

Rural Property Appraisal

An Overview of the Process and Terminology

by Gary Bratton, ARA

At some point in time you may need opinion of value—an appraisal—of your rural property. A qualified appraiser can provide this, and most will follow a distinct process in developing the appraisal. Understanding this process and appraisal terminology may make it easier for you to work with the appraiser and to better understand the value conclusion you receive at the end of the assignment. Following is a brief overview of some items of consideration common to most rural property appraisals.

Uniform Standards of Professional Appraisal Practice (USPAP). USPAP is developed and maintained by the Appraisal Standards Board, of the Appraisal Foundation, and outlines generally accepted methodologies that appraisers follow in order to develop and communicate their appraisal results to their clients. Virginia has incorporated USPAP into its appraisal laws.

Client / Intended User / Intended Use. The party (or parties) engaging the appraiser is the client, and the appraiser must protect a confidential relationship with the client. The appraiser must identify who will be using the appraisal (intended user) and for what purpose (intended use). This helps him or her understand the level of detail necessary in reporting, and can ensure that the appraisal will be suitable for the desired purpose.

Value Definition. There are numerous types of value (market value, investment value, use value) which are reflective of the many reasons people or entities own property. The most common value sought in appraisals for lending, property transfers, charitable gifts or estate purposes is market



Photos courtesy of Gary Bratton

value. In layman's terms, the market value is a probable cash price for which two unrelated parties would buy and sell a property when neither is under undue stress or motivation, and when the property has had a reasonable amount of time to be exposed to the market.

Effective Date (Value Date). This is the date on which the value estimate is applicable. For most appraisals the effective date is current and reflects current conditions. A retrospective appraisal has an effective date of a point in the past, and is common in estate appraisals. A prospective appraisal has an effective date of a point in the future.

Property Rights. It is important to understand the rights specific to the property being appraised. Fee Simple Ownership implies absolute ownership of all rights, limited only by governmental powers. Absolute ownership is rare in rural properties, however, and usually some rights have been severed from a property. The severance, encumbrance or leasing of a right (either permanently or temporarily) creates a Partial Interest in a property. The appraiser must be able to evaluate and determine the exact bundle of rights to be appraised and the appropriate valuation methods to employ.

Property Components. Rural properties can be broken down into physical components which become the basis of analysis in the appraisal. Some of the more common components are:

- **Land type.** This is the acreage in cropland, pasture, productive woodland, swampland, or other relevant land classes on the property. The appraiser may use aerial imagery, Geographical Information System (GIS) data or other sources to estimate the acreage in each class. The appraiser can use the land mix of the property and land values as derived from comparable sales to determine the value of the land component.
- **Merchantable Timber Volume.** This is older timber that may be harvested immediately for use in a wood processing facility, such as a paper mill or a sawmill. The timber volume may be determined by a professional forester, and is commonly measured in cords, board feet, or tons. Stumpage prices are the prices received for forest products in timber sales, and are dependent on timber size, species and quality, as well as the location, logging conditions and other market conditions. The appraiser uses the timber volume and appropriate stumpage prices to derive an estimate of the timber value on the property.

- **Premerchtable Timber Acreage.** This is the acreage of younger timber that cannot be harvested immediately for use in a wood processing facility. Although the timber does not have a current harvest value, it may be assigned a value premium based on age, site productivity (for growing trees) and prevailing timber prices. This is because investors/buyers recognize future benefits from existing timber stands (a stand is a group of similar trees), even though they are not yet marketable. This is most common in planted pine stands, although some well-stocked natural timber may merit a value premium.
- **Improvements.** These are man-made structures present on the property. The appraiser will consider the physical dimension, quality, condition and functionality of each structure as part of the valuation process.
- **Minerals.** For landowners who own subsurface rights, if there are proven mineral reserves this may affect the highest and best use of the property. Mineral valuation is a unique circumstance and may require additional analysis by specialists. The deed to the property can provide information regarding ownership of subsurface rights on the land.

Highest and Best Use Analysis. This is a series of tests as to potential, probable uses of the property. In an appraisal, a possible use must be legal, it must be physically possible, and it must be financially feasible. The appraiser analyzes local land use regulations and trends, physical property characteristics, and local economic trends to develop potential uses for the property. The potential use that passes each of these tests and is the most profitable is determined to be the highest and best use. Occasionally the current use of the property is not the highest and best use, depending on how the market views the potential use of the property.

This analysis is performed as if vacant (no improvements) and as improved (with improvements) to test whether improvements contribute to the overall value of the property. As long as the improvements contribute to the overall value, the property should remain under its current use.

Comparable Sale Analysis. Transactions of properties are analyzed to extract estimates of the contributory value of the components under each sale's highest and best use scenario. This analysis may reveal general land values attributed to each land class within a market. It also may reveal market-driven discounts applied to timber and improvements under that scenario. The appraiser selects sales with a similar highest and best use to the subject for use in the appraisal.

Contributory Value. Each component has potential to contribute to the value of the property as a whole. Analysis of sales will indicate whether a component's value is typically discounted in the market. A component that has value under one highest and best use situation may not necessarily have the same value under a different highest and best use. For example, a premerchantable stand of timber would be likely to have value on a rural property with a timber production highest and best use, but is unlikely to contribute value on a lot in downtown Richmond with a commercial highest and best use.

Approaches to Value. There are three common approaches to value that an appraiser may utilize in the appraisal process: the Cost Approach, the Sales Comparison Approach and the Income Approach.

- **Cost Approach.** The appraiser takes the components of the subject property and values them separately using market data. After determining the contributory value of each component (by considering depreciation and other discounts or enhancements), the values are summed to derive an estimate of value for the subject property.

- **Sales Comparison Approach.** The appraiser analyzes sales of properties similar to the subject property and adjusts each sale price for differences based on components and market conditions to derive an estimate of value for the subject property.
- **Income Approach.** The appraiser analyzes likely future cash flows from the property and applies a market-derived discount rate to derive an estimate of value.

Some approaches are more relevant than others in different situations, so the appraiser will use some combination of these three approaches to derive an opinion of value for a property.

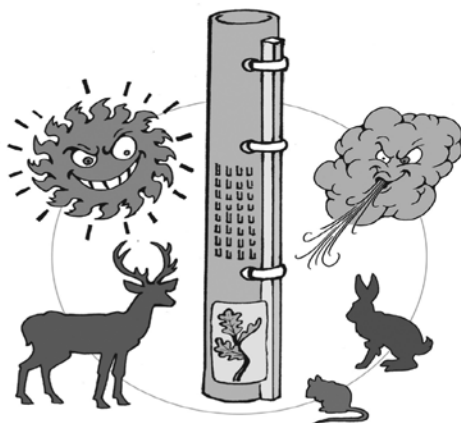
It is my hope that this article has served to introduce you to the appraisal process and related terminology. Good communication between the appraiser and the client will result in better appraisals, which is the goal of appraisers and clients alike. ✈

Gary Bratton is Director of American Forest Management's Appraisal Services Group. He is a Certified General Appraiser in several states, including Virginia, and a Registered Forester in South Carolina. Gary lives in Sumter, S.C.

American Forest Management has offices located in Richmond, Va., and Danville, Va.

"It's a Tough World Out There!"

STOP Wildlife, Wind and Weeds from Killing your Seedlings



Choose Plantra® to make sure they **Survive, Thrive, Succeed!**™

Tree Tubes • Bark Protectors • Weed Mats
Fertilizer Packets • Deer Repellent

 **Plantra**
Plant Like You Mean It

www.plantra.com
800-951-3806

©2011 Plantra, Inc.