



PAUL R. HYDE  
EA, MCBA, ASA, MAI

# HYDE Valuations, Inc.

**We Value Both Real Estate and Businesses  
Including Machinery & Equipment**

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*Highest & Best Use*

**APPRAISERS:**

PAUL R. HYDE, EA, MCBA, ASA, MAI

SHAWN M. HYDE, CBA

BRIAN D. HYDE

JOSEPH PHELON, CBA

Why is it so important to determine the highest and best use of a property?

Imagine the subject of an appraisal is a sixty acre farm with a single-family residence and various outbuildings constructed on it. Obviously we need to find comparable properties that are also small farms with similar improvements, right? The correct answer to that question is the all too familiar: “It depends”.

The selection of comparable properties depends largely upon what the highest and best use of the subject property is: In this case a sixty acre farm with some improvements. One could choose between other small farms, perhaps some potential residential subdivisions, or how about a large commercial parcel that Home Depot is looking to build on? Any one of these sales may be completely valid to use as comparables, though each would support an entirely different value conclusion.

Determining which of these comparables is the most appropriate to use depends on what the subject’s highest and best use is.

So, how than does one go about determining this mysterious condition known as “highest and best use” of a specific property? One determines the highest and best use by simply performing a series of analyses that distinguish between pertinent aspects of the property. Some of these steps are shown below:

- Analyze the physical characteristics of the property
  - If the property is irregular in shape and not very flat, than perhaps a commercial application would be inadvisable.
  - If the property is rectangular in shape and completely flat, than it could be used for a variety of purposes.
- Analyze the legal characteristics of the property
  - Zoning tells a lot about what kind of comparable properties should be used.
  - Agricultural zoned properties are generally not real comparable to properties zoned commercial.
- Analyze the locational characteristics of the property
  - What types of properties are in the immediate vicinity of the subject? If there are residential subdivisions being developed adjacent to the subject, than it is a good bet that the subject’s highest and best use might be development as a subdivision.
  - If there are commercial and/or industrial use properties adjacent to the subject, than perhaps farming is an interim use.

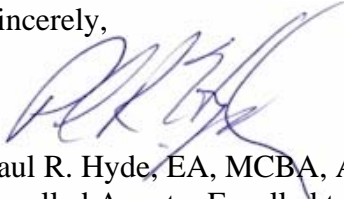
Determining the highest and best use of a property, is one of the key steps in developing a supportable opinion of value for real estate.

Additionally, the concept of highest and best use applies to businesses as well. Occasionally, the highest and best use of a business entity is liquidation rather than continuance as an ongoing entity. For example, the plant owned and operated by a long-term family business might be sitting on very valuable land – the possibility that the land could be sold for more than the value of the operating business is an example of highest and best use.

The concept of highest and best use is sometimes the most difficult part of an appraisal assignment – in all cases, it is a concept that must be considered carefully by the appraiser.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value both real estate and businesses including machinery & equipment.**

Sincerely,



Paul R. Hyde, EA, MCBA, ASA, MAI  
Enrolled Agent – Enrolled to Practice Before the IRS  
Master Certified Business Appraiser  
Accredited Senior Appraiser – Business Valuations  
Designated Member – Appraisal Institute (MAI)  
Certified General Real Estate Appraiser  
Accredited Equine, Livestock & Farm Machinery Appraiser

504 Grove Avenue • P. O. Box 9 • Parma, Idaho 83660 • (208) 722-7272  
[www.hydevaluations.com](http://www.hydevaluations.com) Email: [prh@hydevaluations.com](mailto:prh@hydevaluations.com)