

Agricultural Properties Supplement to The Official Guide To Demonstration Appraisal Reporting: General

Please note this is a supplement to [The Official Guide to Demonstration Appraisal Reporting: General](#) and should be used only in conjunction with the Guide. This supplement will only address areas that are unique to agricultural properties that are not covered in [The Official Guide to Demonstration Appraisal Reporting: General](#). Associate members should also reference [Appraisal of Rural Property, Second Edition](#) by the Appraisal Institute and American Farm Managers and Rural Appraisers.

The Associate member can either perform a fundamental market analysis or an obsolescence option. Please refer to [The Official Guide to Demonstration Appraisal Reporting: General](#) for further explanation.

Introduction

This section of the Demonstration Appraisal Report is covered under [The Official Guide to Demonstration Appraisal Reporting: General](#). An Agricultural Property type would follow the Official Guide on all of Part One.

I. Descriptions, Analysis, and Value Conclusions

This section will be addressed below.

A. Property Description and Productivity Analysis

Site Data and Analysis

Agricultural properties have various soils and/or range sites. A full description of the soil types and/or range sites is to be discussed. Soil layers or horizons, soil texture, soil structure, soil consistence, fertility, color, and pH are to be described and analyzed within the report.

Topography, drainage, and climate are all relevant to agricultural properties. These items have to be included and discussed fully for the subject property.

It is advisable that USDA-Natural Resource Conservation Service (NRCS) be contacted for a soil inventory on the subject property. Many counties across the US have been mapped by NRCS. USDA gives the soil inventory, soil maps, soil series, and soil productivity ratings for these areas. NRCS also has range site analysis for areas in the western portion of the US.

Soil types are very important in agricultural properties and must be discussed fully within the demonstration report. This is in addition to what is required within [The Official Guide to Demonstration Appraisal Reporting: General](#) under Site Data and Analysis.

Improvement Analysis

The improvements will be handled the same as stated in [The Official Guide to Demonstration Appraisal Reporting: General](#). Site improvements are different with agricultural properties but need to be described. Typical site improvements include fencing, wells, septic tanks & drain fields, roads, drainage systems, irrigation systems, timber, livestock handling facilities, etc. All of these site improvements if on the subject property must be described fully and depreciated. All forms of depreciation must be discussed.

Many farms have intensified facilities. Examples are swine, poultry, dairy, feedlots, grain elevators, cotton gins, processing facilities, packing facilities, and cold storage facilities. All of these specialized agricultural properties require the same analysis as required for a regular demonstration report.

B. Zoning and Land Use Plans

This section of the Demonstration Appraisal Report is covered under [The Official Guide to Demonstration Appraisal Reporting: General](#). An Agricultural Property type would follow the Official Guide on all of this section.

C. Taxes and Assessment Analysis

This section of the Demonstration Appraisal Report is covered under [The Official Guide to Demonstration Appraisal Reporting: General](#). An Agricultural Property type would follow the Official Guide on all of this section.

D. Fundamental Market Analysis

The fundamental market analysis or the six step process is different and more complex for an agricultural property. [The Official Guide to Demonstration Appraisal Reporting: General](#) is to be used in conjunction with this supplement for the Fundamental Market Analysis. In the following paragraphs, the six step process will be addressed specifically for agricultural properties.

Step 1. Define the property (Property Productivity Analysis)

This has already been covered within the site description and analysis, improvement description and analysis, zoning, and taxes.

Step 2. Define the User of the Property (Market Delineation)

Agricultural properties tend to compete across larger distances than most commercial properties. Market areas may be a County, Region of the State, State or possibly Multiple States. The product of the user will typically define the market area. If a poultry or swine producer has contracts with processors, then the processor typically defines the market area. For example, a poultry processor will only contract with producers within a 50 mile radius. Therefore, all the competitive poultry operators will be within a 50 mile radius of the processor. Dairy farms may be required to be within a certain distance of milk processing plants. Therefore, dairy farms may be clustered in certain localities. Boundaries must be defined. The user will be a farmer or rancher who gravitates toward the type of agricultural products being produced on the subject.

Step 3. Forecast demand factors

Demand for agricultural products can be analyzed Statewide, Region wide, Nationwide, and/or Worldwide. This is more difficult to determine demand since the market is much larger than a normal commercial property. But, there are a lot of USDA statistics and Census data that can be utilized within the report. The Economic Research Service and the National Agricultural Statistics Service are two agencies within USDA that have a lot of data about agricultural products. Also, Agricultural Agencies within each State may have data that would be useful with certain agricultural commodities.

Agricultural commodities can be quantified with all the data that is available via USDA. Demand can be segmented within the population of the market area.

Step 4. Inventory and forecast competitive supply

Agricultural property types can be found on a nationwide, statewide, and/or area wide basis. The various USDA and State Agricultural Agencies have data on various types of agricultural type operations. For instance, there are vineyard statistics on a Nationwide and Statewide basis. And many states have this broken down on a regional basis. Competitive properties can be found within each state. Potential completion can also be found from these agencies along with County or Regional information sources. USDA Extension Service can provide data on costs of producing certain commodities along with costs of establishing an agricultural enterprise. For instance, some extension specialists have data on what it costs to establish a vineyard. They also have information on herd milk production averages. All of this information is useful in calculating and forecasting competitive supply.

Step 5. Analyze the interaction of supply and demand

Sales prices of farms, rental rates of cropland, and capitalization rates of farms are all information that needs to be discussed within this section. Vacant farms or types of operations will be analyzed. Occupancy of farms will be discussed in detail for each property type. Again, information is available through USDA and State Agencies. Supply and demand is discussed here which will lead into the capture.

Step 6. Forecast Subject capture

The capture and absorption of this property into the market place will be fully discussed in this section. The subject operation should give an indication as to whether the market is in balance or out of balance. In other words, if the subject farm is struggling due to a lack of demand for that product, then supply would exceed demand. If a farm is successful

and there are other similar operations being built in the area, then this would indicate that demand exceeds supply. A final conclusion and reconciliation of the data needs to be fully discussed.

II. Area Analysis

The regional analysis is pertinent to the appraisal of rural property; therefore, it is necessary to provide a complete description of the region. The region may include one or more counties within a state and may include parts of one or more states.

The regional analysis should consider that purchasers of agricultural properties typically consider a larger market area in identifying competing properties than do the purchasers of residential or commercial properties.

The regional analysis should contain a general description of the soils, topography, climate, and transportation. This section should include a description of agricultural trends in the region. Specifically, it should address any change in the number or size of farms, -types of farming (commercial, part time, or retirement), and types of ownership (proprietorship, partnership or corporation). These might affect changes in farm population, farm production and efficiency with reference to the technology involved. Crop yields, livestock production (if pertinent) and farm operating costs per acre with detailed component costs for seed, fertilizer, labor, irrigation etc., should be addressed.

Trends or changes in type of feeding operation, predominate livestock type etc., should be considered if the property is primarily a livestock operation.

This analysis will include discussion of market trends, types of tenancy and changes in real estate value and consider prevailing mortgage financing, rates and terms, mortgage foreclosures and predominant type of sale (e.g., cash land contact, cash to mortgage or other).

An overall analysis of prices received for products sold and cost incurred is important to establish trends and to assist in stabilizing income and operating statements. This analysis should be for three to five years.

Regional analysis should consider the length or period of ownership as this has a direct relationship on the development of a capitalization rate and whether the rate would be in perpetuity or for a finite period. This would include an indication of whether the properties are family-owned or corporate enterprises.

The final summary should relate the regional analysis to the specific location of and affect on the subject property.

III. Market Area Trends

Analysis in this section may include parts of a county or several counties within a state or sub-market area. It is an analysis of an area where properties are "competitive" and comparable to the property being appraised.

Particularly important is the analysis of the transportation system, including roads and railroads, ease of marketability of farm products and the availability of farm supplies. Pertinent to the analysis would be the available markets for the farm products including relative transportation cost to the marketing source.

The effect of governmental units on the property should be analyzed. This could include units such as water, fire protection, drainage or irrigation districts, pest control, planning and zoning agencies and highway departments.

Trends are important and may have an immediate effect on agricultural property. Changes or trends in the type of ownership farm operations, (i.e., the number of farms, size, crop selection and or rotation, etc.) Rural versus urban/suburban population, and opportunities for farm employment should be addressed and related to the property being appraised. Consideration of trends or changes in technology may be the basis for external obsolescence affecting the property.

Climate, rainfall, length of growing season(s) and adequacy and costs of available utilities are of particular importance to agricultural operations and should be carefully analyzed.

IV. Tax and Assessment Analysis

Data should be presented relative to the assessment methodology, tax rates and amount of taxes.

A history of the assessments and taxes of the property should be included and analyzed. An analysis of future tax trends and their affect on the property should be included in this section.

It is suggested that the assessment and taxes for the property be compared to competing properties.

V. Highest and Best Use

A complete discussion of Highest and Best Use should be included with emphasis on changing use patterns of the land and buildings, zoning and planning regulations and changes in cropping conditions in the area. The comments in The Official Guide to Demonstration Appraisal Reporting apply here.

VI. Appraisal Process

A brief discussion of the three approaches to value and their application in valuing the property should be included.

VII. Sales Comparison Approach

Sufficient sales should be utilized to provide a basis for the analysis of the market in which the property is located. In addition to the sale price and terms, the analysis of each sale should include such pertinent factors as the type of farm, date of sale, size, location, soil type(s) and their productive capacity, land use, type of improvements and their contributory value, and the type and contribution of land improvements, if any.

Sufficient detail for the comparables must be included to support adjustments for each dissimilar factor found in the market. The adjustments should consider, but not be limited to, financing terms, time, location, size, improvement contribution, productivity, soil types, land use variation, and any other market recognized difference which would affect value. The sales data must then be reconciled into an opinion of value via this approach.

VIII. Income Approach

The discussion should include the type of farm operation and whether it is owner or tenant operated. If it is tenant operated, an analysis of typical tenant operations in the area should be thoroughly discussed and include an analysis and determination of the division of expenses between the tenant and owner and/or the amount of cash rent the owner receives for the property or facilities which may be provided.

The income analysis must include consideration of all farm income and expenses. The analysis is based upon the farming operations of the subject property in comparison to the typical operations in the immediate and/or competing area. The Associate needs to be careful and handle this section on a rental income and expense basis. In other words, the farm business should not be appraised. We are only interested in the real estate. With that in mind, we need to concentrate on rentals of similar properties and who pays what in each case. Then a reconstructed income and expense statement for the subject needs to be performed. If the subject is a rental farm, then a three year operating statement would be quite useful. The NOI would then be capitalized into value using the direct capitalization approach. A complete analysis of the capitalization rate and methodology utilized must be included with support provided for the rate selected. The capitalization rate should be based upon overall rates found in the market place.

IX. Cost Approach to Value

The land as unimproved must be valued. Support must be provided if there are various soil types which are valued separately. Typically the Sales Comparison Approach is utilized in this analysis. There should be a sufficient number of sales to support the land value opinion.

Each land sale should be fully described and analyzed in order to make appropriate adjustments. Particular consideration should be given to the soil type, productive capacity, farm configuration and topography as well as land uses with an analysis of the various factors. Each adjustment must be fully supported in the market.

For the improvement analysis, Reproduction Cost New must be developed, supported and the sources indicated. If cost services are used they should be verified with local costs. Soft costs and entrepreneurial incentive is to be considered, and supported.

Depreciation is developed in a manner similar to any improved property. Consideration should be given to physical curable, physical incurable short-lived and physical incurable long-lived depreciation. Functional obsolescence should be considered, particularly in terms of deficiency, defect or superadequacy. These should be identified and discussed in the neighborhood and improvements analysis sections.

External obsolescence should also be discussed in the neighborhood and improvements analysis section. This form of obsolescence is frequently found in a rural area and may be caused by a changing pattern of development and land use or types of farming.

X. Reconciliation and Final Opinion

Each of the three approaches are reconciled as they are developed. The Reconciliation and Final Value Opinion includes an overview of each approach with particular emphasis given to a brief review of the developed data. Consideration of the strengths and weaknesses of each approach and an analysis of the quantity and quality of data available in each approach must be provided.

The appraiser's thought processes resulting in the final value opinion should be described in sufficient detail to support the final value opinion.

This section would typically indicate which approach was given the most weight and consideration and provide the rationale for the conclusion. The date of the effective date of valuation as well as the final opinion of value must be included.

It would be appropriate for the appraiser to allocate the final value opinion between the land and the building improvements.

XI. Certification

The applicant should refer to the comments and suggestions contained in The Official Guide to Demonstration Appraisal Reporting.

XII. Special Limiting Conditions

It is recommended that special limiting conditions adhere to The Official Guide to Demonstration Appraisal Reporting.

XIII. Exhibits

Exhibits typically included in this section would be regional maps, aerial photographs of the property, a plot of the property showing the location of the building improvements, soil maps indicating the location of the various soil types, photographs of the various building improvements, floor plan sketches of the major buildings and various comparable sales and rental maps.

It is appropriate and recommended that the various exhibits be included throughout the report in the pertinent section.