



## Location, Location, Location..., but RESEARCH, RESEARCH, RESEARCH

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By Donald J. Martin, CRP, RAA, GAA

*Martin advises homeowners to check city plans, government records, and other indicators of future changes that could affect home values. Public works or new construction nearby can wreck what, at the time, is a property's beautiful view. He also explains why negative impairments must be considered when appraising a home's sale price.*

For a relocating employee, choosing the location for their next home, should be simple.

After all, for many this is not their first home purchase.

The mantra of location, location, location is repeated endlessly. When choosing a location, many transferees have learned that the market commands a premium for positive locations such as a view of a well-maintained lake, channel, waterway, or wooded area. Other considerations that command a premium include views or proximity to forest preserves, park districts, mountains, or other attractive scenery. A location on a cul-de-sac and areas that offer higher elevations also tend to command premium prices.

While these locales appear to be obvious winners, the transferee should further investigate before making a final choice.

General information about a market area's demographics may be obtained through most libraries. It is based on data from the most recent census. The Federal Financial Institutions Examination Council (FFIEC) maintains a Web site [www.ffiec.gov/webcensus/ffieccensus.htm](http://www.ffiec.gov/webcensus/ffieccensus.htm) that provides data online from census data. Information also may be obtained from the U.S. Bureau of the Census Web site at <http://tier2.census.gov/ctsl/ctsl.htm>. Other sources of data include local schools for a "school report card" and the local police department for crime statistics.

Often overlooked as a resource are local building and zoning departments. The City of Chicago, for example, maintains a Web site with a zoning map. Take a look at [www.ci.chi.il.us/Zoning/ordinance/map\\_index.html](http://www.ci.chi.il.us/Zoning/ordinance/map_index.html).

Local building and zoning departments often have details about a master plan for the area and information pertaining to local, state, and federal projects that may positively or negatively affect the anticipated sales price of a home.

### Keep a Map in the Fold

While an adjacent view may seem desirable now, transferees should ask themselves, "What are the short- and long-term plans for development and/or redevelopment of an area?" Are there plans for a change in the existing use and zoning for an area as residential to commercial or industrial use? Are there proposed or planned roadways, freeways, toll roads, or even a new airport?

In many areas, zoning maps may be purchased for a nominal fee and can serve as a great tool while doing a home search. But, because maps do change, remember to ask for any pending or proposed amendments.

In addition to proposed or planned short- and long-term changes for an area, the transferee also should consider obvious changes that are readily visible, and any logical extensions of existing development or redevelopment of an area.

Areas near or on arterial roads that suffer from noise and safety issues and that currently have no non-residential use are strong candidates for a potential change.

Because of vehicular traffic, coupled with an expanding population base, they may be ideal for retail or even office redevelopment.

### Lake, Pond, or Quagmire

When checking with local building and zoning departments, transferees also should inquire as to whether there are any current, planned, or past public improvements that may cause or are causing a special assessment to be levied against properties in a given area.

Many building and zoning departments also might have knowledge of contaminated soil or water in the area that could negatively affect values more in one part of the community than in another.

Another example might be a snow and/or ice covered view of a lake or pond from the subject property that in warmer months may be a contaminated quagmire.

It is amazing the vast amount of valuable information that can be obtained by simply making a phone call or by visiting the local building department. Examples of disappointed homeowners are endless.

Recently, there were plans to build a large shopping center in a Chicago-area neighborhood. The area's residents, on hearing the news, spoke out loudly in opposition, but to no avail. After reviewing the zoning for the parcel in question, it was found that 20 years earlier the property had been zoned for the commercial development that was set to be performed.

In another case, a group of residents who recently bought homes that backed up to a grove of mature oak trees believed the trees would remain undisturbed indefinitely.

After the homes were constructed and sold, a proposal for a mixed-use development with light industrial and small office buildings was made, which included the grove of trees.

While the residents objected, there was very little they could do. The proposed development was consistent with zoning that existed prior to the purchase and construction of their homes, and no variances were required. The residents also were offered an opportunity to buy the land from the developer, but declined because of cost. Again a phone call or visit to the planning or zoning department would have revealed that an office industrial park was zoned for the location well before construction of their single-family residences.

Other examples include toll roads and roadways that often are planned and not constructed for many years. In the mid-1980s, I recall a major toll road extension being completed in a nearby area that caused the relocation of many residents. Again, many of the residents complained prior to and during the construction of the toll road. A call to local building departments would have acknowledged a plan for the toll road, which had existed since 1955.

Another aspect often overlooked is when a small development of upscale homes is being developed. The transferee should question this when the development exceeds the normal range of existing home values for the area. The more it exceeds the range, the more questionable the investment.

A larger development nearing completion might provide sufficient support for a trend of development, particularly as it is nearing sell out, while a smaller one with even a slight economic downturn could require extensive marketing time and even drastic discounting of prior purchase price to sell the home.

#### **Measuring Impairment**

Transferees should be mindful of any potential impairment outside the property that might reduce the desirability level of the subject property.

This is referred to as economic depreciation and also has been referred to as extrinsic, external, or locational depreciation or obsolescence.

Any negative environmental or economic change from outside the boundaries of the property may exert a potential impairment or loss in value or use of a property.

How do appraisers actually measure the effect on the "anticipated sales price" of an external impairment to the property? Similar properties that have sold, some of which have and some of which have not been exposed to the impairment in question, are obtained for analysis.

First, an appraiser must adjust for all other factors in a paired or matched-pair sales analysis for items such as financing, lot size, number of baths, gross living area, and other things that may impact the value or anticipated sales price of comparable properties in a given market.

After completing the technique of a matched-pair sales analysis on a number of paired sales within the area, the appraiser is able to extract from market data a residual that indicates the estimated impact of the impairment.

From this analysis the appraiser will deduce the estimated dollar loss in value attributable to the impairment or external depreciation.

Within different market areas and different value ranges, the negative effect as a percentage of or dollar amount of the anticipated sales price may vary greatly.

There is, therefore, no general rule of thumb derived from market data (sales and/or listings of homes that have been analyzed) that can be used in another market area.

In markets with a short supply of homes, the negative impairment might be difficult to ascertain because properties tend to sell quickly with sometimes little or no regard for negative impairment due to a less than optimal location.

While the market for homes is in short supply at the time the transferee is looking to purchase, it still becomes an important issue because markets are not static in nature. When the transferee decides to sell or is required to move at a future point in time, the market might be more stable or become slow.

When a market becomes stable, and particularly as it becomes slow, external characteristics become more readily apparent in the market.

As supply becomes in excess with significant negative external influence, the property might require excessive marketing time far longer than its competition, and may require severe discounting below its competition, maybe even below the price at which the property was acquired.

Simple research with local planning and zoning becomes the ounce of prevention worth the pound of cure to protect the transferees' investment decision on which home to purchase.

While there are no guarantees for absolute protection from unknown future economic or external impairments to the subject property under consideration, prudent research could prevent or reduce a significant potential loss on future resale of the subject property.

Donald J. Martin, CRP, RAA, GAA, is chief review appraiser and CEO for Martin Appraisals, Orland Park, IL, performing relocation appraisal assignments in the Chicago area market and northwest Indiana. He can be reached at 708/479-5414 or e-mail [martinappraisal@sprintmail.com](mailto:martinappraisal@sprintmail.com) or his Web site at [www.martinappraisals.com](http://www.martinappraisals.com).

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