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**Request for Minneapolis Community Development Agency Action
From the Department of Community Planning & Economic Development**

Date: January 20, 2004

To: Council Member Lisa Goodman, Operating Committee

Prepared by Edie Oliveto-Oates, Phone 612-673-5229

Presenter in Committee: Edie Oliveto-Oates, Project Coordinator

Approved by Lee Pao Xiong, Director, Housing _____

Subject: Reuse Appraised Values

RECOMMENDATION: Receive and File

Previous Directives: None

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the
Committee
Coordinator

Community Impact

- Ward: City Wide
- Neighborhood Notification: Not Applicable
- City Goals: Not Applicable
- Comprehensive Plan: Not Applicable
- Zoning Code: Not Applicable
- Living Wage/Job Linkage: Not Applicable
- Other: None

Background/Supporting Information

In November 2003, as a result of a land value issue, staff was directed to bring in a report discussing the issue of property value differences based on the reuse of the property. As a result of that directive staff has had several conversations regarding this issue and researched the Society of Real Estate Appraisers Real Estate Appraisal Terminology (Revised Edition) by Byrl N. Boyce, Ph.D., which resulted in the following:

In accordance with best appraisal practices land should be valued for its highest and best use. One definition of “value” is “the present worth of future benefits arising out of ownership to typical users or investors.” Highest and best use is defined as ... “that reasonable and probable use that supports the highest present value, as defined as of the effective date of the appraisal. Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in {the} highest land value.” Implied within this definition is the recognition of the contribution of that specific use to the community’s environment or to the community development goals in addition to wealth maximization of individual property owners. An appraisal represents the appraisers best judgement based on their analytical skill and not based on fact. When looking at property from an investment perspective an alternative term would be “most profitable use.”

Market value is considered the most probable sales price. The most probable sales price is “that price at which a property would most probably sell if exposed to the market for a reasonable time, under market conditions prevailing as of the date of the appraisal.” CPED does not sell its properties for what would be considered “Market Value,” we use instead what is considered “fair reuse value.” A reuse appraisal is defined as follows: “An appraisal under the provisions of the National Housing Act of 1949, as amended, to estimate the resale value of either vacant land or (in some instances) improved property in an urban renewal project area, subject to the restrictions and controls set forth in the Urban Renewal Plan for the project area. Among others, the Plan will specify land use, density or floor area ratios, coverage, and height. The appraisal is the basis on which disposal prices are established for resale purposes.” Although not all of the properties marketed and sold by CPED/MCDA are located within an Urban Renewal Area/Redevelopment Project we impose restrictions related to sale of the property to an owner occupant, time of performance, and public process which can be considered a imposition or special condition (a condition which is not normal in the market place) on the developer and therefore all properties are marketed for their fair reuse value.

The difference in market value or in our case the reuse value between a single-family reuse and a duplex reuse for a vacant site is the income stream

attributable to each respective reuse. This is an important aspect of the highest and best use analysis as well as the fair reuse value analysis. The duplex use brings a greater income stream and thus a greater economic value to the land. Recent private market transactions bear this out for vacant sites sold for duplex reuse. R2B zoning permits single family and duplex reuse, however greater income is achieved with a duplex reuse and thus a greater economic value is attributable to the land. Allowable density is a major factor in market valuation of vacant land as evidenced by recent private market transactions. In the future, in accordance with the Board directive, CPED/MCDA properties will be advertised on the web and in the newspaper reflecting both the sales price for single family and duplex development once the initial six (6) month period for exclusive duplex development has expired. This should prevent any future confusion related to price.

RECOMMENDATION: Receive and File