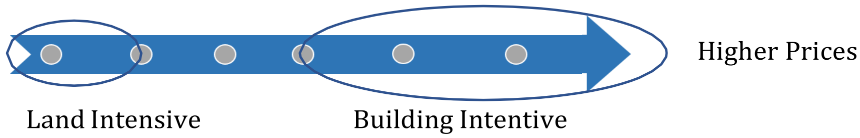
# Rural Valuation Topic #RVT 13: Land v. Building Intensive

Improved real property sales analysis involves knowledge of unimproved and improved sales; plus, the degree or "intensity" (quantity) of structural improvement.




The transition from "land intensive" to "building intensive" links to a fundamental question, "what percentage of the overall price or value" is represented by structures? Rural valuation procedures stress using unimproved sales to "appraise" the land contribution within an improved sale first thus leaving the remainder or residual to the buildings. As the building contribution increases, more in-depth analysis is required because multiple structures require a second analysis for each individual structure's contribution.

Users of valuation services often perceive "vacant" or "land intensive" properties as "non-complex"; and that the appraisal of a *town lot* represents the same level of difficulty as *unimproved rural land.* The lack of structures does not mean rural situations lack complexity. Rural properties, whether "production ag" areas, livestock or range operations, can be highly complex with mixtures of:

- Land irrigated by pivot or big guns, gated pipe, drip or sweat pipe, crow's-feet (gravity), and/or side-rolls (wheel-lines)
- Irrigation Storage Rights (right to store irrigation water in a dam on other's property)
- State adjudicated or appropriated water rights (priority date, point of diversion, volume, season of use, and area (acreage) for application)
- Dry cropland (may be split by several production categories [soil quality]), sidehill versus level, or some other physical differences
- Pasture and/or range (again, may be split by production categories, e.g., meadow, range, hayland, etc.)
- Physically non-contiguous ownerships, e.g., base-property with winter range, feed production, or feeding locations with natural protection features located apart from summer range which can be both deeded and non-deeded lands miles away. Under the federal "larger parcel" rules, this entire hypothetical non-contiguous configuration is the "property".
- Multiple private or governmental grazing leases or permits
- Multiple in-holdings (other owners' land scattered with the "unit" [sales or subject])
- Multiple surface and subsurface estates (the subsurface may be split multiple times horizontally and vertically)
- Multiple encumbrances (easements for pipelines, powerlines, roads, conservation, etc., and their orientation within the subject and sales)
- Multiple non-producing mineral or commodity deposits (sand, gravel, limestone, etc.)

- Multiple producing commodity deposits (sand, gravel, limestone, etc.). Note: it is rare that producing minerals of any kind are sold with the surface. In most cases, production is considered to be a different estate because it can be sold apart from the surface and retain its “dominancy” --- even in the smallest ownership percentage. The reason is royalties or production are split by the percentage owned with no discount for minority positions.
- Multiple income streams (cropland or pasture rent, hunting, pipeline/powerline easements (damage payments), or site pads, etc.).

The above list can also be expanded when federal oversight is involved (Clean Water or Endangered Species Acts, etc.). A property’s proximity to National Forests, Corps of Engineers land along major rivers, military bases, recreational areas (lakes, rivers, etc.), large corporate land holdings, private in-holdings within larger governmental ownerships, etc., can also complicate the analysis and appraisal. Simply, “multi-component” vacant land ownerships are just as complex as “building intensive” properties.

For properties with minor buildings (as a percentage of total price or value), practitioners often fudge the land portion to make sure there is something left to allocate to the buildings, citing they

- physically exist
- have a cost to replace, and
- have historically been occupied or used.

**ASFMRA Recommendation**: Land and Building Intensive Properties (sales and subject)

*Major Structural Contribution*: As the building intensity increases for uses like dairy, swine, poultry, greenhouses, ag storage facilities, vineyards, orchards, etc., accelerated analysis is required. Properties with multiple buildings, specialty design, or structures in multiple locations and/or physically separated within the “total property”, are clearly complex and produce “blended” building contribution as part of the mathematical process.

*Minor Structural Contribution*: As building intensity declines, more emphasis is directed to the land component. The “legal estate” description (encumbrances versus remainder rights) along with the explanation of the physical and economic characteristics should reflect the impact of land proportionality, buildings to the degree impacting the unitary whole, competition in its configuration, and appeal. Where buildings represent a smaller and smaller percent of the total:

- Develop the overall price per acre ($/acre) with buildings (expressed as a percentage), *versus*
- the overall price per acre (expressed as a percentage) for vacant land sales.

If that comparison shows both are reasonably similar, the market is suggesting minor structural contributions may not require extensive analysis and/or separate reporting. Stated differently, if structures contribute ~1% to ~5% of the sales price and the variation for vacant land sales is up to 10%, what are you measuring? Most of the value is within the land portion. (NOTE: the size of the property also has an impact on the percentage, i.e., as property size declines, this procedure may distort the percentage. Simply, $250,000 of structural contribution on a million-dollar property is markedly different than $250,000 buildings on a $5 million property).

- Stating a low-level structural contribution may be politically sensitive because when the appraisal is used to secure a loan, that report falls in disfavor. However, that is not an appraisal issue with market support for the opinion.
- Extensive data analysis, quantification, and correlating the findings for minor levels of building contribution (sales or subject) may not be justified and may not increase the level of accuracy beyond the normal market deviations.