

Why is your real estate worth more to you than the market value?

Market value is the price a disinterested party/typical buyer would pay for the “bricks and mortar” in a negotiated transaction. But your reservation price or investment value, e.g. for your personal residence, is likely higher. Reasons:

- 1) **Special improvements** that are very useful to you based on your own tastes or habits or lifestyle, but to which the market would attribute no special value (unusual shelving you painstakingly built, but few buyers would like).
- 2) **Sentimental attachments** you may have to your house, e.g., your grandfather built it, your children were born or took their first steps there.
- 3) Value the specific location adds for you in sustaining “**social contracts**,” meaning important relationships with outside parties: the house may be close to your job or a relative’s house, you may have special bonds of trust with neighbors, the nearby pharmacist may know your complex medications.

[A house one block away from a major local employer would likely be attractive to many typical buyers, so its market value might well be higher than that of a physically similar house two miles away from that employer – yet the reservation price/investment value for someone who is unable to drive might be even higher. A house across the street from a public school complex would be desirable for many typical families, so its market value probably would be higher than that of a physically similar house located several blocks away from that school – but the reservation price, or willingness to pay, for a family with nine children might be higher still.]

State laws allude to making the owner of land taken under eminent domain financially whole, specifying market value (plus some incidental costs) as the appropriate compensation. But market value does not make the owner of taken property whole, because the features in 1 – 3 above are worth nothing to/can not be conveyed to the typical buyer, but they are very valuable to the current owner.

If you get a new job in Cleveland, having a perfect shelving system or especially compatible neighbors in Normal can no longer benefit you. You put a for-sale sign in your yard to tell the world you are willing to negotiate at a price that reflects the brick and mortar value, when you no longer expect to capture the values that are unique to you.

What the government ideally would pay in a forced eminent domain transaction is the price you willingly would sell for in a purely voluntary sale. If someone said, “I really want to buy your house, name your price,” what would it be? (I call it the “Steven Spielberg value,” like if his company wanted the house for a movie scene.)

A big problem is that the government has no way, under current procedures, to verify anyone’s true reservation price or investment value. (Possible sentimental attachments may be a justification for some states to pay more for a taking under eminent domain if the property has been in the owner’s family for a longer time.)