When a Range of Value is Best

by John Bihary Jr., ASA

Sometimes, in complex assignments, a single point estimate tends to distort viewing the problem and possible value alternatives. This is a review of a condemnation case that went to trial in the early 1980s that used different value approaches and techniques for such a complex assignment. The case was the City of Los Angeles and Department of Water and Power of the City of Los Angeles vs. Marie Poup Bras, et al, February 14, 1983.

The subject property was a planned residential development called "Friendly Valley Villas" in the Santa Clarita Valley, California, known as "Canyon Country" which later became part of the incorporated City of Santa Clarita. This is a suburban hilly area north of the San Fernando Valley and the City of Los Angeles with downtown Los Angeles 30 miles to the south.

The development, as approved, was for 450 units on 60 acres plus additional open space to be completed in six phases. Phase I was at the easterly edge of the property closest to access off of Sierra Highway and the Antelope Valley Freeway with successive development planned from east to west. The land was generally lower in elevation and more level from the easterly edge increasing to its greatest height and topography at a ridgeline cresting at the middle of the westerly half of the site. This area on the ridgeline was to be Phase VI with the greatest view amenity. The planning for this project began in 1973.

As Phase I was being completed in early 1980 the Department of Water and Power of the City of Los Angeles began eminent domain proceedings to take a part of the subject development that ran along the ridgeline at its crest through the Phase VI area. The taking was for a 330-foot right-of-way for two 500,000-volt (500kv) power transmission lines and access roads. The date of the taking was as of January 16th, 1980 with the first power line built about February of 1981 and a second line erected in 1984.

At the time of the taking and construction of the power lines, Phase I of 66 units was completed and almost sold out. Phase II of 82 units was under construction with sales initiated the beginning of 1981. Compounding the valuation analysis was that at the date of taking market conditions were in decline due to prevailing high interest rates and general economic recession. The analysis required valuation of the part taken, residual parts affected by the taking or severance damages, and any general or specific benefits due to the use of the taking.

My appraisal for the property owner considered the actual part taken, aesthetic impact of power lines and towers on the view lots, and consideration of biological hazards from power lines. To assist in the analysis of impact a marketing research firm Walker & Struman, was hired to measure interest of consumers who were potential buyers of the condominium units that were both unaware and aware of the overhead transmission lines. The report concluded “that mere awareness of possible power line-related risks and hazards will undoubtedly result in a serious reduction in the marketability of the Villa Pacific condominium units.”

The part taken was 7.17 acres in fee, plus 1.01 acres in permanent easement area. My concluded value of the part taken and severance damages to Phase VI was $479,000. The impairment of marketability for Phases I through V was concluded at $4,000,000 for a total of $4,479,000. My final analysis concluded that due to the many factors of this complex valuation the value would likely have a variance of 50% resulting in a range of total loss and damages from $2,342,000 to $7,026,000. The conclusion of the report was that power lines have a negative value influence if one had had choice between sites with or without them.

The reason for my range of values was a set of assumptions. One method of valuing the loss in value was to weight the impact visually on the lots by phases and using various assumptions due to the beginning of the declining market. That is, how much loss in value was due to the general market decline and how much was due to impaired marketability. The other method was to include business enterprise loss as well as real estate loss. The different approaches and assumptions were explained allowing the jury to choose which method, or a combination of each, was appropriate to conclude the real loss and damage. It was important to show the variance depending upon premises and assumptions and my ultimate conclusion was within the range of indicated values.

The appraisal for the Department of Water and Power concluded the value of the part taken and severance damages at $131,600 for 4 lots of Phase VI, and no impact on the remainder of the lower sites below the ridgeline in Phases I through V. Essentially their argument was that they took the land for the power lines which had no impact visually or otherwise on the development. However, in their report they included a random survey of home sales along an existing Transmission Line (500 kV) that found 24 out of 35 buyers would not buy impaired view lots again. Another survey in Upland along a 500 kV line found that of 13 home buyers half would not buy again. From this, the report concluded only 4 lots adjacent to the development would have impairments ranging from 5% to 50% due to the power line.

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The case was heard before a jury which awarded $3,652,674 in favor of the defendants.

This is an example of a complex assignment with several unknowns where the client was best served recognizing a range of values depending upon which assumptions and value techniques were relied upon. Clearly, the jury agreed.

About the Author

John J. Bihary, Jr., ASA, has been a practicing appraiser for 45 years and designated ASA member in Urban Real Property since 1977. His undergraduate university work was at UCLA and graduate education at Cal-State Los Angeles. His appraisal practice emphasizes litigation work spanning from condemnation to dissolution of marriage to construction defects. John is a California certified general appraiser servicing southern California.