RESIDUAL LAND VALUE

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WHAT IS RESIDUAL LAND VALUE (RLV)?

RLV can help estimate the maximum price you can pay for land while still meeting your projected return assumptions. It's calculated as the potential project revenue minus all development costs.

The formula is simple:

Gross Development Value - Total Development Cost = RLV

Gross Development value is the value of the completed project, and Total Development Cost covers everything it takes to bring it to market. Here are some items to keep in mind when determining RLV:

Estimating the Gross Development Value

This is done by reviewing comparable properties, market studies, appraisals, and other reliable data.

Calculating the Total Development Cost

That includes ALL project costs, from construction to design and permits, marketing and sales, and even contingency funds, financing, and interest.

Be Accurate

Use up-to-date market data, confirm cost estimates with professionals, include all soft costs, and run multiple scenarios to test different market conditions.

While residual land value is a powerful method, it is highly sensitive to assumptions. Here are some common pitfalls to avoid:

Sensitivity to minor assumption changes

Ignoring timing

Not considering market comparables

For developers, RLV can help align design, costs, and returns from the beginning.
For buyers, it can support smarter capital allocation and risk management.