# HIGHEST AND BEST USE

Highest and best use may be defined as:

**Highest and best use***. The reasonably 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.*

In the analysis of pertinent data, four criteria are applied in the following order to develop adequate support for the appraiser’s highest and best use determination:

1. Legally permissible
2. Physically possible
3. Financially feasible
4. Maximally productive

These criteria are generally considered sequentially; however, the tests of physical possibility and legal permissibility can be applied in either order, but they both must be applied before the tests of financial feasibility and maximum productivity.

The process for determining the highest and best use of a property has four main steps. The first two are applied in the analysis of highest and best use of the land or site as though vacant; the third and fourth steps are applied in the analysis of the highest and best use of the property as improved.

1. Determine the highest and best use as of the site as though vacant.
2. Determine the ideal improvement for development of the site.
3. Compare the ideal improvement and the existing improvement.
4. Conclude whether the improvements should be maintained as is or be renovated, converted, or demolished.

I have presented the analysis of the site as though vacant and as improved below and on the following pages.

**Analysis Of the Site as Though Vacant**

The first step in the highest and best use analysis is to determine what the highest and best use of the subject property would be if the site was vacant land. The highest and best use of the land as though vacant must be considered in relation to its existing use and all potential uses.

Highest and best use analysis builds on the conclusions of the marketability study. The analysis of the land as though vacant focuses on alternative uses, with the appraiser testing each reasonably probable use for legal permissibility, physical possibility, financial feasibility, and maximum productivity.

The highest and best use of land or site as though vacant is concluded after the four criteria have been applied and various alternative uses have been eliminated. The remaining use that fulfills all four criteria is the highest and best use of the land as though vacant. A proper highest and best use conclusion indicates the use, the market participants for the use, and the timing of the use. In addition, the ideal improvement (see definition below) must be determined as a part of highest and best as though vacant.

**Ideal improvement.** *The improvement that takes maximum advantage of the site’s potential given market demand, conforms to current market standards and the character of the market area, and contains the most suitably priced components; the improvement that represents the highest and best use of the land as though vacant.*

The ideal improvement should meet the following criteria:

* Takes maximum advantage of the site’s potential market demand
* Conforms to current market standards and the character of the market area
* Contains the suitably priced components

If an ideal improvement is considered to be the highest and best use of the land as though vacant, it presumably will have no physical deterioration or functional obsolescence. Thus, any difference in value between the existing improvement and the ideal improvement would be attributable to physical deterioration or functional obsolescence. The appraiser must still consider whether external obsolescence is present, which may affect both the existing improvement and the ideal improvement.

There are four criteria for estimating the highest and best use of the subject property as though vacant:

|  |  |
| --- | --- |
| **Physical Possibility** |  |
| **Legal Permissibility** |  |
| **Financial Feasibility** |  |
| **Maximum Profitability** |  |
| **Final Analysis** |  |

**Analysis of The Site As Improved**

By definition, the highest and best use of the property as improved is: the use that should be made of a property as it exists. An existing property should be renovated or retained as long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

Highest and best use of a property as improved pertains to the use that should be made of an improved property in light of its improvements, should it be replaced with a different type or intensity of use.

There are four criteria for estimating the highest and best use of the subject property as though improved:

|  |  |
| --- | --- |
| **Physical Possibility** |  |
| **Legal Permissibility** |  |
| **Financial Feasibility** |  |
| **Maximum Profitability** |  |
| **Final Analysis** |  |