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### *Most Important Factor*

There are a lot of important factors to address when reviewing any type of appraisal report. However, in my opinion, the most important factor every appraisal must pass is..... THE SMELL TEST! Does the value conclusion make sense and does it “smell” right?

It is the appraiser’s job in every appraisal assignment to explain and support the value conclusion so that the reader will easily be able to say something like: “I understand how the value was derived and it makes sense to me.” The reader may disagree with the value conclusion, but they must be able to clearly understand how and why the value conclusion was reached and agree at least, maybe grudgingly, but still agree that it *could* be right.

Here are some facts from a recent appraisal that I was asked to review – these are not fictitious examples, they all from an actual “appraisal.”

Subject: 383.65 deeded acres and an unstated amount of public leased grazing lands and water rights (mixture of Bureau of Land Management and U.S. Forest Service grazing rights)

Assessed Value of Land is \$24,688 Assessed Value of Improvements is \$39,173

Property is a ranch -- 425 Animal Unit livestock operation

Improvements are very old – not much value

Sales Comparables Used:

	Acres	Animal Units	Sales Price	Price/Acre	Price / Animal Unit
1	2,395	360	\$1,900,000	\$793	\$5,278
2	2,372	550	\$4,000,000	\$1,686	\$7,273
3	11,776	375	\$1,824,965	\$155	\$4,867
4	6,722	300	\$1,645,000	\$245	\$5,483
5	3,783	250	\$1,200,000	\$317	\$4,800
6	9,187	950	\$4,750,000	\$517	\$5,000
7	5,325	250	\$1,752,353	\$329	\$7,009
			Average	\$578	\$5,673
			Median	\$329	\$5,278

The appraiser concluded at a value using \$5,000 per Animal Unit (AU) times 425 Animal Units for the Subject (including the unstated number of acres of grazing rights leased from the Federal government) to

arrive at a rounded conclusion of \$2,100,000. He called this conclusion the value of the “fee simple” – meaning the land and improvements actually owned.

The appraiser did not compute the price per acre for the land owned. Had he done so, he would have noted that the land value should be around \$330 to \$580 per acre. The amount of land actually owned, not leased, is 383.65 acres. If the value of \$500 per acre were used, the land value would be about \$200,000.

The appraiser also disclosed two prior transactions for the property:

1. In 2008, a number of parcels (owned fee simple) were sold to the government for \$2.9 million with the government agreeing to convert this land to grazing permits.
2. In 2009, the 383.65 acres with improvements was sold to the current owners for \$350,000. Presumably the grazing rights were either transferred to these people or they obtained them later.

The SMELL TEST:

How did a property that sold in 2009 for \$350,000 suddenly, with no improvements since that time, become worth \$2,100,000 now?

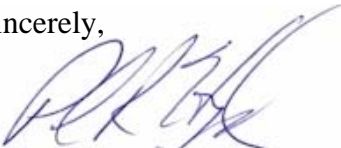
How did land owned that is worth about \$200,000 (maybe \$500 per acre) together with some leased grazing rights become worth the equivalent of \$5,474 an acre?

Clearly the appraiser did not understand the difference between the value of grazing rights to the tenant and fee simple land, i.e. land actually owned. He appraised the land using Animal Units as the unit of comparison which simply does not work for grazing rights. The appraiser also missed a huge red flag – he ignored the prior sale of the property for \$350,000.

The appraiser’s qualifications revealed that the vast majority of his appraisal work was for single-family residences, although he claimed that he did farms and ranches. Something was clearly rotten in Denmark, as this appraisal completely failed the SMELL TEST.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**

Sincerely,



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Paul R. Hyde, EA, MCBA, ASA, MAI  
Enrolled to Practice Before the IRS (Enrolled Agent)  
Master Certified Business Appraiser  
Accredited Senior Appraiser – Business Valuation & Real Property  
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