Rural Valuation Topic #RVT 2: Agricultural Value

Agricultural Use Value is defined as, “an opinion of value based solely on the property’s agricultural productivity”\(^1\).

At times, clients inquire about “ag value” appraisals under the premise it is the same as market value required in legal situations. They may be similar in some isolated circumstances, but generally “ag value” is use-value. Prior to 1950, the value of rural lands was predicated purely on economic productivity due to the lack of demand for any other use. For the visual images below, the percent composition is along the left border and its increase in price through time on right.

As the nation’s population grew, a commensurate level of demand developed outside urban centers for recreation, quiet enjoyment, second or third homesites, etc. (Examples B and C). Sometime around 1960, markets began to evolve at prices markedly above agricultural productivity.

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Contemporary markets show highly variable influences within the same market within relatively short distances. Multiple income streams from the same property are also common.

This transformation of Rural America finds mixtures of:

- “Agricultural” use (lower layer and the historical use) held across several decades and identified as a “generational ag” base.
- “Recreational” component of value in which one or more income streams may have developed. Recreational uses may represent a substantial percentage of the property’s overall value.
- The “Recreational” component may include buildings unrelated to agricultural uses or, improvements converted from their historical uses to uses which support additional recreational income.
- A “Rural Residential” layer or component of value may be present with its relative impact on value being contingent on the property’s distance from population centers.
- Site leases or in-holdings for renewable energy infrastructure, substations, pipeline and powerline easements, and minerals (including industrial materials), etc.
- All components of value may be impacted by the legalities of conservation easements encumbering all or parts of the property. There is a growing number of properties impacted by multiple easements with each property containing different “remainder rights”. These remainder rights can vary from unobstructed to highly restricted.

Considering the gamut of mixed influences evident in most markets, rural “concurrent” uses are common. This is contrary to the traditional urban understanding of Highest and Best Use. Simply, it
may not be possible to define a single highest and best use --- but rather a mixture of concurrent uses within the “larger parcel” that cannot be easily separated and independently sold.

**ASFMRA Recommendation:** Describe current levels of activity and demand akin to traditional markets. Dependent upon the geographic area, a property could have multiple income streams with some being dominant while others are secondary.

- A highest and best conclusion of just “agriculture” may require more detailed analysis and discussion, e.g., permanent plantings, like orchards and vineyards, etc.
- Multiple crops are possible from year-to-year. Most “defined” highest and best uses such as corn, beans, hay, etc., transitions into management decisions for maximizing income --- a condition that may call for a different crop the next year.
- A broader definition of “agriculture” may be appropriate in some areas of the U.S.

“Use Concurrency” has never been addressed in traditional textbooks; yet several markets have evolved to include such complexities. Simply, multiple uses and multiple income streams frequently occur --- neither detracting from the primary use of the property. To value properties in these situations, finding sales with similar layers or complexity is necessary to define what the combined, multi-layered properties are selling for as a unitary whole (Example D). Agricultural Value is likely only a component of the overall Market Value.