

Deep Dive into Rural Appraisals

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Items for discussion

- Professional, ethical, licensing requirements.
- What is an appraisal?
- Definition of value, or, can you skew value?
- Highest and best use: heart of the appraisal.
- 3 approaches to value.
- Easement appraisal: before and after.
- Please ask questions as we go.

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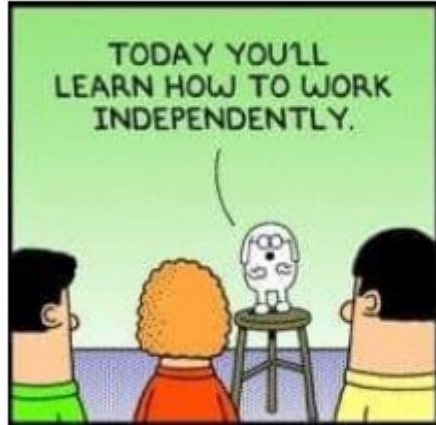
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Professional, ethical, licensing requirements for certified general appraiser license.

- Bachelor's degree from accredited university.
- 3,000 hours experience (takes a couple years).
- 300 hours classroom education.
- Pass criminal background check.
- Pass certified general knowledge examination.
- Can get further accreditation: such as ARA through ASFMRA.

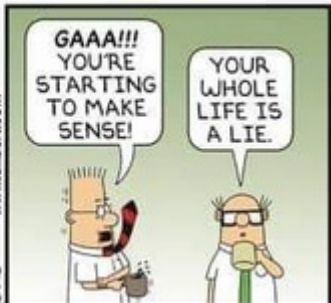
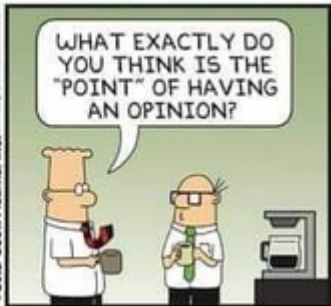


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What is an appraisal

- Uniform Standards of Professional Appraisal Practice (USPAP) defines appraisal as “the act or process of developing an opinion of value, an opinion of value. Of or pertaining to appraisal and related functions such as appraisal practice or appraisal services.”
- An appraisal can be expressed as a specific amount or range of numbers, such as not more than, not less than, or between \$ and \$.



Definition of value, or, can you skew value?

Definition of Market Value

Regulations published by federal regulatory agencies pursuant to title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)

The most probable price which a property should bring in a competitive and open market under all condition's requisite to a fair sale, the buyer and seller each acting prudently and knowledgeable, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their best interests;
3. A reasonable time is allowed for exposure on the open market;
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale

The definition of value includes the Treas. Reg 1.170A-1(c)(2) which is Fair Market Value and is defined as: "The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. The fair market value of a particular item of property includable in the decedent's gross estate is not to be determined by a forced sale price. Nor is the fair market value of an item of property to be determined by the sale price of the item in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate." Regulation §20.2031-1.

Other definitions of value:

- IRS
- ODOT uses “jury instruction value”.
- Uniform Standard for Federal Land Acquisition “yellowbook” .
- Various purposes will use value such as “CAUV” based value.

- Appraisals are appraised to definition of value, change the definition of value and the value will change. It might not be market value but as long as appraisal is based on the definition of value the appraiser has done their job.

Highest and best use: heart of the appraisal.

- 4 tests:
- 1: legally possible: zoning, governmental restrictions, deed restrictions.
- 2: physically possible: size/layout.
- 3: Financially feasible: what works economically?
- 4: maximally productive: what use, that meets the 3 prior tests, maximizes value?

3 approaches to value.

- 1: sales comparison
- 2: income approach
- 3: cost approach

Approaches to value

- Sales approach uses sales from market area. Market area can be township wide, county wide, region, nation. Or similar soil types, similar property type.
- Income approach: used more for income producing properties, leased fee.
- Cost approach: used more for atypical properties, new construction or structures 10 years or less.

Easing into Easements

- IRS qualified appraisal considerations:

- Must be “qualified appraiser”
- Definition of value
- Family Owned Parcels: FOP: memorandum 201334039

Other: do not do % of value. Not a valid approach. Form 8283 instructions, bottom of page 4.

Effective date not prior to 60 days before date of contribution. Date of report must be received “before the due date (including extensions) of the return”. Form 8283 instructions page 8.

Qualified Appraiser

A qualified appraiser is an individual with verifiable education and experience in valuing the type of property for which the appraisal is performed.

1. The individual:

- Has earned an appraisal designation from a generally recognized professional appraiser organization, or,
- Has met certain minimum education requirements and 2 or more years of experience. To meet the minimum education requirement, individuals must have successfully completed professional or college-level coursework obtained from:
 - A professional or college-level educational organization,
 - A professional trade or appraiser organization that regularly offers educational programs in valuing the type of property, or,
 - An employer as part of an employee apprenticeship or education program similar to professional or college-level courses.

2. The individual regularly prepares appraisals for which they are paid.

3. The individual is not an excluded individual. (See [Publication 561](#) [PDF](#) for list of excluded individuals.)

Under the Contiguous Parcel Rule found in § 1.170A-14(h)(3)(i) (fourth sentence), in the case of a charitable contribution of a conservation easement covering a portion of contiguous property owned by a donor and the donor's family, the amount of the deduction is the difference between the fair market value of the entire contiguous parcel of property before and after the granting of the easement.¹ For purposes of the Contiguous Parcel Rule, "family" includes brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants. Section 267(c)(4). "Family" does not include an entity, such as a corporation or partnership, that is classified as separate from its owner under the entity classification rules described below.

does not further restrict how the property can be used.

The FMV of a conservation easement or other conservation restrictions cannot be determined by applying a standard percentage to the FMV of the underlying property. The best evidence of the FMV of an

easement is the sales price of a comparable easement. If there are no comparable sales, the before and after method may be used.

Easement appraisal:

- In a theoretical world there would be an easement market that would buy and sell easements.
- In the world we live in, there is no easement market.
- So...

Appraise before and after.

- Example: 74 acre parcel.
- Before value: \$970,000 (before easement is in place)
- After value: \$760,000 (theoretically easement is in place)
- Difference: -\$210,000. (diminution of value by placing easement on property.)

Where do these values come from: the market.

Sales used in before situation

- Sales on next page give adjusted values of \$9,9891 to \$14,813 per acre. Opinion is that \$13,000/acre is indicated by the market, which gives value of about \$970,000.

CEV Price/ Acres		9,937.50	15,000.00	12,000.00	14,601.26	16,000.00			
LAND AND IMPROVEMENT ADJUSTMENTS									
Land Adjustment		-46.69	-1,350.90	-251.87	-670.46	-1,186.88			
Impvt. Adjustment		0	0.00	0.00	0.00	0.00			
Adjusted Price		9,890.81	13,649.10	11,748.13	13,930.80	14,813.12			
TIME ADJUSTMENTS									
<input type="checkbox"/>	Yr	<input checked="" type="checkbox"/>	Mo	Periods	3	5	6	10	11
<input checked="" type="checkbox"/>	Smpl	<input type="checkbox"/>	Cmp	Rate					
<input checked="" type="checkbox"/>	Auto	<input type="checkbox"/>	Man	Time Adjustment	0.00	0.00	0.00	0.00	0.00
				Time Adj. Price	9,890.81	13,649.10	11,748.13	13,930.80	14,813.12
OTHER ADJUSTMENTS									
Location		Rural	Similar	Similar	Similar	Similar	Similar	Similar	
		Adjustment							
Productivity		NCCPI = 67.8	Similar	Similar	Similar	Similar	Similar	Similar	
		Adjustment							
Topography		Level/GR	Similar	Similar	Similar	Similar	Similar	Similar	
		Adjustment							
		Adjustment							
Net Adjustments			-47	-1,351	-252	-670	-1,187		
ADJUSTED PRICE			9,891	13,649	11,748	13,931	14,813		

Sales used in after situation

- Sales on next page give adjusted values of \$7,091 to \$12,013 per acre. Opinion is that \$10,200/acre is indicated by the market, which gives value of about \$760,000.
- Yes, same sales are used in the after situation as in the before situation, with a market based adjustment added. The adjustment is abstracted from sales with easements.

CEV Price/ Acres		9,937.50	15,000.00	12,000.00	14,601.26	16,000.00			
LAND AND IMPROVEMENT ADJUSTMENTS									
Land Adjustment		-46.69	-1,350.90	-251.87	-670.46	-1,186.88			
Impvt. Adjustment		0.00	0.00	0.00	0.00	0.00			
Adjusted Price		9,890.81	13,649.10	11,748.13	13,930.80	14,813.12			
TIME ADJUSTMENTS									
	Yr	X	Mo	Periods	3	5	6	10	11
X	Smpl		Cmp	Rate					
X	Auto		Man	Time Adjustment	0.00	0.00	0.00	0.00	0.00
				Time Adj. Price	9,890.81	13,649.10	11,748.13	13,930.80	14,813.12
OTHER ADJUSTMENTS									
Location		Rural Adjustment		Similar	Similar	Similar	Similar	Similar	Similar
Productivity		NCCPI = 67.8 Adjustment		Similar	Similar	Similar	Similar	Similar	Similar
Topography		Level/GR Adjustment		Similar	Similar	Similar	Similar	Similar	Similar
		Adjustment							
Use Restriction		Conservation Easement Adjustment		-2,800.00	-2,800.00	-2,800.00	-2,800.00	-2,800.00	-2,800.00
Net Adjustments				-2,847	-4,151	-3,052	-3,470	-3,987	
ADJUSTED PRICE				7,091	10,849	8,948	11,131	12,013	

The following pages show sales of properties encumbered by conservation easements. In order to measure the impact a conservation easement has on the market value of a property, one needs compare the sale price of an encumbered property the sale price of similar unencumbered properties. An analysis of properties that are not encumbered by conservation easements are compared to the sales of nearby properties with conservation easements that sold within a short period prior to the sale date of the encumbered property. The following pages contain information about and analysis of five properties encumbered by easements that sold that were valid, arm's length transactions that were confirmed with knowledgeable parties. All five sales are similar enough to the subject to provide a valid comparison and provides an indication of the impact the conservation easement has on the sale price.

Below is a worksheet that summarizes information from the five sales of encumbered properties. As the worksheet below shows, the sale price (Sold \$/Acre) of all five parcels encumbered by a conservation easement were negatively affected by the conservation easement when compared to the market value (MV \$/Acre) as determined by the analysis of sales prices of parcels without conservation easements. The sales indicated diminution of value ranging from \$1,008 to \$3,244 per acre. More weight was given to Sales 1 & 2 due to the timing of the sale and the similar land mix & size to the subject. Sale 3 (Songyard Farms) was given the least weight as it is 100% woodland. It was included as it was a recent sale of an encumbered property property selling below market value.

Sale	Clouse	Strike	Songyard Farms	Armstrong	7652 NFF LLC
County	Seneca	Preble	Geauga	Clark	Clark
Sale Date	12/11/2023	8/23/2022	8/3/2022	4/25/2022	1/1/2020
Sold \$/acre	\$8,891.71	\$7,538.20	\$4,047.62	\$8,064.52	\$9,091.86
MV \$/acre	\$10,625	\$10,624	\$7,292	\$9,073	\$10,807
Difference	(\$1,733.29)	(\$3,086.10)	(\$3,244.38)	(\$1,008.06)	(\$1,715.18)

Questions?

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