

Highest and Best Use Example:

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Definition: According to The Uniform Standards of Professional Appraisal Practice, 2002, highest and best use is defined as “The reasonably probable and legal use of property that is physically possible, appropriately supported, and financially feasible, and that results in the highest value”.

It may also be defined as the legal use to which a property can logically be put or adapted, for which there is a current market, and which may reasonably be expected to produce the greatest net return to land over a given period of time, or to yield to land it's highest present value.

In order to determine Highest and Best Use, the property must meet the following tests. These four tests are applied in their corresponding order, in other words the test of legally permissible must be met before the test of physically possible may be applied, and so forth.

- 1) Be legally permissible
- 2) Be physically possible
- 3) Be financially feasible, and
- 4) Be maximally productive

The first test involves a determination of what uses are legally permissible. Existing leases, deed restrictions, zoning, building codes and environmental regulations may all influence potential use.

The subject contains 48 acres located in Downstate County, Minnesota. Zoning for the subject legally permits all of the reasonably probable uses including Agricultural, Rural Residential, and Recreational

Once the test of legally permissible uses is completed, the test of physically possible uses must be addressed. The size, topography and shape of the property must be considered.

The subject is 48 acres in size and has gently rolling terrain. Because of the topography, soil types and proximity to roads, all of the legally permissible uses for the subject are physically possible uses. Possible physical uses for this parcel are Agricultural, Rural Residential or Recreational.

After applying the first two tests in highest and best use determination, potential uses, which are not legally permissible or physically possible, are eliminated from consideration. The potential uses that do satisfy the first two elements are then subjected to a third element of financially feasible. Income producing uses are then analyzed to determine which are likely to produce an income, or return, greater than the amount needed to satisfy operating expenses, financial obligations, and capitalization. Any uses that can be expected to produce a positive return are considered financially feasible. If the use is not an income producing use, an analysis is completed to determine which uses are likely to create a value or result equal or greater than the amount needed to develop and market the property under those uses. The value of a property for personal use should also be considered and may be sufficient to offset the lack of an income stream from an external source.

Feasible economic uses for this parcel are Agricultural, Rural Residential, or Recreational.

The fourth and final element involves determining which uses that have been determined to be legally permissible, physically possible and financially feasible, is maximally productive. The use produces the highest price or value consistent with the rate of return indicated by the market is considered to be maximally productive.

While recreational properties are becoming competitive with lower end agricultural properties in this area, the high Crop Equivalency Rating of the soils on this parcel make it very profitable for agricultural use. There is little indication that there is a market for rural residential properties in this area, at this time. The use which affords the highest economic return to this parcel is Agricultural.

Determination of Highest and Best Use: Agricultural