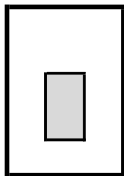
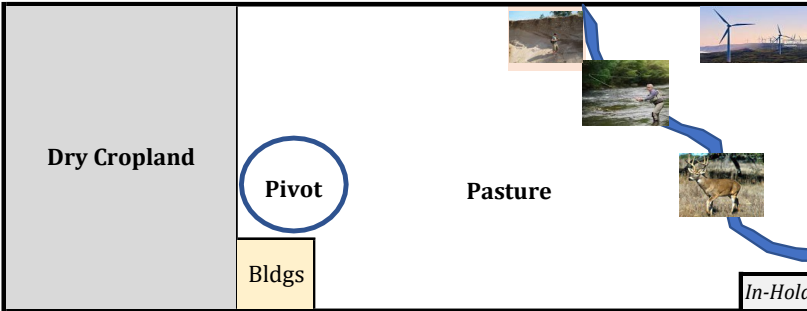







## Rural Valuation Topic #RVT 14: Highest & Best Use v. Concurrent Uses

Highest and best use is defined as, “the reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity”<sup>1</sup>.

Take the example of an urban commercial site and building illustrating its single highest and best use (left) *versus* a rural property (right) with multiple income streams. What is the rural property’s highest and best use?

<p><b>Urban Property</b></p> <p>Site: 3.0 Acres Bldg.: 22,000 sf</p> 	<p><b>Rural Property 2,000 Acres</b></p> 
	<p> <b>Live water fishery (trees, brush &amp; wildlife)</b> Fishing net income: \$18,500 Hunting net income: \$14,000 (deer &amp; gamebirds)</p> <p><b>Buildings: Dwelling, machine shed/shop, grain storage, &amp; corrals</b> Cropland net rental income: \$47,000 (irrigated &amp; dry crop) Building rent: included in land income; no separate rental market</p> <p><b>7 wind turbine site pads; Annual net income = \$35,000 (20 yrs)</b>   &gt; In-holding (10 acres purchased in fee 7 years ago for substation) &amp; excluded from 2,000 acres (gross)   &gt; 30-ac. gravel deposit w/75 yr. lease; 3 acres excavated at ~0.5 ac/year &amp; \$28,000 annual royalty</p>

The rights appraised are the leased fee subject to the wind turbine sites and gravel leases. The recreational income is “wholesale” leased to a commercial outfitter (retail) for five years (4 years remain). The use of the wholesale rental rate is appropriate, i.e., the landlord’s real property income. The difference between the outfitter’s retail and the wholesale rental rate is business value.

The rural property above generates \$32,500 recreational income, \$47,000 agricultural income, \$35,000 from wind turbine pads, and \$28,000 from gravel royalties. Gravel lease includes the right

<sup>1</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6<sup>th</sup> Ed., (Chicago: AI 2015, p. 109)

to use up to 250 tons per year on the 2,000-acre property with reclaimed reversionary clause on 30 acres as “bottomland wildlife habitat”.

Sixteen market area sales show mixed dry cropland, irrigation, and pasture in varying degrees. Two sales have gravel deposits, one in production as part of larger dry cropland and pasture tracts. One neighboring property also has wind turbine site-pad leases that sold within the whole, and three sales have mixed recreational income streams along with agricultural income. Market research shows mixed-use combinations are common in the multi-state market area.

**ASFMRA Recommendation:** “Concurrent highest and best use” is not defined in traditional valuation literature. Rural properties may include mixed income streams that cannot be readily separated due to property configuration and ag-use dominancy in the area --- yet these diverse income streams contribute to the total property income and value. Mixed surface uses commonly occur and rural property buyers may not consider these combinations a liability. As illustrated in the above graphics, live water fisheries are rare and can have a significant positive influence on value no matter what other activities may be present. The orientation of the turbine site-pads is away from the historic use that includes dry cropland, irrigated, and building locations leaving the “pasture vegetation” available for livestock.

**ASFMRA Proposed Rural Valuation Definition:** “Concurrent Highest and Best Use” is defined as, “mixed surface uses with multiple “non-agricultural related” income streams that can co-exist and may be common to the property’s competitive market area”.