

Adding Value to Real Estate

By

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Introduction

Vacant land can be an excellent real estate investment opportunity, a hedge against inflation and a vehicle to build long-term wealth. Land historically has shown to escalate faster than inflation over time, however, with the current real estate downturn, and the growing regulations and land use controls in Florida, comes a risk of eroding land values. Therein lies the critical question - how do you make sure that your land appreciates over time, and what can you do to accelerate that value increase, in order for it to be a sound investment for you, your company, or your family?

Florida is well recognized as having some of the most extensive, expensive and thorough growth management laws in the country. It also has a progressive property rights law (through the Bert Harris Act of 1996), agricultural greenbelt tax relief, and strong environmental wetlands and species laws. Florida also has one of the top land acquisitions programs in the country for purchasing critical environmental lands. Knowing what you really have when you own, or are considering selling or purchasing vacant real estate, is the key to furthering your short or long-term wealth strategy.

This overview identifies some of the key issues that affect the value and marketability of vacant land in Florida. It does not attempt to provide a quick answer to protecting or growing value, and the reader is advised that it is not intended to provide assurance that your particular land will increase in value, should you apply these principals to your specific property. Each parcel of real estate is unique and has its own opportunities and challenges.

So let's focus on some of the general areas that typically add value or can increase value to a given piece of vacant land in Florida.

Boundary and Title Information

If you do not have good boundary information and clear title, then you do not really know what you have. Boundary information should be obtained from a licensed surveyor, and you should also have title insurance and an opinion of title from an attorney. There could be issues of restrictive covenants, recorded and unrecorded easements, boundary disputes, surface and sub-surface mineral rights, and other

long-term leases in the chain of title, all of which need to be cleared up and resolved prior to completing a real estate transaction. It is suggested that leases such as hunting or wildlife management leases be kept very flexible, with the land owner having the right to terminate the lease in a relatively short period of time, generally one-year or less.

Hazardous and Environmental Waste Issues

While every purchaser should address this due diligence issue, most do as a financial institution requirement of a clean bill of health. The liability associated with hazardous waste sites on land lies generally with the landowner. Typical issues that seem to come up regularly are areas of concentrated pesticides, fueling/maintenance facilities, cattle dip operations (which at one time were common place in Florida), gun ranges, and public and private solid waste land fills. If you, a landowner, know of such environmental conditions, you must disclose it, and you may be liable for cleanup. If you wish to obtain the highest value for your land, you should probably move forward with the necessary clean-up, and resolve the issue, which sometimes may take several years of monitoring for final resolution.

Base Data Land Information

Whether you own land or are considering purchasing land, there are basic things you need to know about the property in order to understand its value. The land and its limitations are identified in various laws, ordinances, and management plans. Maps and studies that categorize the land can have a significant affect on the value of the land. This would include mapping of flood plans, soils, wetlands, and endangered species, land use and zoning designations, concurrency management areas, future land use maps, and utility service areas. You should understand where your land fits, in relation to these mapping parameters.

Comprehensive Land Use Plan

In accordance with Chapter 163, Florida Statutes, each local government is required to adopt a comprehensive plan which identifies policies, objectives, and land use for its particular area of jurisdiction. The required elements of the comprehensive plan are as follows:

Future Land Use

Traffic Circulation
Sewer, Solid Waste, Potable Water, Drainage,
Ground Water
Conservation
Recreation and Open Space
Housing
Coastal Management (as applicable)
Preservation – Historical and Archeological
Intergovernmental Coordination

Generally, the underlying land use that has been designated for a particular vacant land is a foundational piece of the value of that land. Comprehensive plan amendments are becoming more and more difficult to achieve, and in some cases local initiatives require either a “super majority” of the county commission, or even a public referendum to amend the comprehensive plan. The land use element of the comprehensive plan and the Future Land Use Map (FLUM) designates the allowable intensity (commercial) and/or density (residential) of the land throughout that local jurisdiction. Generally, the higher intensity/density results in a higher land value for that property, assuming there is a market for that increased intensity/density. This is logical, since these higher intensity/density properties are normally located close to existing urban services, and in areas where the market is the strongest and most predictable.

Comprehensive plan amendments can take one to two years to achieve. Generally, land purchasers do not want to go through that level of change and uncertainty when buying a piece of property. So it is very important to have the appropriate underlying land use, in order to achieve the highest and best use for the property. Some jurisdictions have special overlays and programs such as Transfer of Development Rights (TDR's), Rural Land Stewardship Areas (RLSA's), Community Redevelopment Areas (CRA) and similar programs which allow an increase density based on clustering development rights, transfers, compact development patterns, and protection of open lands. These programs can create win/win solutions for land owners and the public in general.

Concurrency – Growth Management Requirements

Generally, the most critical concurrency requirement has been the cost of roadway improvements to serve the land intensification. If your land is in an area that has excess roadway capacity, then your land will likely have additional value because of that. If you are in an area where the roadway system is very constrained, relative to its capacity and congestion, then your land is encumbered by that capacity restriction. Land owners are encouraged to participate in the capital improvements process for funding

of new and widened roadways, as well as other forms of transportation which can provide additional capacity for intensification of the property. This requires staying abreast of public studies, funding programs and priorities, partnering with other organizations and lobbying elected officials.

Schools and other infrastructure, such as utility plants, well fields, fire/EMS stations, parks and conservation areas can also be important elements of concurrency. The landowner should look for opportunities to partner with public agencies that have an interest in the property. Public/private agreements to satisfy concurrency requirements can be beneficial and add value to the land.

Water Supply

In Florida, water supply has propelled to the forefront of growth management and has a significant influence on the ultimate use of the property. If there is inadequate water supply, then this may govern not only the extent of residential and commercial uses, but also may limit intensification of agricultural uses, such as moving from pasture or timber to row crops requiring irrigation. If a property has a consumptive use permit (CUP) for agricultural water withdrawals, then it is important that those permits be protected.

The State of Florida is divided up into five major water management districts, which are charged with issuing consumptive use permits, based on a long-term water supply plan for that district. In recent years, policies have evolved to the point that agricultural CUP's are not transferable to other types of uses, such as for residential or commercial use. Consumptive use permits must be consistent with long-term water supply plans of the district, which provide for alternative water uses, such as desalination, storage, wastewater reuse, and withdrawal from multiple aquifers. So if your land does not have adequate water supply, there is a good chance it will not achieve its highest and best use.

Endangered and Threatened Species

Your land may be in designated threatened or endangered species habitat areas. In some cases if your land is in a suitable area for mitigation, you may be able to sell mitigation credits. In other cases, if your land is part of a public acquisition, transfer of development rights (TDR) or rural lands stewardship program, the environmental value can be an asset. Where the land is more suited to a more intense use, then the species issues could be a real detriment to adding value to the land. Habitat set asides and off-site mitigation can be extremely expensive.

Agricultural Lands and Conservation Easements

Over recent years, there has been a movement toward saving agricultural and open lands from further development. This movement is essentially to provide for low intensification of the land, by providing sustainable food supply; large expanses of interconnected habitat for diverse species; protection of water supply and quality; and providing for a high quality of life that comes with protection of open space. There appears to be a growing number of incentive programs to protect large tracts of agricultural and natural lands, and in Florida we have had a very successful program known as Florida Forever. This state lands purchase program was extended in 2008 by funding the program for another 10 years. Depending on the location of the land, such programs can also tie into other incentives, such as TDR's, clustering provisions, and bonus densities, which may well facilitate the highest and best use for a particular piece of rural land.

Maintaining agricultural uses for tax exemptions is also an important element, in that Florida's greenbelt laws allows taxes to be kept low while land is still being actively farmed. One really never knows how long a large piece of land will take to be fully converted to a higher-value use. Although this may not be considered a value-added element, agricultural exemption status can be an important issue relative to a land sale.

Utility Service Areas

Being within a utility service area, particularly water and sewer service areas, can add significant value to a vacant piece of property. If there is available water and sewer capacity and reasonable utility extension costs, then this allows the density for the property, or commercial intensity, to be increased more than otherwise would be possible. Potable water is critical, relative to concurrency, and waste water treatment systems are an undesirable land use to have on your property. Central water and sewer utilities are very capital intensive, and take a certain economy of scale, as well as competency, to meet the high-level treatment required by environmental regulations. Therefore, if you can help it, you do not want to be in the water and sewer business. Other utility service areas would include power, telephone and cable, which are generally available in rural land areas.

Market Research, Positioning, Planning

When the land in question is within a reasonable timeline and/or distance of the path of growth, it usually makes sense to have market research, positioning, and planning work completed. This work can add value to land, in that it helps an owner to define the real world market potential

and helps to identify the range of builders or developers who might be most suitable. Having this work completed early also makes for a more reliable pro forma and can help in negotiations with a land buyer.

Without having market research and good planning information there can be serious errors in entitlements and commitments required during the approval processes. For example, if a land owner wishes to move forward with a 4 unit per acre density and requests approval for that density, but the market would only support 2 units per acre, then there is no sense in the owner wasting money in going to battle over 4 units per acre, as it is not really adding value if the market will not support it anyway.

Land planning helps the owner and potential purchasers visualize the possibilities on the property, based on the market study and site characteristics of the land. So, planning is a good marketing tool and assists in defining the highest and best use for the property and the efficiency of the developable land configuration.

Re-zonings

Re-zoning can add value to property under many circumstances, but it can also present a liability. Historically, re-zonings have occurred in categories such as commercial, residential, industrial, etc. However, over the last 10-15 years most jurisdictions have encouraged or required planned development zonings (such as PUD's), which allow the government to approve a specific site plan with specific development conditions, including timelines and exactions. This is where an owner who would not ultimately be the end-user or developer can get himself/herself in trouble - in agreeing to conditions or plan requirements that are ultimately infeasible, or must be redone by the ultimate end-user/developer. So, re-zonings can be either positive or negative, depending on the situation and the conditions required by the local jurisdiction for approval. What has evolved over the last several years, is that the highest relative property value increase occurs at the comprehensive plan level, which sets the stage for an appropriate zoning category that an end user might wish to achieve.

Annexations into Municipalities

If the land is adjacent to the municipality limits of a town or city, annexation should be seriously considered. Generally, a city is better prepared than a county to provide urban-level services such as water, sewer, waste pick-up, and fire/EMS. The city, more often than not, welcomes the opportunity to serve the new growth.

This provides additional tax base, jobs, and economies of scale in servicing the residents of the city. Cities are usually more accommodating to increased density and intensities, since that is generally what is expected within an urban environment. Sometimes there is controversy with annexations into cities, in that it can be argued that this may cause a sprawling pattern of development. That is why counties, other cities or civic organizations may at times object to annexations. However, in general, annexations can add value to property, and should be completed prior to land use or zoning changes. The annexation should be accomplished with a pre-annexation agreement, together with a petition to annex.

Environmental Permitting

Environmental permitting through the water management districts, the Florida Department of Environmental Protection and or the US Army Corps of Engineers is generally a part of construction permitting. These permits require certain conditions, restrictions and timelines that an owner should probably not pursue if they are not going to be the eventual developer of the property. The permitting at this level generally requires detailed planning and design that can be quite expensive to achieve. However, these permits do add value to the land, and owners should pursue these if they have a very solid plan for what will be built on the land. In some cases, developments such as small subdivisions and commercial properties can be fairly well defined in a preliminary development plan, where the development opportunities are narrowly limited.

Final Plans, Platting

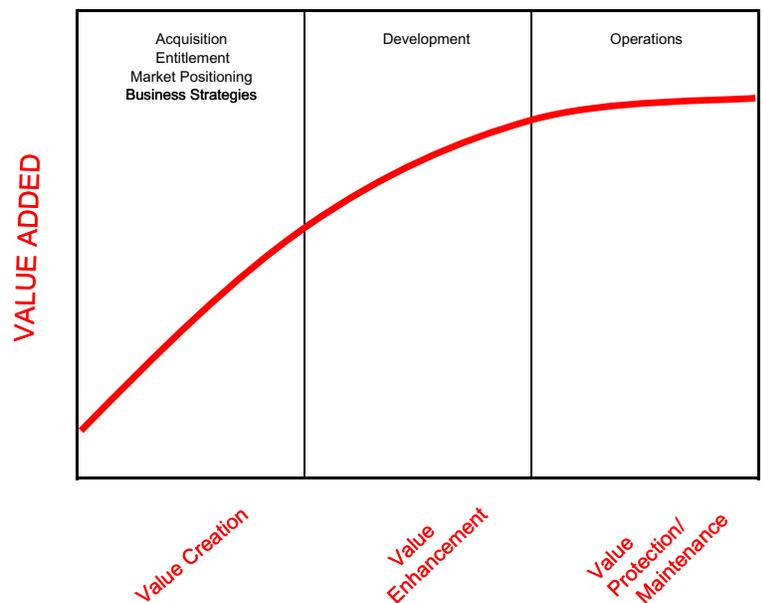
Final plans and platting should be completed by the entity that will develop the property. These are expensive to prepare, and approvals of final working drawings generally have a specific timeline in which the work must be started and completed. Filing a record plat only makes sense if one is proceeding with development, since the record plat process requires installation of the site improvements, or bonding to ensure completion of the improvements, as well as covenants which restrict the land.

Conclusion

Land still provides good opportunities for building wealth, through “buying right” and adding value, as outlined above. The process of adding value isn’t due to luck or good fortune, but due to smart purchasing, planning and positioning, with the best professional team. Each location, each market and each parcel of land is unique and must be evaluated through applying sound principles and analyzing site specific conditions. Adding value to real estate is complex and requires a team with the right expertise for that value increase and a favorable return on investment to be achieved.

Gilkey Organization is not an Appraiser and the concepts and topics expressed in this paper address the efforts to “add value to real estate” and are not necessarily targeted at appraised or assessed value, but at the marketability of the real estate and determining its highest and best use based upon these concepts.

REAL ESTATE VALUE ANALYSIS



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