



Rural Valuation Topic #RVT 1: Market Value --- Again?

ASFMRA's "Valuing Rural America" published June 2019 contains or expands on definitions with rural application. Foundational definitions are relied upon in the valuation industry; however, translation is required in some rural situations.

Market Value is the foundation of the U.S. financial system and is a key element in the eminent domain rights reserved by the state and federal governments. Other "values" exist in the marketplace, but they are distinctly different.

Market Value (USPAP) is defined as, "a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the term identified by the appraiser as applicable in an appraisal" (Appraisal Foundation: Uniform Standards of Professional Appraisal Practice [USPAP], Washington DC., 2020-21 version, p. 5).

The assignment jurisdiction or ruleset may specify a specific Market Value definition or may default to the FIRREA definition if the valuation is for lending purposes. If the report may be used in litigation, research the jurisdiction in which the property is located and state laws, or call for a legal opinion.

Market Value is "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, 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 pass of title from seller to buyer under conditions whereby:

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

The common thread within the concept of Market Value is the *notion* of "market in exchange" between willing buyers and sellers in "arms-length" transactions. This concept reflects the

¹ American Society of Farm Managers and Rural Appraisers: *Valuing Rural America*, 2019 Edition, (Denver: ASFMRA, p. 47).

ability of one property to compete with other similar properties. The Market Value of a specific “property” is best described as the “remainder rights” or the rights “subject to” the encumbrances that would be enumerated on Schedule B of a title policy. Portions of the “remainder rights” may detract, enhance, or be neutral to the price or value of the whole. The valuation question is “what is this mixed set of remainder rights worth in the competitive market?”

There may be other Market Value definitions required by your client and defined in the Scope of Work (SOW) such as those required by:

- UASFLA, the Uniform Appraisal Standards for Federal Land Acquisition (i.e., “fair market value”)
- IRS definition, the Internal Revenue Service, Department of Treasury
- State jurisdictions (each state has its own legal definition).

Other types of value exist but they are markedly DIFFERENT than the notion defined specifically within Market Value. Generally, these other definitions reflect Value-in-Use, or USE VALUES of some type such as:

- Taxable Value (basis for calculating real estate taxes by the taxing authority)
- Agricultural Value (based on agricultural production only)
- Public Interest Value (use value to a society or community for preservation, parks, or common areas and/or enjoyment)

Real estate can also be a component within the total assets of a business and identified as:

- Fair Value (typically used in accounting [asset price or liability transfer])
- Investment Value
- Business Value
- Going Concern Value
- Book Value
- Fair Cash Value
- Government Business Enterprise (GBE) Value
- Insurable Value
- Salvage Value
- Special Value (usually to a specific person or entity, i.e., similar to Investment Value)

In some markets, the geographic area may have to be increased to demonstrate sufficient sales to define a market or marketability. This can be attributed to lower productivity acre-for-acre (ranches), smaller or unrelated populations in surrounding areas, or markedly different physical and economic characteristics.