reasonably necessary have the right to enter the Owner's property adjacent to the Easement Parcel on a temporary basis for the purpose of exercising the rights herein acquired, but the Grantee agrees to restore or cause to have restored, such property, as nearly as is reasonably possible, to the condition existing prior to such entry by the Grantee or its agents. This restoration, however, does not apply to the initial installation of the sanitary sewer or to any brush or trees, which may be removed at any time pursuant to the rights herein granted. The Owner hereby represents and warrants that the Owner owns the Easement Parcel in fee and has/have good, right and lawful authority to give and convey this Easement. This grant of easement shall run with the land and shall be binding upon and inure to the benefit of the heirs, successors and assigns of all parties.”* The PLE will encumber approximately 0.041 acres of the subject site. The area in which the easement will be located is along the eastern property line at the rear of the site. The PLE does allow for the paving of driveways and roads over easement areas as well as fencing over the area, though not of buildings or obstructions on or within ten feet.

When estimating the impact on the PLE, the appraiser took into consideration the current and future use of the site both before and after the PLE is placed on the parcel. The existing use of the area that will be encumbered by the PLE is primarily excess parking area to the rear of the improved portion of the site. This area contributes to the building site ratio and excess parking but a small portion appears to be DNR designated wetlands. The DNR wetland areas are not buildable.

After the PLE is placed on the property, the area under easement cannot be built on or obstructed except for paving such as driveways and roads and fencing. The easement will allow for the maintenance, repair and alteration of the underlying sanitary sewer. The PLE area will not place any excessive restrictions on the site. Neither the current use nor the highest and best use will change because of the easement.

The PLE places an added restriction of the property. It places additional deed restrictions that may have a detrimental impact on the future sale of the subject property. Easements place a cloud on title that may be negatively reflected in the market place. However, the subject’s easement is not considered to place a significant or measurable impact on the entire property value. It is the appraiser’s opinion that, based on the placement of the PLE on the site and its minimal restrictive use, the overall property value would not be measurably noted in the market place. In other words, it is unlikely that if a for sale sign were place on the property both before and after the PLE is placed on the property that a potential purchaser would offer considerably less money for the entire site after it is encumbered. There is no market evidence in this area of any comparable sales that are encumbered by a similar storm sewer PLE to support a negative impact on the entire property.

The area contained within the PLE will not allow for building on or within ten feet of the easement. The easement also allows the municipality access to the easement area for the purposes of installation, alteration, repair, and operations. The appraiser is of the opinion that an easement overall is considered to be a negative feature in the market place and thus the property owner should be compensated. The easement area is approximately 0.041 acres. The appraiser considered severance and found there to be none.

PLE Valuation

Because of this acquisition, a Permanent Limited Easement (PLE) will encumber 0.041 acres of the subject site. In analyzing the impact of the proposed PLE on the subject property, THE APPRAISER took into consideration how the PLE would encumber the area, and that the area affected by this action is along the eastern property line, currently used as gravel paved parking area.

A PLE is an easement interest and is not a direct loss of land. Therefore, the size of the subject property remains the same after the acquisition of the easement. There is no market evidence to support a change in the land value per acre after the PLE encumbrance and since the comparable sales used in their analysis remain the best available, it is their opinion that the per acre value established in their analysis of the site is used in the PLE valuation of the property.

The main use restrictions placed on the property as a result of the PLE is the future inability to excavate, build structures or obstructions except for paving and fencing over or within ten feet of the PLE area and the right for the municipality to enter the PLE area at any time to maintain the sanitary sewer within the area. There is no market evidence with which to extract a market derived ratio as to the damage of the site. The PLE area is currently located along the eastern property line being used for excess parking area. After the PLE is placed on the site, that portion, as well as the remainder will have the same highest and best use. Because the owner will have to face minimal use restrictions and a loss of utility over the PLE area, in addition to allowing municipal access to the area the appraiser estimates that the encumbrance will place a 50% reduction in value over the PLE area. However, the unencumbered remainder will not be impacted by the placement of this easement.

Therefore, it is their opinion that the total market loss sustained by the subject property owner, as a result of the proposed PLE acquisition is $124,146 per acre x .50 (percent diminished in value) = $62,073 per acre. The PLE area is approximately 0.041 acre x $62,073 = $2,545.

The total loss/damages sustained from the PLE acquisition is estimated at $2,545.

# RECONCILIATION AND MARKET VALUE – AFTER CONDITION

This appraisal assignment required the appraisers to estimate the market value of the subject property.

The Sales Comparison Approach indicated a value of $

The Cost Approach indicated a value of $

The Income Approach indicated a value of $

WRITE UP THOROUGHLY THE STRENGTHS AND WEAKNESSES OF EACH APPROACH

The Cost Approach was not considered applicable to this appraisal assignment. The omission of the cost approach was not considered inappropriate or misleading.

The Market Approach was impacted by the lack of the similar income producing properties being sold under the current market conditions. One suite of the subject property is currently vacant therefore; the Income Approach utilized an estimated lease rate for the suite. The subject property has a good rental history. With essentially equal weight placed on both approaches, the most probable market value of the subject property was estimated to be $      as of Click or tap to enter a date..

**FINAL ESTIMATE OF VALUE**

**$**

**EIGHT HUNDRED FORTY FIVE THOUSAND DOLLARS**

# BEFORE AND AFTER ANALYSIS VS. VALUE OF THE PART TAKEN CONCLUSIONS

## Value of The Part Taken

**Land Acquired**

$      per Choose an item. x       Choose an item. = $

**Permanent Limited Easement**

It is my opinion that the total market loss sustained by the subject property owner, as a result of the proposed PLE acquisition is $      per Choose an item. x       (percent diminished in value) = $      per Choose an item..

      Choose an item. x $      per Choose an item. = $

**Impacted Site Improvements**

**Asphalt Acquired**

The project will disturb some asphalt area. The appraiser estimated that this asphalt area covers approximately xxx square feet of area. This area is near the (describe area). As inspected, that area in question was covered with asphalt paving, which appeared to be in (Poor-Good) condition. Speaking with a local contractor at Northeast Asphalt, the appraiser estimated $4.00 per sq. ft. for new asphalt. Considering that the asphalt appears to be somewhat depreciated, they estimate that it has lost (appropriate percentage) (depreciated) of its value new. A contributory analysis of the asphalt paving located within the proposed acquisition area follows:

Paving Analysis

Type of Paving Asphalt

Quality/Condition of Paving Appropriate Condition

Cost per Square Foot (new) $4.00/sq. ft.

Depreciation (estimated) Appropriate percentage

Depreciated Value of Paving $2.00/sq. ft.

Amount of Paving Acquired (sq. ft.) xxx sq. ft.

Value of Paving Acquired $xxx

Contributory Value of Acquired Paving $xxx

Considering the amount, condition, age and location of the paving that will be lost as well as that which remain, it is their professional opinion that $xxx in paving value will be lost as a result of the removal of approximately xxx square feet of asphalt paving as a result of the project.

**Gravel Paving**

The project will disturb some asphalt area. The appraiser estimated that this asphalt area covers approximately xxx square feet of area. This area is near the (describe area). As inspected, that area in question was covered with gravel, which appeared to be in (Poor-Good) condition. The appraiser spoke with Ron at Peters Concrete. Based on the size of the parcel and average depth for a gravel parking lot/driveway, he estimated that 67 cubic yards of gravel would be required. This equates to roughly 84 tons of gravel. Currently for new gravel, the rate is $9.00 per ton. Estimating a cost new for this grave at $9 / ton for 84 tons = $756. Considering that the asphalt appears in some places to be sparse or uneven, they estimate that it has depreciated by (appropriate percentage). A contributory analysis of the gravel paving located within the proposed acquisition area follows:

Paving Analysis

Type of Paving Gravel

Quality/Condition of Paving Appropriate Condition

Cost per Ton (new) $9.00/ton

Depreciation (estimated) Appropriate percentage

Depreciated Value of Paving $8.10/sq. ft.

Amount of Paving Acquired (tons) xx tons

Value of Paving Acquired $xxx

Contributory Value of Acquired Paving $xxx

Considering the amount, condition, age and location of the paving that will be lost as well as that which remain, it is the appraiser’s professional opinion that $xxx in gravel paving value will be lost as a result of the acquisition.

**Fencing**

The subject property has chain link fencing installed as a buffer and a safety measure for the park portion of the property. It is around the playground equipment and helps separate the parking lot form the remainder of the park. Therefore, the appraiser is of the opinion that the fencing is used and is required as part of the continuing use of the property. The fencing shows no observable signs of depreciation. The length of fencing impacted is approximately 230 linear feet. The fencing will be removed. Since there is no guarantee that if removed, the fencing could be used again with the same utility, and since the fencing would need to be transported to and stored in a different location, the appraiser is of the opinion that estimating the installed replacement value of the impacted fencing is a reasonable compensation to the landowner. THE APPRAISER used a cost estimating website and verified that cost with local retailers and other cost sources to determine a contributory value of the fencing.

|  |  |  |
| --- | --- | --- |
| Galvanized Steel Chain Link Fencing | $13.00 - $18.00 per linear foot | $14.00 |
|  | 230’ of fencing impacted | x 230 |
|  | Contributory Value | $3,220 |

The cost for similar fencing ranges from $13.00-$18.00 per linear foot installed. After checking other cost sources and considering the quality and utility of the fencing, the appraiser determined a value near the lower end middle was appropriate. The costs above include installation costs. The contributory value of the installed fencing is $3,220. The property owner should be compensated this amount for the lost fencing.

**Landscaping**

A portion of the subject property’s landscaping is being acquired. Two large shade trees in the northwest corner of the property are in the proposed fee acquisition area. These trees provide a visual buffer from the highway. According to information provided by the engineer, there is no plan to remove the trees at this time. However, the trees will no longer be under the control of the owner and could be removed at the discretion of the highway authority. Therefore, damages are being calculated for this loss.

The contributory value of the lost landscaping is used to determine the damage for this loss. Contributory value is a type of value that reflects the amount a component of a property contributes to the whole. The contribution of the component may or may not be equivalent to the cost to add the component. Federal and state statutes task the appraiser with determining the market value of the property in the before and after condition. The appraiser was unable to extract market evidence of a decrease in value due to the partial loss of landscaping. Using industry standards and previously completed studies is a way to compensate the property owner for this loss without direct market evidence. Therefore, contributory value is used in the case of landscaping as described below. In estimating damage due to lost landscaping, the appraiser is to determine in simple terms, what the property would sell for before the loss and then after the loss. As an example, if the loss were two shrubs and a tree, how much less would the property sell for after those items are removed?

Overall, the landscaping is considered above average. Industry standards as well as a study of residential sales indicate that landscaping contributory value typically ranges from approximately 2 to 10 percent of the total value of residential properties, land and improvements combined. The landscaping is above average; therefore, the appraiser estimated the contributory percentage in the upper portion of the range. The estimated contributory percentage is estimated at 7 percent of the total of its estimated before value. There is some landscaping in front of the home, a significant amount of landscaping at the back of the home and various trees and shrubs around the property. The percentage of the landscaping acquired is approximately 15 percent.

|  |  |
| --- | --- |
| **Landscaping** | |
| Property value before | $194,150 |
| Attributed to landscaping (%) | 7% |
| Est. value of landscaping | $13,591 |
| Landscaping acquired (%) | 15% |
| Landscaping allowance | $2,039 |

**Total Value of the Part Taken**

|  |  |
| --- | --- |
| Land | $ |
| Permanent Limited Easement | $ |
| Site Improvements | $ |
| Building Improvements | $ |
|  |  |
| **Total** | $ |

## Before and After Conclusions

|  |  |
| --- | --- |
| Before Value | $ |
| After Value | $ |
| **Change in Value** | $ |

## Total Severance Damages or Special Benefits

|  |  |
| --- | --- |
| 1. **Change in Value between Before & After** | $ |
| 1. **Total Value of the Part Taken** | $ |

If A is less than B, the analysis has resulted in the identification of a special benefit. If B is less than A, the analysis has resulted in the identification of severance damages. If both values are equal, then the analysis has resulted in no identification of either.

To determine the amount of either the severance damage or a special benefit, the following information is tabulated, and the resulting calculations show the amount.

|  |  |
| --- | --- |
| 1. Value of whole property | $ |
| 1. Value of part taken as part of whole | $ |
| 1. Value of remainder as part of whole | $ |
| 1. After value of remainder | $ |
| 1. Severance damages (3-4) | $ |
| 1. Special Benefits (4-3) | $ |

**Severance Damages**

Damage to the remaining property in condemnation, caused by the partial taking and subsequent construction of the road, building, or other use for which the taking took place (International Right of Way Association, The Real Estate Dictionary, eighth edition)

Generally used to mean those damages to a remainder property that are compensable. (Dictionary of Real Estate Appraisal, 4th edition, Appraisal Institute)

Explain where it came from, what it is, how you got there.

**Special Benefits**

Describe any betterment’s or special benefits, which have the effect of increasing the value of the property remaining. These benefits may be used to offset other damages, land and improvements acquired. The added value of a betterment should be based on its contributing market value not cost.

The acquisition is a small strip acquisition that will not result in any type of special benefits that could potentially increase the value of the property.

Explain where it came from, what it is, how you got there.

## Cost to Cure

It was previously determined, as a result of the improvement project, the subject property, specifically to Parcel 161A, will suffer severance damages to land and improvements if left uncured. The appraiser will weigh the cost to cure method as a way to offset severance damages. The difference in values in the after condition uncured versus cured are summarized as follows:

|  |  |
| --- | --- |
| Value of Parcel 161A Before | $2,272,000 |
| Value of Parcel 161A After Uncured | $1,359,000 |
| Damages | $913,000 |

|  |  |
| --- | --- |
| Value of Parcel 161A Before | $2,272,000 |
| Value of Parcel 161A After Cured | $2,064,000 |
| Damages | $208,000 |

|  |  |
| --- | --- |
| Total Damages to Parcel 161A Uncured | $913,000 |
| Total Damages to Parcel 161A Cured | $208,000 |
| Difference | $705,000 |

The difference for Parcel 161A in the amount of $705,000 is primarily a result of a change in highest and best use. The number determined also includes items in the acquisition area, these items such as the pylon sign, vinyl fencing, landscaping, asphalt, and gravel. These items are common elements among implement dealers and repair shops sales selected in the before condition for Parcel 161A. Accordingly, they are a component of the overall reconciled value for Parcel 161A. As a consequence of change in highest and best use, different sales were selected for Parcel 161A in the after condition. The industrial sales selected do not share the same components and items as the sales in the before condition, such as the pylon sign, vinyl fencing, landscaping, asphalt, and gravel. Therefore, these items are not a component of the overall reconciled value for Parcel 161A Uncured in the after condition. Even though these items are not compensated individually for their contributory value, the acquisition and value of these items are recognized by the before and after appraisal method.

Regarding the severance damages to Parcel 161A, the appraiser gathered estimates in an attempt to cure the loss in value. The appraiser was provided with an estimate previously prepared by Keller. This estimate totaled $2,145,155 and was intended to cure the damages of the improvement project to maintain the current use of an implement dealership. Items in the estimate include expansion, interior remodel/renovation, utility relocations, fuel tank relocation, excavation, asphalt, fencing, sign relocation, landscaping, and professional services.

The appraiser obtained a second estimate from Badgerland Buildings, Inc. The contractor met with the landowner and discussed what modifications needed to occur after the improvement project to maintain the current use. The estimate of similar service, land and building modifications, came in at $1,480,000. Additionally, the WisDOT contracted R.A. Smith National to complete a Riesterer Prop LLC (Riesterer & Schnell) Site Circulation Evaluation study. R.A. Smith National met with the general manager of Riesterer & Schnell in early September 2016 to discuss existing business and site operations, existing site circulation, and concerns with the proposed impact to the parcel resulting from the STH 15 improvement project. R.A. Smith National developed a design concept to address the site circulation deficiencies and parking impacts for no-build condition. R.A. Smith National estimates the cost to construct the improvements in the design alternative would cost $290,000. (See Exhibit #1 – R.A. Smith National Evaluation and Estimates for additional information.)

As previously mentioned, “Under no circumstances can cost to cure measure of damage be applied if cost to cure exceeds diminution in value that would result if such a cure were not undertaken”. Therefore, the Keller and Badgerland Buildings, Inc. estimates far exceed severance damages realized by the before and after appraisal method. However, the appraiser agrees that the findings of the Riesterer Prop LLC (Riesterer & Schnell) Site Circulation Evaluation study by R.A. Smith National are reasonable and considers the no-build design alternative as a cost to cure. The design alternative will restore the property to its current use of an implement dealership in the after condition. See the following excerpt of the Riesterer Prop LLC (Riesterer & Schnell) Site Circulation Evaluation explaining their concept. R.A. Smith National estimates the improvements shown in the design alternative will cost $290,000. This cost includes all improvements shown on Exhibit 10 and the storm water detention pond mentioned above. The included pond cost was based on the August 14, 2015 Keller estimate prepared for the Riesterer & Schnell site ($30,000), plus an additional $10,000 identified by R.A. Smith National to cover engineering, survey and contingencies. The $290,000 does not include demolition of the storage buildings and corresponding site restoration, removal of the remaining portions of the existing east drive, or any improvements to the remaining buildings.

Additional Cost to Cure

To conclude, the appraiser conducts a final evaluation of Parcel 161A in the after condition. Even though the cost to cure method is utilized to offset severance damages, there are additional impacts and items to cure in the after condition. Additional cost to cures will be incurred to ensure an implement dealership use is maintained in the after condition. The following additional cures are recommended. As mentioned, the R.A. Smith National does not include the removal of the remaining portions of the existing east drive outside the TLE area. Other items in the acquisition to be cured include the John Deere pylon sign, ±1,200 feet of vinyl fencing, three flag posts, three landscape rock gardens totaling ±4,350 square feet, and two dirt mounds totaling ±1,000 square feet. The Town of Greenville has a Landscaping Requirements Ordinance to enhance the appearance of the town by improving the quality of landscaping, buffering, and screening at commercial and industrial properties. Criteria and standards are provided to ensure that building sites and off-street parking areas are sufficiently landscaped to protect and preserve the appearance, character, and value of surrounding properties and public right-of-way, thereby promoting the general welfare, safety, and aesthetic quality of the Town of Greenville. The provisions apply to any developments allowed as a permitted use, requiring site plan approval, or a special use in the GC, CP, IND, AD, R3, and any developments allowed as a special use in the R1, R2 and the districts.

 Buffer Yard Landscaping: Any commercial or industrial use that is adjacent to a residential use or zoning district shall provide a landscaped buffer yard along the full length of the affected side and/or rear yard to afford protection to the residential uses from the glare of lights, from visual encroachment, and from the transmission of noise. Required buffer yards shall be landscaped as described. Combinations of trees, shrubs, berms, and fences shall create screening which is at least 50 percent impervious at planting to sight.

 Screening Requirements: The intent of these requirements is to provide a visual screen around service, equipment, and vehicle storage, and trash collections areas contained within commercial and industrial properties. At the time of installation or planting, screening materials must be 50 percent impervious at planting to sight, and be sufficiently high and long to accomplish the desired blockage of view year round.

The landscaping and staging mounds will not be necessarily replaced in kind, but an allowance is provided to display equipment and maintain the aesthetics of the property. To determine the landscape and display allowance, the appraiser contacted local landscaping businesses and reviewed written and verbal quotes received. The appraiser also referenced the Marshall and Swift Cost Manual. The landscaping allowance includes materials and labor.

The compensation summary for the proposed cost to cure is summarized in the following chart. The compensation is based on contractor estimates obtained and cost manual data. The allowances include materials and labor. The in place value of the pylon sign was previously determined to be $13,400, relocation of the sign is justified. The sign allowance includes compensation for electrical work. The fencing estimate provided to the appraiser included an estimate for 1,300 feet, the appraiser adjusted pricing for ±1,200 feet. (See Exhibit #1 – Estimates for additional information.)

|  |  |
| --- | --- |
| Cost to Cure Summary Totals | |
| East Driveway Demolition Allowance | $5,000 |
| Relocate John Deere Pylon Sign | $5,750 |
| Fencing Allowance | $16,108 |
| Landscape and Display Allowance | $20,000 |
| Total Compensation | $46,858 |
| Rounded To | $47,000 |

Parcel 161A –Allocation – After Acquisition – Cured – Less Cost to Cure

The overall value of Parcel 161A in the after condition is presented as follows:

|  |  |  |
| --- | --- | --- |
| Land | ±11.582 Acres at $30,000 Per Acre | $347,460 |
| Improvements Value |  | $1,716,540 |
| Preliminary Value – After Acquisition |  | $2,064,000 |
| Less Cost to Cure |  | $337,000 |
| Total Value – After Acquisition |  | $1,727,000 |

# TLE ACQUISITION

As part of this public improvement project, (appropriate size here) of the subject property will be encumbered by a temporary limited easement (TLE) for the length of construction of the new roadway. Description of eased area including location on property, use of eased area, items within eased area.

An easement is an interest in real property that transfers use, but not ownership, of a portion of an owner’s property to another party. A TLE is a transitory interest in land for a specific purpose or use and for a specific period. Generally, TLEs are acquired for either construction of a project, grading, sloping or providing equipment and material storage areas. The TLE functions much like a land lease, but with several limiting elements.

One limiting element is that a TLE does not have all the property rights normally conveyed under a typical land lease. A TLE is for a specific purpose normally identified and narrowly defined within the right of way plat documents. Thus, a TLE has less than a full bundle of ownership rights that would otherwise be conveyed in a typical land lease.

A TLE differs from a land lease. Although the land may be encumbered over a longer period of time i.e. road construction project, the actual period during which the land is physically encumbered is only a portion of the total time. For instance, the actual construction for a TLE for grading and sloping may take place over a 3-month period during summer. The TLE may extend over a period of several years spanning the entire project. Generally, a contractor is unlikely to know the exact timing when the subject property will be utilized for its specific purpose under the TLE. Because of this uncertainty of timing, the engineer who gives this information to the appraiser estimates the determination of the period during which the TLE will actually require physical possession of the property.

The most common measure of damages accepted by the courts for TLE acquisitions is the rental value of the easement area for a period of occupancy by the acquiring agency. Damages that result from temporary construction easements are usually based on economic rental rates that can be estimated establishing the relationship between rent and value from other properties in the area. If rental data is not available, it is acceptable for the appropriate rate of return to be estimated. Land could be compared to a monetary asset through the principle of substitution and an appropriate rate of return based on risk could be estimated.

After the full rental value is established, it should be adjusted to reflect the limiting elements of a TLE as a transitory land interest for a specific purpose and time. In essence, the value of the TLE will normally be less than the full value of a land lease because it contains less than a full bundle of property rights.

In accordance with the WisDOT Real Estate Program Manual (REPM), the valuation of the Temporary Limited Easement shall be based on the amount of land affected, the amount of time the property will be impacted, the degree/extent of impact and rate of return or rental rate. The degree of impact will be based on the extent of limitation of use on the subject property because of project-related activities.

In compliance with the WisDOT Real Estate Program Manual, a higher rate was applied to the Temporary Limited Easement for the “construction” period and a lower rate to the “holding” period.

According to the WisDOT project manager, the construction start date and completion date for this project should be March 2021 through October 2021 (10 months). The duration of the Temporary Limited Easement is the period between the date of appraisal (November 12, 2015) and the scheduled construction completion date (October 2021) or approximately 72 months.

**Agricultural Lands (If Applicable)**

The length of the easement is (appropriate number of months) months; however, the impact to the subject property may be longer than that period. The appraiser has researched the impacts on the property. They have determined that while the easement is a (appropriate number of months) month term, the effects will last longer. The appraiser estimated the time the property will actually be impacted by the proposed roadway construction and determined an appropriate length of time below.

In agricultural properties, leases are often impacted by growing seasons. They are typically entered into and terminated based on a year period but are formed around the growing season.

Another important factor regarding an agricultural tract is soil compaction. Soil compaction occurs when soil particles are pressed together, reducing the pore space between them. Soil compaction occurs in response to pressure (weight per unit area) exerted on the land. The risk for compaction is greatest when soils are wet. Wet soils are more loosely comprised and are at greater risk to be more easily compacted. Compaction restricts rooting depth, reducing the uptake of water and nutrients by the crop. It decreases pore size, increases the proportion of water-filled pore space at field moisture, and decreases the soil temperature. Compaction decreases infiltration, increasing runoff and the potential of water erosion.

Heavy equipment can cause damage to the soil structure. Soil structure is important because it determines the ability of a soil to hold and conduct water, nutrients, and air necessary for plant root activity. Wheel traffic is the major cause of soil compaction. This is of special concern because construction is often done year round, not allowing the soil to dry enough to support the heavy equipment.

Most subsoil compaction occurs when the soil is wet and field equipment weights exceed 10 tons per axle. Many road construction vehicles have larger loads than typical farm implements.

The plant response to surface and subsoil compaction depends on the crop, soil conditions, and the climate in a particular year. If plants are already stressed for water, subsoil compaction may add to the stress limiting the growing plant roots access to additional water. If plants are growing in soils that have aeration problems due to high water content, subsoil compaction will slow drainage and could result in an anaerobic root environment that limits nutrient uptake.

|  |
| --- |
| Relative Corn Yields  **Figure 10. Relative corn yields over 12 years with a one-time soil compaction of 20 ton/axle (from Voorhees et al., 1986).** |

Simply put, subsoil compaction can affect available water, nutrient uptake, plant growth, and its yield.

This effect decreases over time, and yields on compacted soil approach the yields on non-packed soil after two to seven years, depending on the soil and climate.

**Figure 1** shows a study, in northern climate of corn yields after a onetime 20 ton/axle soil compaction. Yields were back to normal within 5 years after the compaction was created. However, in 1988, 1990, and 1993 yields were reduced. In 1988, growing season precipitation was the lowest on recorded history while in 1990 and 1993, the region received above average rainfall.

This study illustrates that a one-time compaction event can lead to reduced crop yields years later. Under normal farming operations, farmers are aware of the effects of soil compaction and have implemented strategies to reduce the effect of compaction over time. In the instance of the subject property and the TLE, heavy equipment will be used on the subject property compacting the soil.

While the appraiser does not claim to be experts in soil compaction, they did research the topic and found reliable sources from which to gather information. The impact to the property is shown as a two to seven year period. Based on the small area of the TLE, and the limited time the property will experience compaction due to roadway construction vehicles, the appraiser have estimated a 5-year impact may likely be felt by the agricultural growth of the property. Therefore, the appraiser used a 5-year “term” for the TLE.

Economic land rent is best determined based on actual market data from comparable land leases in the market. Agricultural land leases are common in the market place. The typical non-irrigated cropland leases range from $50 to $75 per acre in the corridor’s four county area. The United States Department of Agriculture and the Wisconsin Department of Agriculture, Trade and Consumer Protection publish statistics on cash rents by county. These studies indicate non-irrigated cropland in Marathon county rents for approximately $50 to $70 per acre.

In the appraiser’s opinion, the corridor properties would likely fall within a similar range. Due to the typical proximity to the owner’s buildings and operation, they would command the higher end of the range. Therefore, for the purpose of estimating a rental rate for the TLE, a rental rate of $70 per acre will be used.

The appraiser applied (see below) that annual rate to the area of the TLE for the duration of the easement impact. In this case, they estimated a 5 year term for the (appropriate size) TLE.

The TLE loss was calculated as follows:

|  |  |
| --- | --- |
| Area encumbered by TLE | 1.1 acres |
| Annual Rate | $70/acre |
| TLE impact term | 5 years |
| TLE Calculation | $385.00 |

\*PLEASE NOTE: THE NUMBERS USED IN THE ABOVE GRAPHIC ARE ONLY SHOWN TO EXPRESS THE EQUATION. THEY SHOULD NOT BE CONSTRUED AS ANY TYPE OF VALUATION! THEY ARE FOR EXAMPLE PURPOSES ONLY!

TLE area x annual rate x TLE impact term = $ TLE Loss

After due consideration of all the information contained in this report, the appraiser’s inspection of the subject property, and the methodology applied herein, the appraiser concluded that the total compensation due to the property owner as a result of the TLE is $xxx.

**Other Lands**

Economic land rent is best determined based on actual market data from comparable land leases in the market. Land leases are not prevalent in the Metro Green Bay area. The appraiser spoke with representatives of local and national railroads. They lease lands to businesses and private individuals. These lands are surplus to their purpose, meaning they are not needed at this time for the ongoing railroad use. In order to obtain revenue from these lands the railroads place short-term leases on these sites. According to a representative of Canadian Pacific, the initial lease term is one year with a thirty-day termination. He indicated that lands are often leased for parking areas, use of the rails, or business uses. The railroad has a long-term plan for the leased lands. Therefore, the leases are typically short term. They allow for some construction on the site. Representatives from various railroads said that they apply a percentage rate per year to the fair market value of the land. They determine the fair market value using comparable sales and an across the fence method where applicable. The percentage rate ranged from 10% to 18%.

The 10% rate is considered closest to market, while the higher rates are for special purpose uses, especially those not using the railroad itself. It is important to note that railroad lands are tax exempt. Therefore, neither the lessee nor lessor has that expense. A lessee may be willing to pay a slightly higher rate due to this benefit. If structures are erected, or products displayed, they may be subject to taxation.

Another party that leases land is the Oneida Tribe of Indians of Wisconsin. The appraiser spoke with a representative from the Oneida Land Office who indicated they have land leases on approximately 11 properties. They indicated that several of the land leases are older and typically have not been based on any market rates or open market arm’s length leases. The Tribe has employed various methods in negotiating land leases, however to this point; they have not been actively seeking open market leases. The Tribes initial motivation is reacquiring their reservation lands. Any type of land leases have been done with the intent of obtaining some return on their acquisition price paid for the land.

The appraiser asked the representative what typical rate of return the Tribe would be willing to lease land at in the current market conditions. The representative indicated that a land lease rate between 5%-7% would be typical. The typical terms of the leases would range from 10 to 25 years with varying extensions and options. The appraiser is of the opinion, the Oneida Tribe is a governmental authority that does not generally purchase or lease land based on open market transactions. Their primary focus has been reacquiring their reservation boundary lands. They have not always paid open market values for the land. In many instances, the Tribe has paid higher than typical market values in order to purchase their reservation lands. The land sales and land leases are considered non-open market transactions not generally reflecting true open market transactions that are required by the Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book).

Economic Rent is determined best using actual market data; lacking any open market short term land leases comparable to the proposed TLE, the appraiser estimated the economic rent using the principle of substitution. The appraiser will estimate the appropriate rate of return taking into consideration the relative risk of the short-term lease.

To be successful as an investor, an understanding of investment risk and realistic expectations of reward is needed. Return is a key consideration in the investment decision. It is the reward for investing. The investor must compare the expected return from a given investment with the risk associated with it. Risk refers to the variability of possible returns associated with a given investment. Risk, along with the return, is a major consideration in investment decisions. Higher levels of return are required to compensate for increased levels of risk. In general, there is a wide belief in the risk return trade off. In other words, the higher the risk, undertaken the more ample the return, and conversely, the lower the risk, the more modest the return. Always remember that the higher the return, the higher the risk. It is impossible to realize a return on any investment without facing a certain degree of risk.

Real estate investments are generally considered higher risk investments. Real estate investing involves the purchase, ownership, management, rental and/or sale of [real estate](http://en.wikipedia.org/wiki/Real_estate) for [profit](http://en.wikipedia.org/wiki/Profit_(real_property)). They are an [asset](http://en.wikipedia.org/wiki/Asset) form with limited liquidity relative to other investments, it is also [capital](http://en.wikipedia.org/wiki/Capital_(economics)) intensive (although capital may be gained through [mortgage](http://en.wikipedia.org/wiki/Mortgage_loan) [leverage](http://en.wikipedia.org/wiki/Leverage_(finance)) ) and is highly [cash flow](http://en.wikipedia.org/wiki/Cash_flow) dependent.

The TLE acquisition proposed by the WisDOT is a real estate investment and does contain some amount of risk to the property owner; however, the associated risk to the property owner is relatively minimal because the owner will receive payment from the WisDOT with a minimal risk of non-payment. It should be noted that the TLE area is being acquired and used by the condemning agency and this is not an open market transaction between willing participants.

The most similar short-term safe investments that can be used as a basis of comparison for the TLE rate are treasury bonds, saving accounts and certificate of deposits. These are very safe investments with minimal risks and minimal returns. From a risk prospective, the TLE is government backed. It will very likely be paid, so there is minimal risk. The TLE, unlike a traditional safe investment, is not liquid. Once the easement is acquired, the owner will be held to the terms; they cannot back out. With treasury bonds and other investments is the ability to cash out the investment with a penalty. A typical investor would likely expect a slightly higher rate during this period than a government bond.

**Holding Phase TLE Valuation**

This is the time from the date of appraisal until construction begins. Within this phase, the property owner will face minimal restrictions and impact. The TLE will place an encumbrance on a portion of the property for future construction. Considering the non-complex nature of this acquisition, namely, the small size, location, configuration and temporary nature, it is the appraiser’s opinion that the improvements on the subject property will sustain no damage because of this TLE acquisition. Secondly, the appraiser concluded that the damages resulting from the TLE will be best determined based on the property owner’s potential economic rent lost within the affected area as part of the whole for the holding phase term.

Economic rent is best determined based on comparable rental rates; however, there are few open market land leases to indicate an economic rent. Therefore, the appraiser concluded an economic rent based on consideration of the above described methods and the below developed rate of return.

A TLE is a very short-term encumbrance typically acquired for less than three years. This TLE holding phase is (effective appraisal date) to the start of construction at the end of August 2014, or (appropriate number) months. If exposed to the open market via a land lease, it would be difficult leasing land on such short-term duration. The exception would be land that would not require development i.e. hunting, agricultural and to some extent parking lots with limited improvements. Land leases are generally structured for future site development; therefore, a potential lessee would require a long-term land lease to properly recover the additional improvement investment.

The current market for short-term treasury bonds, saving accounts and certificate of deposits are very low. The term of this holding phase is (appropriate number) months. The yield rate for the above short term safe investments ranges from 0.10% for 3-month terms to 1.25% for 2-year terms. This rate is likely unsuitable for a TLE analysis where the landowner loses the ability to freely use this portion of the property. During the holding phase, the property is less impacted. The main restriction during this phase is typically the inability to construct or plant anything within the TLE area.

Within this holding phase, there is little risk as the TLE is a government-backed payment and no construction is happening at this time. The issue of liquidity is still a concern as real estate investments lack liquidity. Once the easement is acquired, the owner will be held to the terms; they cannot back out. With treasury bonds and other investments there is the ability to cash out the investment with a penalty. A typical investor would likely expect a slightly higher rate during this period than a government bond. The annual rate of return must also be sufficient to cover the real estate taxes and minimal expenses associated with a low risk lease rate. The TLE payment should be sufficient to, at a minimum, make the encumbered area have a positive cash flow. An additional 2% is considered appropriate for these considerations. Therefore based on this, a rate in the range of 2.10% to 3.25% is considered appropriate. It is the appraiser’s opinion that using a rate near the middle of the range to estimate the TLE lease rate would be fair to estimate the compensation due to the landowner for the use of the land during the holding phase. Therefore, an annual rate of 2.5% will be used in the appraiser’s analysis to estimate the compensation due to the property owner because of the holding phase of the TLE encumbrance.

**Estimated Annual Rate during Holding Phase**

**2.5%**

**Construction Phase TLE Valuation**

This is the time from the beginning to end of construction. Within this period, the property owner will experience more impacts and inconveniences. It is then that the TLE area will be used and the roadway project installed. Considering the non-complex nature of this acquisition, namely, the small size, location, configuration and temporary nature of this acquisition, it is the appraiser’s opinion that the improvements on the subject property will sustain no damage because of this TLE acquisition. Secondly, the appraiser concluded that the damages that result from the TLE will be best determined based on the property owner’s potential economic rent lost within the affected area as part of the whole for the construction phase term.

The end of construction is scheduled for the end of October 2015. The construction phase should be considered the number of months between the beginning and end of construction or 14 months in this case. If exposed to the open market via a land lease, it would be difficult leasing land on such short-term duration.

The current market for short-term treasury bonds, saving accounts and certificate of deposits are very low, at or below 1%, and likely would not be suitable for the construction phase of a TLE analysis. It is more likely and fair to the property owner to consider longer-term investments that generally reflect a typical real estate land lease held on a longer term ranging from 10-50 years. During the construction phase, the property is directly impacted. The restrictions during this period include the inability to use the area within the TLE area. This is also the period where the TLE area will be disturbed. It may include driveways, fencing, landscaping and other inconveniences such as heavy machinery and equipment being stored on the site as construction is progressing.

Longer-term safe investments such as treasury bonds range between 2.25% to 3.5%. A real estate investment or land lease faces more risk and less liquidity. Once a lease is signed, the owner will be held to the lease; they cannot back out. With treasury bonds and other investments there is the ability to cash out the investment with a penalty. An additional 4% is considered appropriate for the consideration of liquidity and risk. Therefore based on this, a rate of 6.25% to 7.5% during the construction phase is considered appropriate.

Based on prevailing real estate trends in the market place the annual return must also be sufficient to cover current mortgage loan interest rates, a reasonable return to the investor equity and cover the real estate taxes. Using a 6% to 8% annual return is considered sufficient to cover these criteria.

Considering both built up safe rates and mortgage/equity coverage rates, it appears that a typical land lease for the subject property type should range from 6.00% to 8.00% if exposed to the open market for a land lease. It should be noted that this period of the TLE is a short-term land lease restricted to the construction phase of the roadway project and would generally not be as restrictive as a typical land lease. The appraiser is under the opinion that the TLE rate during the construction phase should fall somewhat below that of a typical land lease rate.

Taking into consideration the appraiser’s conversations with railroad representatives and Oneida Nation officials, a typical land lease rate would range between 5%-10%. The railroad leases are similar short-term leases; however do provide complete use of the leased area. The TLE is for only a portion of the site and for a specific use. Based on this, the TLE should fall below the typical railroad short-term lease rate of 10%. The appraiser also took into consideration the built up rates and typical returns on investment which ranges between 6.00%-8.00%. It is the appraiser’s opinion that using a rate near the middle of the range to estimate the TLE lease rate would be fair in estimating the compensation due to the landowner for the use of the land during the construction phase. Therefore, an annual rate of 7% will be used in the appraiser’s analysis to estimate the property owner’s compensation during the TLE construction phase.

**Estimated Annual Rate during Construction Phase**

**7.0%**

The appraiser then applied (see below) that annual holding phase rate to the land’s fee simple market value per acre for the length of the holding phase. In this case, they estimated a (appropriate number of months) month term for the (appropriate size) TLE for the holding period based on the estimate provided by the project engineer. The appraiser then applied (see below) that annual construction phase rate to the land’s fee simple market value per acre for the length of the construction phase. In this case, they estimated a (appropriate number of months) month term for the (appropriate size) TLE for the construction phase based on the estimate provided by the project engineer. The two amounts are then added together to determine the total TLE loss.

The TLE loss was calculated as follows: EXAMPLE



\*PLEASE NOTE: THE NUMBERS USED IN THE ABOVE GRAPHIC ARE ONLY SHOWN TO EXPRESS THE EQUATION. THEY SHOULD NOT BE CONSTRUED AS ANY TYPE OF VALUATION! THEY ARE FOR EXAMPLE PURPOSES ONLY!

TLE area x price per unit x holding phase monthly rate x holding phase length = $ Holding Phase loss

TLE area x price per unit x construction phase monthly rate x construction phase length = $ Construction Phase loss

$ Holding Period Loss + $ Construction Phase Loss = $ Total TLE Loss

After due consideration of all the information contained in this report, the appraiser’s inspection of the subject property, and the methodology applied herein, the appraiser concluded that the total loss/damages sustained from the TLE as a result of the roadway project is $xxx

# TOTAL DAMAGES AND ALLOCATION

|  |
| --- |
| **Total Value** |
| Before Value $791,952 |
| After Value $776,536 |
| **Difference in Value $15,416** |

|  |
| --- |
| **Allocation of Value** |
| Land $13,041 |
| Improvements $0 |
| Access Rights $0 |
| Severance Damage $0 |
| Change of Grade $0 |
| TLE $630 |
| Sign: 1,745 cost to move |
|  |
| **Total Value $15,416** |
| **Total value Rounded: $15,450** |

After due consideration of all the information contained in this report, the appraiser’s inspection of the subject property, and the methodology applied herein, the appraiser concluded that the total loss/damages sustained by the subject property as a result of this proposed acquisition is $      as of Click or tap to enter a date..

**Total Loss/damages**

**FIFTEEN THOUSAND FOUR HUNDRED FIFTY DOLLARS**



# ADDENDA

## Photos of Subject Property

Photographs taken Click or tap to enter a date. by

|  |
| --- |
|  |
| Proposed Right-of-Way looking easterly |
|  |
| Sign in proposed Right-of-Way |

**Photos of Subject Property**

|  |
| --- |
|  |
| Proposed Right-of-Way looking easterly |
|  |
| Sign in proposed Right-of-Way |

## Maps of Subject Property

|  |
| --- |
|  |
| Aerial Photo |
|  |
| Contour Map |

|  |
| --- |
|  |
| Parcel Map |
|  |
| Zoning Map |

**Project Maps**

## Soil Information

## Legal Descriptions

## Comparable Sales Map

## Sales Data Sheets

## Qualifications of Appraiser