



Rural Valuation Topic #RVT 10: Price Allocation

Price Allocation: Allocation is defined as, “a method of estimating land value in which sales of improved properties are analyzed to establish a typical ratio of land value to total property value and this ratio is applied to the property being appraised or the comparable sale being analyzed”¹. However, in rural valuation the land component may have multiple “layers” and possibly buildings (Reference Chapter 11, American Society of Farm Managers and Rural Appraisers: *Valuing Rural America*, 2019 Edition, (Denver, ASFMRA, pages 215-222). Allocation is a procedure to distribute (allocate) a sale price to multiple components. This procedure is a key concept in the ASFMRA’s educational courses and seminars. The example shows how price can be distributed from three different sales, a procedure which began in ASFMRA in the early 1980’s.

Step			Contribution		Sale
1	Sale M (vacant)	Acres	\$/Acre	Total	Composition
a	Cropland	320.00	\$ 5,000	\$ 1,600,000	Land Only
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2	Sale N (vacant)	Acres	\$/Acre	Total	
a	Cropland	240.00	\$ 5,000	\$ 1,200,000	Land Only
b	Pasture	120.00	\$ 2,500	\$ 300,000	
	Total Sale Price	360.00		\$ 1,500,000	
↓					
3	Sale O (improved)	Acres	\$/Acre	Total	
a	Cropland	400.00	\$ 5,000	\$ 2,000,000	Land & Bldgs.
b	Pasture	80.00	\$ 2,500	\$ 200,000	
		480.00	\$ 4,583	\$ 2,200,000	
c	Building Contribution		\$ 1,042	Bldg/\$-Ac \$ 500,000	
	Total Sale Price		\$ 5,625	w/Bldgs \$ 2,700,000	

Sale M is a sale of cropland only at \$5,000/acre. That price from Sale M is used to analyze Sale N’s cropland (green) with a total contribution of \$1.2 million leaving \$300,000 remainder to the pasture (\$2,500/acre). The allocation from Sale N is then moved down onto Sale O leaving a residual of \$500,000 to its buildings. [NOTE: the sales shown allocate perfectly to demonstrate the technique. What would one do if the building residual at \$500,000 was more than replacement cost? How much would you reallocate to both land categories to “balance” the results? What if you had a pure pasture sale at \$2,000/acre?

This allocation process evolved through several stages but begins by first recognizing the “relationship” shown by Sale N, i.e., \$5,000/acre for cropland (100% in the example) and \$2,500/acre for pasture (50%). Simply, two acres of pasture equals the price of one (1) acre of cropland. The “relationship” concept is expanded in the next definition for “price ratios.”

ASFMRA Recommendation: The original procedure is still valid, but price ratios provide a higher degree of consistency (see Advisory 11).

¹ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th Ed., (Chicago: AI 2015, p.7)