

Typical Subdivision Definitions¹

absorption period The actual or expected period required from the time a property, group of properties, or commodity is initially offered for lease, purchase, or use by its eventual users until all portions have been sold or stabilized occupancy has been achieved.

absorption rate in subdivision analysis, the rate of sales of lots or units in a subdivision.

bulk sale. The sale of multiple parcels of real estate to one buyer in one transaction. A bulk sale may include dissimilar properties in different locations or a group of lots or units in the same project. Typically, the bulk sale price is less than the sum of the values of the individual parcels. The perspective of the analysis is the market value to one purchaser of a group of lots. This value considers the time frame needed to sell the inventory, holding and sale costs over the sell out period, and the typical profit to be achieved on the sale of units. Proposed projects typically have a future valuation date, which is often the date of completion of the proposed improvements (the "when complete" date)

Common Valuation Dates

Raw Land Value – represents vacant land typically targeted for immediate or future development, but before review of approval

Land Value after entitlements – between the end of the permitting phase and before beginning of the construction phase. Developers are ready to borrow funds to begin building infrastructure

Construction completed, no lot sales Site infrastructure is complete and all construction funds expended, typically when individual section(s) are ready to be sold.

discount rate. A rate of return on capital used to convert future payments or receipts into present value; usually considered to be a synonym for *yield rate*.

The rate used to discount the net proceed from lot sales over the absorption period into an estimate of present value. If there is no separate line-item profit included in the sell-out period expenses, then this will be a *true* yield rate or internal rate of return for subdivision development. If line-item profit is included in expenses, then this is a hybrid rate that is selected in combination with the estimate of line-item profit.

entitlement. In the context of ownership, use, or development of real estate, governmental approval for annexation, zoning, utility extensions, number of lots, total floor area, construction permits, and occupancy or use permits.

entrepreneur. One who innovates or assumes the risks of a business or enterprise in exchange for possible gains; a promoter who initiates development.

entrepreneurial coordination. The ability of an entrepreneur to combine land, labor, and capital in the development of real estate; a component of real property value that represents the investment of time and expertise in the development of a property. **entrepreneurial incentive.** The amount an entrepreneur expects to receive for his or her contribution to a project.

¹ The Dictionary of Real Estate Appraisal, 6th Edition, The Appraisal Institute

Entrepreneurial incentive the amount an entrepreneur expects to receive for his or her contribution to a project. Entrepreneurial incentive may be distinguished from entrepreneurial profit (often called *developer's profit*) in that it is the expectation of future profit as opposed to the profit actually earned on a development or improvement. The amount of entrepreneurial incentive required for a project represents the economic reward sufficient to motivate an entrepreneur to accept the risk of the project and to invest the time and money necessary in seeing the project through to completion.

1. A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the total cost of a property (cost of development) and its market value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development. An entrepreneur is motivated by the prospect of future value enhancement (i.e., the entrepreneurial incentive). An entrepreneur who successfully creates value through new development, expansion, renovation, or an innovative change of use is rewarded by entrepreneurial profit. Entrepreneurs may also fail and suffer losses.

2. In economics, the actual return on successful management practices, often identified with coordination, the fourth factor of production following land, labor, and capital

Holding and sales costs. These include real estate taxes, insurance, security, and administrative costs. On the marketing and sales side, the costs include promotion, advertising, commissions, on-site sales staff, closing costs, and other indirect expenses, often shown as lump-sum cost per period or based on a percentage of gross sales.

land use study. An inventory of the land parcels in a given community or area, classified by type of use; may include an analysis of the current patterns of use revealed by the inventory and often includes the identification of areas appropriate for future development for various types of uses. **land value map.** An assessment map that

Land value after entitlements This point in the timeline falls between the end of the permitting phase and before the beginning of the construction phase. A proposed project has final site plan approval and the land has full development entitlements.

marketability analysis. The study of how a specific property is expected to perform in a specific market. A marketability analysis expands on a market analysis by addressing a specific property.

market analysis. The study of the supply and demand in a specific area for a specific type of property

market disequilibrium. A general characteristic of real estate markets over the short term in which the supply and demand for real estate are out of balance.

market study. An analysis of the market conditions of supply, demand, and pricing for a specific property type in a specific area.

six-step process. A systematic approach to market analysis consisting of six steps:

1. productivity analysis
2. market area delineation
3. demand analysis
4. supply analysis
5. residual demand analysis
6. subject capture

land use regulation. Any legal restriction (e.g., a zoning code or subdivision ordinance) that controls the use that land may be put to; may include controls established by restrictive covenants or contained in redevelopment or urban renewal plans approved by local governing bodies.

raw land. Land that is undeveloped; land in its natural state before grading, draining, subdivision, or the installation of utilities; land with minimal or no appurtenant constructed improvements

release clause. A clause stipulating that, upon payment of a specific amount of money to the holder of a trust deed or mortgage, the lien on a particular described lot or area shall be removed., from the blanket lien on the whole property. Usually stated a percent of gross sales and stated in the loan agreements as a percent of gross sales and calculated usually in an amount where a predetermined percentage lots sold will repay the entire loan for that section(s).

Retail Value. In subdivision analysis the market value of a single unit or lot is typically referred to as the lot or unit retail value. If for a proposed project, then lot values are prospective values when the subdivision lots will be 100% complete and ready to accept single unit homes.

residential (single-family) land. Land that can be developed with single-family homes or lots. This category includes residential subdivision land—a tract of land that has been divided into blocks or plots with streets, roadways, open areas, and other facilities appropriate to its development for single-family residential use.

site development costs. Direct and indirect costs incurred in preparing a site for use, e.g., costs for clearing, grading, installing public utilities.

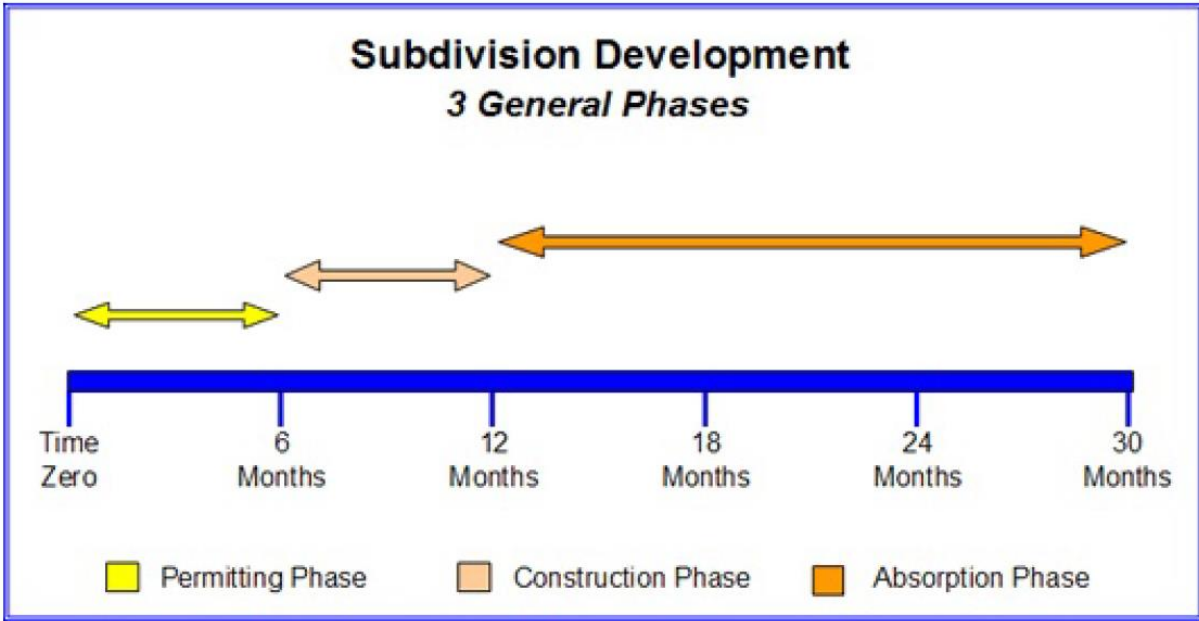
site improvements. Improvements on and off a site that make it suitable for its intended use or development. On-site improvements include grading, landscaping, paving, and utility hookups; off-site improvements include streets, curbs, sidewalks, drains, and connecting utility lines.

subdivision. A tract of land that has been divided into lots or blocks with streets, roadways, open areas, and other facilities appropriate to its development as residential, commercial, or industrial sites.

subdivision, residential land. Land that can be developed with multiple single-family homes or lots. This category includes residential subdivision land—a tract of land that has been divided into blocks or plots with streets, roadways, open areas, and other facilities appropriate to its development as residential space.

Subdivision development phases ²

² Subdivision Analysis | The Appraisal Institute



Valuation Time Line ³

³ Subdivision Analysis, The Appraisal Institute

Valuation Time Line

Typical Value Reference Points

