



## Rural Valuation Topic #RVT 8: Arm’s-Length Transactions

The **Arm’s Length Transaction** is a basic component of the concept or “notion” of Market Value. The phrase “willing buyer and willing seller” is a critical component of an arm’s length transaction and implies a transaction void of duress or undue influence, where “either party can walk away from the deal”.

Examples of what may be found through verification in a market:

### Is the Transaction an Arms-Length Sale ?

	<u>Seller Motivations</u>	<u>Buyer Motivations</u>	<u>Potential Market Impact Where Affirmative Statements May Be Needed</u>
1	<b>Normal</b>	<b>Normal</b>	These transactions likely need no analysis, other than a statement that both buyer and seller motivations were typical. DOM would be one way to address exposure and marketability.
2	<b>Retiring</b>	<b>Normal Investment</b>	Simple acknowledgement
3	<b>Debt Consolidation</b>	Local or Out-of-State Buyers as Investment	If this seller motivation is a significant percentage of market-area sales volume, the resulting sales may be more reflective of "liquidation value". If those sales are lower than the non-debt consolidations transactions, some professional observation should be stated.
4	<b>Debt Consolidation</b>	Adjoining or Neighboring Buyer	Expansion, either adjacent to area operations, may show a motivation and price that can only be replicated by a few. Question to address: price a premium, neutral, or below other sales without this influence?
5	<b>Liquidation</b>	<b>Normal, Auction</b>	Method of sale typical for area and property type?
6	<b>Liquidation</b>	<b>Normal Listing; typical exposure</b>	Analysis of days on market (DOM), i.e., quick sale or extended marketing time with multiple offering price revisions?
7	<b>Normal</b>	<b>First, Second, Third, ... etc., purchase by Out-of State Buyer with extensive non-ag/rural income sources or vertical integration into larger series of holdings</b>	Object is potential for replication of purchase power and/or influence within a larger, vertically integrated business. Can this purchase compare to other stand-alone sales and achieve the same price level(s)?
8	<b>Normal</b>	<b>1031-Exchange</b>	Can price be replicated in the marketplace? Does comparison to other non-1031 Exchanges show any impact (paired sales analysis).
9	<b>Normal</b>	<b>Homesite</b>	Rural sales with this motivation can show the "unit of comparison" may be the overall gross sale price as a "site". Those "sites" may be small to several thousand acres, depending on location.

**ASFMRA Recommendation:** Each sale verification should include an affirmative statement addressing the “willing buyer and seller” concept and summarize the buyer’s motivation and seller’s reasons for listing and/or selling. In addition, the appraiser should state whether the motivation(s) had an impact on price.