

## Sometimes, an appraiser can mean money in your pocket and less stress headaches

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There is a natural tendency for us as individuals to want to economize. We all as homeowners and business owners in today's economy have to watch our pennies and expenditures to help bolster the bottom line.

But trying to economize by not hiring a real estate appraiser may be "penny wise and pound foolish", as the saying goes. Too often, the local agricultural land market information shared at the local coffee shop is not always most reliable source of information. Appraisers are trained to search out relevant information about the property being appraised and rely on the most up to date sales information in order to arrive at the most accurate valuation possible, taking a wide number of factors into consideration.

Agricultural land held by a farm corporation or individual is usually one of a farm's greatest assets, both in terms of production and dollar value. It is an asset which trades infrequently, and it's therefore important to have the most up to date valuation information before buying or selling farm property in order not to overpay when buying or under valuing the property when selling.

With the typical value of a cultivated acre in the Red River Valley running around \$4,000 per acre, hiring an accredited appraiser from the Appraisal Institute of Canada (AACI) to do the appraisal makes economic sense. For example, if you were selling farmland and sold it for \$25 less per acre than you should, without having the benefit of having most current market information, for a typical 160 acre quarter section, that could be a loss of \$4,000 by selling slightly under market. The loss would be even greater if you were selling more land. On the flipside, if you are buying farmland and pay an additional \$100 per acre, that could be an additional \$16,000 added to the purchase price. The cost of a farm appraisal, which usually runs in the \$2,500 to \$7,500 range, depending on the amount of acres of land appraised, doesn't seem so expensive in comparison to a potential loss or potential over payment in regard to the agricultural land sale value.

Another aspect which appraisers consider is "highest and best use". "Highest and best use" is defined as "The reasonably probable use of real property, that is physically possible, legally permissible, financially feasible, and maximally productive, and that results in the highest value" under the Canadian Uniform Standards of Professional Appraisal Practice of the Appraisal Institute of Canada. This means that the appraiser has to consider the potential uses for the land (as vacant, and as improved) which would lead to the great amount of financial return from the land.

Farmland located near urban centres, which has been rezoned, or designated for uses in long term planning documents such as development plans, may be designated for alternate potential uses other than agriculture.

These uses may be more profitable in the long run than agriculture and are therefore desirable for investors outside of agriculture to purchase for long term holds. The longer the predicted hold before development, the more discounted the additional value is and the closer the value is to strictly agricultural value. It is important for potential vendors and purchasers to know what value the land would have before selling or purchasing it. It may make financial sense for the current owner to hold onto the farmland until development is imminent, in order to get the greatest possible return on investment, and rent out the land as agricultural crop land as an interim use. This sort of investment planning usually requires a highest and best use analysis, which done as part of every appraisal, and may lead to a greater understanding of how rezoning or designation under a development plan may affect the value of the farm asset.

There is a great deal of farmland today which is jointly held by several members of a family as an inheritance or is soon due to be inherited or passed down from today's active farmers. In order for smooth transition in ownership, or sale or disposal of the farm asset, it is advisable to get a professional appraiser involved. This ensures that all parties in a family or company can be assured that the valuation is objective, and everyone is treated fairly. Sometimes more than one appraisal is done in order to make sure all parties feel that they are represented. This can make sure that the property is sold for fair market value, whether to one of the family members or an outside party. It makes good financial sense and may help keep family relationships on track as well, and make family get together more pleasant in the future.