What really matters when valuing a property?

Although the terms 'intrinsic' or 'extrinsic' may be unfamiliar to most, understanding what they imply will help explain what makes real estate valuable, not just expensive — and why being able to identify these elements is essential

By Ricardo Wolf | June 3, 2021



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Ever toss and turn at night wondering to yourself: Are “intrinsic” or “extrinsic” elements going to help or hurt my properties? I decided to take a closer look and try to figure out how these elements matter.

Real estate represents one of the world’s biggest and most important industries, one that satisfies a basic and essential human need: shelter. I think we can all agree that you don’t have to spend a million dollars to simply procure “shelter,” so what makes some real estate properties so expensive? And why are people so eager to purchase them?

Interestingly enough, the terms “intrinsic” and “extrinsic” are rarely mentioned when evaluating real estate property and markets, yet understanding the difference between these two philosophical principles is important and could give you a unique perspective on how to better evaluate real estate.

Stanford Encyclopedia of Philosophy defines intrinsic value as the value something has “in itself,” or “for its own sake,” or “in its own right.” Extrinsic value, on the other hand, is value that is not intrinsic.

While the terms “intrinsic” or “extrinsic” may be unfamiliar to most, understanding what these terms imply will help explain what makes real estate “valuable,” not just expensive, and why being able to identify these elements is essential.

When evaluating real estate and markets, the principal factor driving demand boils down to a person’s desire for “access.” For instance, people live and visit Florida to achieve some degree of access to natural elements unique to Florida’s geographical location, all of which prove to be of great appeal and demand.

These elements are “intrinsic” to Florida and include 1,197 statute miles of coastline, 2,276 statute miles of shoreline, 663 miles of beaches and more than 11,000 miles of rivers, streams and waterways. Therefore, industry, commerce and government policy in Florida is diverse, since it feeds off the demand created by a thriving tourism industry and a rapidly growing multicultural population.

This is an example of a highly intrinsic market — a market whose existence relies on the “preservation” of natural resources, which is the driving force of demand for its real estate.

In Florida, waterfront land sites offer the highest degree of intrinsic value. The goal is to identify a property whose land contains physical attributes that convey a high degree of “access” to Florida’s waterways.

While a property’s price typically reflects a cost for the land and a separate cost for anything on that land, such as a structure, the land is where the property’s intrinsic value resides and where one’s equity is deposited.

The difference between a good waterfront property and a great waterfront property is measurable by the amount, degree and overall quality of the access to Florida’s waterways that land site affords its owner.

On the other hand, places like New York City are perfect examples of a highly “extrinsic” market, or markets that rely on external factors to generate significant demand for real estate.

Manhattanites live in and around the Big Apple to achieve some degree of access to the largest financial, cultural and media market in the world. Manhattan is a market that feeds off industry, which is where wealth and commerce is generated, and jobs are found.

However, the extrinsic market’s dependence on industry is risky, since industries evolve, change and can even become obsolete over time, as well as being prone to the effects of economic, social, political and global events. These events can come without warning, while quickly and dramatically altering a market’s direction, appeal and marketable demand.

For instance, what would happen if Texas lost its fuel industry, or if Seattle’s tech industry packed up and relocated? Maybe technology makes it possible for professionals to live in one market while working in another without losing a competitive edge.

Actually, one really does not have to imagine these scenarios, since many major markets like New York and California are witnessing the results of how extrinsic elements and events — such as big industry, government policies, technology, high taxes, crime, poverty and other external influences — can affect a market.

No matter the market, one thing that has always proven to be true is that some parcels of land cost more than others because the land site possesses intrinsic elements that make it more desirable, valuable and costly.

For instance, in New York, a view of Central Park commands a big premium, much like a home overlooking Los Angeles atop California's Hollywood Hills. In fact, if you look at any market, the areas with the highest degree of intrinsic elements usually lead the market in price per foot sales.

However, much like a fingerprint, no two parcels of land are identically alike, even if they are contiguous, and share the same dimensions and overall square footage, there is always a slight difference between one and the other.

While these differences may be difficult to spot and thus somewhat insignificant, those nuances could prove to represent added value that most may overlook, so pay close attention and examine the following.

How to evaluate a Florida waterfront property

1. Ocean access

A truly valuable waterfront property, one deserving of the title, must provide access to the Atlantic Ocean. Without that access, being waterfront will do very little to help bolster the property's value and may expose the property to elements that can prove to be more of a detriment than an enhancement.

2. Land square footage

When evaluating a waterfront property, whether it offers an acceptable structure or not, focus your evaluation on the land square footage, its dimensions, access points and linear frontage on the waterfront.

In other words, look at the land as if it were vacant and you're looking to build a new home. Calculate the worth of the land by square feet and then calculate what the structure might be worth to you as it stands.

3. Water depth

During both low and high tide, confirm the water depth at the property's sea wall as well as in the surrounding waterway leading to the intercoastal.

Remember: You're evaluating navigability, and water depth will determine the size of the vessels a potential homeowner can own and that can safely navigate those waterways without running aground.

4. Obstructions

Identify any possible obstructions, such as fixed bridges, and confirm the clearance height at both low and high tide. This will also limit access to the intracoastal and ocean, so avoiding canals that require travel under a low-lying fixed bridge is suggested.

5. Land positioning

Look at the land's positioning in relation to the sunrise and sunset and evaluate the properties lighting, shaded areas and areas that may have vegetation that is illegal to remove, such as mangroves.

Furthermore, some areas with vegetation can contain underwater obstructions as well as issues with mosquitos, so visit the land at different times of the day to see if these elements are present.

6. Surrounding area

Evaluate the surrounding environment, neighborhoods, city infrastructure and areas of commerce. Based only on the intrinsic appeal of the market, how do you see the area evolving and how long until the market swoops down and generates the demand needed to drive prices through the roof?

Condominiums, cooperatives and HOA-run communities

So, while these land elements define a property's value, the property's zoning classification will define just how much of that land's value is worth to its owner. When looking at properties classified as a condominium, cooperative as well as homeowner association-run (HOA) communities, you are entering into a kind of limited partnership with all of the other homeowners in the development or community.

While these property classes may offer some very attractive benefits like high-rise views, excellent in-house services, security and outstanding lifestyle amenities, they also impose severe restrictions and limited property rights that should be accounted for, but rarely are.

Condominiums, cooperatives and HOA-run communities, once they're built and the units are sold off to individual buyers, the possibility of being able to one day redevelop that landsite becomes highly improbable.

Furthermore, these property classes operate under a highly democratic governing body, a one-unit, one-vote system, with an elected board of directors made up of homeowners. While this may be a very appropriate system for running these properties, addressing issues and making major decisions can become tiresome, bureaucratic and inefficient.

Single-family homes

Single-family homes are very different since they are independent of any self-appointed governing bodies and convey 100 percent of the land's marketable value to its owner.

Based on the premise that land prices go up based on intrinsic characteristics that drive demand, while a structure's monetary value will go down over time due to decay and obsolesce, owning a property that conveys 100 percent exclusive marketable and assuage rights over the land is essential in order to maximize one's potential return — if and when one decides to sell.

Some characteristics that identify a residential single-family home zoned property include:

Free-standing properties.

Includes a parcel of land exclusive and for private use by the owner.

No common walls with another residential structure.

Provides a private entrance and exit from a primary access road.

Only has one set of utilities at the property.

The bottom line is that there is more to understanding real estate than running comps or a search based on prices or a fancy address.

Regardless of if one chooses to live in an intrinsic or extrinsic market, one should always purchase a property that best conveys the highest degree of intrinsic value for the market they are in. Not only will this provide increased price stability and superior demand during resale, it also will possess a barrier against negative extrinsic events.

The ultimate question is: Do you place your bets on Mother Nature or on the success and failures of industry when selecting where to live and own property? As far as I am concerned, nothing conveys more value than access to the natural splendors of Mother Nature, regardless of the marketplace we choose to discuss.

So, while I don't want to reveal all my secrets, let me show you how I choose to search for valuable South Florida waterfront property.

1 Determine what counties and cities are of particular interest for your search.

2 Run a single-family home and a residential land search in those areas with only the county, waterfront property and ocean access as filters.

3 View the results on map view instead of looking at them as listings, and start checking off all the properties that offer premium positioning, no fixed bridges and located within a reasonable distance from major waterfront points of interests and the ocean.

4 Once you are satisfied that you have checked off all of the best positioned properties, view those results under a "List View" and sort the results by square footage of the land, from larger to smaller.

5 The properties listed on the top of that final list should point you in the right direction when looking for the most intrinsically valuable waterfront property in that area.

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