Rural Valuation Topic #RVT 15: Land & Building-Mix Calculations

Land & Building Allocation or Mix: Land and building mix reflects the combination of land and buildings within a property (i.e. how many acres are in type x, type y, etc.). The land contribution (allocation of the price to the land) is the first "call" on price (estimated from vacant land sales) leaving the remainder to structures. Rural valuation practices stress that buildings are always approached as the "residual". The "land portion" many include differing percentages of two or more land types:

- Irrigated pivots, big guns, gated pipe, crow's feet (gravity), wheel-lines (side-rolls)
- Irrigation Storage Rights (right to store irrigation water in a dam on other's property)
- Dry cropland (may be split by several production categories [soils]), or sidehill versus level, or some other physical difference within this group
- Pasture and/or range (again, may be split by production categories, e.g., meadow, range, hayland, etc.)
- Governmental grazing leases and/or permits usually scattered through the total property
- Private land leases
- In-holdings (other's land within the "unit" that is leased as part of the operation)
- Non-producing mineral or commodity deposits (sand, gravel, limestone, etc.)
- 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 a different estate because they can be sold apart from the surface and retain their "dominance" --- even in the smallest ownership percentage.

The market may or may not consider there are price differences between two or more of the irrigated and/or dry cropland categories.

There is also NO consistency for rural structural quantity or composition. Structures may exist in multiple locations or non-contiguous tracts. Each building is part of a "mixed" compound that may or may not rent, and rarely rent individually. There is no "standard" even if there are slight or significant productivity differences. It is the appraiser's responsibility to define what is occurring in the market at that locale.

ASFMRA Recommendation: The appraiser should initially consider the land and building-mix calculations from the "blended rate" perspective. For example, Sale T with 400 acres:

Sale T's Land Contribution	$2,200,000	51.5%	$5,500/acre	blend of 3 land types; *differing % of irrigated, dry crop, & pasture*
Sale T's Building Contribution	<u>$2,072,000</u>	<u>48.5%</u>	<u>$5,180/acre</u>	blend of 6 building types; *house, cabins, labor house, equipment storage, horse barn, & corrals in differing %'s.*
Rounded Total	$4,272,000	100.00%	$10,680/acre	blended overall price/acre; *mixture dependent on % land & bldgs.*

The “blending” at each level is commonly misunderstood. Acre-size (or a corresponding relationship) impacts the blended contribution. The sale’s blended price at $10,680/acre means little in the valuation of a subject unless the subject has exactly the same land or building percentages. Thus, adjusting the sale’s $10,680/acre blended price to the corresponding subject’s components is a key to rural valuation. The equivalency rating or factor in RVA #16 demonstrates one of several procedures for the mix calculation.

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