

VALUATION

HIGHEST AND BEST USE

Highest and Best Use is an important concept in real estate valuation as it represents the premise upon which value is based. Highest and Best Use is defined in 15th edition of *The Appraisal of Real Estate* as:

“The reasonably probable use of property that results in the highest value.”²

The concept of highest and best use addresses the question of legally permissible, physically possible, and financially feasible uses that reflect the degree of profitability. Uses that meet the three criteria of reasonably probable uses are tested for economic productivity, and the reasonably probable use with the highest value is the highest and best use.

Legally Permissible: The subject is comprised of a 2.80 acre parcel that is utilized as part of an asphalt paved parking lot within an existing retail center known as La Habra Marketplace. The property is zoned and designated for shopping center use by the City of La Habra. As mentioned under ‘Easements and Deed Restriction’ on page 19 of this appraisal, the subject site is used as a parking lot within a greater retail center property that was initially developed in 1990. We were informed that the parcel was sold by the developer to the City of La Habra in June 1990 to provide public assistance to said developer in generating sufficient revenues to fund required infrastructure to aid in the success of the proposed project. Within the grant deed is a restriction (stated as a covenant) that limits the use of the subject property “solely for a surface level public parking lot and no other use shall be allowed thereon.” The restriction further states that the area cannot be used as a “Park and Ride” location or for long term parking or vehicle storage and that the “covenant shall run in favor of and be binding for the benefit of the real property retained by the Grantor” (which consists of the balance of the greater retail center site). The parking spaces within the subject 2.80 acres contribute to the required number of spaces to accommodate the existing retail use and, thus, the subject is an essential and integral part of the retail complex.

According to a representative of the property ownership (City of La Habra), the City must secure permission from the retail center ownership to use the 2.80 acres for any purpose. We were informed that the 2.80 acre site has only been used periodically by the City over the years for brief civic events (such as an annual 5K race staging area) and that the complex ownership is in favor as it draws in patrons of its retail businesses. To summarize, with the preceding in mind, the subject is limited to a parking lot use for the benefit of the greater retail center of which it is effectively a part.

Physically Possible: The subject parcel is comprised of a level parcel that is slightly irregular in configuration. All public utilities are immediately available, and it has frontage on an improved, well-travelled public roadway. The continued use of the site as a parking lot is not limited by its physical features.

Financially Feasible: The issue of economic viability primarily focuses on supply and demand characteristics of the local marketplace as it relates to land suitable for commercial

² *The Appraisal of Real Estate*, 15th ed. (Chicago: Appraisal Institute, 2020), p. 305