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| Highest and Best Use Analysis |

The Highest and Best Use of a property is the use that is legally permissible, physically possible, and financially feasible which results in the highest value. An opinion of the highest and best use results from consideration of the criteria noted above under the market conditions or likely conditions as of the effective date of value. Determination of highest and best use results from the judgment and analytical skills of the appraiser. It represents an opinion, not a fact. In appraisal practice, the concept of highest and best use represents the premise upon which value is based.

Analysis of Highest and Best Use As If Vacant

In determining the highest and best use of the property as if vacant, we examine the potential for: 1) near term development, 2) a subdivision of the site, 3) an assemblage of the site with other land, or 4) holding the land as an investment.

Legally Permissible

The subject site is zoned by the City of ${city} as ${zoning\_code}, ${zoning\_desc} which permits various light industrial, flex and office uses. The location of the subject is appropriate for all these uses allowed, as noted previously, and a change in zoning is unlikely. There are no known easements, encroachments, covenants or other use restrictions that would unduly limit or impede development.

Physically Possible

The physical attributes allow for a number of potential uses. Elements such as size, shape, availability of utilities, known hazards (flood, environmental, etc.), and other potential influences are described in the Site Description and have been considered.

The subject site has a ${shape} shape with a gross land area of ${grossacre} acres / ${grosssf} SF. The site has a ${topography} topography and is situated on a mid-block frontage along an industrial arterial. There are no items of a physical nature that would materially limit appropriate and likely development.

Financially Feasible

After determining the uses that are physically possible and legally permissible, an appraiser considers the uses that are likely to produce an adequate return on investment based on a cost/benefit analysis or through direct market observation. The market demand for the development of the subject site is considered good. New light industrial / office / flex development is considered financially feasible.

Maximally Productive

Among the financially feasible uses, the use that results in the highest value (the maximally productive use) is the highest and best use. Considering these factors, the maximally productive use as though vacant is for light industrial / office / flex development.

Conclusion of Highest and Best Use As If Vacant

The conclusion of the highest and best use as if vacant is for light industrial / office / flex development.

Analysis of Highest and Best Use as Improved

In determining the highest and best use of the property as improved, the focus is on three possibilities for the property: 1) continuation of the existing use, 2) modification of the existing use, or 3) demolition and redevelopment of the land.

Retaining the improvements as they exist meets the tests for physical possibility, legal permissibility and financial feasibility. The subject project consists of a single-tenant, light industrial building, with surplus yard area and excess land components, with the proposed improvements anticipated to be in excellent condition, and any alternative use of the existing improvements is unlikely to be economically feasible. The proposed use as a single-tenant industrial property is legally permitted. The improvements are physically possible, financially feasible, and maximally productive.

A use which produces a positive net income to the property is considered to be the most financially feasible. As indicated later in this appraisal report, the prospective stabilized value at completion (including surplus yard area value / excluding excess land value) indicated via the Cost Approach at $7,175,000 is somewhat lower than the Sales Comparison Approach at $7,610,000. However, both values are much higher than the Income Approach at $6,270,000 suggesting the subject project is not financially feasible from strictly an investment real estate point of view, but is more than feasible from an owner-user or business standpoint only. This suggests the appraiser to conclude that the proposed light industrial building would be undertaken by an owner-user and not investor.

Overall, the market value of the property as improved exceeds the combination of vacant site value plus cost of demolition of the improvements. Therefore, demolition and redevelopment of the site is not maximally productive.

Conclusion of Highest and Best Use As Improved

The highest and best use of the subject property, as proposed for improvement, is the single-tenant, light industrial warehouse use with surplus yard storage and excess land.

Most Probable Buyer/User

Option 1 – Owner-User / Partial Owner-User

Based on the subject’s good access, light industrial / flex office location, single-user configuration, and moderate size for an industrial property in the area, the most probable buyer would be an owner-user employing a warehouse or light manufacturing business. This is evidenced by the fact the price that an investor would be willing to pay for a single-tenant industrial building like the subject tends to be much lower than the price levels that owner-users have been willing to pay. The most likely user(s) would be industrial warehouse / wholesale / light manufacturing companies.

Option 2 – Investor Only

Based on the subject’s good light industrial / flex office location, single-tenant configuration, pending leased status, and moderate building size, the most probable buyer would typically be an investor looking to capitalize on the existing tenant’s income stream. The most likely user(s) would be industrial warehouse / wholesale / light manufacturing companies.

Option 3 – Investor with Future Owner-user Potential

Based on the subject’s good access, light industrial / flex office location, and pending fully leased, single-tenant status with leases on relatively short term agreements, the most probable buyer would be at least an investor during the interim, and the most likely sale to at least a partial owner-user once the current tenant lease(s) have expired in 16 to 17 months. The most likely user(s) would be industrial warehouse / wholesale / light manufacturing companies.