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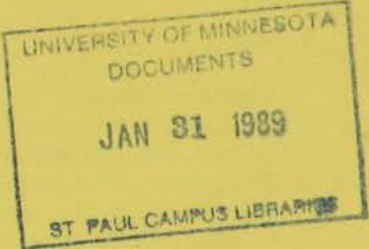
CONTINUING EDUCATION FOR MINNESOTA ASSESSORS

Property Valuation Short Courses for Minnesota Assessors

University of Minnesota



Extension Special Programs



State of Minnesota



State Board of Assessors

1988 WORKBOOK

Minnesota Extension Service

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This workbook for Property Valuation Short Courses has been edited, assembled and produced by Reuben Rydeen, MN Dept. of Revenue, Gerald Wagner and Barbara Lee, Minnesota Extension Service. The University of Minnesota, Minnesota Extension Service and Extension Special Programs in cooperation with the State Board of Assessors wish to thank the various assessor Education Committees and all individuals who provided materials or other assistance in the development of this assessor Short Course Manual.

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PROBLEM INTEREST SURVEY

Please study the contents of this workbook to determine the areas that are most important to you. Then rank those items on this sheet beginning with your first choice to your last choice. Hand this sheet in at the registration desk before leaving. This information will be used by the instructors of the workshop to best meet the instructional needs of those in each class.

Discussion Questions _____

You be the Judge _____

Residential #1 - Case Study. _____
Residential #2 - Market Grid

Resort Statute _____
Lakeshore A - F

Valuation of Farm Buildings. _____
Farm #1 - #8

Income #1 - #8 _____
Income #1 - Cap Rate
Income #2 - Cap Rate
Income #3 - Office Warehouse
Income #4A & B - Apartment
Income #5 - Investment Problem #1
Income #6 - Investment Problem #2
Income #7 - Development Problem #1
Income #8 - Development Problem #2

Gross Rent Multiplier. _____

Cash Equivalency - Problems 1-3. _____

Golf Course Valuation. _____

Fast Food Restaurant Valuation _____

Metes & Bounds - Problem 1-3 Rural _____
 Problem 1-3 Urban

Metes & Bounds - Drawing Description

Property Description - Urban Problem _____

Measurements -
 Valuation of Commercial Building by Computing Area. _____
 Calculation of Square Footage

Ratio Studies 1 & 2. _____

Tax Computation #1 & #2. _____

Highest & Best Use _____

Name _____

Address _____

Location of the two-day workshop I will be attending _____

Invitation to Join

The MAAD represents all assessors in the State of Minnesota. Below is an application form which can be removed and sent to:

Tom Houselog
 Pipestone County Assessor
 P.O. Box 458
 Pipestone, MN 56164

REGULAR MEMBER: Any person performing the duties of Assessor or his deputies or appraisers whose primary duty is the valuation of property for ad valorem tax purposes and who is employed by any political subdivision in the State of Minnesota may become eligible for regular membership in the Association with all rights and privileges including the right to vote, to hold office, and serve on committees by making written application therefore and payment of equal dues.

ASSOCIATE MEMBER I: Any person performing the duties of Assessor or his deputies and appraisers whose primary duty is the valuation of property for ad valorem tax purposes and who is employed by any political subdivision in the State of Minnesota shall be eligible for Association Membership I in the Association provided, however, that the Association Membership I shall have the right to vote and serve on committee. Voting rights of Association Membership I shall be determined as set forth in Section 1, Policy F, of Approved Association Policy. Upon payment of prescribed dues, each associate member shall receive the publication of the Association together with a copy of the minutes of the annual meeting and items of general mailing.

ASSOCIATE MEMBER II: Any retired person, and/or part-time person performing the duties of Assessor whose primary duty is the valuation of property for ad valorem tax purposes and who is employed by any political subdivision in the State of Minnesota, shall be eligible for Associate Membership II in the Association. Upon payment of prescribed dues, each Associate Member II shall receive the publication of the Association.

AFFILIATE MEMBERSHIP: Persons not eligible for Regular or Associate Membership but who are interested in the science of assessment and taxation and who subscribe to the Objectives of the Association are eligible to become Affiliate Members. Such members shall have no voting privileges and shall not be eligible to hold office or serve on Committees in the Association. Upon payment of the prescribed dues, each Affiliate Member shall receive the publication of the Association together with a copy of the minutes of the Annual Meeting.

MINNESOTA ASSOCIATION OF ASSESSING OFFICERS — MEMBERSHIP APPLICATION

Name: (Print) _____
 Last First Initial

_____ Title Employer

Membership Dues: **Regular** \$125.00 **Associate I** \$50.00 **Associate II** \$25.00 **Affiliate** \$50.00

See Back Of Application For Membership Category

Voting: Associate I members are allowed to vote if the county or city (over 10,000 pop.) in which they are employed has at least one regular member. If applying for Associate I Membership, Regular Membership requirement is met by:

Name: _____ County or City: _____

Addresses: Work: _____ Home: _____
 Street, RR, Box Street, RR, Box

City, State, Zip City, State, Zip

() Phone () Phone

Send Mail To:
 Work
 Home

Membership Sponsored By: _____
 (For Booster Campaign)

ASSESSMENT APPRAISAL
SITUATIONS FOR DISCUSSION

To stimulate and encourage discussion among the class, the following situations and statements have been provided. The discussions can be very informative and helpful to you. Please take an active part in the discussions and offer your views and comments.

HOMESTEAD CLASSIFICATION

1. A property owner requests the homestead classification for his property for the January 2, 1989 assessment date and after talking with him you have some doubt as to whether he actually occupied the property as his principal place of residence at that time.
 - a. In what ways can occupancy of a property be firmly established in this type of situation?
 - b. What is meant by "Ownership and Occupancy" on the assessment date?

2. A property owner owns a parcel of lakeshore property with a cabin on it and he also rents an apartment in town on a year-round basis. He requests the homestead classification for his lakeshore property even though he still intends to live part-time at his apartment.

What guidelines would you follow in determining if the property owner is entitled to claim the lake property as him homestead?

3. What are the requirements for granting the agricultural homestead classification in your jurisdiction?

4. A property owner lives on a 10 acre tract of land in a rural area. He also owns a 40 acre tract of land four miles away which he uses to cut firewood for heating his home.
 - a. How would you classify the 40 acre tract of land?
 - b. What if the same property owner lived in a city and he owned the same 40 acre tract of land, four miles away? How then would you classify the 40 acre tract of land?

5. A property owner lives on a city lot. He also owns two lots, which he uses for a garden plot, but the two lots are located one-half block away on the opposite side of the street.
 - a. How would you classify the two lots?
 - b. If the two lots were vacant and not used by the same owner, how then would you classify the lots?

6. An elderly property owner is confined to a nursing home and his son advises you that it appears that his father will be in a the nursing home for several years. His father's property is presently classified as homestead and is vacant. To prevent any vandalism to the house, the son would like to rent the house for \$150 per month, an amount he feels would cover the cost of the heat and utilities only. Market rent for comparable properties is \$350 per month.

Would you continue to classify the property as homestead if the son rents the house for the \$150 per month while his father is confined to the nursing home?

DISASTER CREDIT

7. A single-family dwelling, which is rented and is classified as non-homestead (the property owner lives 20 miles away) is destroyed by fire on May 10, 1988.

Is the property owner eligible to file for a disaster credit for the dwelling which was destroyed by fire?

8. A single-family dwelling (classified as homestead) is totally destroyed by fire on January 26, 1988. After the fire, the property owners lives with a relative until August 6, 1988, at which time he purchases 10 acres of land with a house and garage, located 21 miles from his previous home. On September 7, 1988, he visits you to apply for homestead for his newly purchased property and at the same time advises you that his previous home was destroyed by fire.
 - a. Is the property owner eligible to file for disaster credit?
 - b. If yes, for what years and what percentage of the year?

9. Discuss the requirements for applying for the disaster credit.

SEASONAL RECREATIONAL RESIDENTIAL

10. How would you appraise the contributory value of a guest cabin on a seasonal recreational residential property?
11. A property owner owns a seasonal cabin which he rents two to three months during the year.

Should the cabin be classified as seasonal recreational residential or should it be classified as rental (residential non-homestead)?
12. When assessing river frontage or lakeshore frontage on a small lake or a river where there is little or no market data available, what do you use as a basis for market value when assessing these types of properties?
13. What time of the year would be most appropriate when checking seasonal recreational residential properties for the next assessment year? Explain.
14. Discuss the difference in the assessment rates and allowable credits for Timberland and Seasonal Recreational Residential classified properties.
15. Would you estimate the market value of resort cabins in a different manner than you would individual privately owned cabins?

ASSESSMENT PROCEDURE

16. Explain the difference between the Small Claims Tax Court and the Regular Tax Court.
17. Describe the procedure which you use in your jurisdiction for maintaining a record of the properties which should be checked for a change in classification or value for the next assessment year.
18. When is it proper to classify and assess a mobile home as:
 - a. Real Estate
 - b. Personal Property

19. What type of references, schedules, etc. do you use as a basis for replacement cost new and depreciation when estimating market values for:
- a. Single-family dwellings
 - b. Seasonal cabins
 - c. Mobile homes
20. Upon arriving at a property for reassessment purposes, you are told by the property owner, "Please leave my property. I don't care to have you look at the inside of my house and it is none of your business."

What would you say to the property owner and how would you handle this type of situation in a professional manner?

INDIAN LANDS

21. An enrolled member of the Minnesota Chippewa Indian Tribe owns and lives in a mobile home which is located on a parcel of land on an Indian reservation and the land is owned by the tribe.
- a. Is the land taxable or exempt?
 - b. Is the mobile home taxable or exempt?
22. An enrolled member of the Minnesota Chippewa Tribe owns a seasonal cabin which is located on a parcel of land which is located on an Indian reservation and the land is owned by the tribe. The tribal member leases the land for the cabin site, but he lives in a nearby city and uses the cabin during the summer months only.
- a. Is the land taxable or exempt?
 - b. Is the cabin taxable or exempt?
23. An individual who is not an enrolled member of the Minnesota Chippewa Tribe leases a parcel of land from the tribe and builds a seasonal cabin on the site.
- a. Is the land taxable or exempt?
 - b. Is the cabin taxable or exempt?

AGRICULTURAL CLASSIFICATION

24. Discuss the agricultural classification as it pertains to greenhouses.
25. Discuss the assessment rates and the allowable credits for agricultural homestead and agricultural non-homestead properties.

AGRICULTURAL CLASSIFICATION (Continued)

26. A property owner owns two 40 acre tracts of land, both adjoining each other. On the front forty, the owner lives in his house on the property. The back forty is used by a neighbor (rent free) for the planting and harvesting of hay.
- a. The property owner requests the agricultural homestead classification for both forties. Are the properties eligible for the agricultural homestead classification?
 - b. If the owner himself plants and harvests hay from the back forty and on thirty acres of the front forty, is the property eligible to receive the agricultural homestead classification?

MISCELLANEOUS DISCUSSION QUESTIONS

27. How often are the market values of exempt properties estimated and submitted to the Minnesota Department of Revenue?
- What are the exempt values used for by the Minnesota Department of Revenue?
28. What are some of the factors and physical characteristics you take into consideration when estimating the market value of:
- a. Tracts of land in cities and urban areas?
 - b. Tracts of land in rural areas?
 - c. Tracts of land having lakeshore frontage?
29. Discuss the assessment rates and allowable credits of homestead properties which are owned by persons who are:
- a. Legally blind
 - b. Permanently and totally disabled
30. Discuss the importance of the verification of property sales and how you verify property sales in your jurisdiction.
31. Define corporation ownership as it pertains to the homestead classification and when/when not is property owned by a corporation entitled to the homestead classification.
32. To what extent should the assessor be educated to be recognized as a professional.

BASIC PRINCIPLES OF VALUE

33. Basic Principles of Value

A new, two-family home is constructed in a neighborhood of new, three-family homes on a lot that could support a three-family home. Market research and the application of the sales comparison approach to value indicate an appraised value significantly lower than the sum of the land and building costs.

What basic principles of value are illustrated by this example?

34. Basic Principles of Value

An appraiser gathers market data from a neighborhood where new, high-rise apartment buildings are replacing older, small, multifamily residences. The appraiser uses these data to reflect the value of small, multifamily residences in a stable neighborhood. The appraisal is rejected by a local bank on the grounds that it is unreliable.

Explain the bank's action in terms of the basic principles of value.

35. Basic Principles of Value

The owners of multifamily homes and small apartment buildings notice a pronounced demand for apartments in their neighborhood and they increase rents to produce unusually high profits. A professional developer then constructs a major apartment complex in the same neighborhood. The increased supply of apartment units results in high vacancy rates, particularly in older, smaller properties.

Comment on the predictability of this succession of events from an appraiser's point of view.

36. Basic Principles of Value

Several dilapidated storage buildings located in a neighborhood of small, multifamily residences are condemned and demolished because they are a fire hazard. An appraiser observes a measurable increase in residential value following the demolition of the old structures.

What principle of value best explains this phenomenon?

37. Basic Principles of Value

An appraiser notices an unusually sharp increase in the prices for small, multifamily building lots. Upon investigation, the appraiser discovers that this type of property is becoming increasingly desirable to local developers and that there are now more prospective lot buyers in the market than available building lots.

Explain this price trend in terms of the basic principles of value.

SHORT COURSE QUESTIONS

1. What is a residential appraisal?
2. How does additional supply or decreased demand affect residential value?
3. List the basic economic principles affecting residential real estate value?
4. Discuss and give examples of:
 - a. Supply and demand
 - b. Anticipation
 - c. Balance
 - d. Contribution
 - e. Increasing and decreasing returns
 - f. Surplus productivity
 - g. Change
 - h. Conformity
 - i. Substitution
 - j. Highest and best use
5. What are the three approaches to value?
6. How can an analysis of the local economy help the assessor?
7. What are some of the economic forces that cause communities to develop?
8. Define residential market and market place?
9. Which is more volatile in the single family market - demand or supply?
10. How may the term "neighborhood" be defined?
11. What are the stages of a neighborhood's life cycle?
12. What is an amenity as related to the single family market?
13. Define the term "land" and "site" and explain how they differ.
14. What is a residential special assessment?

15. What is an easement? an encroachment? riparian rights?
16. What are some of the factors of a site's immediate environment that should be considered by the assessor?
17. Can the highest and best use of a property as improved differ from that of the site as if vacant? Explain.
18. Explain why residential land (site) is always valued first and as if vacant.
19. Why is the date of sale of a comparable important to consider?
20. Explain the technique of adjusting a comparable?
21. How is the allocation procedure used to value a site?
22. What are some of the signs of defective framing and how can they be detected?
23. What is a gross monthly rent multiplier and how is it used in the income approach?
24. Why is monthly rather than annual rent used for single family residences?
25. What are the steps of the cost approach?
26. Define reproduction cost and replacement cost. Explain the difference between the two terms.
27. Define depreciation in your own words?
28. What three types of depreciation does the appraiser consider? Give an example of each.
29. Define the terms "remaining economic life," "chronological age," "effective age," and "total physical life."
30. What factors can create economic obsolescence?
31. Is there a difference in the terms economic obsolescence and locational obsolescence?
32. Define the term accrued depreciation? Explain.
33. Which approaches to value are based on market data?
34. What are the steps of the market data approach?
35. What are matched pairs of sales? Explain how the assessor makes use of them.
36. Why is it difficult to "tie down" the relationship of financing to sales prices of residences?
37. Explain the term cash equivalent value? Discuss in your own words how this term may vary from the recorded sale price of a residence.
38. Discuss the terms - present worth, reversion, annuity, discounting and points.
39. Discuss the advantages and disadvantages of the three approaches to value.
40. Discuss special considerations in appraising a house with solar and conventional heat.

YOU BE THE JUDGE

COURT CASE I
STATE OF MINNESOTA
COUNTY OF SHERBURNE

Lake Properties, a Minnesota General
Partnership,

Petitioner,

vs.

County of Sherburne,

File No. CX-87-257

Respondent.

The above-entitled matter came on for hearing before the Honorable Earl B. Gustafson, Chief Judge of the Minnesota Tax Court, on October 13, 1987 at the Sherburne County Courthouse in Elk River, Minnesota.

James G. Metcalf, Attorney at Law, appeared for petitioner.

John E. MacGibbon, Sherburne County Attorney, appeared for respondent.

The Court, having heard and considered the evidence adduced at the hearing and upon all of the files and records herein, now makes the following:

FINDINGS OF FACT

1. Petitioner has sufficient interest in the property to maintain its petition; all statutory and jurisdictional requirements have been complied with, and the Court has jurisdiction over the subject matter of the action and the parties hereto.

2. The subject property is land improved with a two-story commercial building at 35 South Lake Street in the City of Big Lake, County of Sherburne, State of Minnesota.

3. The property is described as follows:

Parts of Lots 8 and 9, Auditor's Subdivision No. 6,
City of Big Lake.

4. At issue is the assessor's estimated market value for the subject property as of January 2, 1986 of \$202,000.

5. Petitioner claims the assessor's value is excessive.

MEMORANDUM

James G. Metcalf and Bradley Larsen are lawyers in Monticello, Minnesota, who formed a general partnership known as Lake Properties. In 1985 the partnership purchased an old hardware store building on the main street in Big Lake, Minnesota, for a purchase price of \$80,000. They proceeded to spend approximately

\$125,000 in improving the property and the assessor followed by increasing the estimated market value proportionately from \$89,900 to \$202,000. Petitioner claims this valuation is excessive.

First we should say that market value is not determined by what the cash flow may be when this is influenced, as it is in this case, by debt service obligations which can vary tremendously from property to property. One property may be purchased for cash and have no debt service, and an identical property may be purchased for little or no down payment and with substantial interest and principal payments. These differences should not be the basis for determining market value. A better practice is to assume that the purchase was for cash. Estimated or actual net operating income should be the basis of valuation, not cash flow projections.

The subject property consists of land and a two-story frame building with brick outside walls built in 1903 and, as indicated earlier, was rehabilitated and remodeled in 1985. When purchased by petitioner the first floor was vacant open space and the second floor contained four two-bedroom and one one-bedroom residential apartments. The remodeling included pouring a concrete floor in basement, partitioning the first floor into office space and installing a new glass front. Substantial debris had to be removed and plumbing and wiring was brought up to code.

The apartments on the second floor have been rented, but only the rear two-thirds of the main floor has been leased.

Peter J. Patchi, M.A.I., was called by respondent to testify as its appraisal witness. He offered his opinion that the property was in fact, undervalued by the assessor and had an actual market value as of January 2, 1986 of \$225,000.

In making his appraisal of the property Mr. Patchin, an experienced real estate appraiser, used the three traditional approaches to value: cost approach, market comparison approach and income approach. In his cost approach he allowed forty-five percent depreciation of the replacement cost for physical depreciation but nothing for economic obsolescence. Patchin found the indicated value to be \$244,000. We feel an additional ten to fifteen percent could be deducted for economic depreciation due to a limited market for commercial rental property in Big Lake and this would bring the indicated value below \$200,000.

In using the market approach Patchin looked to recent sales of "comparable" properties in Excelsior, St. Cloud and Elk River, Minnesota. There was only one recent sale of commercial property in Big Lake and that was the sale of a bar and lounge next door to the subject property in April, 1986. The property is very similar, being an older two-story building of masonry construction, with the bar and lounge on the first floor and two apartment units on the second floor. The total sale price, including the on-going business and personal property, was \$166,335. After deducting for the personal property of \$35,763, Patchin found the price per square foot of gross building area for the real estate alone to be \$19.66. If some additional deduction had been made for the liquor license and goodwill, this figure would have been reduced. Patchin concluded that, based on comparable sales data, the subject property had a square foot value of \$19.00, which brought him to an indicated value of \$285,000 using the market data approach. We

think this figure is too high because the comparables used came from communities with better rental markets than Big Lake, and the one comparable sales from Big Lake did not have extracted out the on-going business value that must have been included in the sale price.

Because this is income producing property and most probably would be sold to an investor based upon its potential income and possible appreciation, the income approach to value should be given the greatest weight. In applying this approach Mr. Patchin estimated annual future net operating income from rents to be \$32,964 before payment of real estate taxes. This amount was divided by a combined capitalization rate of 10.1 percent and an effective tax rate of 4.99 percent, or 15.09 percent, which produced an indicated value of \$218,449, rounded to \$218,000. However, in estimating rental income, Patchin used "economic" rents for the property, not the lower "actual" rents collected. If "actual" rental figures are substituted for "economic" rents and no other changes are made, the indicated value using Patchin's income approach would be \$180,848. This figure comes from the following computation:

Gross Income			
Office Space	\$ 8,133		
Library	12,200		
City Hall	<u>16,600</u>		
Front 1/3 (potential)			\$ 36,933
Apartment Space			
One 1-BR at \$250/mo.	\$ 3,000		
Four 2-BR at \$300/mo.	14,400	<u>17,400</u>	
Total			\$ 54,333
Less Vacancy & Credit Allowance			
Office Space (15%)	\$ 5,540		
Apartment Space (5%)	<u>870</u>		
			(6,410)
Less Net Operating Expenses (excluding taxes)			(20,633)
Net Operating Income Before Taxes			\$27,290
Capitalization Rate 15.09%	divided		
(10.1% + 4.99% tax rate)	by:	<u>.1509</u>	
Indicated Value			\$180,848

A capitalization rate of 11 percent seems more appropriate, and if this were used the indicated value would be \$170,669.

After considering all of the evidence we conclude that the subject property had a fair market value as of January 2, 1986 of \$175,000.

YOU BE THE JUDGE

COURT CASE II
STATE OF MINNESOTA
COUNTY OF STEARNS

M.C. Gresser and Joan M. Gresser,

Petitioner,

vs.

County of Stearns

File Nos. C4-86-1332
C9-87-0395

Respondent.

The above-entitled matter came on for hearing before the Honorable Earl B. Gustafson, Chief Judge of the Minnesota Tax Court, on June 16, 1987 at the Stearns County Courthouse in St. Cloud, Minnesota.

Robert H. Wenner, Attorney at Law, appeared for petitioners.

Post-trial briefs were filed and the case was submitted to the Court for decision on July 6, 1987.

The Court, having heard and considered the evidence adduced at the hearing and upon all of the files and records herein, now makes the following:

FINDINGS OF FACT

1. Petitioners have sufficient interest in the property to maintain their petition; all statutory and jurisdictional requirements have been complied with, and the Court has jurisdiction over the subject matter of the action and the parties hereto.

2. The subject property is seasonal recreational land in Stearns County, Minnesota, improved with a two and one-half story residence, in Collegetown Township on Big Fish Lake, approximately 9 miles west of the City of St. Cloud.

3. The property is described as follows:

Lot Twenty-One (21), Peanut Hill Addition, according to the recorded plat thereof, Parcel No. 05-03301-00; and the easterly 50 feet of the northerly 300 feet of Government Lot 2, Section 32, Township 124, Range 30 West, according to the U. S. Government survey, Parcel No. 05-02968-00.

4. At issue is the market value of Parcel No. 05-03301-00 (Lot 21) for two years, the January 2, 1985 and January 2, 1986 assessment dates.

5. Also at issue is the market value of Parcel No. 05-02968-00 for one year only, the January 2, 1986 assessment date.

6. The assessor's estimated market value for Parcel No. 05-03301-00 (Lot 21) was \$185,500 for both 1985 and 1986.

7. The assessor's estimated market value for Parcel No. 05-02968-00 was \$18,600 for January 2, 1986 assessment date.

MEMORANDUM

Petitioners contest the market value the assessor has placed on their vacation home on Big Fish Lake near St. Cloud, Minnesota. There are two adjoining parcels involved. The main parcel has 107 feet of lake frontage and is improved with a 2-1/2 story residence. It carries an assessor's estimated market value of \$185,500 for both assessment years at issue, January 2, 1985 and January 2, 1986. The adjoining vacant parcel of land with 50 feet of lake frontage has an estimated market value of \$18,600 as of January 2, 1986, the only assessment at issue for this second parcel.

The subject property is located at the south end of Big Fish Lake in Colledgeville Township, Stearns County, approximately 9 miles west of St. Cloud and about 70 miles northwest of the Twin Cities. Big Fish Lake is the largest lake in the township and is one of the most popular. Most of the shoreline is developed with year-round or seasonal recreational type of improvements of varying quality and price ranges.

The subject property has a total of 157 feet of lake frontage and lies on a cul-de-sac at the end of a private black-top surfaced road. Some of the nearby properties are inferior to the subject in quality and size and vary from mobile home type improvements to cabin and rambler residences.

The lot slopes gently to the lake and is improved with lawn, shrubs, trees, landscape timbers, beach front retaining wall, concrete drive and a sprinkler system. There is a private well and septic system located on site and it has electric and telephone service.

The residence was built in 1981. It is a tri-level, three bedroom brick building with a two car tuck-under garage and walk-out basement. The living area totals a substantial 5,256 square feet plus a 755 square foot outside span-crete deck, a 250 square foot screen porch, and a 786 square foot garage. Altogether it is an impressive, high quality, handsome structure somewhat overbuilt for the surrounding area.

Mr. Ronald J. Naber of the Stearns County Assessor's staff made a review appraisal of the subject property and testified at trial on behalf of the respondent.

Mr. Naber used both the cost approach and the market approach to value. We find his cost approach to value particularly helpful because it gives us a reasonably accurate estimate of what the subject property would cost if it were reproduced new on the assessment date. In appraising only the main lot (Lot 21) and placing the land value at \$46,500, Naber estimated the reproduction cost of the improvements (based on Marshall-Swift cost schedules) to be \$252,169, for a total of \$298,699 for land and building as of January 2, 1985. Naber then allowed \$18,005 in physical depreciation and an additional \$58,541 in physical depreciation and an additional \$58,541 functional obsolescence. We consider this amount of depreciation more than adequate to allow for any obsolescence due to design and being "overbuilt" in the area. He then deducted an additional amount of \$2,800 for a solar heating system, which is personal property not real property. His final estimate of value of \$219,300 using the cost approach appears fair

and reasonable and a helpful indication to the Court of market value for these recent improvements.

Naber also used the market data approach and selected five recent sales of "comparable" properties. All of these sales were adjusted for time, size, age and location, and Naber concluded that these sales indicate the subject property had a market value of \$211,000 on the January 2, 1985 assessment date.

Mr. Kenneth J. Panger testified as the expert appraisal witness for petitioner. He emphasized in his analysis that the subject property suffers from economic obsolescence due to superadequacy in the improvements. After discounting the cost 40 percent for functional depreciation, his final opinion of market value was \$168,000 for the main parcel.

YOU BE THE JUDGE

COURT CASE III
STATE OF MINNESOTA
COUNTY OF KANDIYOHI
File No. C1-86-549

Alan O. Loge,

Petitioner,

vs.

County of Kandiyohi,

Respondent.

The above-entitled matter came on for hearing before the Honorable Arthur C. Roemer, Judge of the Minnesota Tax Court, on February 26, 1987, at the Kandiyohi County Courthouse in Willmar, Minnesota.

Donald H. Burgett, Attorney at Law, appeared on behalf of petitioner.

Michael Q. Lynch, Kandiyohi County Attorney, appeared on behalf of respondent.

The sole issue is the classification of the subject property, petitioner alleging that it should be accorded the agricultural non-homestead classification, while respondent contends that the commercial classification is applicable.

The Court, having heard and considered the evidence adduced at the hearing, now makes the following:

FINDINGS OF FACT

1. Petitioner has sufficient interest in the property to maintain his petition; all statutory and jurisdictional requirements have been complied with, and the Court has jurisdiction over the subject matter of the action and the parties hereto.

2. The petitioner owns the following described farm land in the City of Willmar:

Part of the SW 1/4 of the SE 1/4 of Section 12, Township 119N, Range 35W (Willmar Township), described as follows: Commencing at the SW corner of the SW 1/4 of the SE 1/4, then East 198' to point of beginning, then continuing East 279', then North 912.40', then South 79 deg. 20 min. 54 sec. West 283.60', then South 859.98 to the point of beginning; Parcel I.D. No. 33-012-0092.

3. The assessor, in the January 2, 1985 assessment, placed an estimated market value of \$54,800 on the subject property (\$32,200 land and \$22,600 buildings) and classified it as commercial.

4. Petitioner is a farmer and farms over 1000 acres of land, some leased and some owned, and also processes some of his grain to produce seeds which he sells on the subject parcel. Petitioner also sells seeds for other companies on the subject parcel.

5. The subject parcel consists of 5.70 acres of land, which

includes 279 feet of frontage on U. S. Highway 12. the lot, rather flat in nature, is rectangular in shape with a depth of 850 feet on the west property line, and 900 feet on the east property line, the rear property line measuring 283.6 feet. The property of the rear of the subject property consists of land owned by the Northern Pacific Railroad company, a portion of which includes railroad tracks.

6. The subject property is zoned as commercial industrial.

7. The front portion of the subject property, consisting of approximately 1-1/2 acres, is utilized for crop production; the center portion of the subject property is used as building sites; and the rear portion, consisting of approximately 3 acres, is used as a pasture.

8. A number of structures are contained on the center portion of the subject property. These structures consist of one building complex which includes an older equipment storage area containing 5,640 square feet (60 x 94'), having 16 ft. side walls and a gravel floor; an older utility storage area of 960 sq. ft. (24' x 40'), having a concrete floor; a 1982 seed storage area containing 2,068 sq. ft. (22' x 94'), having 12 foot side walls and a concrete floor; a 1982 office, containing 480 sq. ft. (20' x 24') with a concrete floor; and a grain leg and seed cleaning house containing 324 sq. ft. (18' x 18') with a concrete floor. Most of this complex is of pole barn construction with metal sheathing. In addition to the complex, a garage and two sheds are contained on the center portion of the parcel.

9. The older equipment storage area is used for hay storage, straw storage and to house equipment used in farming of the approximately 1000 acres that is farmed in the Willmar area. Twenty-five percent of the space in the 1982 seed storage shed is used for seed most of the time, with 3/4 of it being utilized for the seed operation at peak periods.

10. Petitioner utilizes the same employees that he is using in his farm operations for his seed cleaning and sales operations. The equipment for cleaning seed is used essentially for his own use. Less than \$1,000 income is realized from grain cleaning for other persons.

11. Petitioner uses the rear portion of the subject property for cattle feeding, approximately 45 cows are being fattened on that property all times of the year, with the turnover of slightly more than 2 herds per year.

12. Peititioner estimated that his gross income from the seed operation approximated \$50,000 to \$100,000 per year; the gross income from cattle feeding amounted to \$50,000 to \$60,000 per year; and the income from crop production on the front part of the parcel approximated \$150 per year.

13. Petitioner owns a parcel of property directly behind the subject property, but separated by the Great Northern land and tracks. Petitioner also leases farm land to the east of the subject property and across U. S. Highway 12 from the subject property. All of this land is in crop production.

14. A substantial portion of the subject property is used for agricultural purposes and a substantial portion of the subject property is used for commercial purposes.

YOU BE THE JUDGE

COURT CASE IV
STATE OF MINNESOTA
COUNTY OF PINE
File No. C2-87-671

Pine City Cooperative Nursery School,
Petitioner,

vs.

County of Pine,
Respondent.

The above-entitled matter came on for hearing before the Honorable M. Jean Stepan, Judge of the Minnesota Tax Court, on September 11, 1987, at the Pine County Courthouse in Pine City, Minnesota.

Nancy Mach and Debora Bombard, members of the Pine City Cooperative Nursery School, appeared pro se for the petitioner.

John Carlson, Pine County Attorney, appeared on behalf of respondent.

The issue before the Court is whether the petitioner is exempt from real estate taxes assessed on January 2, 1987.

The Court, having heard and considered the evidence adduced at the hearing and upon all of the files and records herein, now makes the following:

FINDINGS OF FACT

1. Petitioner has sufficient interest in the property to maintain its petition; all statutory and jurisdictional requirements have been complied with, and the Court has jurisdiction over the subject matter of the action and the parties hereto.

2. The petitioner is a non-profit corporation which, since 1973, has operated the only licensed nursery school in Pine City.

3. The Pine City Cooperative Nursery School (hereinafter the "Nursery School") offers programs for pre-school children age 3 and older. The Nursery School is run by the parents of the children and there are currently 77 children enrolled.

4. From 1973 and until 1985 the Nursery School leased space in various buildings to accommodate its program. In 1986 the petitioner built its own building on and owned by and leased from the local school district. The building is approximately 100' x 200' and cost approximately \$17,000 to build.

5. The Nursery School employs a certified teacher who also teaches in the public school. The curriculum of the Nursery School was designed in consultation with the local kindergarten teachers. The Nursery School follows the curriculum guidelines of the public schools. The Nursery School members are required to attend one public school board meeting per year to outline their curriculum.

6. The Nursery School curriculum includes reading preparation, spelling preparation, and group activities such as artistic development, creative movement and music. The Nursery School works with, and in some cases parallels, the public school pre-school program.

7. The local public school employs the Nursery School teacher for its own classes in parenting, child rearing and health education. The public school also offers some classes for pre-schoolers in the evening and on weekends in art and cognitive and motor skill development such as preparing to read and cooking classes.

8. All programs offered at the Nursery School are part-time, the most extensive being a two and one-half hour per day, three day per week program. The programs are offered only during the school year. There is no daycare provided at the Nursery School. Fifty percent of the children entering kindergarten in 1987 in Pine City have attended the Nursery School.

9. The Nursery School's income is derived 70 percent from tuition and 30 percent from fund raising activities. The annual budget is approximately \$13,000 per year.

10. The Nursery School program saves cost to the school district to spend its pre-school education dollars on programs not included in petitioner's school. If petitioner did not offer daytime pre-school classes, the school district would be providing those services and would have to cut back on its parenting and/or other pre-school programs. The Nursery School also benefits the school system by preparing students to enter the public school system, thereby avoiding remedial measures at the early grade levels.

YOU BE THE JUDGE

COURT CASE V
STATE OF MINNESOTA
COUNTY OF CHISAGO
File No. CX-86-590

William Ulvin d/b/a Sunrise Estates Mobil Home Park,

Petitioners,

vs.

County of Chisago,

Respondent.

The above-entitled matter came on for hearing before the Honorable M. Jean Stepan, Judge of the Minnesota Tax Court, on July 23, 1987, at the Chisago County Courthouse in Center City, Minnesota.

Robert D. Schwartz, Attorney at Law, appeared for petitioner.

Clair F. Cole, Assistant Chisago County Attorney, appeared for respondent.

Post-trial briefs were filed by both parties and the matter was submitted to the Court for decision on October 9, 1987.

The Court, having heard and considered the evidence adduced at the hearing and upon all of the files and records herein, now makes the following:

FINDINGS OF FACT

1. Petitioner has sufficient interest in the property to maintain this petition; all statutory and jurisdictional requirements have been complied with, and the Court has jurisdiction over the subject matter of the action and the parties hereto.

2. Petitioner owns the subject property, which is a 52.4 acre parcel of land in Stacy, Minnesota, improved with 225 rentable spaces for use as a mobile home park. There is also a 30 foot by 45 foot pre-stressed concrete building with a storm shelter in the basement on the site. The subject property is known as "Sunrise Estates Mobile Home Park," and is identified as Property I.D. No. 19-00129-00.

3. Petitioner claims that the assessor's estimated market value of \$1,441,600 for the subject property as of January 2, 1985 is excessive.

MEMORANDUM

The subject property is a larger than average (225 spaces) mobile home park built between 1973 and 1978. It is located in Stacy, Minnesota, at the southwest corner of the intersection of Interstate Highway 35 and Stacy Trail. The improvements on the property consist of roads, utilities, concrete slabs for each mobile home site, a parking area, and one small building which as

of the assesment date was being used to sell pizza.

The subject property was valued by the assessor at \$1,441,600 as of the assessment date at issue, January 2, 1985. David W. Johnson, the Chisago County Assessor, testified regarding his appraisal in support of the assesment. His appraisal valued the subject property at \$1,754,800.

The petitioner called as its only witness, Mr. William D. Halverstadt. Mr. Halverstadt is a financial advisor and investor who has owned, brokered and managed mobile home parks since 1974. He submitted an appraisal of value for the subject property on behalf of the petitioner. Both parties' appraisal reports were based on the three traditional approaches to value. In Mr. Halverstadt's opinion the property had a value of \$505,000 on January 2, 1985.

Mr. Halverstadt emphasized the fact that in the valuation of a mobile home park, allowance must be made for the value of the business opportunity element. He also described in some detail the reason that a mobile home park requires highly intensive management. We agree with these principals and have taken them into account in our determination of value in several respects.

We conclude that the market data approach is the least reliable method of valuation for this type of property because of the difficulty in accounting for the business opportunity factor included in comparable sales, and because there are only about 30 mobile home parks in the state of a size comparable to the subject.

The cost approach to valuation is normally of some help in setting an upper limit on what a potential buyer is willing to pay for the property. However, there can be a great deal of subjectivity in the determination of the appropriate amount of depreciation to apply to the replacement cost of new improvements. Mr. Halverstadt used over 50 percent for a depreciation factor in arriving at a value by the cost approach of \$505,000. Mr. Johnson applied an 11 percent depreciation factor and, after correcting an error in his original report of \$600,000, arrived at a value by the cost approach of \$1,221,700. The witnesses also differed widely on the land costs. We choose not to put great emphasis on this approach in this case and instead rely most heavily on the income approach to value.

The two appraisal witnesses did not differ on the actual amount of gross income generated by the subject property in 1984 and 1985. Full occupancy would have produced \$343,125 in 1984 and \$346,500 in 1985. Using an average of the two, approximately \$344,800, and allowing for a 1 percent vacancy rate, we begin with \$341,352 effective gross income. Both appraisal witnesses worked from the same operating statements for 1984 and 1985 to determine the operating expenses. However, we agree with Mr. Johnson's methodology which removed real estate taxes and the reserve for

replacement of improvements from the operating expenses and included them in the capitalization rate. That leaves \$148,762 in expenses in 1984 and \$152,453 in expenses in 1985, for an average of \$150,608.

Gross Income	\$344,800
Vacancies (1%)	3,448
Effective Gross Income	\$341,352
Operating Expenses	-150,608
Net Operating Income	\$190,752
Capitalization rate of plus tax rate of 4.269%	
Indicated Value	

What do you feel would be an appropriate capitalization rate?

RESIDENTIAL DEPRECIATION #1
CASE STUDY PROBLEM

The subject property is a fifteen year old wood frame one story single family residence. The size of the house is 1122 square feet with a 270 square foot garage. The estimated land value is \$14,500 including site improvements of landscaping and utilities. The reproduction cost new via the square foot method:

Living area	1122 Ø @ \$55.85 =	\$ 62,663.70
Garage	270 Ø @ \$ 7.90 =	<u>\$ 2,133.00</u>

Total RCN via square foot method \$ 64,796.70

The RCN via the unit in place method (including garage):

Long-lived items	<u>Unit</u>	<u>Average Local Price</u>	<u>Amount</u>
Footings	159 LF	\$ 8.63	\$ 1372.40
Basement	1122 SF	11.07	12416.85
Floor Structure	1122 SF	2.51	2816.72
Exterior Wall	159 LF	59.65	9484.60
Interior Construction	1122 SF	11.30	12678.90
Roof Structure	1122 SF	4.59	<u>5145.88</u>
RCN			\$43915.35

Short-lived items

Floor	1122 SF	\$ 2.77	\$ 3107.94
Exterior Paint	1122 SF	2.51	2816.22
Interior Paint	1122 SF	1.23	1380.06
Roof Covering	1122 SF	1.30	1458.60
Plumbing	UNIT		2877.41
Heating	UNIT		3000.00
Electrical	UNIT		3291.12
Kitchen Cabinets	UNIT		<u>2950.00</u>
RCN			\$20881.35

Total RCN Long and Short-lived \$64796.70

Your estimate of depreciation reveals the following:

- 1) Physical curable - Exterior paint needs some touch-up with an estimated cost of \$300.00 (The addition to market value would exceed the \$300.00 cost).

2) Physical incurable - Short-lived items

	<u>Estimated Effective Age</u>	<u>Normal Life</u>
Floor Coverings	8	12
Exterior Paint	4	9
Interior Paint	4	6
Roof Covering	11	20
Plumbing	11	25
Heating	11	25
Electrical	10	25
Kitchen Cabinets	10	20

Long-lived items - After the correction of curable depreciation items, your estimate of observed effective age is 11 years. The total economic life for the property is 60 years.

- 3) Functional curable - The subject property lacks adequate kitchen cabinet space. There is ample space over the kitchen bar for additional cabinet space. A local construction company advised you that the cost to add on ceiling-hung kitchen cabinet at the present time would be \$85. Had this additional cabinet been installed at the time of construction, the reproduction cost new would be \$69.

The subject property also lacks enough living room and kitchen electrical outlets. The local electrical codes have changed since the construction of the subject. The code now requires an electrical outlet every six feet on each wall. The subject needs five additional electrical outlets in order for the subject to have the optimum number of electrical outlets. There should be two more in the kitchen, two in the living room, and one in the hallway. To meet the demands of changing life styles, the additional five electrical outlets are needed. The cost to add five electrical outlets in the subject property at the present time would be \$201. Had these additional outlets been installed at the time of construction, the reproduction cost new would be \$144.

- 4) Functional incurable - The subject property has the bathroom off the kitchen as opposed to a conventional plan with the bathroom near the bedrooms. Through market abstraction you determine that there is a \$7.50 per month loss in rent due to the poor room design. The GRM is 150. The cost to cure the poor room design is \$1850.00 per local building and plumbing contractors.
- 5) Economic obsolescence - The subject property is located between two seventy year old, extremely dilapidated properties which are both used as rooming houses. Your estimate of the rental loss suffered by the subject property due to the adjacent properties is \$12.00 per month. The land value is estimated to be 25% of the total property value.

RESIDENTIAL PROBLEM #2

MARKET APPROACH

You have been asked to give an estimate of value using the market approach. The subject property has three bedrooms, one bath. It has an attached double garage but no fireplace. The heating is a forced air gas.

A search of the market reveals five recent sales in the subjects neighborhood of homes similar in age, construction and amenities with which the subject may be compared.

Sale #1 is a four-bedroom, one-story, two bath residence with an attached double garage. It has a large fireplace and hot water heat. It sold for \$80,000 six months, ago.

Sale #2 is a three-bedroom, one bath residence with no fireplace. It has an attached single-car garage. The heating is forced air gas. It recently sold for \$74,000.

Sale #3 is a three-bedroom, two-bath residence with an average fireplace and a attached double garage. It has hot water heat. It sold for \$76,500 one year ago.

Sale #4 is a three-bedroom, two-bath residence with an attached single-car garage. It has hot water heat and a large fireplace. In addition, there is surplus land included in the sale with an estimated value of \$2,400. It sold recently for a total of \$79,500.

Sale #5 is a four-bedroom, two-bath residence with an attached double garage. It has hot water heat and a large fireplace. The sale price included personal property worth \$1,200. It sold for a total price of \$79,000 one year ago.

For the purpose of this analysis, assume the following to be true.

An average fireplace has a value of \$2,000; a large fireplace, \$2,500; single-car garage, \$3,000; double-car garage, \$6,000; gas forced air, \$2,000; hot water heat, \$2,300; 4th bedroom, \$1,000; extra bath, \$1,500. Sales indicate the market has increased about 6% per year for the last four years.

Estimate the value of the subject property using the lump-sum adjustment chart on the following page.

SA

NO. 1

NO. 2

NO. 3

NO. 4

no.

	NO. 1	NO. 2	NO. 3	NO. 4	no.
Sale Price					
Time					
Fireplace					
Heating					
Garage					
Bath					
Bedroom					
Land					
Personal Property					
Adjustments					
Value of Property					

-25-

Gross Adjustment

Value indicated by Market Approach

RESIDENTIAL PROBLEM #3

The valuation of platted property is subject to the provisions of Minnesota Statutes 273.11 and 273.12 which generally state:

In valuing real property which is vacant, the fact that such property is platted shall not be taken into account. An individual lot of such platted property shall not be assessed in excess of the assessment of the land as if it were unplatted until the lot is improved with a permanent improvement all or a portion of which is located upon the lot, or for a period of three (3) years after final approval of said plat, whichever is shorter. When a lot is sold or construction begun, the assessed value of that lot or any single contiguous lot fronting on the same street shall be eligible for reassessment. (M.S. 273.11 and 273.12)

Refer to the above paragraph and to appraisal theory and principles in responding to the following questions.

GIVEN DATA: Shady acres was officially platted on June 1, 1985. Shady Acres is a residentially zoned development. The lots are sold in an undeveloped state for development by the buyer. The plat contains 31 lots. Sewer and water is completed to all lots. Patricia Lane and JoDell Street (see map) are built with curb and gutter. Denise Avenue has not been built.

Special assessments of \$1000 per lot were a lien against the properties that sold during 1986. During 1987 the remaining special assessments on all undeveloped lots were paid off.

Land values have been stable since 1986 in the area. Future development is expected to continue at the rate of 1 to 2 lots per year. The level of assessment for residential property is 100% in this city.

Questions:

1. The 1985 estimated market value for the property prior to platting was \$15,500 (15.5 acres X \$1,000/ac).

In doing the January 2, 1986 assessment how would you value the plat assuming no changes were being made in your appraisal schedule for undeveloped land?

2. For the January 2, 1987 assessment answer the following. (refer to map for sales information)

- a) what unit of measure is appropriate
 - square foot
 - front foot
 - site value

b) should the assumed special assessments be considered part of the sale price?

c) what value does excess land contribute to a site?

d) based upon your answers above, establish a valuation schedule for this plat as of 1-2-87.

e) all four lots sold in July 1986 were improved with new homes prior to 1-2-87. Value the following lots for tax purposes using your own valuation schedule.

Lot 6 Block 3 _____

Lot 1 Block 3 _____

Lot 8 & $\frac{1}{2}$ Lot 9 Block 2 _____

Lot 3 Block 4 _____

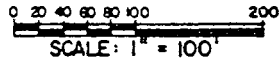
3. For the January 2, 1989 assessment the plat is no longer protected by the 3 year plat law.

Assuming the valuation schedule you prepared in question #2 is still valid answer the following questions.

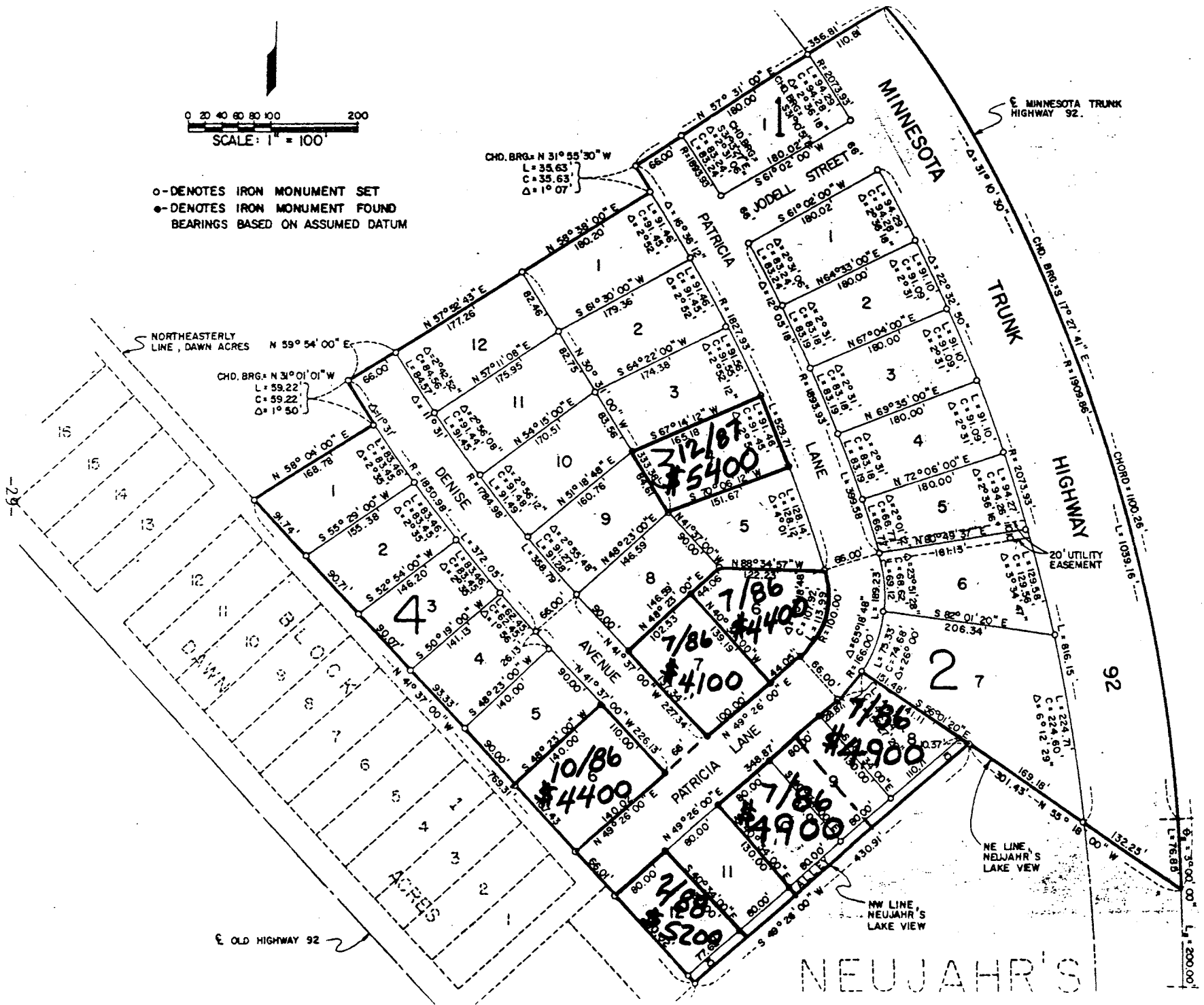
a) should the lots along unbuilt Denise Avenue be valued differently than the rest of the plat? If so, how might you adjust these?

b) should all unsold lots along Patricia Lane be valued at full value for 1989?

c) can you assume that lots lying along trunk highway 2 have different value than those not adjoining the highway?



○ - DENOTES IRON MONUMENT SET
 ● - DENOTES IRON MONUMENT FOUND
 BEARINGS BASED ON ASSUMED DATUM



CHD. BRG. N 31° 55' 30" W
 L = 35.63
 C = 35.63
 Δ = 1° 07'

CHD. BRG. N 31° 01' 01" W
 L = 59.22
 C = 59.22
 Δ = 1° 50'

NORTHEASTERLY
 LINE, DAWN ACRES N 59° 54' 00" E

E. MINNESOTA TRUNK
 HIGHWAY 92.

20' UTILITY
 EASEMENT

NE LINE,
 NEUJAHR'S
 LAKE VIEW

NW LINE,
 NEUJAHR'S
 LAKE VIEW

NEUJAHR'S

E OLD HIGHWAY 92

RESIDENTIAL PROBLEM #4

Presentation of Grading of Residential Homes

The following exercise is for group participation in estimating the year of construction, story height, and the grades for various types of housing. Most of the residences in this presentation have an agricultural setting. Go through the slides as a group and establish an estimated grade for each parcel.

After the slides have been gone through pick out several homes to value as a class and using a schedule from your area, value the house of your choice.

LAKESHORE A - PROBLEMS 1 - 3

LAKESHORE VALUATION SCHEDULE

Base rates

<u>Lake name</u>	<u>lake classification</u>	<u>Base rate /ff</u>
Long Lake	Gen.Dev.	\$250
Round Lake	Gen.Dev.	\$200
Deep Lake	Rec.Dev.	\$100
Square Lake	Nat.Env.	\$80
Odd Lake	Nat.Env.	\$40

Physical characteristics

<u>item</u>	<u>% of rate</u>
weedy shoreline	-20%
low shoreline	-20%
steep bank	-10%
no trees	-15%
Total Adj.	
100%-Total Adj=Adj factor	

depth adjustment

<u>Lot depth</u>	<u>% of rate by lake classification</u>			
	<u>Gen Dev.</u>	<u>Rec.Dev.</u>	<u>Nat. Env.</u>	
300'	-	-	-	
250'	90%	90%	90%	
200'	80%	80%	*70%	
150'	70%	70%	*60%	
125'	65%	*55%	*55%	
up to 125'	*appraisers judgement			
(Land beyond 300' depth should be valued at 500 per acre)				
*Insufficient depth to meet bldg set back requirements. Use stated % for developed lots . For undeveloped lots you must evaluate the likelihood of obtaining a variance and adjust accordingly.				

Lot width

<u>width</u>	<u>% of base rate</u>
50	100
75	100
100	100
150	100
200	90
300	80
400	75
600	67
800	59
1000	50
1500	34
2000	30

Access

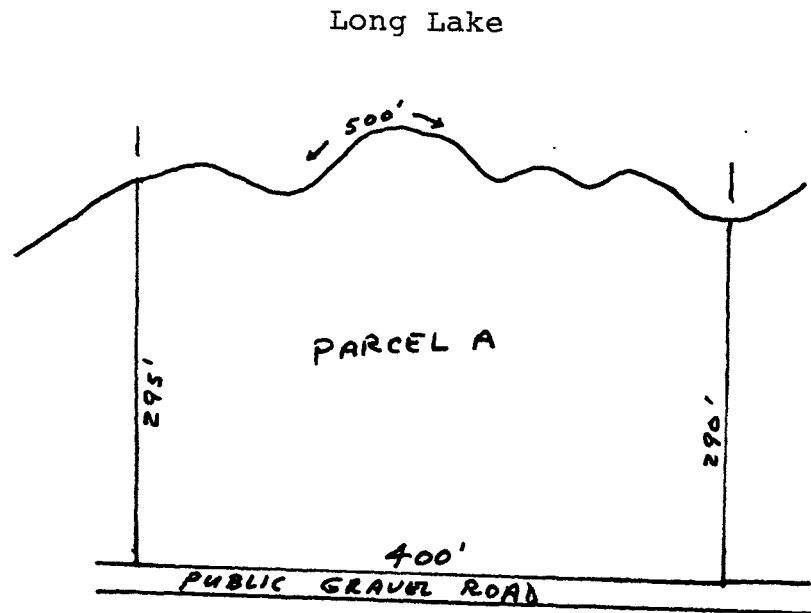
legal access by water only	50%
poor access	80%
gravel road	-
asphalt road	110%

Calculation order

Base rate x width adj x
depth x phys. adj. factor
x access adj.=net rate per
square foot.

Note: This schedule was prepared for classroom purposes only and should not be considered an accurate reflection of the market in any particular area.

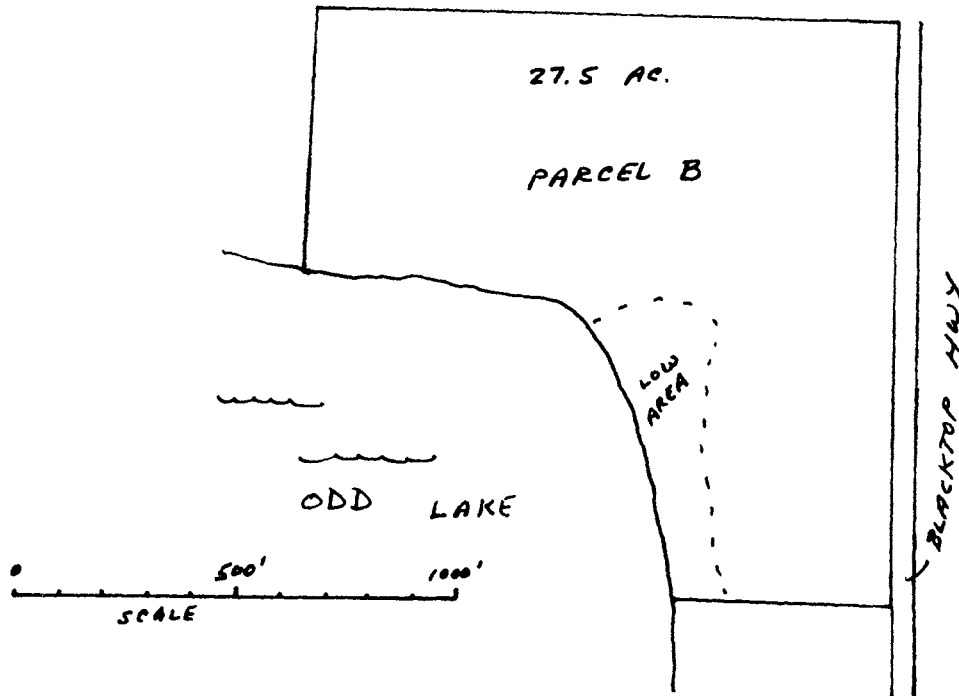
Problem 1. Calculate the Estimated Market Value of Parcel A. using the Lakeshore Valuation schedule on page_____.



Given: Parcel A is a wooded lot. There is a high steep bank to the lake. The shoreline is weed free.

- a.) Lot Width (front-footage) _____
- b.) Lot Depth _____
- c.) Estimated Market Value _____

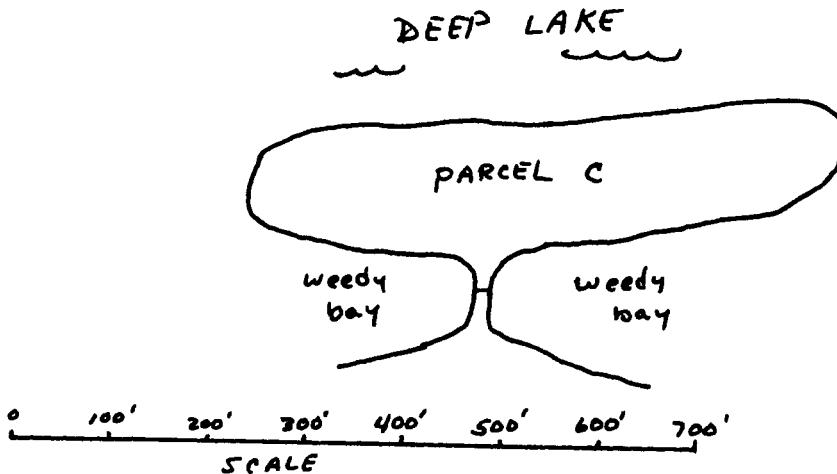
Problem 2. Calculate the Estimated Market value of Parcel B. using the Lakeshore Valuation schedule on page _____.



Given: Parcel B is a wooded tract. Other than the low area the slope and elevation of the shoreline is good. The entire area is weedy. The low area would be developable, but needs fill.

- a.) Front footage of L.S. _____.
- b.) Net rate/front foot _____.
- c.) Value of excess land _____.
- d.) Total estimated mkt value _____.

Problem 3. Calculate the estimated market value of parcel C using the Lakeshore Valuation schedule on page _____.



Given: Parcel C is wooded, with gentle slope to Lake. The lake side of the island is weed free. The trail to the island is not passable during the winter. Lot is presently improved with an older cabin.

- a.) front footage _____
- b.) lot depth _____
- c.) net rate/ff _____
- d.) est. mkt value of lot only _____

LAKESHORE B

Appraise the following unimproved lakeshore lot.

SUBJECT

Lot size 100' frontage by 200' depth on Cross Lake. The property has an excellent hard sand beach but there is a steep bank to the water.

SALE COMPARISON # 1

Lot size is 50' by 100' with a beach similar to the subject but with an ideal slope to the lake. It recently sold for \$20,000.

SALE COMPARISON # 2

Lot size is 100' by 200'. It has a beach comparable to the subject but does not have the steep bank. I recently sold for \$26,000.

SALE COMPARISON # 3

Lot size is 100' by 200'. It has a very rocky beach and has a steep bank similar to the subject. The recent sale price was \$22,000.

SALE COMPARISON # 4

Lot size is 100' by 150'. It has the same physical characteristics as the subject. It recently sold for \$23,000.

SALE COMPARISON # 5

Lot size is 50' by 150'. It has a similar beach and bank to the subject property. It recently sold for \$17,000.

LAKE HOME PROBLEM #1

The lakeshore lot is 90 feet on the lake and 250 deep. It is an average lot for this area. Lakeshore on this lake is being valued at \$190 per front foot. The land improvements on this lot are a well and septic, valued at \$1,000 each.

The lake home is graded as a D-6, one story over basement, constructed in 1946. It is 1000 square feet in size, with a 24 foot by 24 foot attached garage, which was constructed in 1976. The 1988 assessment record shows that the assessor used 40% depreciation in determining the home value. During the summer of 1988, 60% of the home was remodeled. The roof was repaired and resingled; internal wall repairs were made; bath and kitchen were remodeled; and new exterior doors and windows were installed. Overall condition of the structure is now considered good. Answer the following questions. (Use local schedule in your area for the structure costs and depreciation) See page _____

- a) Land Value _____
- House Value (Before Depreciation) _____
- Garage Value (Before Depreciation) _____
- Amount of Depreciation on House _____
- Amount of Depreciation on Garage _____
- House Value (After Depreciation) _____
- Garage Value (After Depreciation) _____

- Total Valuation (Round Off) _____

b) What If:

The above property was classified as Seasonal Residential Recreational for the 1986 assessment. It was sold in February, 1988, then remodeled and advertised for rent in April, 1988. The new owner was not able to find a renter in 1988, and did not use the property himself in 1988.

How would you classify the property for the 1989 assessment?

c) What If:

The same as above, except the new owner was able to rent the property for the months of June and July only.

How would you classify the property for the 1989 assessment?

d) What If:

The same as above, except the new owner was able to rent the property for a few week-ends during 1988, and he also vacationed there for a few week-ends.

How would you classify the property for the 1989 assessment?

LAKESHORE PROBLEM #2

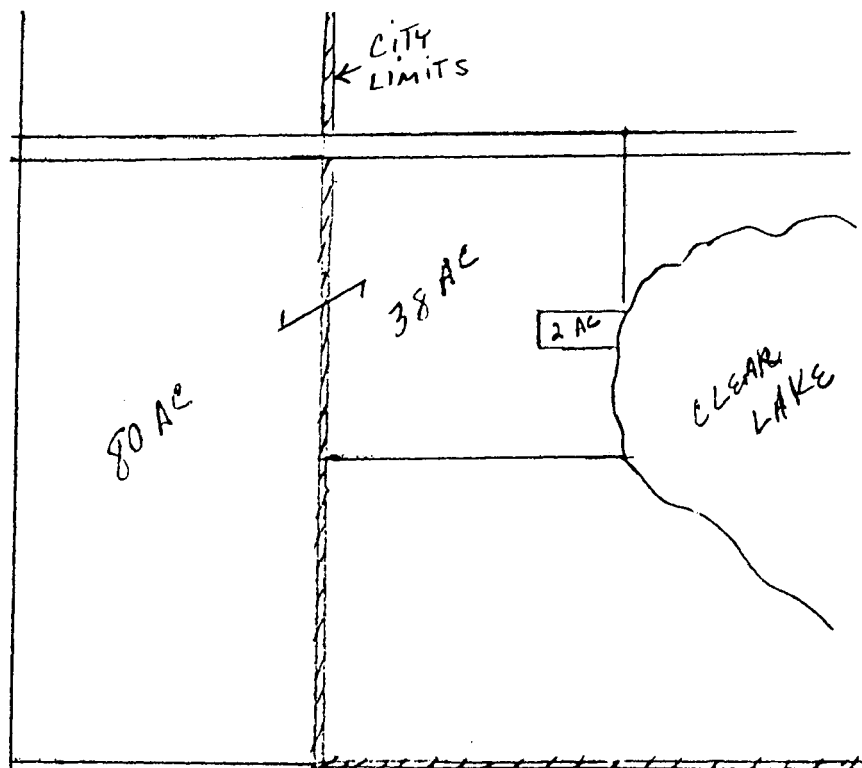
Mr. Jones owned a 120 acre farm that was partially within the city limits of Anytown, Minnesota, and had lakeshore frontage on Clear Lake.

(See Plat Drawing)

His home burned on January 3, 1988. He decided not rebuild, and sold his farm. 80 acres, all tillable, were sold to his son, who was living in North Dakota. He plans on moving back to Minnesota in the future and wanted to keep the land in the family. The property was not farmed during the the year of 1988. 38 acres were sold to Mr. Yliniemi, who lives in St. Paul, Minnesota. This property had 30 acres of woods and 8 acres of pasture. He did not use the property in 1988 for any purpose, but has future plans for it. The 2 acres where the home was located were sold to Mr. Smith from the city of Anytown. He bulldozed down all the buildings and cleaned up the land for a future building site.

How would you classify these parcels of land for the 1989 assessment?

- a) Vacant non-used property
- b) Non-homestead Farm
- c) Residential Non-homestead
- d) Seasonal Residential Recreational



LAKESHORE PROBLEM # D

Given the following sale fill in the blanks below:

This property sold recently for \$32,800 it was made up of the following: a lot 250 feet deep with 125 feet of frontage on the lake. It has a sandy beach, with a 4 foot elevation from the lake's high water mark. The cabin is 24 X 30 and is of average physical condition. It was built in 1950, with no basement. It has average plumbing with an in side bathroom. Included in the sale was furniture valued at \$800 and a boat with motor valued at \$2,000. A pontoon was purchased separately for \$1,000.

The best sandy beach lots on this lake are bringing \$120.00 per foot of lake frontage, lots with low elevation (no basements) 10% less. Depreciation on average physical condition would be 1/2 % per year. Replacement cost new of an average grade cabin is \$28.00.

Estimate the price per front foot of land: _____

What \$ amount of depreciation would you give the cabin: _____

What was the net price per square foot paid for the cabin: _____

BREAKDOWN OF THE SALE

LAND _____

STRUCTURE _____

EXTRAS _____

LAKESHORE E

LAKESHORE LOTS

Lot "A"

Located on Deep Lake, a recreational development lake, lot depth of 300', width of 200' and a gradual bank of 12' above water level. It has a good sandy beach, an asphalt road access, and some trees. Value accordingly.

Lot "B"

Located on Long Lake, a general development lake, lot depth of 125', width of 300' and a gradual slope of 26' above the water level. It has a weedy shoreline, an access thru a lower wet area (and would be termed poor access) and some trees. Value accordingly.

Lot "C"

Located on Square Lake, a natural environment lake, lot depth of 845', width of 400' and a steep bank of 35' above the water level. It has a good sandy lakeshore, one dying Elm tree and an asphalt road access. Value accordingly.

Lot "D"

Located on Round Lake, a general development lake, lot depth of 200', width of 800' and has a gradual slope of 4' above the water level. It has a weedy shoreline, some trees, but has a poor access to the lot. Value accordingly.

DESCRIPTION OF LAKESHORE PERTAINING TO
PROBLEMS A THRU D AND CABINS A THRU D

"A" Ideal Top Value Gradual Bank 8' to 15'

"B" Fair, indicates some adjustment Gradual Slope, over 25'

"C" Poor, definitely indicates some adjustment Steep Bank, over 25'

"D" Fair to poor, indicates some possible adjustment Less than 6.5'

LAKESHORE E - PROBLEMS A, B, C & D

LAKESHORE VALUATION SCHEDULE

<u>Base Rates:</u>	Lake	Lake	Base
	<u>Name</u>	<u>Classification</u>	<u>Rate/ff</u>
	Long Lake	General Dev.	\$350
	Round Lake	General Dev.	\$300
	Deep Lake	Recreation Dev.	\$200
	Square Lake	Natural Env.	\$100
	Odd Lake	Natural Env.	\$ 50

<u>Depth Adjustment:</u>	Lot	% of Rate by Lake Classification:		
	<u>Depth</u>	<u>Gen. Dev.</u>	<u>Rec. Dev.</u>	<u>Nat. Env.</u>
	300'	-	-	-
	250'	90%	90%	90%
	200'	80%	80%	*70%
	150'	70%	70%	*60%
	125'	65%	*55%	*55%
	up to 125'	*appraisers judgment		

(Land beyond 300' depth should be valued at 500 per acre)

*Insufficient depth to meet building set back requirements. Use stated % for developed lots. For undeveloped lots you must evaluate the likelihood of obtaining a variance and adjust accordingly.

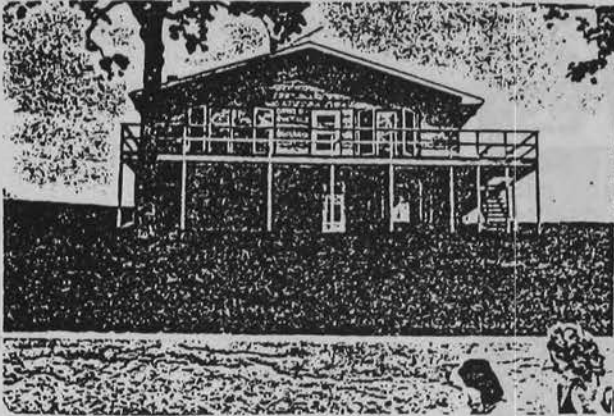
<u>Lot Width:</u>		<u>Physical Characteristics:</u>	
	% of		% of
	Base	<u>Item</u>	<u>Rate</u>
<u>Width</u>	<u>Rate</u>	Weedy shoreline	80%
50	100	Low shoreline	80%
75	100	Steep bank	90%
100	100	No trees	85%
150	100	Lot elevation 15' to 30'	80%
200	90		
300	80		
400	75	<u>Access:</u>	
600	67	Legal access by water only	50%
800	59	Poor access	80%
1,000	50	Gravel road	-
1,500	34	Asphalt road	110%
2,000	30		

Calculation Order: Base rate x width adj. x width x depth adj. x phys. adj. factor x access adj. = net rate per sq. ft.

Note: This schedule was prepared for classroom purposes only and should not be considered an accurate reflection of the market in any particular area.

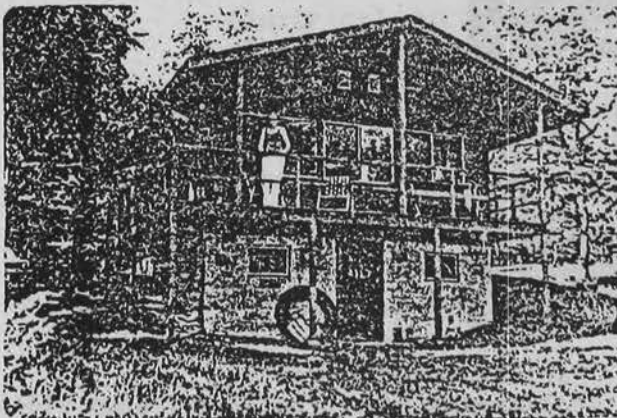
LAKESHORE COTTAGES

Grade each cottage and value accordingly.



Problem "A" Grade _____ Estimated Market Value _____

The cottage is 30 x 34 (1/B), and the construction is good. It has good quality wall construction, double hung windows, insulated ceiling and walls; cottage could be used year around. It has a gable roof with asphalt shingles, double floors partly covered with linoleum and part carpet. The walls are lined with a good grade of sheetrock. It has a generous amount of electrical outlets and lighting fixtures. The trim is of a good quality wood, and there is a sufficient amount of cabinets. The cottage is built over a full face walkout basement made of concrete blocks. Only 540 sq. ft. of the basement has been finished off for a recreation room. Also, it has an overhead door for storing a boat. It has one 3-fixture bath and electric heat. The railed redwood decks are 6 x 38 + 8 x 34 and a concrete patio 10 x 34 + 4 x 20. The cottage was built in 1983 and is in excellent condition.



Problem "B" Grade _____ Estimated Market Value _____

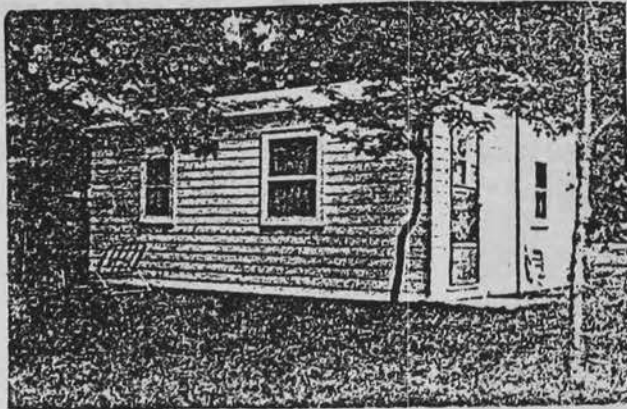
This cottage is 20 x 36, basement area 14 x 20. The full face walkout basement area is unfinished except for one bedroom area of 10 x 12, which has ceiling tile and the bedroom walls are covered with economy paneling. The railed roofed hanging wood decks are 3 x 16 + 6 x 20 + 8 x 24 constructed of redwood. The cottage is of good construction and material, placed on a concrete block basement, double wall construction with good quality windows, gable roof covered with asphalt shingles, double floors with carpeting, insulated walls and ceilings, and the interior walls are covered with knotty pine. The cottage has one 3-fixture bath, 10 lineal feet of wall and base cabinets, and a portable stove for heating. The cottage was built in 1976 and is in good condition.

LAKESHORE COTTAGES CONTINUED



Problem "C" Grade _____ Estimated Market Value _____

The cottage is 24 x 36 placed on a concrete foundation with double pinewood flooring covered with linoleum. It has a gable roof with asphalt shingles and a good overhang. There is double wall construction over studs spaced 16" o.c., and the interior walls are of knotty pine paneling with six lineal feet of wall and base cabinets. It has one 3-fixture bath and no heating. Also, this cottage has an economy fireplace and a 16 x 14 flat roofed carport with no flooring. The cottage and carport were built in 1974 and are in good condition.



Problem "D" Grade _____ Estimated Market Value _____

The cottage is 22 x 28 on a concrete slab, single wall drop siding, gable roof with asphalt shingles, and marginal to no overhang. The flooring is of fir boards, and the walls are lined with an economy grade of sheetrock. The windows are small, one electrical outlet to each room, and six lineal feet of softwood open cabinets with sink. The cottage has plumbing but no heating. It was built in 1970 and is in good condition.

D-5 COTTAGE

Foundation: Concrete foundation or slab.

Walls: Double wall construction over studs spaced 16" O.C.

Roof: Asphalt or wood shingles.

Floors: Double floor construction with linoleum, tile or economy grade carpet.

Interior: Walls lined with standard grade sheetrock, paneling or knotty pine. Ceilings sheetrocked or ceiling tile. Six to ten lineal feet wall and base cabinets.

Plumbing: One 3-fixture bath.

Heating: None.

D-4 COTTAGE

Foundation: Piers, concrete block foundation or slab.

Walls: Single wall drop siding or exterior plywood sheathing.

Roof: Rolled roofing, asphalt or wood shingles.

Floors: Single floors of pine, fir, plywood or particle board.

Interior: Lined with economy grade sheetrock or paneling. Minimum electrical outlets and lighting. Four to six lineal feet of soft wood open cabinets with sink.

Plumbing: Included.

Heating: None.

D-3 COTTAGE

Foundation: Piers, slab or rows of cement blocks set directly on the ground. No basement.

Walls: Single wall drop siding or plywood sheathing on studs spaced 24" O.C.

Roof: Rolled roofing, asphalt or wood shingles.

Floors: Single floors or economy pine, fir, plywood or chip board.

Interior: Exposed walls and ceilings. Minimum electrical outlets. Minimum open cabinet and drain board.

Plumbing: None.

Heating: None.

COTTAGES

D-7 COTTAGE

Foundation: Good concrete foundation.

Walls: Good quality wall construction. Weather-tight siding and sufficient insulation for possible winter use. Double pane windows.

Roof: Asphalt or wood shingles, pitch and gravel, or cedar shakes.

Floors: Double floors with hardwood, tile or good carpet covering.

Interior: Lined with good grade sheetrock, paneling, ceiling tile or plastered. Generous electrical outlets and lighting fixtures. Good quality millwork and trim. Sufficient kitchen cabinets and storage space for potential year-round use.

Plumbing: One 3-fixture bath.

Heating: Central forced air, hot water or electric heat.

D-6 COTTAGE

Foundation: Good concrete foundation.

Walls: Double wall construction with good quality siding and windows.

Roof: Asphalt or wood shingles, pitch and gravel.

Floors: Double floors with hardwood, tile or carpeting.

Interior: Lined with good grade sheetrock, paneling, ceiling tile or knotty pine. Ten to fourteen lineal feet wall and base cabinets hardwood.

Plumbing: One 3-fixture bath.

Heating: None.

1988 COTTAGES

(D-3)		15%	30%	45%	60%
Sq. Ft.	1	1 1/4	1 1/2	1 3/4	2
1st Floor	Story	Story	Story	Story	Story
600	8.10	9.40	10.75	12.15	13.45
700	7.90	9.15	10.50	11.85	13.10
800	7.65	8.90	10.15	11.50	12.70
900	7.45	8.65	9.90	11.20	12.35
1,000	7.30	8.45	9.70	10.95	12.10
1,100	7.10	8.25	9.45	10.65	11.80
1,200	7.00	8.10	9.30	10.50	11.60
1,300	6.90	8.00	9.15	10.35	11.45

(D-4) Includes Plumbing					
600	13.60	15.64	17.68	19.72	21.76
700	13.00	14.95	16.90	18.85	20.80
800	12.60	14.49	16.38	18.27	20.16
900	12.30	14.14	15.99	17.83	19.68
1,000	11.80	13.57	15.34	17.11	18.88
1,100	11.55	13.28	15.01	16.67	18.48
1,200	11.30	12.99	14.69	16.39	18.08
1,300	11.10	12.76	14.43	16.09	17.76

(D-5)					
600	17.20	19.78	22.36	24.94	27.52
700	16.55	19.03	21.52	24.00	26.48
800	16.00	18.04	20.80	23.20	25.60
900	15.50	17.82	20.15	22.47	24.80
1,000	15.05	17.30	19.56	21.82	24.08
1,100	14.75	16.96	19.17	21.38	23.60
1,200	14.45	16.61	18.79	20.95	23.12
1,300	14.15	16.27	18.39	20.52	22.64

(D-6)					
600	22.35	25.70	29.05	32.40	35.76
700	21.45	24.67	27.89	31.10	34.32
800	20.80	23.92	27.04	30.16	33.28
900	20.05	23.05	26.06	29.07	32.08
1,000	19.50	22.43	25.35	28.27	31.20
1,100	19.10	21.96	24.83	27.69	30.56
1,200	18.70	21.50	24.31	27.11	29.92
1,300	18.35	21.10	23.86	26.60	29.36

(D-7)					
600	30.10	34.62	39.13	43.64	48.16
700	28.90	33.23	37.57	41.90	46.24
800	28.00	32.20	36.40	40.60	44.80
900	27.10	31.17	35.23	39.30	43.36
1,000	26.20	30.13	34.06	37.99	41.92
1,100	25.65	29.50	33.35	37.19	41.04
1,200	25.15	28.92	32.70	36.47	40.24
1,300	24.65	28.35	32.04	35.74	39.44

ONE-STORY COTTAGES

<u>Additives:</u>	Basement	\$4.00 to \$5.75	per sq. ft.
	Finished Basement	\$2.50 to \$9.50	per sq. ft.

RULE OF THUMB: Finished Basement use 1/4 of the Base Price
if improvement is similar to main floor

Walk-out Basement	\$400 to \$1,200	
Fireplace	\$600 to \$3,000	
Built-in Cupboards (extra)	\$ 35 to \$ 70	per lin. ft.
Gas, Oil or Electric Heat	\$.85 to \$ 1.50	per sq. ft.
Well	\$ 250	
Pressure System	\$ 250	
Plumbing Fixtures	\$150 to \$ 250	per fixture
Finished Ceilings & Partitions up to <u>25%</u> of base price <u>or</u>	\$ 21	per LF 1-sd
	\$ 28	per LF 2-sd
Insulation: Ceiling	\$.30 to \$.60	per sq. ft.
Walls	\$.30	per sq. ft. wall area

Breezeway and Porches:

Open Without Screen	\$4.00 to \$ 6.00	per sq. ft.
With Screen	\$5.00 to \$ 7.00	per sq. ft.
Enclosed	\$8.00 to \$13.00	per sq. ft.

Open Carport	\$2.30 to \$ 5.50	per sq. ft.
Concrete Floor	\$ 1.50	per sq. ft.
Storage Shed	\$1.75 to \$ 5.75	per sq. ft.
Garage & Boathouse	\$4.50 to \$11.00	per sq. ft.
Tuck-under Garage Single	\$ 600	
Double	\$ 900	

Decks: Redwood	\$3.00 to \$ 5.00	per sq. ft.
Railed	\$.75	per sq. ft.
Other	\$2.00 to \$ 4.00	per sq. ft.
Concrete Patio	\$.50 to \$.75	per sq. ft.

<u>Deductions:</u>	No Electricity	\$1.00 to \$ 1.50	per sq. ft.
	On Piers or Concrete Slab	5%	
	Flat Roof with Rolled Composition Roof	5%	
	No Well	\$ 250	
	No Pressure	\$ 250	
	No Bath or Plumbing	\$ 150 to \$ 250	per fixture

PHYSICAL DEPRECIATION SCHEDULE - 1988

EFFECTIVE AGE IN YEARS	MODERNIZED OR UPDATED	GOOD AVERAGE	FAIR	FAIR BUT NEGLECTED	POOR	VERY POOR
0- 5	0%	0%	0%	2%	5%	--
6-10	3%	3- 5%	5- 8%	6-10%	9-15%	--
11-15	5%	8%	9-12%	11-15%	16-23%	25-35%
16-20	8%	8-10%	12-15%	16-20%	24-30%	40-45%
21-25	10%	11-15%	15-19%	21-25%	30-38%	45-50%
26-30	14%	15-20%	20-23%	26-30%	39-45%	50-55%
31-35	17%	20-24%	25-30%	31-35%	46-52%	55-60%
36-40	20%	27-30%	33-36%	41-44%	55-60%	60-65%
41-45	20%	31-34%	37-40%	45-49%	61-66%	67-72%
46-50	25%	35-38%	41-44%	50-53%	67-72%	72-77%
51-55	30%	39-42%	45-48%	54-58%	73-78%	78-83%
56-60	35%	43-46%	49-52%	59-63%	78-83%	
61-65	40%	47-50%	53-56%	64-68%		
66-70	40%	51-54%	57-60%	69-72%		
71-75	45%	55-58%	61-64%	73-76%		
76-80	45%	59-61%	65-68%			
81-85	50%	62-65%	69-72%			
86-90	55%	66-69%	72-75%			

LAKESHORE PROBLEM F

This problem requires you to value and classify the property known as Skunk Hollow Resort. Use the diagram shown on Exhibit A and the valuation data given on Exhibit B to address the problem. Also, the following information is given for your benefit.

- The resort is owner-occupied for homestead purposes.
- There are 12 cabins used as part of the resort.
- There are 7 mobile home pads with full hook-ups.
- There are 7 mobile homes owned by individual, private parties. These 7 mobile homes are located on the mobile home pads which are leased from the resort owner. The mobile homes are used seasonally only.
- The resort is open less than 200 days per year.
- There are 3 wells and 3 septic systems.
- The lakeshore is valued at \$100 per foot.
- All land beyond 300 feet from the shoreline is valued at \$500 per acre.

EXHIBIT "A"

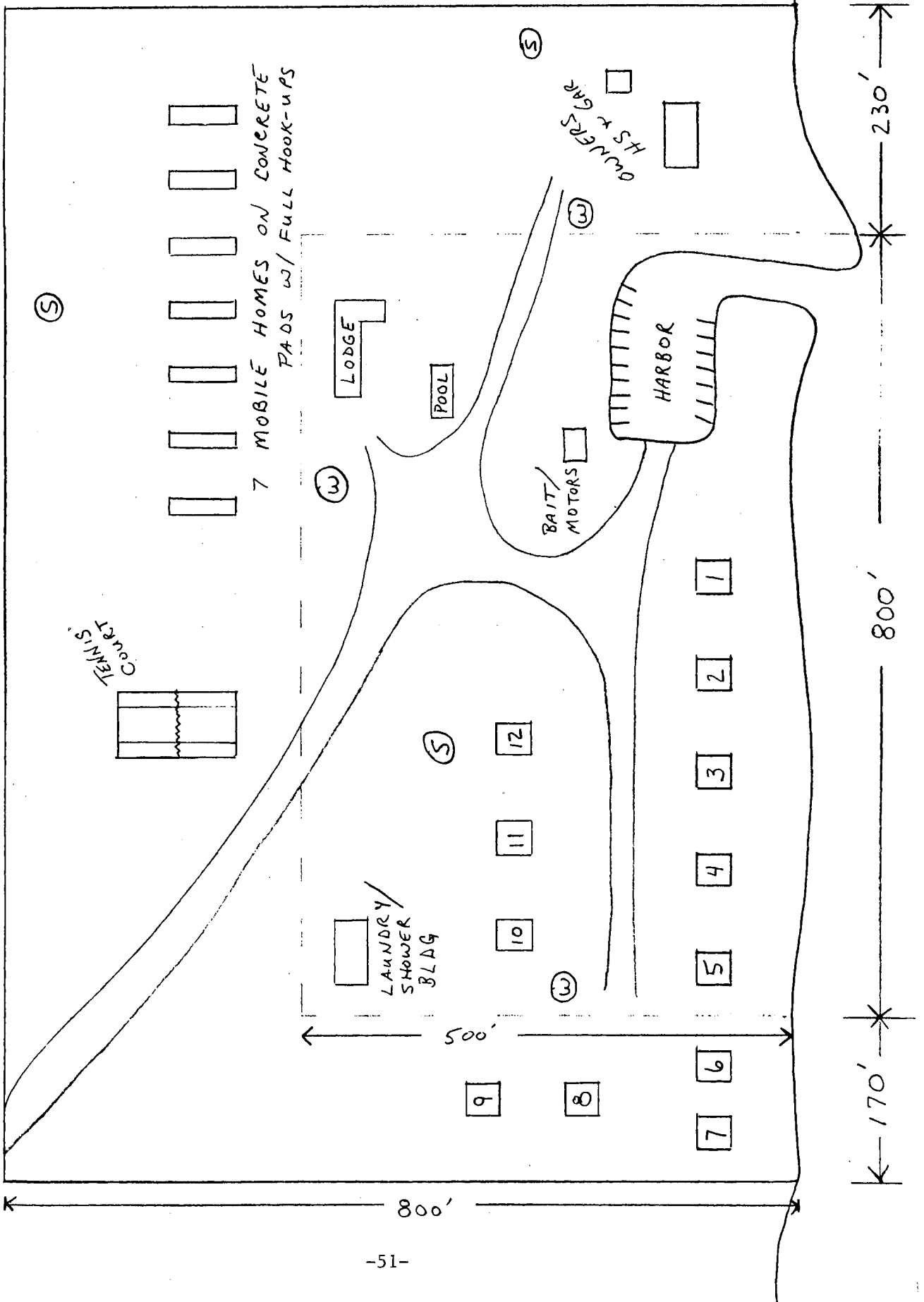


EXHIBIT "B"

Owner's House	\$ 30,000
Owner's Garage	4,000
Mobile Homes @ \$5000	35,000
Mobile Home Pads @ \$800	5,600
Lodge	21,000
Swimming Pool	12,000
Tennis Court	10,000
Laundry/Shower Building	7,000
Bait House	1,000
Cabin #1	9,500
Cabin #2	10,000
Cabin #3	10,000
Cabin #4	10,000
Cabin #5	9,500
Cabin #6	9,000
Cabin #7	10,000
Cabin #8	8,500
Cabin #9	8,000
Cabin #10	9,500
Cabin #11	9,000
Cabin #12	9,000
Harbor	15,000
1200 ft of shoreline @ \$100/foot	120,000
13.8 acres of backland @ \$500/acre	6,900
Wells and Septic Systems @ \$2,000	12,000

TOTAL ESTIMATED MARKET VALUE OF RESORT \$391,500

(Rounded)

Slide #8

The next property to be examined is a family farm operation. It is a large dairying enterprise comprised of approximately 185.43 acres and several improvements, both modern and old. There are three brothers and a father along with their families that this operation supports. In addition to this farm, the family rents another 400-500 acres that sustain and support the dairying enterprise.

1. Discuss the importance of acreage size relative to the quantity and quality of agricultural improvements associated with this farm and others you have encountered.

Slide #9

There are two homes on the site of the primary parcel. The house in the foreground is owned by one of the sons. It is a stones throw away from his father's house, even though it sits upon 2.27 acres. The house is a 1,344 square foot split entry having no basement finish, an attached double garage, three bedrooms and a bath. It is a good quality home as evidenced in the photograph and is comparable to other homes built today. The house in the background is an older farmhouse, having 1,280 square feet on the main floor and 576 square feet on the second floor. It has an attached two-car garage and an open porch. The older of the two houses is very large and spacious, but it suffers from a poor floor plan and many structural defects.

1. How would you value these homes that share the same site but are located on two separate but abutting properties?
2. Discuss grade and depreciation.
3. How would you classify the first home for tax purposes - agricultural or residential?

(Note: The son's home was built over a period of time from 1982-1987. He could not secure a mortgage from any bank for the house because of its proximity to the original house and the farm outbuildings. However, Farm Credit Services did accept this milking cows as collateral, but only at the home's professionally appraised value of \$55,000. I have this appraised home at \$51,400. Both this house and the house in the background, I have used 20% economic obsolescence as estimated from the market-place in one other sale.)

Slide #10

This photograph shows an older frame garage/shop that has been recently expanded with a post-frame colored steel garage. The original building, 32' x 42', was built in 1972 and the new addition, 20' x 32', was put on this fall.

1. How will you value this improvement? Please consider the different qualities and any additional features that have not been discussed herein.
2. What level of depreciation should be used on the building?
3. What else do you observe in the photograph that strikes

your eyes? (Look at the new roof cover on the old, 1929 34' x 70' dairy barn.) How would you treat this improvement to the barn?

Slide #11 Here, an old corn crib, having a center storage area stands. It measures 26' x 36', with each crib being 6' x 36' and the center being 14' x 36'. Note the type of construction --pier foundation, frame, and galvanized roofing and doors.

1. Would you have any value on the structure if it were being used? How about if it were not being used?
2. Would you consider the contributory value that this structure has to be farm relative to other storage facilities?

Slide #12 What have we here? There are three Harvestore silos on this 185.43 acres. The first blue silo was built in 1977 and measures 20' x 80', the middle silo was built in 1979 and is 20' x 50', and the third blue silo on the far end is a used silage model, 20' x 90' in size, having been erected in 1986. In addition to these improvements, there is a 42' x 172' free-standing (1975) dairy barn behind the four silos in the foreground, the fourth silo as you may have discovered is a 20' x 72' (1975) concrete stone silo with a metal dome, and the small building to the left is the milking parlor.

1. What impressions do you have?
2. What kind of value do the harvestore silos have? Discuss market contribution, service contracts, lease arrangements, and economic life.
3. How much depreciation should be used on the improvements shown?
4. Is the small hopper to the left of the milking parlor taxable?

Slide #13 These improvements are somewhat typical of the earlier confinement buildings which have been remodeled and expanded as the size of the farm operation grew in the 1970's. The first improvement in the foreground is a 20' x 30', 1969 built calf barn. What follows is a 16' x 24' hay shed constructed in 1973 and another 24' x 48' calf barn built during the same year. On the backside, a 10' x 24' feed room that is not shown was built in 1980.

1. How would you value this improvement? In parts or as a whole? Why?
2. What indicators should you be looking for in making an estimation regarding the amounts of accrued depreciation?

Slide #14 This structure is a 40' x 82' hay shed. It was erected in 1973 and is pole construction with a galvanized gable roof.

1. What factors might you consider when valuing this improvement?

Slide #15

The last building that we will look at is an older machine shed, measuring 40' x 60', and built in 1969. It is all galvanized metal, having no electric and an earth floor. This building was put up by the owner and is showing signs of both wear and its age.

1. What do you notice about this building that is usually not typical of machine shed construction today? (number and placement of doors, sidewall height)
2. What kind of depreciation would you use and how much?
3. Does this building contribute much value to the overall farm?

FARM PROBLEM #2

You have been asked to determine the 100% Crop Equivalent Rating that you should use for the 1988 assessment in your county.

The 1987 100% C.E.R. was \$800.00. The present average deeded C.E.R. for the county is 75. After carefully researching your certificates of value, you find six agricultural sales you feel are arm lengths transactions which were adjusted for terms and time.

Sale 1 \$76,000 8/87

Ex S625 ft of E 555 ft the NE $\frac{1}{4}$ of Section 4, Township 105N Range 17W
152.04 Acres Unimproved.

The average C.E.R. is 77.40.

Sale 2 \$99,700 8/87

SE $\frac{1}{4}$ of Section 32, Township 105N, Range 16W
160 Acres Unimproved.

The average C.E.R. is 77.42.

Sale 3 \$65,000 12/86

W $\frac{1}{2}$ NE $\frac{1}{4}$ & E $\frac{1}{2}$ NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 20, Township 105N, Range 17W
100 Acres Unimproved.

The average C.E.R. is 77.77.

Sale 4 \$108,000 3/87

SE $\frac{1}{4}$ of Section 14, Township 105N, Range 17W
160 Acres Unimproved.

The average C.E.R. is 81.78.

Sale 5 \$135,300 3/87

S $\frac{1}{2}$ NE $\frac{1}{4}$ & SE $\frac{1}{4}$ of Section 18, Township 106N, Range 18W
240 Acres Unimproved.

The average C.E.R. is 75.27.

Sale 6 \$ 84,000 3/87

Ex S 530 ft of W 355 ft of the NE $\frac{1}{4}$ of Section 25, Township 106N,
Range 18W
155.70 Acres Unimproved.

The average C.E.R. is 78.90.

*DO NOT TAKE INTO ACCOUNT ROADS.

Find the: Average C.E.R. of the Sales
 Median C.E.R. of the Sales
 Median Ratio
 Median Sale Price Per Acre
 100% C.E.R.

<u>SALE</u>	<u>ACRES</u>	<u>AVG. C.E.R.</u>	<u>TOTAL C.E.R.</u>	<u>INDICATED SALE PRICE OF LAND</u>	<u>AVG. SALE PER ACRE</u>	<u>87 EMV OF LAND</u>	<u>CURRENT RATIO</u>
1	152.04 x	77.40	11,768	76,000	500	94,100	124
2	160.00 x	77.42	12,387	99,700	623	99,100	100
3	100.00 x	77.77	7,777	65,000	650	62,200	96
4	160.00 x	81.78	13,085	108,000	675	104,700	97
5	240.00 x	75.27	18,065	135,300	564	144,500	107
6	155.70 x	78.90	12,285	84,000	540	98,300	117

FARM PROBLEM #3

FARM INCOME APPROACH

CAPITALIZATION RATE PROBLEMS

The following rented farms have recently sold.

	<u>Rent</u>	<u>Sale Price</u>
Sale # 1	\$100 per acre	\$1,055 per acre
Sale # 2	\$110 per acre	\$1,155 per acre
Sale # 3	\$ 95 per acre	\$1,000 per acre
Sale # 4	\$ 85 per acre	\$ 900 per acre
Sale # 5	\$105 per acre	\$1,100 per acre

The following problems can be solved using the $\frac{I}{R V}$ formula.

I = Income
R = Rate (Capitalization)
V = Value

From the above information determine the following:

1. What is the indicated Capitalization Rate.
2. Using the indicated Capitalization Rate, determine the market value of an eighty acre farm which is currently renting for \$115 per acre.
3. If a 160 acre farm sells for \$128,000, what would be the rent per acre the buyer could reasonably expect to receive.

FARM PROBLEM #4

Irrigation Workbook Problem

CER Application:

You are asked to appraise 160.00 acres in the Southwest Quarter (SW $\frac{1}{4}$) of Section 25, Township 124, Range 35. According to the property owner, there are no improvements other than an irrigation well and a center pivot system. The breakdown of the land is reported as follows: 137.26 tillable acres, (129.26 acres are irrigated and 8 acres are not irrigated), 14.66 acres of poor pasture, 4.08 acres of waste, and 4.00 acres of road. The soil survey identifying the location and types of soil are found below. In addition to this map, the mapping unit/CER/area coverage are also provided for your review. Please refer to the article titled, "The Valuation of Irrigated Farmland" in the reference section of the workbook for details.

SOIL SURVEY



Mapping Unit/CER/Area Coverage

TOWNSHIP: North Fork
 =====

SECTION: 25 PARCEL: 11
 =====

<u>Mapping Unit</u>	<u>CER</u>	<u>Area</u>	<u>CER * Area</u>
543	25	4.4	110
41A	35	12.3	431
875B	28	1.9	52
566	40	5.1	202
1825C	20	1.2	23
413	30	15.2	457

AVERAGE CER: 32

ADJUSTED AREA: 40.0

.....

TOWNSHIP: North Fork
 =====

SECTION: 25 PARCEL: 12
 =====

<u>Mapping Unit</u>	<u>CER</u>	<u>Area</u>	<u>CER * Area</u>
875B	28	19.2	536
566	40	0.1	5
41A	35	20.6	720
413	30	0.1	4

AVERAGE CER: 32

ADJUSTED AREA: 40.00

.....

TOWNSHIP: North Fork
 =====

SECTION: 25 PARCEL: 13
 =====

<u>Mapping Unit</u>	<u>CER</u>	<u>Area</u>	<u>CER * Area</u>
413	30	16.6	498
41A	35	23.4	819

AVERAGE CER: 33

ADJUSTED AREA: 40.0

.....

TOWNSHIP: North Fork
 =====

SECTION: 25 PARCEL: 14
 =====

<u>Mapping Unit</u>	<u>CER</u>	<u>Area</u>	<u>CER * Area</u>
41A	35	14.3	502
566	40	5.7	228
399	46	3.2	148
413	30	16.7	502

AVERAGE CER: 35

ADJUSTED AREA: 40.0

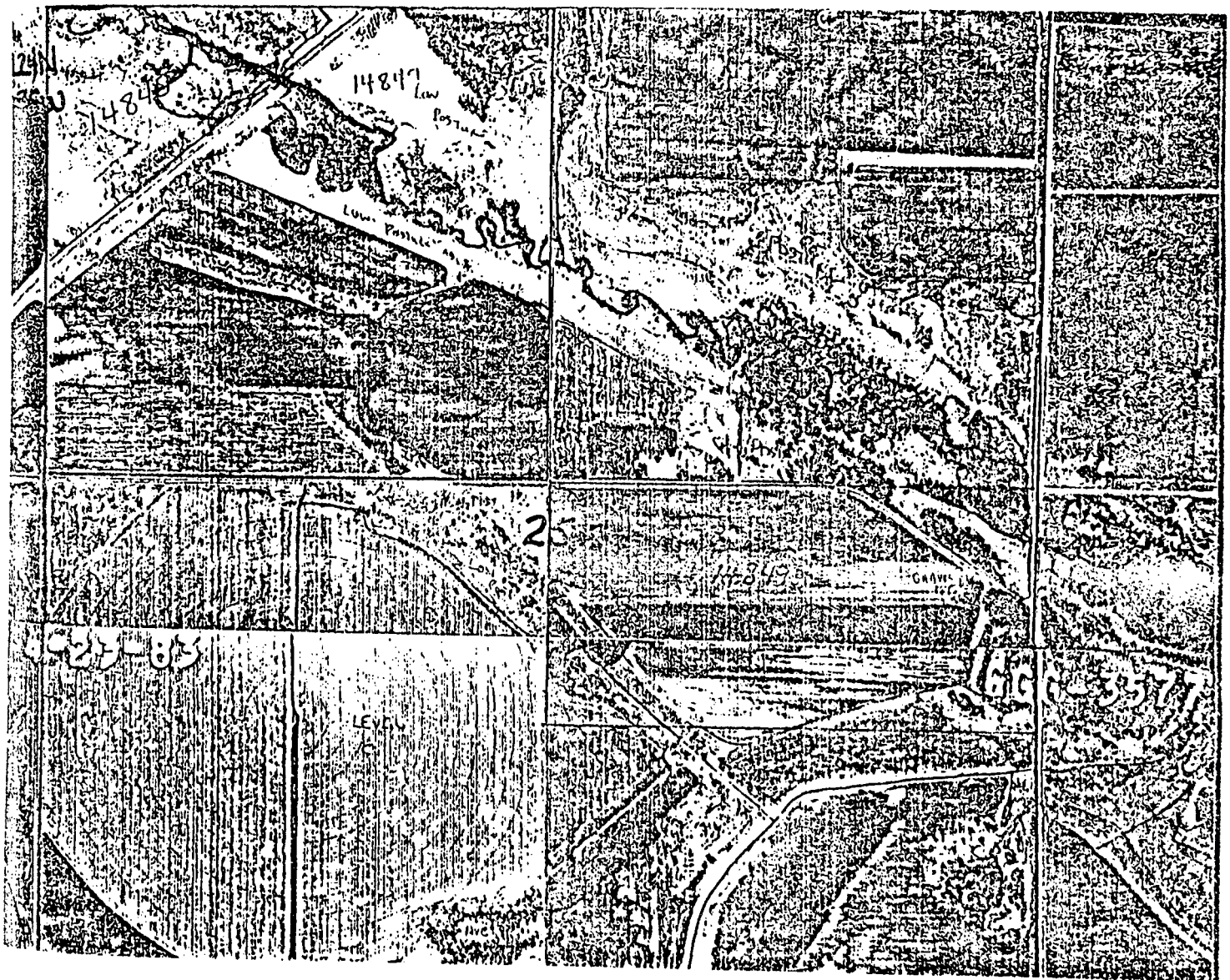
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Given the foregoing information, estimate the market value of this agricultural land using Crop Equivalency Ratings and a multiplier of 9.00 on first, a dryland basis, and then on an irrigated basis? What is the value difference between dryland and irrigated land?

An aerial photograph of the subject property is provided, following for your review.

Aerial Photograph of Subject Property

Scale 1" = 850'



A,B, and C Designation Application:

Using much of the same data which has been presented, estimate the market value of this same parcel of land using the A, B, and C designation and description of master soil horizons and layers on first, a dryland basis, and then on an irrigated basis? What is the value difference between dryland and irrigated land?

The A,B, and C breakdown for this parcel is estimated from an aerial photograph and a soil survey to be:

C ₂ Tillable	69.57 acres
C ₃ Tillable	67.69 acres
Poor Pasture	14.66 acres
Waste	4.08 acres
Road	4.00 acres
	<hr/>
TOTAL	160.00 acres

Furthermore, there are 8.00 acres of C₂ tillable not being irrigated since they make up the corners which do not lie under the system.

In order to value this agricultural property, you have formulated the following conclusions about the soil characteristics and qualities associated with farmland in your county.

County Soil Groups

Soil Group I - Irrigated soils have a range of average CER's that fall between 27-35 CER's. The principle land classifications are C1, C2, C3 tillable, with the majority of the land classified as C3 for tax purposes.

Soil Group II - Irrigated soils have a range of average CER's that fall between 29-47 CER's. The principle land classifications are B2, B3, C1, C2 tillable, with the majority of this classified as either B3 or C1 for tax purposes.

Soil Group III - Irrigated soils have inconclusive data due to sample size being almost non-existent for the population under close study.

Soil Group IV - Irrigated soils have a range of average CER's that fall between 39-58 CER's. The principle land classifications are B1, B2, B3, C1, tillable, with the majority of this classified as either B1 or B2 for tax purposes.

Please keep in mind that these conclusions may be slightly distorted because of improper grades assigned to the land breakdown. However, you have concluded that most of the grades are fairly close given the predominant soil type associated with the farmland and the CER range that has been observed.

Given these observations and the supplemental data which is provided, you offer as a recommendation the ensuing multipliers to be used for the respective land breakdowns/soil groups.

<u>Soil Group</u>	<u>CER</u>	<u>Irrigation Modifier</u>	<u>Resulting CER</u>	<u>% Change</u>
I (18-33 Cer Range)	20 30	+10 + 9	30 39	50% 30%
II (34-47 CER Range)	40	+ 8	48	20%
III (48-55 CER Range)	50	+ 7	57	14%
IV (56-60 CER Range)	60	+ 6	66	10%

<u>Soil Group</u>	<u>Till</u>	<u>Irrigation Modifier</u>	<u>Resulting Value</u>
I	C3	PAV x .50 *	n/a
	C2	PAV x .40	n/a
	C1	PAV x .30	n/a
II	C2	PAV x .40	n/a
	C1	PAV x .30	n/a
	B3	PAV x .20	n/a
	B2	PAV x .14	n/a
III	n/a	n/a	n/a
IV	C1	PAV x .30	n/a
	B3	PAV x .20	n/a
	B2	PAV x .14	n/a
	B1	PAV x .10	na/

*PAV - Present Assessors Value

In other words, the classifications are increased as follows:

C3	C2	C1	B3	B2	B1
+50%	+40%	+30%	+20%	+14%	+10%

Your present land valuation schedule is estimated by the county assessor to be:

<u>Till</u>	<u>Pasture/Woodlot</u>	<u>Meadow</u>	<u>Waste</u>	<u>Road</u>
A1 760	250 Good	210 Good	40	0
A2 700	210 Average	185 Average		
A3 640	175 Poor	160 Poor		
B1 580				
B2 520				
B3 460				
C1 390				
C2 330				
C3 270				

Should this be applied to the present tillable land schedule for irrigated lands, the incremental change in the land value for each breakdown is indicated, following:

<u>Till</u>	<u>PAV</u>	<u>Irrigation Modifier</u>	<u>PAV Irrigation</u>	<u>Value/Irrigate</u>
C3	\$270	x .50	\$405	\$135
C2	330	x .40	462	132
C1	390	x .30	507	117
B3	460	x .20	552	92
B2	520	x .14	593	73
B1	580	x .10	638	58

FARM #5

CONTRIBUTORY VALUE OF FARM BUILDINGS - DISCUSSION PROBLEMS

Think of yourself as a prospective buyer for each of the following farms. Both are located on gravel roads, five miles from county seat towns. Evaluate the structures involved.

Example #1

160 acre farm - Occupied by a tenant farmer.

House - good condition, two story, constructed in 1915, modernized only to the extent that indoor plumbing was installed.

Garage - unattached, 20 x 20, dirt floor, swinging doors.

Barn - old style dairy setup, not modernized except for electricity.

Machine Shed - wood frame, 30 x 60, 10 ft. eve, sliding doors, dirt floor, wired with a 220 electrical system.

Miscellaneous - old style hog house and chicken house.

Example #2

160 acre farm - Occupied by the owner.

House - one story, over 3,000 sq. ft., modern in every respect, newly constructed by the owner at a cost of nearly \$200,000.

Garage - attached, 28 x 28, overhead doors, concrete floor.

Grain Bins - modern storage setup with 50,000 bu. capacity, drier setup with a holding bin and a leg system.

Machine Shed - metal pole building, 40 x 80, 14 ft. eve, $\frac{1}{2}$ concrete floor, wired with a 220 electrical system.

Questions for Discussion

1. How much extra would you pay for the building site in example number one?
2. How much extra would you pay for the building site in example number two?
3. Will the owner recover his costs for the house constructed on example number two?

FARM PROBLEM #6

Conservation Reserve Program
Reinvest in Minnesota Program

Jones County and SMith County adjoin each other but lie in different CRP bidding pool areas. Although the soils are similar on each side of the county line, the maximum accepted bid for Jones County during the last sign up period was \$44.00 per acre while the maximum bid for Smith County was \$30.00 per ace.

1. Should the Assessor's values differ across the county line to reflect this differnce in CRP payments?
2. How could you measure what impact the CRP eligibility might have on property values.
3. Should land set aside permanently under the RIM Program and planted to grass be classed as tillable?
4. If land enrolled in the CRP or RIM Program is planted into trees should it be reclassified as non-tillable? If so when?
5. Farmer Olson's CRP bid of \$30.00 per acre was accepted while his neighbor Farmer Johnson bid only \$20.00 per acre which also was accepted. These bids are locked in at these rates for 10 years. Should the assessor value Farmer Johnsons land lower than Farmer Olsons because of the differnce in payments?
6. During 1987 the critera for CRP eligibility was changed, making it more difficult to qualify. Land signed up before this change in Jones County is receiving annual CRP payments of \$35.00 to \$44.00 depending upon the bid. Similar adjoining land that had not been signed up is no longer eligible. This land is now renting at \$20.00 per acre.
 - a) is the land in the CRP program more valuable?
 - b) should the assessor value eligible and ineligible land differently?

FARM PROBLEM #7 PART A

COUNTRY ELEVATOR PROBLEM

The subject property, any town elevator, is a metal clad wood crib elevator. It was built in 1948 and measures 34' x 42' x 83' and has a bushel capacity of 68,000. It has an office measuring 15' x 30' with no basement. The elevator drive is 16' x 42'. In 1958 they added a wood frame clad annex. It measures 34' x 28' x 73' and has a capacity of 40,000 bushel. In 1965 they added another wood frame metal clad annex. It measures 34' x 40' x 73' with a 50,000 bushel capacity.

There are five 1972 steel bins measuring 24' x 26' each. These bins have no permanently installed mechanized loading or unloading units. There are two 1980 steel bins each having permanently installed mechanized loading or unloading units. Their size respectively are 42' x 48' and 60' x 48'. There is also a 16' x 30' dryer on this complex. They also purchased a 1951 L P tank - 30,000 gallon in 1978.

In 1982 they put up a steel frame flat storage building. The building is straight side walls with a 20 foot eave height. It has a concrete floor and is wired for electricity. At the present time it is used to store equipment. The size of the building is 50' x 120'.

Complete the appraisal of the elevator using the elevator schedule.

Round all market values to the nearest hundred dollars and assume the level of assessment of commercial property to be 100%.

Discussion: If the flat storage building were converted to grain storage, how would it change the valuation of the rest of the complex, if any.

ELEV: ANYTOWN Co-OP

CITY: ANYTOWN

COUNTY: NOWHERE

DATE: 1-2-87

STRUCTURE	DIMENSIONS	S.F.-C.F. AREA OR BUS. CAP.	RATE PER S.F.-C.F. PER BUS.	% PHYS. DEPR.	% FUNCT. DEPR.	NET RATE S.F.-C.F. PER BUS.	ESTIMATED MARKET VALUE
1948 WD ⁷ ELEVATOR	34 x 42 x 83	68,000BU					
1958 WD/ANNEX	34 x 28 x 73	40,000BU					
1965 WD/ANNEX	34 x 40 x 73	50,000BU					
1948 OFFICE 1/0	15 x 30	450 SF					
1948 ELEV. DRIVE	16 x 42	672 SF					
1972 STEEL BINS - 5	24 x 26 EA.	52,650BU					
1980 STEEL BIN	42 x 48	60,310BU					
1980 STEEL BIN	60 x 48	126,730BU					
1978 DRYER	16 x 30	7,500BU					
1951 L.P. TANK		30,000GA					
1982 STORAGE BLDG.	50 x 120	6,000SF					

TOTAL ESTIMATED MARKET VALUE: _____

ECONOMIC OBSOLESCENCE FACTORS CONSIDERED:

APPRAISER/S

RAILROAD

3000000
G.A.L.
L.P.

34
1958
ANNEX

28

16
DRYER
30
Y
E
R

1948
ELEV.
30

OFFICE
15

DRIVE

42

1948
ANNEX

16

1980
STEEL BIN
42x48

1980
STEEL BIN
60x48

1972
STEEL
BIN
24x26

1972
STEEL
BIN
24x26

1972
STEEL
BIN
24x26

1972
STEEL
BIN
24x26

1972
STEEL
BIN
24x26

1982
FLAT
STORAGE

120

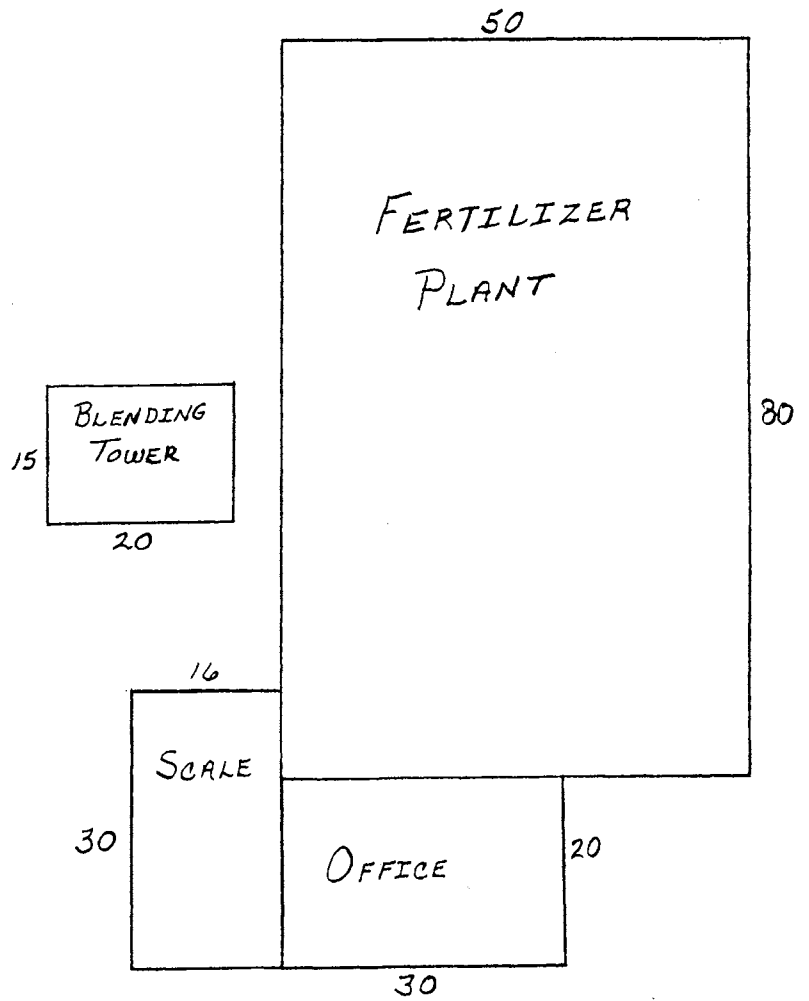
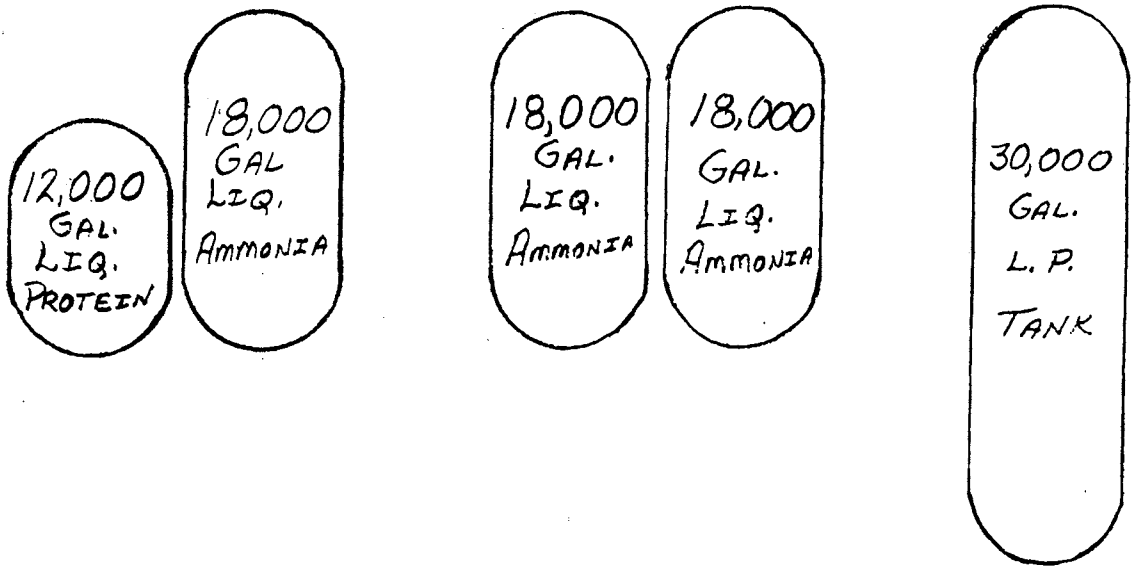
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FARM PROBLEM #7 PART B
FERTILIZER PLANT PROBLEM

The subject property is a wood frame fertilizer building, 50' x 80' built in 1977. The office is 20' x 30' is one story without a basement, but is air conditioned. It also was built in 1977. It has a scale 16' x 30' and a blending tower 15' x 20' x 20'.

There are five welded steel storage tanks on the subject property. The first is an old L P tank which has a 30,000 gallon capacity. There are three old liquid ammonia tanks with an 18,000 gallon storage capacity each. The last tank is a liquid protein tank with a storage capacity of 12,000 gallons.

You are to complete the appraisal form using the elevator schedule. Round all market values to the nearest hundred dollars and assume the level of assessment for commercial property to be 100%.



ELEV: FINK FERTILIZER PLANT

CITY: ANYWHERE

COUNTY: NOWHERE

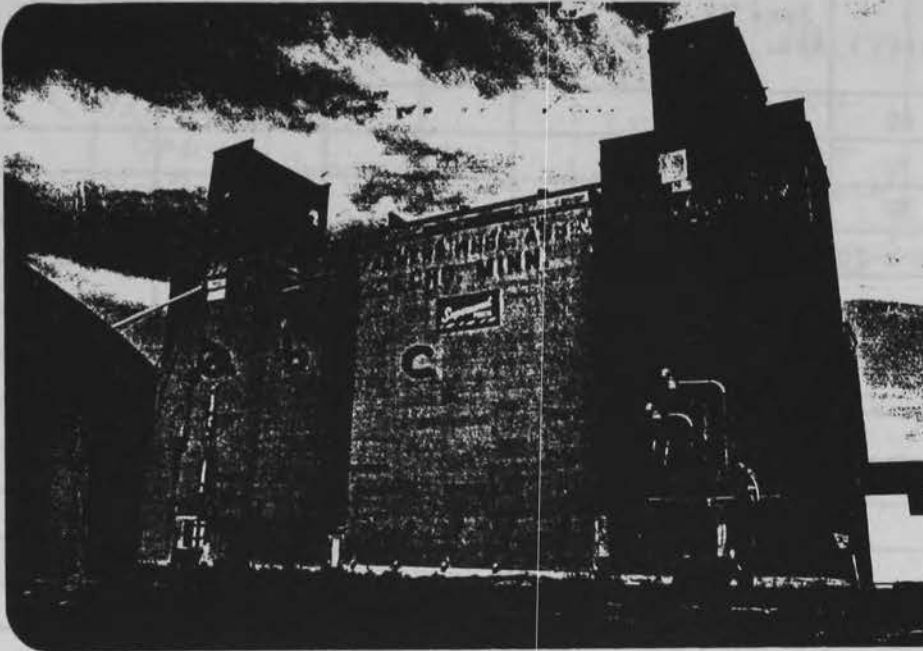
DATE: 1-2-87

STRUCTURE	DIMENSIONS	S.F.-C.F. AREA OR BUS. CAP.	RATE PER S.F.-C.F. PER BUS.	% PHYS. DEPR.	% FUNCT. DEPR.	NET RATE S.F.-C.F. PER BUS.	ESTIMATED MARKET VALUE
1977 FERTILIZER PLANT	50 x 80	4,000sf					
1977 OFFICE 1/0	20 x 30	600sf					
1977 SCALE	16 x 30	480sf					
1977 BLENDING TOWER	15 x 20 x 20	6,000cf					
L.P. TANK		30,000ga					
3 - LIQUID AMMONIA TANKS	18,000 EA	54,000ga					
LIQUID PROTEIN TANK		12,000ga					

TOTAL ESTIMATED MARKET VALUE: _____

ECONOMIC OBSOLESCENCE FACTORS CONSIDERED:

WOOD CRIB GRAIN ELEVATOR
Wood Crib Elevator w/Wood Crib Annex



- a. Elevator
- b. Annex
- c. Annex
- d. Elevator

The above is an example of a metal clad wood crib elevator. When estimating the replacement cost of an elevator with annex, combine the total bushel capacity of the elevator and annex. Use the bushel capacity as indicated by government license posted in the driveway or scale room. The office, scale room and driveway are not included in the cost per bushel and should be priced separately.

<u>ELEVATOR BUSHEL CAPACITY</u>	<u>COST PER BUSHEL</u>	<u>ANNEX BUSHEL CAPACITY</u>	<u>ANNEX COST PER BUSHEL</u>
20,000	\$3.75	50,000	\$2.10
30,000	3.65	75,000	1.80
40,000	3.60	100,000	1.60
50,000	3.35	150,000	1.40
75,000	3.25	200,000	1.30
100,000	3.00	500,000	1.25
150,000	2.70		
200,000	2.40		
500,000	2.05		

NOTE: If there is no headhouse, deduct \$.30 per bushel.
Use \$10 to \$20 per square foot for driveways.
Office and scale room costs range from \$25 to \$30 per square foot if no basement. If a basement is included, add approximately \$10 to above costs.

Suggested residual for rail siding is \$10-\$20 per lineal foot. The weight of the rail may vary from 40 to 100 lbs. and residual values may vary accordingly.

CORRUGATED STEEL GRAIN BINS

Costs as provided include foundation, concrete floor, ladders, safety cage, roof rails and vents.

<u>APPROX. HEIGHT</u>	<u>BUSHEL CAPACITY</u>	<u>COSTS PER BUSHEL</u>	<u>APPROX. HEIGHT</u>	<u>BUSHEL CAPACITY</u>	<u>COST PER BUSHEL</u>
15' Dia. Bins			30' Dia. Bins		
7'	1,260	1.40	15'	10,280	.65
11'	1,790	1.25	18'	12,470	.60
15'	2,330	1.20	22'	14,670	.55
18'	2,860	1.15	26'	16,860	.60
18' Dia. Bins			33'	21,250	.60
11'	2,650	1.10	40'	25,620	.65
15'	3,420	.95	48'	30,030	.75
18'	4,200	.85	59'	35,420	.80
22'	4,970	.90	36' Dia. Bins		
26'	5,750	.95	15'	15,300	.65
33'	7,300	1.10	18'	18,470	.60
40'	8,850	1.15	22'	21,650	.55
48'	10,400	1.20	26'	24,820	.60
21' Dia. Bins			33'	31,170	.55
11'	3,690	.95	40'	37,520	.65
15'	4,750	.85	48'	43,880	.70
18'	5,810	.75	59'	53,400	.75
22'	6,870	.80	66'	59,430	.80
26'	7,930	.75	42' Dia. Bins		
33'	10,060	1.10	15'	21,420	.65
40'	12,180	.95	18'	25,740	.59
48'	14,300	1.05	22'	30,060	.59
24' Dia. Bins			26'	34,380	.65
11'	4,950	.85	33'	43,030	.59
15'	6,340	.75	40'	51,670	.65
18'	7,740	.70	48'	60,310	.67
22'	9,130	.65	59'	73,280	.69
26'	10,530	.70	66'	81,480	.71
33'	13,320	.80	48' Dia. Bins		
40'	16,110	.75	15'	28,750	.67
48'	18,900	.85	18'	34,390	.58
59'	22,910	.90	22'	40,040	.65
27' Dia. Bins			26'	45,680	.63
11'	6,410	.85	33'	56,970	.58
15'	8,180	.75	40'	68,260	.60
18'	9,960	.70	48'	79,550	.63
22'	11,730	.65	59'	96,490	.65
26'	13,500	.70	66'	107,180	.67
33'	17,050	.75	60' Dia. Bins		
40'	20,590	.80	26'	73,810	.65
48'	24,140	.85	40'	109,090	.58
59'	29,250	.90	48'	126,730	.60
30' Dia. Bins			59'	153,190	.63
15'	10,280	.65	66'	169,830	.65
18'	12,470	.60	72' Dia. Bins		
22'	14,670	.55	51'	198,690	.56
26'	16,860	.60	59'	222,690	.60
33'	21,250	.60	90' Dia. Bins		
40'	25,620	.65	48'	297,000	.56
48'	30,030	.75			
59'	35,420	.80			

NOTES: Suggested economic life for steel grain bins is 30 years.

Suggested residual for small bins (3,200 to 4,400 bushel capacity) on concrete floors is \$.25 per bushel; small bins on metal floor with gravel and concrete blocks is \$.20 per bushel.

Bins with no permanently installed mechanized loading allow 5% functional obsolescence; bins with no permanently installed mechanized loading or unloading allow 10% functional obsolescence.

FERTILIZER PLANTS/LP STORAGE TANKS

Average: \$10.00

Good: \$15.00

Excellent: \$20.00

If pole construction, deduct \$5.00 per square foot from above costs. If there is office space that is an integral part of the plant, add \$10 to \$15 per square foot for office space area to above costs.

NOTES: Suggested economic life of a fertilizer plant is 20 years.

Use \$2.50 per cubic foot for blending towers. (Note: Do not include support frame in cubic foot computation.)

L.P. Storage Tanks

<u>Gallon Capacity</u>	<u>Cost per Gallon</u>
12,000	\$1.60
18,000	1.50
30,000	1.35

NOTES: If no concrete base, deduct \$.15 per gallon.

Suggested economic life of L.P. storage tanks is 25 years. However, aqua ammonia tanks and liquid protein tanks depreciate more rapidly; therefore, suggested residual for these tanks is \$.10 to \$.20 per gallon.

FARM PROBLEM #8

Sale #1

BUILDING VALUE ALLOCATION

A 200 acre improved farm recently sold for \$600.00 per acre. The house and barn were fair but the other buildings were poor.

Sale #2

A 250 acre improved farm just 3 miles west of sale #1 sold 6 months ago for \$620.00 per acre. It too had a fair house and barn with poor other buildings, except for a new machine shed and shop building that provided cover for the buyer's new \$25,000 tractor.

Several sales within the last 7 months, north and east of above sales sold for \$550.00 per acre but did not have any improvements on them. The seller of the first sale above had a 7 year old tractor valued at \$12,500.

What is the probable value of the machine shed and shop building?

FARM PROBLEM #9

CER PROBLEM

Determine what CER factor is from the following unimproved farmland sales.

SALE #1

120 Acres - Sold for \$84,000 - \$700 per deeded acre.

Farm has 115 acres of tillable land and remaining acres are for public road at no value. The average CER for this farm is 73 for tillable land.

Find what the factor is for this land sale?

SALE #2

200 Acres - Sold for \$120,000 - \$600 per deeded acre.

Farm has 190 acres tillable land and remaining acres are for public road and open public drainage ditch at no value. The average CER for this farm is 62 for tillable land.

Find what the factor is for this land sale?

SALE #3

320 Acres - Sold for \$195,200 - \$610 per deeded acre.

Farm has 280 tillable acres, 30 acres of good pasture and remaining acres for public road at no value. Pasture land is not valued on a CER basis and from your analysis of sales the current market indicates a value of \$300 per acre for good pasture. The average CER for the tillable land on this farm is 66.

Find what the factor is for this land sale?

1. Determine what factor you will use for your current assessment land schedule?

INCOME PROBLEM #1

Capitalization Rate Problem

Using the following data, compute value by:

- (a) the building residual technique, and
- (b) the land residual technique.

Round your figures to the nearest hundred dollars.

Net income is \$40,000.00.

Land value is \$50,000.00.

65% of the value of the property can be borrowed at 15%, and equity capital for this type of investment requires a 14% return.

The building's remaining economic life is 25 years.

INCOME PROBLEM #2 _ CAP RATE

You have been asked to appraise a one-story commercial building located in a small neighborhood shopping center. The building is about 20 years old and is divided into four separate stores, all of equal size. Each store pays a yearly rental of \$10,200.00, which is well in line with comparable properties analyzed. Estimate market value of the property by income approach. Round all figures to the nearest dollar.

The owner of the subject property lists the following items of expense for the previous year:

Real estate taxes - \$4,000.00
Insurance - 3 year policy - \$3,000.00
Repairs and maintenance - \$2,800.00
Mortgage payments - \$8,400.00
Legal and accounting fees - \$550.00
Miscellaneous expenses - \$500.00

In addition to the above expense listing, you obtain the following information:

Tenants pay for their own water, heating, electricity, and garbage removal.

Repairs and general maintenance should be based on 12% of effective gross income.

Miscellaneous expenses should be increased to 2% of gross income.

The records of property managers indicate that vacancy and collection losses in the area run about 4%.

A new roof, costing \$2,000.00 and having an average life of 20 years, was installed last year.

The gas furnace in each store can be replaced for \$950.00 and will carry a 10-year guarantee.

Recent land sales in the area indicate that the land value of the subject property should be estimated at \$55,000.00.

You have determined from banks in the area that 75% of the value of the property can be borrowed at 13% interest, and equity money for this type of investment requires a 14% return.

The building is 20 years old and appears to have depreciated about one-third.

*Put taxes in the expenses for this problem.

- a) Would taxes be a legitimate expense if the appraisal was for real estate tax purposes? If yes, why? If no, why not?
- b) What is the tax rate for this problem?

INCOME PROBLEM #3

OFFICE/WAREHOUSE PROBLEM

You are appraising a new office/warehouse property located in a large industrial park. The building is leased to several different tenants. The gross square footage of the building is 121,569 S.F. Of the gross area, 47,276 S.F. is finished office area and the balance is warehouse. The building sits on a 9.0 acre site. Comparable sites are selling for approximately \$2.00 per square foot.

Marshall and Swift Valuation says buildings of this class and quality are being built for \$30.00 per square foot.

In searching the market for comparable sales and rentals, you have found the following information:

Sale #1:

Sold 11/85 for \$2,800,000.

Gross S.F.=63,898 (40% Office)

Net Operating Income: \$285,111.(N.O.I.)

Sale #2:

Sold 7/85 for \$1,726,000.

Gross S.F.=42,314 (35% Office)

N.O.I. \$178,779.

Sale #3:

Sold 4/85 for \$4,305,000.

Gross S.F.=108,084 (37% Office)

N.O.I. \$437,038

Sale #4:

Sold 10/84 for \$2,280,000.

Gross S.F.=61,011. (25% Office)

N.O.I. \$215,526.

Gross economic market rentals in the area indicate office space is leasing for \$6.25 per S.F. gross and warehouse space is renting for \$3.00 per S.F. gross. Typically management fees are 5% of gross income and average rent loss is estimated to be 10% annually of gross income. All other expenses and the real estate taxes are passed on to the tenants over and above their rent paid.

Based on the given information, what is your indication of the value by the Cost approach? Income approach? Direct Sales Comparison approach? What is your estimate of the final value conclusion?

INCOME PROBLEM #4A

The owner of an office building contacted the assessor's office. He was concerned his value and taxes were too high. He brought his income and expense statements with him and would like the assessor to verify that his value was correct. Using his information and other stated information, determine if his Estimated Market Value of \$427,000 is excessive.

Below is the gross monthly income for the office building. A study of the market of office buildings indicates it is appropriate to figure a 5% vacancy.

<u>Suite #</u>	<u>SQ. FT.</u>	<u>RENT MONTHLY</u>
15-B	560'	\$ 444.00
12-B	234'	\$ 190.00
1	880'	\$ 697.00
14-A	240'	\$ 190.00
16-B	362'	\$ 287.00
5-B	240'	\$ 240.00
2	508'	\$ 400.00
4-A	464'	\$ 367.00
3-A	357'	\$ 298.00
16-A	1,194'	\$1,112.00
12-A	3,218'	\$2,574.00
4-B	416'	\$ 294.00
5-A	1,840'	\$1,215.00
15-C	150'	\$ 120.00

Below is a copy of the Expense Statement:

Management (4½%)	\$ 4,324
Public Utilities	\$ 9,192
Real Estate Taxes	\$18,360
Natural Gas	\$ 2,715
Snow Removal	\$ 631
Custodial	\$ 3,600
Maintenance	\$ 960
Rubbish	\$ 751
Supplies	\$ 534
Pest Control	\$ 167
Insurance	\$ 1,051
Reserves for Replacement	\$ 1,000

You have researched the market and have found four sales of office buildings that are comparable to the subject building.

		NOI	Indicated Cap Rate
Sale #1	\$600,000	\$ 87,000	
Sale #2	\$450,000	\$ 67,500	
Sale #3	\$420,000	\$ 61,700	
Sale #4	\$675,000	\$104,600	

What is the indicated value?

What ratio is the estimated market value to the indicated value?

What is the effective tax rate?

APARTMENTS-ANNUITY CAPITALIZATION METHOD

The value which an appraiser places on an apartment complex is a measure of its desirability to a potential purchaser, translated into terms of dollars the current medium of exchange. The degree of the property's desirability in turn, is a reflection of the quality of its utility as well as the demand engendered in the market by reason of its scarcity. The old economic theory of supply and demand is still basic. These create a market, and therefore a market value for the apartment complex.

For this problem, you are asked to estimate the present worth of all future benefits of a new 200 unit apartment complex located in a rapidly growing area of the Twin Cities. This project has four 50 unit apartment buildings, each having three stories and about 62,500 square feet of living space plus underground garages. There are 225 outside parking stalls, a recreation building, an outdoor swimming pool, two tennis courts, and a pedestrian trail through the area.

The Annuity Capitalization Method is to be used, which allows the handling of a variable, unsystematic series of annual net operating incomes, without the need to convert the incomes to an annual level or average amounts. The rationale of this method is that the capital value is equal to the present value of resale proceeds in a sale at the end of a projected investment holding period.

The critical elements of the approach are:

- 1) Discount Rate, or the Capitalization Rate necessary to attract purchase capital. This rate-of-return has been estimated to be approximately 8.50% for this valuation problem.
- 2) NOI, Net Operating Income. Much of the information relating to income and expense is provided in summary form, following.
- 3) Projected Resale Price. The present value of resale proceeds is forecast by capitalizing the NOI in its last year of the holding period at a discount rate of 9.5%. This rate is the terminal rate-of-return, usually about 1% higher than the going-in rate estimated to be 8.5%.

INCOME AND EXPENSE ANALYSIS

Estimating the Potential Gross Income:

Using the estimated economic rents reported below, you are asked to estimate the Potential Gross Income (P.G.I.) for the subject, which has no rental track-record.

80 Units at \$550.00/month
90 Units at \$650.00/month
10 Units at \$760.00/month
6 Units at \$725.00/month
5 Units at \$610.00/month
9 Units at \$695.00/month

Investment Holding Term:

A 6-year investment holding term projection based on the most recent national figures is being used in this exercise. Investment properties have been turning over at average intervals of 6 to 8 years, due to income-tax shelter considerations. However, it is likely that the holding term may ultimately increase for many property owners as a result of the Tax Reform Act of 1986.

Expense Forecast:

Based on the typical operating expense experience in competitive apartments, the estimated expense follows:

- 1) Management: Projected to run at typical market rates, or at 5% of the effective gross income.
- 2) Repairs and Maintenance: Estimated at \$45.00 per unit, typical for the local market area.
- 3) Real Estate Taxes: Estimated to be approximately \$60,000 for payable 1988. For payable 1989, the estimated tax is \$1,200 per unit or \$240,000. The projected real estate taxes payable is then trended upward for years 3 through 6 at 4% per year.
- 4) Custodial, Janitorial: Taken at 2% of the Potential Gross Income, as typical.
- 5) Advertising, Accounting, and Legal: 1% of the Effective Gross Income, but running 5% in the first year due to start-up costs.
- 6) Insurances: Projected at \$22,000 per year, with a 4% annual increase.
- 7) Utilities: At \$45.00 per unit, per month, reflecting the normal rate for newer energy-efficient buildings in this part of Minnesota.
- 8) Miscellaneous, Snow Removal: Estimated at 2% of the Potential Gross Income for averages.
- 9) Reserves for Replacement of Short-Lived Items: Projected at \$75,000 per year, using the sinking fund premise.

Discount for Market Absorption:

An appraiser should always consider the normal build-up period before an apartment property develops its stabilized occupancy ratio, if such a build-up period is applicable. In the case of the subject, a 90 to 120 day rent up period after which a stabilized occupancy of say 93% is anticipated. The discount for rent-up is accommodated for the Annuity Capitalization Method used. The first year average vacancy factor is projected to be 15%, with 7% for the years following.

Appreciation:

Rents shall escalate by a 6% per year increase factor, and operating expenses will also increase by approximately 4% per year, and thus net operating income will also

increase by a figure slightly better than 6% per year. This projection is based on typical rent increases and corresponding increases in operating expenses to stay abreast of inflationary trends in the national economy and the metropolitan market-place.

INSTRUCTIONS

Given the foregoing information, complete the summary sheet on the ensuing page by forecasting the income and expense for the subject from Year 1 through Year 6.

Once you have completed the spread sheet, the present discounted value of the preceding 6 year series of net income forecasts will be the result. In order to forecast the sale price, 6 years hence, you are asked to capitalize the 6th year NOI at the discount rate of 9.5%, the terminal rate of return. Next, marketing costs of 6% are to be deducted from the sale price to reflect the net sale proceeds.

Since the reversionary value of real estate is the value it will have when sold or returned after a period of time, your next step is to estimate the reversionary value for the future return or sale and to convert that value to present value. Column 4, Present Worth of 1, of the following Compound Interest Table is used for this purpose. By taking the reversion factor at 6 years at 8.5% and multiplying it against the net sale proceeds, the result is the discounted present value of resale proceeds.

Now that you have reached this part of your exercise, you are asked to calculate the sum of the present value of future payments of the annuity wherein each payment is discounted by using the reversion factors for Year 1 through Year 6. After the discounted present value of the income stream is estimated for the 6 year investment holding term, add the discounted present value of resale proceeds to this total. The end result is your indicated value via the application of the Annuity Capitalization Method.

Discussion

1. What method or methods can be used by an appraiser to estimate the potential gross income of an apartment complex?
2. Should an appraiser include legal costs for collecting rents in arrears as well as forfeiture of rent by reason of poor credit risks as a part of the deduction for vacancy allowance?
3. Where can factual and realistic data relative to apartment maintenance and operating expenditures as well as fixed charges be obtained?
4. In estimating a proper total for reserves for replacements, should consideration be given to both the replacement cost of the various items enumerated, and to their economic life and salvage value?
5. How does an appraiser estimate the discount factor for market absorption? Furthermore, how does the appraiser estimate the loss attributable to vacancy?

6. Do market capitalization rates express a fairly consistent relationship between sale price and net income despite differences in property allocation and other characteristics?
7. All methods of capitalization are based on the formula $V=I/R$. Since recapture is such an important part of the capitalization process when the formula is used, what is the meaning of this term?
8. Can the Annuity Capitalization Method be selected if the property is in a prime location, the improvements are modern and appropriate for the land, the property is leased under a long-term lease at economic rent, the lease provisions are favorable to the landlord, and the tenant is financially sound?
9. What other methods of capitalization are available to the appraiser, should Annuity Capitalization not be the appropriate means to measure the behavior of the income stream?
10. Is the Annuity Capitalization Method recognized as the method which produces the highest, lowest, or midrange value?

8 1/2% Annual Table

Years	1	2	3	4	5	6
	Amount of 1	Amount of 1 per Period	Sinking-Fund Factor	Present Worth of 1	Present Worth of 1 per Period	Partial Payment
1	1.085 000	1.000 000	1.000 000	.921 659	.921 659	1.085 000
2	1.177 225	2.085 000	.479 616	.849 455	1.771 114	.564 616
3	1.277 289	3.262 225	.306 539	.782 908	2.554 022	.391 539
4	1.385 859	4.539 514	.220 288	.721 574	3.275 597	.305 288
5	1.503 657	5.925 373	.168 766	.665 045	3.940 642	.253 766
6	1.631 468	7.429 030	.134 607	.612 945	4.553 587	.219 607
7	1.770 142	9.060 497	.110 369	.564 926	5.118 514	.195 369
8	1.920 604	10.830 639	.092 331	.520 669	5.639 183	.177 331
9	2.083 856	12.751 244	.078 424	.479 880	6.119 063	.163 424
10	2.260 983	14.835 099	.067 408	.442 285	6.561 348	.152 408
11	2.453 167	17.096 083	.058 493	.407 636	6.968 984	.143 493
12	2.661 686	19.549 250	.051 153	.375 702	7.344 686	.136 153
13	2.887 930	22.210 936	.045 023	.346 269	7.690 955	.130 023
14	3.133 404	25.098 866	.039 842	.319 142	8.010 097	.124 842
15	3.399 743	28.232 269	.035 420	.294 140	8.304 237	.120 420
16	3.688 721	31.632 012	.031 614	.271 097	8.575 333	.116 614
17	4.002 262	35.320 733	.029 312	.249 859	8.825 192	.113 312
18	4.342 455	39.322 995	.025 430	.230 285	9.055 476	.110 430
19	4.711 563	43.665 450	.022 901	.212 244	9.267 720	.107 901
20	5.112 046	48.377 013	.020 671	.195 616	9.463 337	.105 671
21	5.546 570	53.489 059	.018 695	.180 292	9.643 628	.103 695
22	6.018 028	59.035 629	.016 939	.166 167	9.809 796	.101 939
23	6.529 561	65.053 658	.015 372	.153 150	9.962 945	.100 372
24	7.084 574	71.583 219	.013 970	.141 152	10.104 097	.098 970
25	7.686 762	78.667 792	.012 712	.130 094	10.234 191	.097 712
26	8.340 137	86.354 555	.011 580	.119 902	10.354 093	.096 580
27	9.049 049	94.694 692	.010 560	.110 509	10.464 602	.095 560
28	9.818 218	103.743 741	.009 639	.101 851	10.566 453	.094 639
29	10.652 766	113.561 959	.008 806	.093 872	10.660 326	.093 806
30	11.558 252	124.214 725	.008 051	.086 518	10.746 844	.093 051
31	12.540 703	135.772 977	.007 365	.079 740	10.826 584	.092 365
32	13.606 663	148.313 680	.006 742	.073 493	10.900 078	.091 742
33	14.763 229	161.920 343	.006 176	.067 736	10.967 813	.091 176
34	16.018 104	176.683 572	.005 660	.062 429	11.030 243	.090 660
35	17.379 642	192.701 675	.005 189	.057 539	11.087 781	.090 189
36	18.856 912	210.081 318	.004 760	.053 031	11.140 812	.089 760
37	20.459 750	228.938 230	.004 368	.048 876	11.189 689	.089 368
38	22.198 828	249.397 979	.004 010	.045 047	11.234 736	.089 010
39	24.085 729	271.596 808	.003 682	.041 518	11.276 255	.088 682
40	26.133 016	295.682 536	.003 382	.038 266	11.314 520	.088 382
41	28.354 322	321.815 552	.003 107	.035 268	11.349 788	.088 107
42	30.764 439	350.169 874	.002 856	.032 505	11.382 293	.087 856
43	33.379 417	380.934 313	.002 625	.029 959	11.412 252	.087 625
44	36.216 667	414.313 730	.002 414	.027 612	11.439 864	.087 414
45	39.295 084	450.530 397	.002 220	.025 448	11.465 312	.087 220
46	42.635 166	489.825 480	.002 042	.023 455	11.488 767	.087 042
47	46.259 155	532.460 646	.001 878	.021 617	11.510 384	.086 878
48	50.191 183	578.719 801	.001 728	.019 924	11.530 308	.086 728
49	54.457 434	628.910 984	.001 590	.018 363	11.548 671	.086 590
50	59.086 316	683.368 418	.001 463	.016 924	11.565 595	.086 463
51	64.108 652	742.454 733	.001 347	.015 599	11.581 914	.086 347
52	69.557 888	806.563 386	.001 240	.014 377	11.595 570	.086 240
53	75.470 308	876.121 273	.001 141	.013 250	11.608 821	.086 141
54	81.885 284	951.591 582	.001 051	.012 212	11.621 033	.086 051
55	88.845 534	1033.476 866	.000 968	.011 255	11.632 288	.085 968
56	96.397 404	1122.322 400	.000 891	.010 374	11.642 662	.085 891
57	104.591 183	1218.719 804	.000 821	.009 561	11.652 223	.085 821
58	113.481 434	1323.310 987	.000 756	.008 812	11.661 035	.085 756
59	123.127 356	1436.792 421	.000 696	.008 122	11.669 157	.085 696
60	133.593 181	1559.919 777	.000 641	.007 485	11.676 642	.085 641

$S^n = (1+i)^n$	$S_{\overline{n} } = \frac{S^n - 1}{i}$	$\frac{1}{S_{\overline{n} }} = \frac{i}{S^n - 1}$	$V^n = \frac{1}{S^n}$	$A_{\overline{n} } = \frac{1 - 1/S^n}{i}$	$\frac{1}{A_{\overline{n} }} = \frac{i}{1 - 1/S^n}$
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SUMMARY SHEET, INCOME AND EXPENSE FORECASTS

<u>Item</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
Potential Income						
Vacancy & Collection Loss (15% 1st year, 7% After)						
Effective Gross Income						
Less Expense:						
Management						
Repair & Maint.						
Real Estate Taxes						
Custodial, Janitorial						
Advertising, Accounting						
Insurances						
Utilities						
Misc., Snow Removal						
Reserves for Replacement						
Total Expense						
Effective Gross Less Expense						
NOI						

CAPITALIZATION WORKSHEET

Present Value, Resale Proceeds:

Sale Price, _____ ÷ _____ Cap Rate =

Less Marketing Costs @ _____ = _____

Net Sale Proceeds:

Reversion Factor @ _____ Years @ _____ Cap Rate X _____

Discounted Present Value, Resale Proceeds

Present Value, Income Series:

<u>Year</u>	<u>NOI</u>	<u>Reversion Factor 2</u>	<u>Present Value</u>
1	_____	_____	_____
2	_____	_____	_____
3	_____	_____	_____
4	_____	_____	_____
5	_____	_____	_____
6	_____	_____	_____

Discounted Present Value of Income:

Add Present Value, Resale Proceeds: _____

Total:

Indicated Value, Income Approach, Say

INCOME PROBLEM #5

INVESTMENT PROPERTY

#1

A 30 unit apartment rents for \$250.00 per month per unit it has a history of a 5% vacancy and credit loss. The expenses including taxes are 45% of the effective gross income. The owner paid \$450,000 and financed 80% of the total sale price for 25 years at 9 1/2 %.

- #1 What is the scheduled gross income _____
- #2 What is the vacancy and credit loss _____
- #3 What is the effective gross income _____
- #4 What are the expenses _____
- #5 What is the net income _____
- #6 What are the gross mortgage payments _____
- #7 What is the cash flow _____
- #8 What is the cash-on-cash _____

INVESTMENT PROPERTY

#2

INCOME PROBLEM #6

A 60 unit apartment rents for \$275.00 per month per unit it has a history of a 5% vacancy and credit loss. The expenses including taxes are 50% of the effective gross income. The owner paid \$1,035,000.00 and financed 75% of the total sale price for 25 years at 11 1/2 %. For income tax the owner will depreciate the building over 15 years the building is 94% of the total sale. The owner is in the 50% tax bracket and the interest for the first year is 90% of the total annual mortgage payments.

- #1 What is the scheduled gross income _____
- #2 What is the vacancy and credit loss _____
- #3 What is the effective gross income _____
- #4 What are the expenses _____
- #5 What is the net income _____
- #6 What is the interest on the mortgage payments _____
- #7 What is the depreciation _____
- #8 What is the taxable income _____
- #9 What is the tax savings _____

You are appraising a vacant 25 acre tract zoned for single family use. When developed, 8% of the total land area will be used for streets. The zoning allows a density of three lots per net acre of land. To develop this tract would require 2020 lineal feet of streets with water and sewer lines. The cost of constructing streets, water and sewer lines is \$250.00 per lineal foot.

When developed, similar lots have been selling for \$18,000 each. This 25 acre tract sold last year for \$200,000.

40% of the sale price of each lot is required to cover the balance of the development costs, including builder's profit, carrying costs, overhead, etc.

1. What will be the total proceeds from the sale of the lots ?

2. What will be the total cost of developing streets with sewer and water lines?

3. How much is the balance of the development costs?

4. What is the indicated present total value of the land?

5. What is the indicated present value per acre of the land?

This appraisal problem calls for you to find the value of a 50 acre tract of rural-urban land which your client, a subdivider, seeks to purchase and develop into building sites. Comparable land use studies indicate the 50 acres could be developed into 150 residential lots, or 3 lots per acre including all streets, parks, etc. It is also concluded from recent sales information of developed lots in the area, the 150 lots could be marketed as follows:

1st year--50 lots @ \$16,500 each

2nd year--50 lots @ \$17,500 each

3rd year--50 lots @ \$18,500 each

Based on these market findings the land development approach yields the following results, assuming a developer's discount and profit rate of 15%:

Development Cost:

Street Grading and Paving.....	\$3,000 per lot
Sanitary and Storm Sewers.....	\$4,000 per lot
Curb and Gutter.....	\$1,000 per lot
Water Service.....	\$1,500 per lot
Misc. Cost (Exclusive of Profit).....	\$100,000

What is the present value of the land

Total

Per acre

GROSS RENT MULTIPLIER

Sales Price Divided By The Gross Rent = GRM

There are two things that are necessary to develop a gross rent multiplier they are sales of single family homes that have been rented.

Sales price	Monthly Rent	GRM
Sale # 1 \$64,000	\$475	_____
Sale # 2 \$67,500	\$500	_____
Sale # 3 \$60,500	\$450	_____
Sale # 4 \$69,000	\$520	_____

Rounded GRM For Area _____

Estimated Rent Of The Subject Property \$480.00 Per Month

What is the value of the subject property?

CASH EQUIVALENCY PROBLEMS

Find the cash equivalency of the following sales. Use a discount rate of 12%.

- 1) Sale Date: January 1, 1985
Sale Price: \$250,000
Down Payment \$ 25,000
C/D Terms: 9% interest, monthly payments of \$1810.40
Balloon on 1-1-90 of \$215,730.31

- 2) Sale Date: January 1, 1985
Sale Price: \$200,000
Down Payment: \$ 20,000
C/D Terms: 9% interest, \$1350.00 per month payments,
additional principal payment of \$5,000 on
1-1-86 and \$10,000 on 1-1-87,
1-1-95 Balloon of \$148,305.17

- 3) Sale Date: July 1, 1984
Sale Price: \$850,000
Down Payment: \$100,000
C/D Terms: 10.5% interest, monthly payments of
\$6,860.54, 10 year balloon of
\$687,167.76

GOLF COURSE

The following problem is one method of valuing a golf course. Please keep in mind there are other conventional methods that are recognized as being acceptable appraisal practices. The purpose of this exercise is to introduce you to a systematic and logical process of estimating the value of a golf course.

Page one is a formula designed for estimating the market value of the top golf course. The per acre land value and the improvements (value per green) may vary in your area.

The golf course to be valued is the St. Cloud Country Club. The rate for each component is indicated by an X. You are asked to calculate each individual score and then total the scores. Then follow the formula to arrive at an indicated value per hole.

The estimated building value for the purposes of this problem is \$425,000.

What is the estimated market value of this property?

DISCUSSION

Highest and best use value vs. open space value

Applying for open space

Green Acre law vs. Open Space law

Classification of golf courses

SITE EVALUATION CRITERIA

Location

Vehicular Access - The ability to reach the course easily from all portions of the market area is a primary element in the success of any recreational facility.

Pedestrian Access - This is directly related to adjacent land use and whether there are people living and working in the area who can walk to the course. This is more of a bonus than a major factor in overall feasibility.

Urban Suitability - What affect will the course have on the city and its growth pattern? Is a golf course compatible with existing land use patterns, parks, or projected community and regional plans?

Exposure - The visibility of the course and facilities to the general public. This can be a strong element in the marketability of the course. Also, will the green space afforded by a golf course have a maximum impact upon the city and its image?

Design Factors

Size:Overall - Is there sufficient gross acreage to support a quality golf facility; 18 or 27-holes?

Size:Usable - Are there portions of the site which cannot be used for golf due to soils, topography, deed restrictions, easements, drainage, etc.

Shape:Orientation - Will the site in question lend itself to a proper golf layout, fairway orientation, sequence of holes, flow of traffic and safety of play, etc.?

Topography - Rolling or undulating land is an asset to a golf course providing visual interest and range of challenges. Severe topography can be wasteful, costly and frustrating for the average player while a flat site is bland and monotonous.

Trees - Mature trees and plant materials provide much of the character of any golf course. They provide scale, background and framing for greens and fairways and are a primary factor in providing a more challenging and enjoyable experience for the golfer.

Overall Golf Quality - Every golf course has its own image; held by its regular golfers and presented to its visitors. This quality is a composite of all the above factors and yet, in the case of a golf course, the whole is more than the sum of its parts. This quality is an intangible factor, hard to quantify or measure in hard numbers, yet is an overriding factor in site consideration, and we have given it a corresponding weight in the evaluation process. The character of the land forms the basis for any course. Is the site somewhat small, the cost higher, or harder to get to? Perhaps

any or all of these concerns may be outweighed by the presence of a lake, stream or particularly interesting topography or natural feature which will give the course unique character.

Maintenance

Turf - The ability of the topsoil to maintain a good turf cover.

Drainage - Involves possible siltation and erosion resulting from flooding caused from conditions up-stream from the site. Also refers to the ability to drain water from the site.

Watering System - Manual to fully automated, sprinklered greens to fully sprinklered course.

Accessibility - The ability to get maintenance equipment to all site areas.

TOP GOLF COURSE

1. Large Greens - Good Turfs, Undulating and Variety of Shapes
2. Sand Traps - Located Around Greens and Along Fairways
3. Dog Legs
4. Good Mixed Topography
5. Should Have Some Water Hazards
6. Trees - Both Mature and Planted
7. Variety of Lengths of Fairways
8. Good Water System
9. Challenging Course
10. Location:
 - a) Easy to Find
 - b) Good Access
 - c) Compatible With Community
11. Size - Sufficient Acreage to Support Quality Golf Facility
12. 18 Holes - 170 Acres

RECREATIONAL FACILITIES

GOLF COURSES

Primary variables in golf course costs are type of terrain, size and layout, amount and quality of irrigation systems and overall quality. Excluded from these studies are extensive grading, such as required for canyon and hillside courses, special drainage problems, all structures including bridges, and lakes. Some of these items are listed as additives while the balance may be found in other sections of this manual.

Included in the cost per hole are normal clearing of land including incidental grading, complete irrigation and drainage systems, planting of trees in open land, greens, tees, fairways, service roads and cart paths, financing during construction, and architect's fees.

Subdivision courses which are designed to allow as many home sites as possible to border the course, will require longer pipe runs and additional expenses greater than normal for the playing length, but many costs may be written off against the adjoining development, such as utilities which are brought in for the development and used for the course. In many cases, allocation of costs between development and golf course must be made arbitrarily.

The costs listed are typical ranges in four quality classifications. Actual contracts and estimates have ranged from \$24,000 per hole for a sprinklered course with minimal improvements to \$130,000 per hole for a course scooped out of the mountains, \$160,000 per hole built from marsh land and \$175,000 per hole for a course carved out of rock with completely imported top soil.

Costs of complete irrigation systems constitute approximately 15% - 30% of the cost per hole of the courses listed. Architectural design and supervision costs are included at 8% to 12%.

Courses are grouped into price classifications with a limited description of what the price includes. Courses may fit into one class by sheer length (6,500 to 7,000 yards) and another by gross area covered (100 to 170 acres) or by overall quality, in which case, interpolations may be made. Generally, simpler courses will require little clearing or grading, encompass minimal acreage, have easy playing holes, and/or minimal irrigation, while good courses may include extensive site work and/or irrigation over large acreage with well designed holes for maximum playability.

COST RANGE PER HOLE

- Class I. Minimal quality, simply developed budget course on flat terrain, few bunkers, small tees and greens \$ 30,000 - \$ 40,000
- Class II. Simply designed course on relatively flat terrain, natural rough, few bunkers, small built-up tees and greens, some small trees \$ 40,500 - \$ 64,000
- Class III. Typical private club on undulating terrain, bunkers at most greens, average elevated tees and greens, some large trees moved in or clearing of some wooded areas, driving range \$ 66,000 - \$ 73,500
- Class IV. Championship course on good undulating terrain, fairway and greens bunkered and contoured, large tees and greens, large trees transplanted, driving range, name architect \$ 75,000 - \$100,000

SHORT COURSES

Miniature golf course. 18 holes, on 1/2 acre, excluding booths, snack bars, and parking lot, including course plumbing and lighting, professionally designed and installed.
Cost per hole \$ 2,760 - \$ 7,500

Pitch and putt course. 9 holes on 10 to 15 acres, 1,000 yards long, including irrigation, excluding structures and lighting \$16,000 - \$22,000

Par 3 course. 9 holes on 15 to 20 acres, 1,400 yards long, including irrigation, excluding structures and lighting \$20,000 - \$27,000

Executive course. 18 holes on 50 to 60 acres, 4,800 yards long, rated par 60, including irrigation, excluding structures and lighting \$25,000 - \$33,000

Lighted driving ranges. Separate paved stations, fenced, irrigated, good quality, not including separate putting or pitching greens, buildings or equipment, per station \$ 2,500 - \$ 4,000
add for covered structure 750 - 1,250
heated tee 2,600 - 3,000

MISCELLANEOUS UNIT COSTS

The following costs may be used to adjust items included in the Cost Per Hole pricing, to add for those items which have not been included or as a build-up method to develop a complete course cost.

	Low	Average	Good
Site clearing, cost per acre	\$ 500.00	\$ 1,100.00	\$ 2,500.00
Fairways, cost per acre	975.00	1,200.00	1,500.00
Rough, cost per acre	225.00	500.00	1,200.00
Earth moving, cost per cubic yard	1.00	1.50	2.25
Tees, elevated, cost per square foot .....	.36	.60	.70
Bunkers, cost per square foot	1.35	2.00	3.00
Greens, flat, cost per square foot	1.15	1.70	2.50
elevated	2.10	2.90	4.00
Pathways, asphalt, cost per square foot .....	.90	1.25	1.80
concrete	1.25	1.85	2.80
gravel .....	.20	.30	.50
Bridges, pedestrian, cost per s.f., lt. wood/steel ..	12.00	19.00	30.00
golf cart	16.00	23.00	33.00
car or light truck	23.00	32.00	45.00
Lakes, cost per square foot .....	.40	.95	2.25
add for liner, asphalt .....	.85	1.25	1.90
clay .....	.30	.45	.65
concrete	1.85	2.70	4.00
plastic and sand .....	.60	1.00	2.00
Player shelters, each	760.00	1,100.00	2,400.00
Irrigation system, manual, per hole	4,500.00	6,200.00	8,500.00
automatic	8,500.00	15,000.00	27,000.00
add for pumping plant, each	15,000.00	40,000.00	100,000.00
Lighting, short courses, per pole	3,000.00	5,500.00	10,000.00
Maintenance equipment, total per course	120,000.00	200,000.00	340,000.00

Maintenance buildings, see Section 17; clubhouses, Section 11; snack bars, Section 13.

Miscellaneous paving, parking lots, lighting, fencing, drainage, etc., see Section 66.

OPEN SPACE
TOP GOLF COURSE

170 ACRES, 18 Hole Golf Course with the Highest Possible Score of 900 Points

Using \$950/Acre as the Value of Land Suitable for a Golf Course

Land:	170 Acres @ \$950/Acre =		\$ 161,000
Improvements:	18 Greens @ \$80,000 =		\$1,440,000
	((\$80,000/green represents the estimated cost to construct the top quality golf course)		
	Total		\$1,601,500
	\$1,601,500 ÷ 18 Greens	=	\$ 88,972
		say	\$ 89,000/Green

This value per Green is used as the Base to Calculate an Open Space Value for Each Golf Course.

PAR 3 AND MINI 9 HOLE
GOLF COURSES

30 Acres X 950/Acre			\$ 28,500
9 Greens X \$50,000/Green			\$ 450,000
			\$ 478,500
\$478,500 ÷ 9 =			\$ 53,166
		say	\$ 53,000

PID 30 - 18954

MUNIC St. Cloud Township

NAME: St. Cloud Country Club (18 holes)

CRITERIA	WEIGHT	EXCELLENT			AVERAGE				UNSATISFACTORY			SCORE
		9	8	7	6	5	4	3	2	1		
Location		Weight	x	Rate	=	Score						
Access	10	X										
Urban Suitability	20	X										
Exposure	6				X							
DESIGN												
Size	6		X									
Shape/Orientation	7				X							
Topography	8		X									
Trees	7				X							
Overall Golf Quality	10		X									
MAINTENANCE - CONDITION												
Turf	8					X						
Drainage	7	X										
Watering System	7					X						
Accessibility	4					X						
TOTAL SCORE	100											

$$\frac{\text{Score}}{\text{Total Possible Points}} \times \text{Value of Excellent Course} = \text{Subject's Value Per Hole}$$

$$\frac{900}{100} \times \$ \text{_____} = \$ \text{_____} / \text{Hole}$$

PID _____

MUNIC _____

NAME: _____

CRITERIA	WEIGHT	EXCELLENT			AVERAGE			UNSATISFACTORY			SCORE
		9	8	7	6	5	4	3	2	1	
Location		Weight	x	Rate	=	Score					
Access	10										
Urban Suitability	20										
Exposure	6										
DESIGN											
Size	6										
Shape/Orientation	7										
Topography	8										
Trees	7										
Overall Golf Quality	10										
MAINTENANCE - CONDITION											
Turf	8										
Drainage	7										
Watering System	7										
Accessibility	4										
TOTAL SCORE	100										

$$\frac{\text{Score}}{\text{Total Possible Points}} \times \text{Value of Excellent Course} = \text{Subject's Value Per Hole}$$

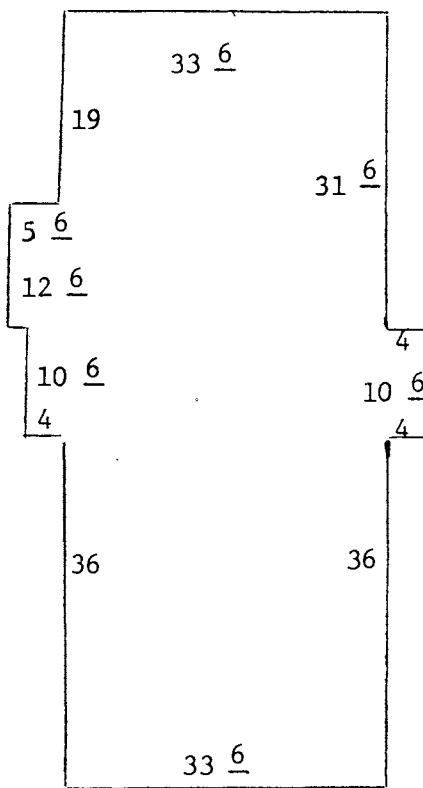
$$\frac{\quad}{900} \times \$ \quad = \$ \quad / \text{Hole}$$

Fast Food Restaurant Problem

Subject Property

The Subject Property is a McDonald's Restaurant built in 1975 and is located on the edge of town on a busy state highway with a shopping center and new housing development nearby. This McDonalds was remodeled to the new look in 1988. The roof design is hip with wood shakes and the exterior walls are brick face and plate glass. The interior finish is good quality. Interior walls are wood and sheet rock painted. Flooring is ceramic tile throughout. The restrooms are adequate with good quality fixtures and has an adequate heating and cooling system. The structure has sprinklers throughout. A drive-up window was also added in 1980. There is no basement.

The restaurant is 2,766 square feet located on a 41,266 square foot lot in a commercial area of town. Blacktop covers 36,200 square feet and we are using \$.70 per square foot.



There have been three bare land sales in the area. They are as follows:

Sale No. 1 was a one acre lot right next to the subject property. It sold in January 1986 for \$98,000.

Sale No. 2 was two blocks away in the same type of commercial area. This lot was 40,600 square feet and sold for \$89,300 in December 1985.

Sale No. 3 was in the downtown commercial area with buildings on each side. This lot is 25,400 square feet and sold for \$88,900 in March 1986.

COST APPROACH

VERY GOOD

Distinct architectural styling with unique design. Mansard, hip or multi-pitched roof with extensive overhangs. Roof cover may be slate, wood shakes, or clay tile. Exterior walls of decorative stone and wood or face brick. High quality interior finish with ceramic or quarry tile floor and carpet. Interior wall finish may be exposed stone, ceramic tile or wood paneling. Combined heating and air-conditioning system with good quality fixtures. Good restroom facilities with good quality fixtures. High quality materials and workmanship.

<u>AREA</u>	<u>COST</u>
3000	\$67
4000	64
5000	62
6000	60

Note: Sprinklers add \$2 per square foot.

GOOD

Conventional architectural design with some unique features. Roof design typically hip or mansard with wood shakes, shingles or clay tile. Exterior walls are face brick and plate glass. Interior finish is good quality. Floor cover is carpet, ceramic or quarry tile. Restrooms are adequate with good quality fixtures. Combined heating and cooling system. Interior wall finish may be wood or ceramic tile wainscoating. Good quality workmanship and materials.

<u>AREA</u>	<u>COST</u>
1500	\$58
2000	56
2500	53
3000	52
3500	51
4000	50
5000	49

Note: Sprinklers add \$2 per square foot.

AVERAGE

Minimal architectural design. Roof design typically may be flat or gable roof with composition tar and gravel or asphalt shingle roofs. Exterior walls are wood and plate glass. Interior wall finish is minimal. Floor cover vinyl asbestos and ceramic tile. Restrooms are adequate with average quality fixtures. Combined heating and cooling system. Adequate lighting throughout. Average quality workmanship and materials.

<u>AREA</u>	<u>COST</u>
1000	\$48
1500	46
2000	45
2500	42
3000	42
3500	41
4000	40
5000	39

Note: Sprinklers add \$2 per square foot.

DEPRECIATION

There are two depreciation schedules provided that may be used as a guide in estimating the amount of depreciation for restaurants. These guides assume normal market conditions with no unusual functional or economic obsolescence.

The first schedule is a suggested guide for full-service restaurants. The suggested depreciation is based on a straight-line 35 year economic life basis. The second schedule is a suggested guide for self-service restaurants. Due to the highly competitive nature of this business, these buildings undergo more frequent remodeling in order to project a particular image. Major design alterations usually occur every six to ten years. Therefore, they suffer from functional obsolescence at a much faster rate than they physically deteriorate. The second guide recognizes greater depreciation in the first eight years of the life of the building in order to account for necessary changes in the physical appearance.

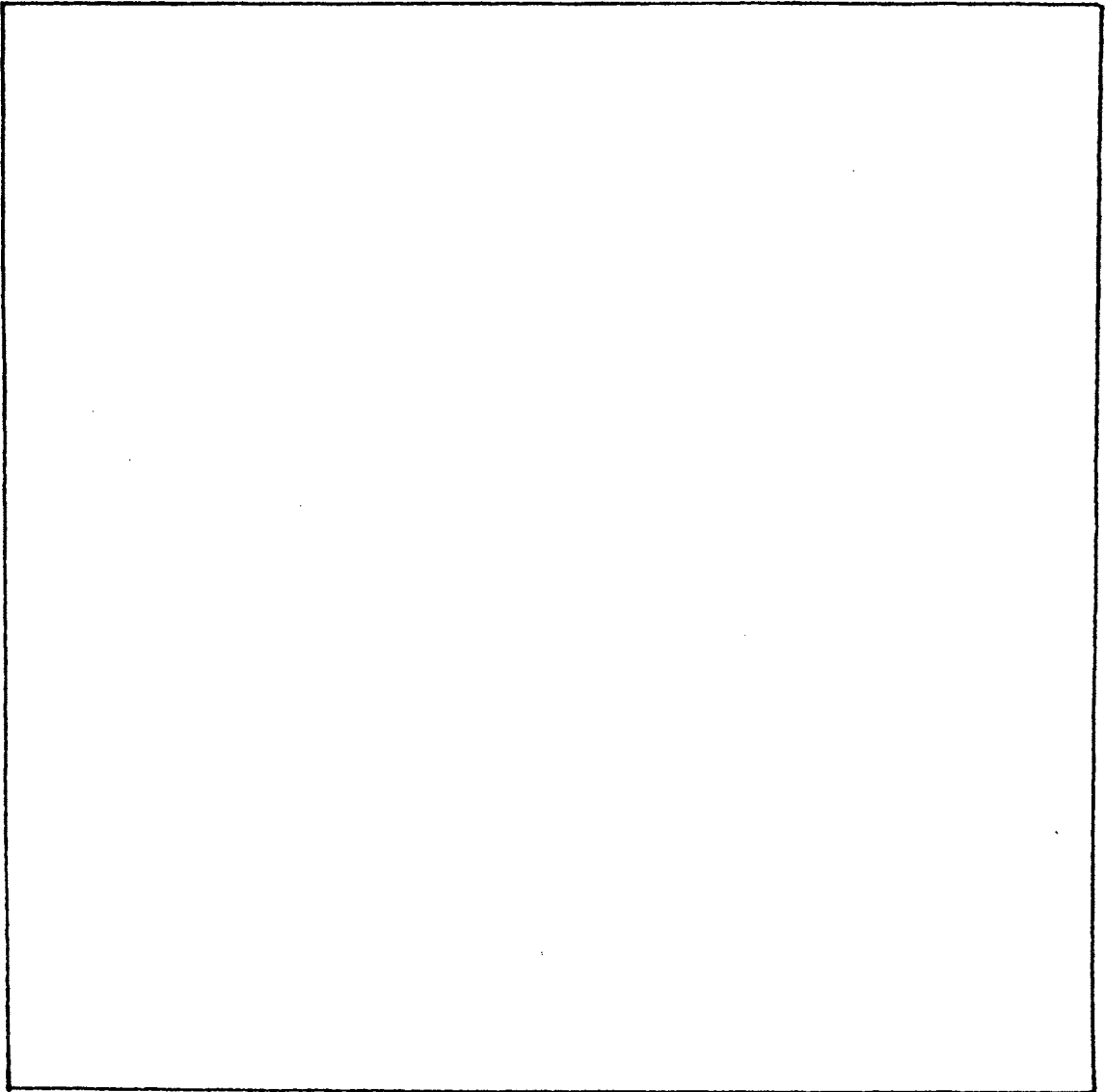
<u>FULL SERVICE</u>		<u>SELF-SERVICE</u>	
<u>Effective Age</u>	<u>Depreciation</u>	<u>Effective Age</u>	<u>Depreciation</u>
1	3%	1	5%
2	6%	2	10%
3	9%	3	15%
4	12%	4	20%
5	15%	5	25%
6	18%	6	30%
7	21%	7	35%
8	24%	8	40%
9	27%	9	42.5%
10	30%	10	45.0%
11	33%	11	47.5%
12	36%	12	50.0%
13	39%	13	52.5%
14	42%	14	55.0%
15	45%	15	57.5%
16	48%	16	60.0%
17	51%	17	62.5%
18	54%	18	65.0%
19	57%	19	67.5%
20	60%	20 & over	70.0%
21	63%		
22	66%		
23	69%		
24	72%		
25 & over	75%		

Rectangular Survey Method
Township of Lake George

1. Draw in the location of the described parcel
2. Give the size of each parcel and also the square feet of each parcel
3. Scale is 1" = 880'

Parcel	Description	Size
15-8402	S 21- T124N- R34W NE4	_____
15-8403	S21- T124N- R34W E2NW4	_____
15-8404	S21- T124N- R34W NW4NW4	_____
15-8405	S21- T124N- R34W SW4NW4	_____
15-8406	S21- T124N- R34W E2NE4SW4	_____
15-8407	S21- T124N- R34W W2NE4SW4	_____
15-8408	S21- T124N- R34W N2NW4SW4	_____
15-8409	S21- T124N- R34W S2NW4SW4	_____
15-8410	S21- T124N- R34W SE4SW4	_____
15-8411	S21- T124N- R34W NE4SW4SW4	_____
15-8412	S21- T124N- R34W NW4SW4SW4	_____
15-8413	S21- T124N- R34W SE4SW4SW4	_____

Parcel	Description	Size
15-8414	S21- T124N- R34W NE4SW4SW4SW4	_____
15-8415	S21- T124N- R34W NW4SW4SW4SW4	_____
15-8416	S21- T124N- R34W S2SW4SW4SW4	_____
15-8417	S21- T124N- R34W N2N2SE4	_____
15-8418	S21- T124N- R34W S2N2SE4	_____
15-8419	S21- T124N-R34W S2SE4	_____



LAKE GEORGE TOWNSHIP

Section 21 Township 124 North Range 34 West

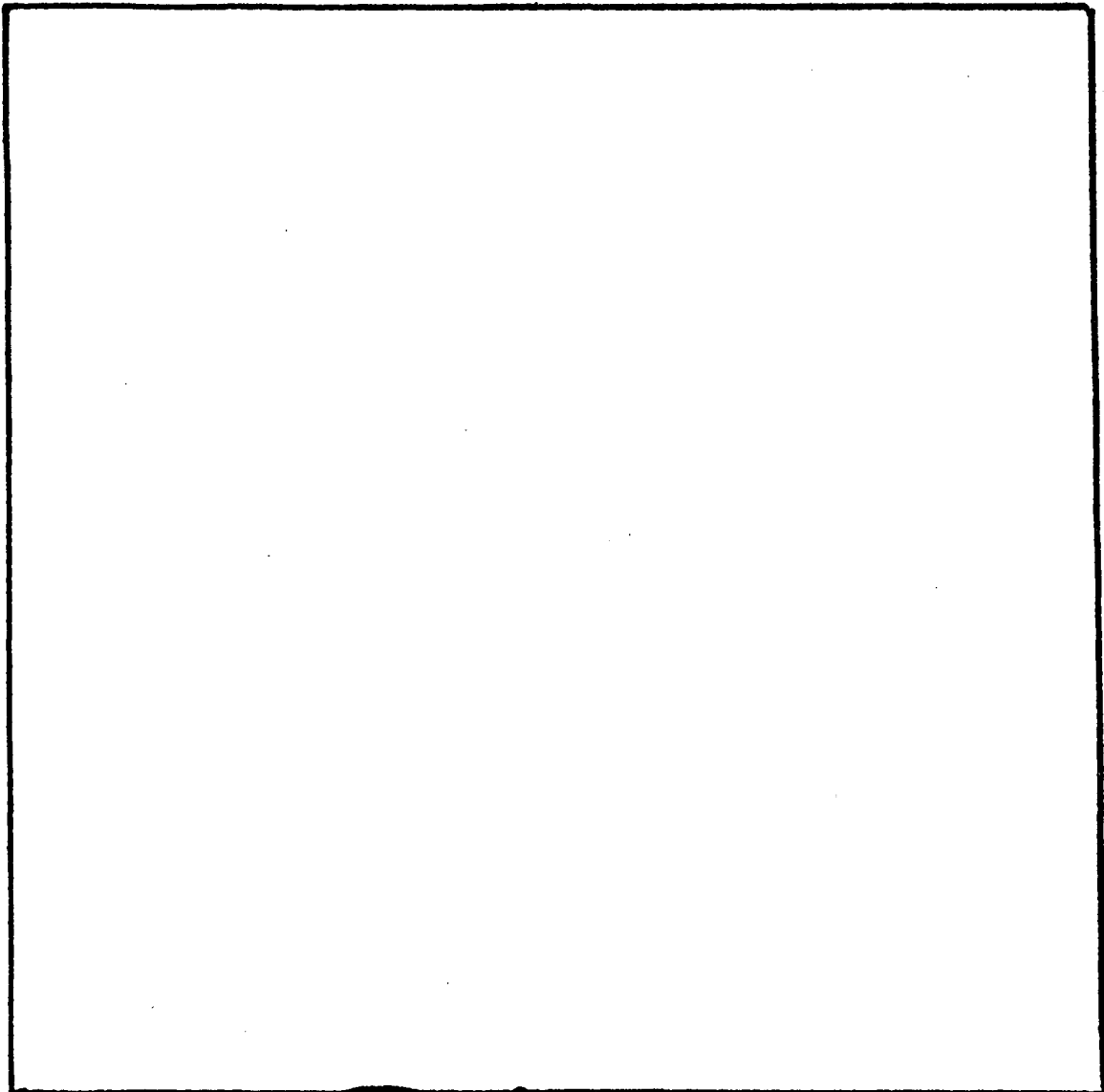
Scale 1" = 880'

PROPERTY DESCRIPTION - RURAL PROBLEM #2

Metes and bounds within
Section 15
Township of Collegeville

1. Draw in the location of the described parcel
2. Scale is 1" = 880'

The south 660.68 feet of the east 641.66 feet of the southeast quarter of the southwest quarter of section 15, in township 124 north, range 30 west, in Stearns County, Minnesota, together with the south 660.68 feet of the west 16.50 feet of the southwest quarter of the southeast quarter of said section 15, township 124 north, of range 30 west.

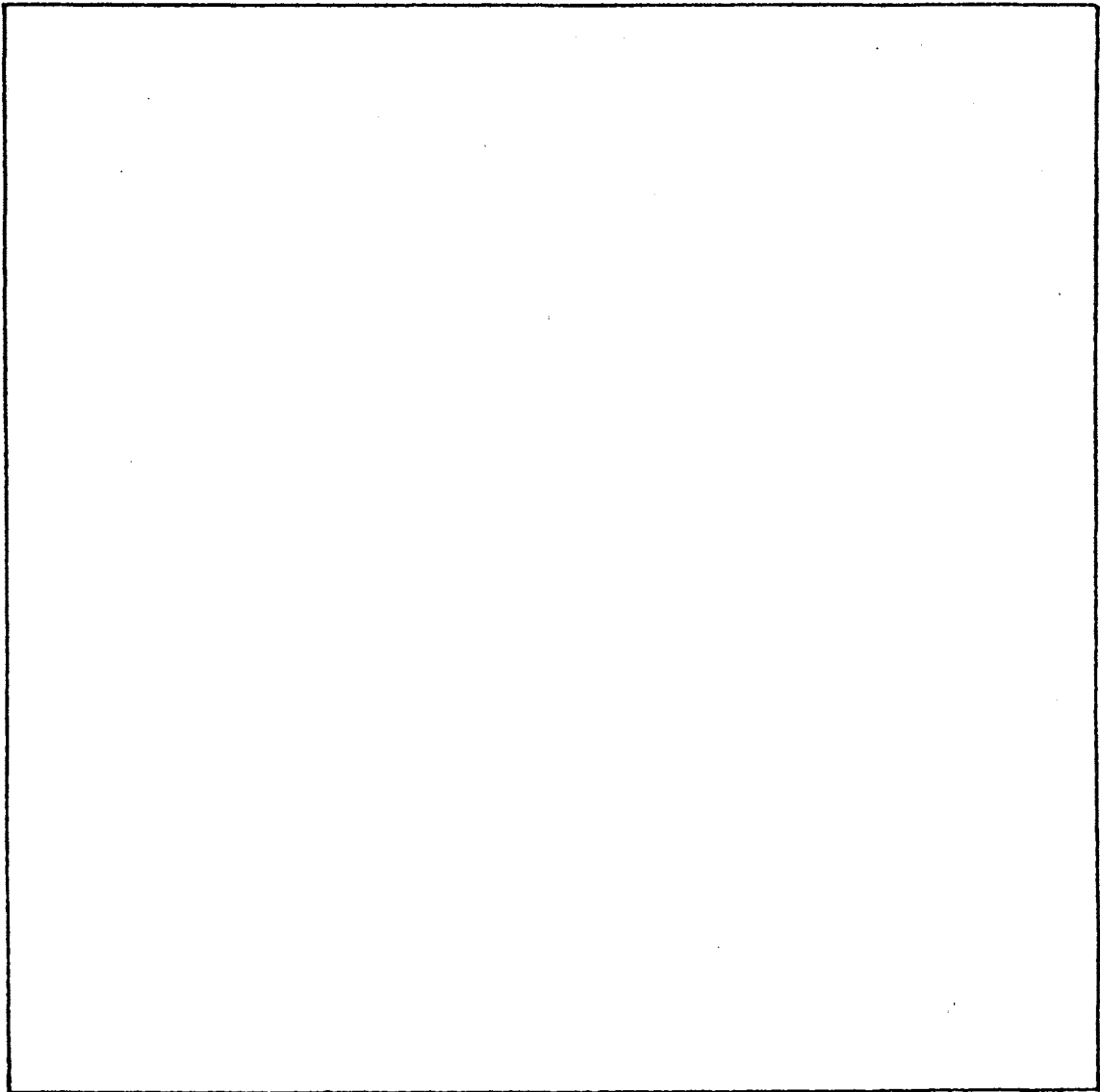


PROPERTY DESCRIPTION - RURAL PROBLEM #3

Metes and bounds within Section 16
Township of Collegeville

1. Draw in the location of the described parcel
2. Scale is 1" = 880'

That part of the southeast quarter of the northeast quarter of Section 15, Township 124, Range 30, Stearns County, Minnesota described as follows; Commencing at a point on the east line of said southeast quarter of the northeast quarter (SE4NE4) distant 682.30 feet north of the southeast corner thereore; thence west at right angles to said east line for 674.77 feet to the point of beginning of the land to be described; thence continue west along the last described course extended for 325.34 feet; thence south parallel with the east line of said SE4NE4, for 734 feet to the south line for 326 feet to a line drawn south, parallel with the east line of said SE4NE4, from the point of beginning; thence north for 717 feet to the point of beginning. Containing 5.42 acres, subject to and having as an appurtenance thereto an easement for roadway and utility purposes over that part of said SE4NE4 which lies within 33 feet on each side of the following described line and within a radius of 60 feet from the point of termination thereof; beginning at a point on the east line of said SE4NE4 distant 682.30 feet north of the southeast corner thereof; thence west at right angles to said line for 1000.11 feet and there terminating.



COLLEGEVILLE TOWNSHIP

Section 16 Township 124 North Range 30 West

Scale 1" = 88'

METES & BOUNDS

PROPERTY DESCRIPTION-URBAN PROBLEM #1

Block 1 Southview Acres, City of Belgrade

1. List the legal descriptions for the parcels indicated on the adjacent page.
2. Give the size of each parcel and also the square feet of each parcel.

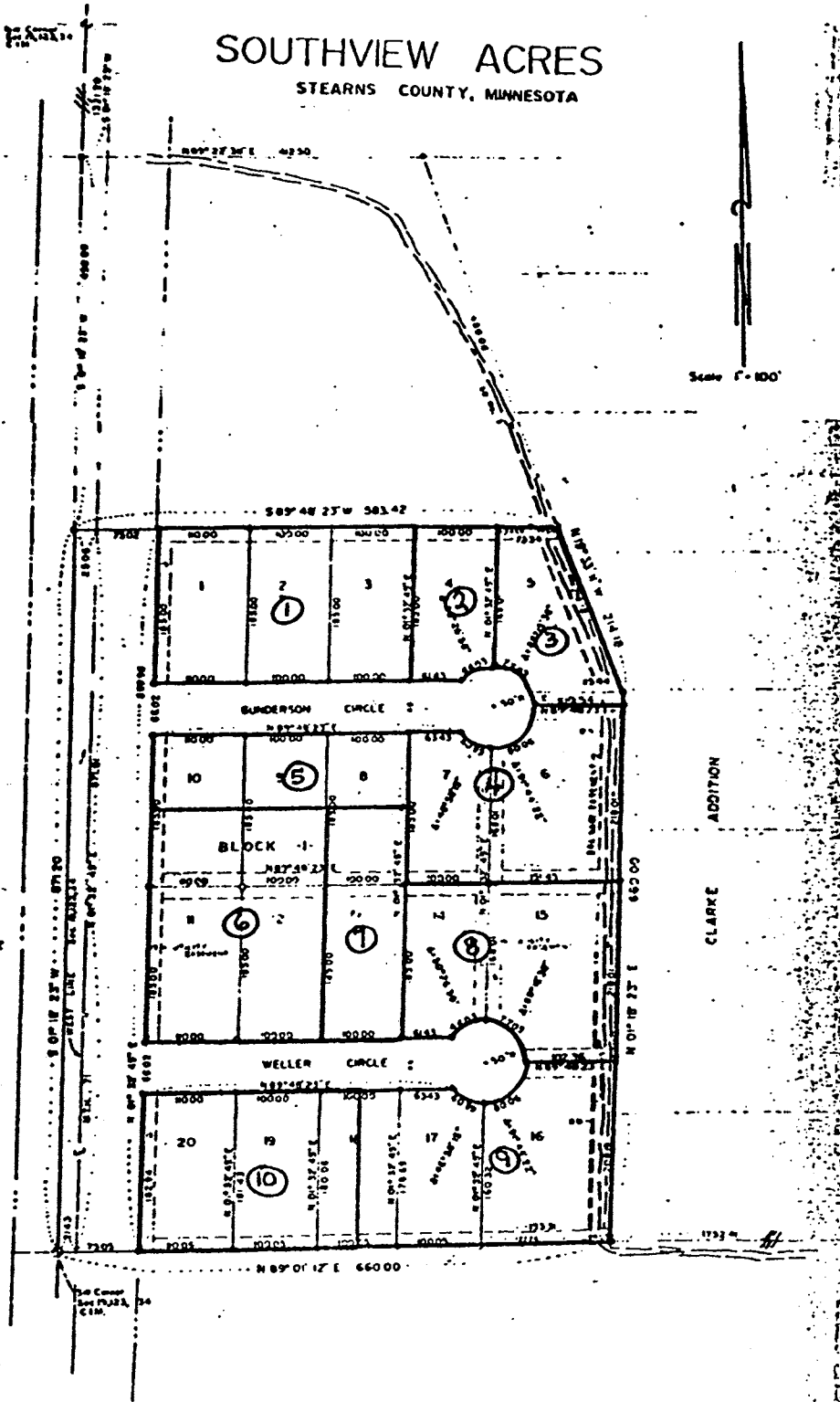
Legal Descriptions	Size	Square Feet
1. _____		
2. _____		
3. _____		
4. _____		
5. _____		
6. _____		
7. _____		
8. _____		
9. _____		
10. _____		

SOUTHVIEW ACRES

STEARNS COUNTY, MINNESOTA

Scale 1" = 100'

LOT	AREA	LOG
BLOCK 1		
LOT	SQUARE FEET	
1	20730	
2	18500	
3	18500	
4	18027	
5	23071	
6	30902	
7	18070	
8	18500	
9	18500	
10	20730	
11	20730	
12	18500	
13	18500	
14	18027	
15	31176	
16	29740	
17	17370	
18	17937	
19	18074	
20	20010	



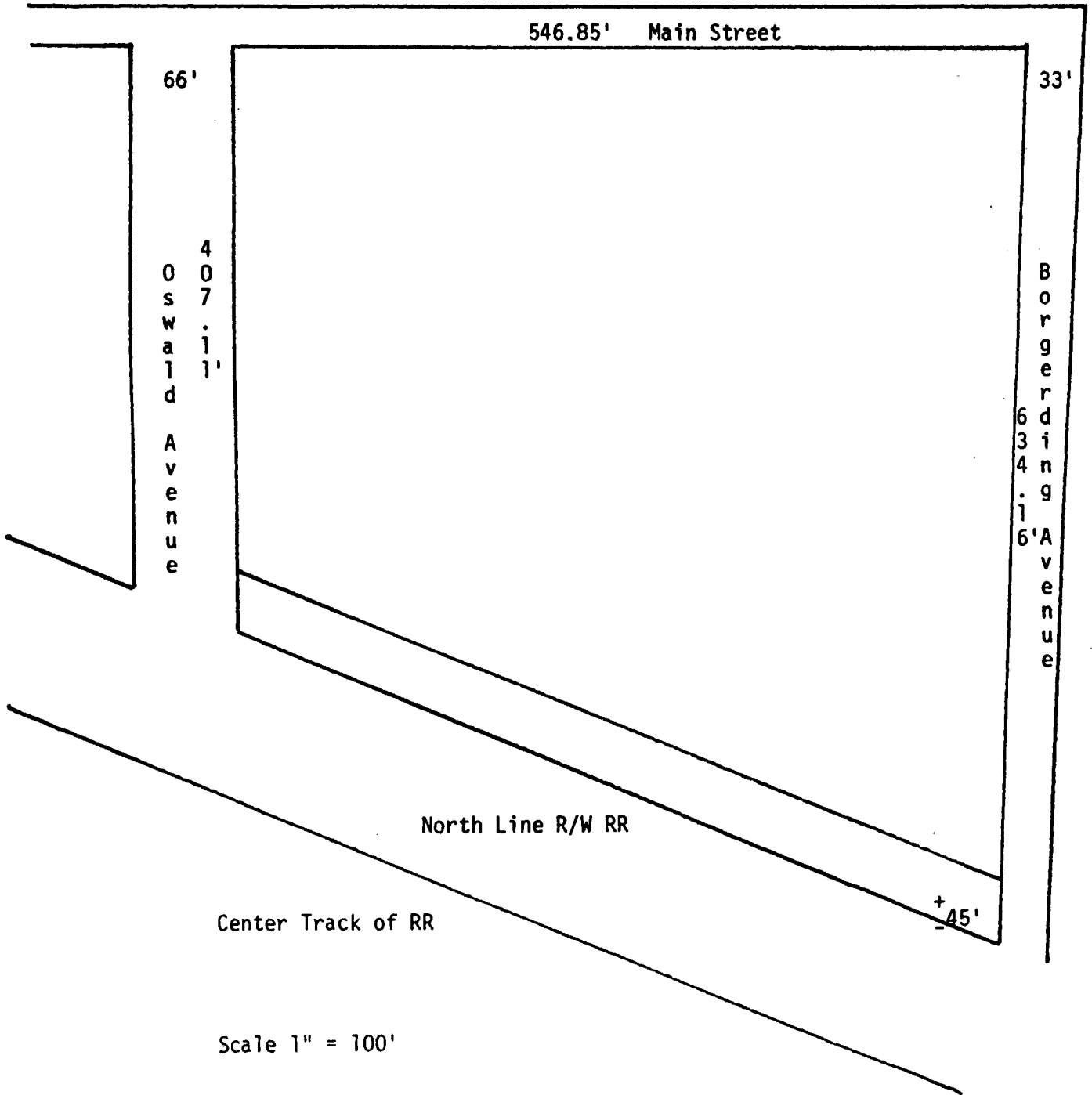
PROPERTY DESCRIPTION - URBAN PROBLEM #2

Block 1 Borgerding Addition
City of Belgrade

1. Draw in the location of the described parcel
2. Give the size of each parcel and also the square feet of each parcel
Scale is 1" = 100'

Parcel Number	Description
44-27230	Block 1 less N110' less etc. Less S57.11' of N 232.11' of W150', City of Belgrade, Borgerdings Addition
44-27231	N110' of W150' of Block 1, City of Belgrade, Borgerdings Addition
44-27231-05	W150' of E310' of N110' of Block 1, City of Belgrade, Borgerdings Addition
44-27231-10	E86.85' of W236.85' of N110' of Block 1, City of Belgrade, Borderdings Addition
44-27233	S65' of N175' of W150' Block 1, City of Belgrade, Borgerdings Addition
44-27234	E160' of N110', Block 1, City of Belgrade, Borgerdings Addition
44-27235	N346.5' of S396.5' of E165' less a 65' x 50' tract to NSP, Block 1, City of Belgrade, Borderdings Addition
44-27235-10	S50' of N235' of E310' and also W250' of E310' of S75' of N185' of Block 1, City of Belgrade, Borgerdings Addition
44-27229	S50' of E50' and a strip 15' x 50' on W side of above tract City of Belgrade, Borgerdings Addition

Block 1 Borgerding's Addition
City of Belgrade

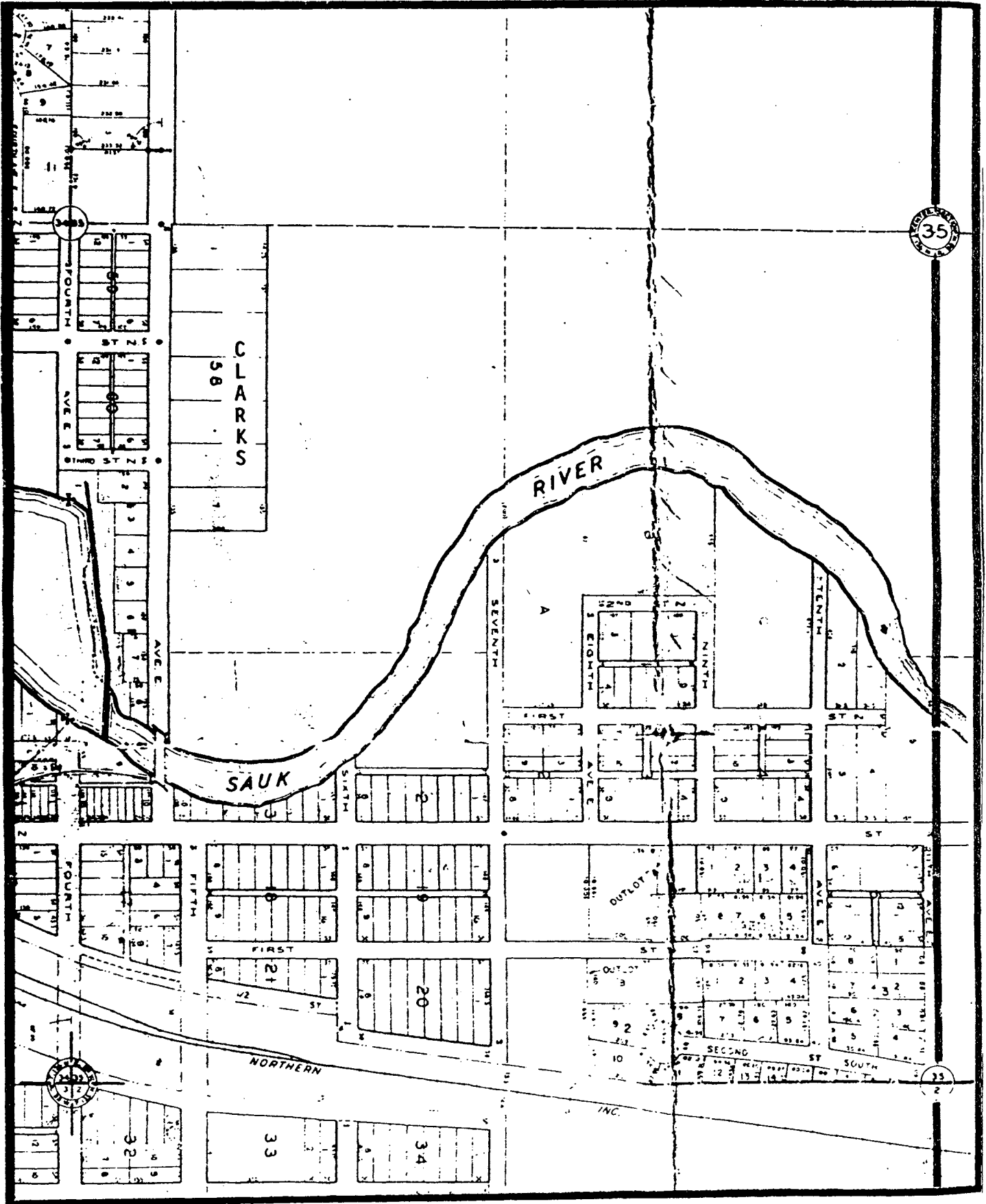


PROPERTY DESCRIPTION-URBAN PROBLEM #3

Metes and Bounds within Section 35, City of Melrose

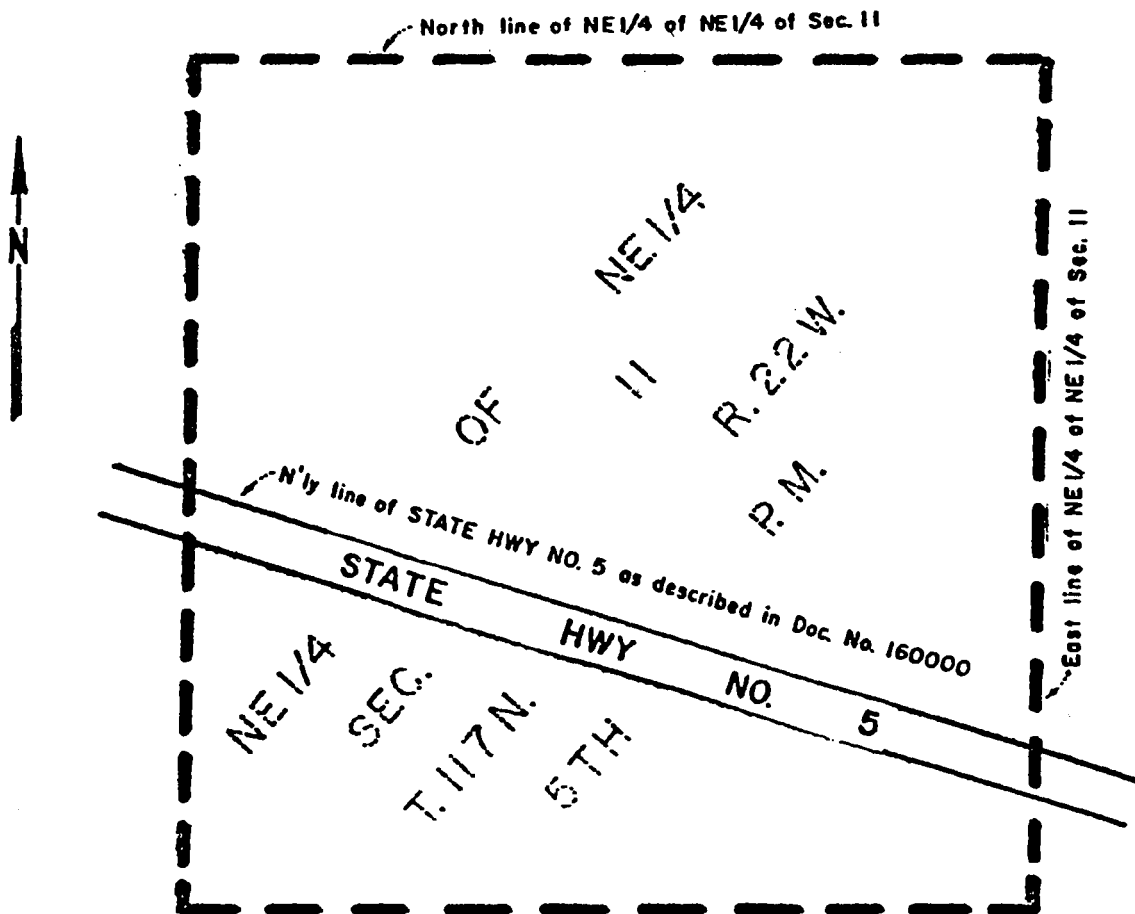
1. Draw in the location of the described parcel.
2. Scale is 1" = 400'

Parcel Number	Description
66-36465	S35-T126N-R33W 1.00A MOL that part of the W2SW4 lying S'ly of Sauk River and N'ly of Lots 2-3-4 and E2 of 5, Block 2, Townsite of City of Melrose.
66-36466	S35-T126N-R33W .05A That part of W2SW4 lying S'ly of Sauk River and N'ly of Lot 8 and W2 of Lot 7, Block 2, Townsite, City of Melrose.
66-36467	S35-T126N-R33W 22.57A E2SW4 N of River less W330' and less N183' of E150' of NE4SW4, City of Melrose.
66-36468	S35-T126N-R33W .63A N183' of E150' of NE4SW4, City of Melrose.
66-36469	S35-T126N-R33W .33A Beg on S line of Lot 7, Block 58, Clark's Addn. 147'E of SW cor then S96.25' then E to pt S of SE cor then N to cor then W to beg., City of Melrose.
66-36470	S35-T126N-R33W .35A S8' of W147' of Lot 7 in Block 58 of Clark's Addn. and W147' of N 96.25' of W2SW4 lying S of Lot 7, Block 58, Clark's Addn., City of Melrose.



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Metes and Bounds Description,"
prepared by Jesse E. Fant,
Alver R. Freeman, and Carlisle
Madson. Dept. of Civil
Engineering, U. of M., Mpls.,
February, 1972.

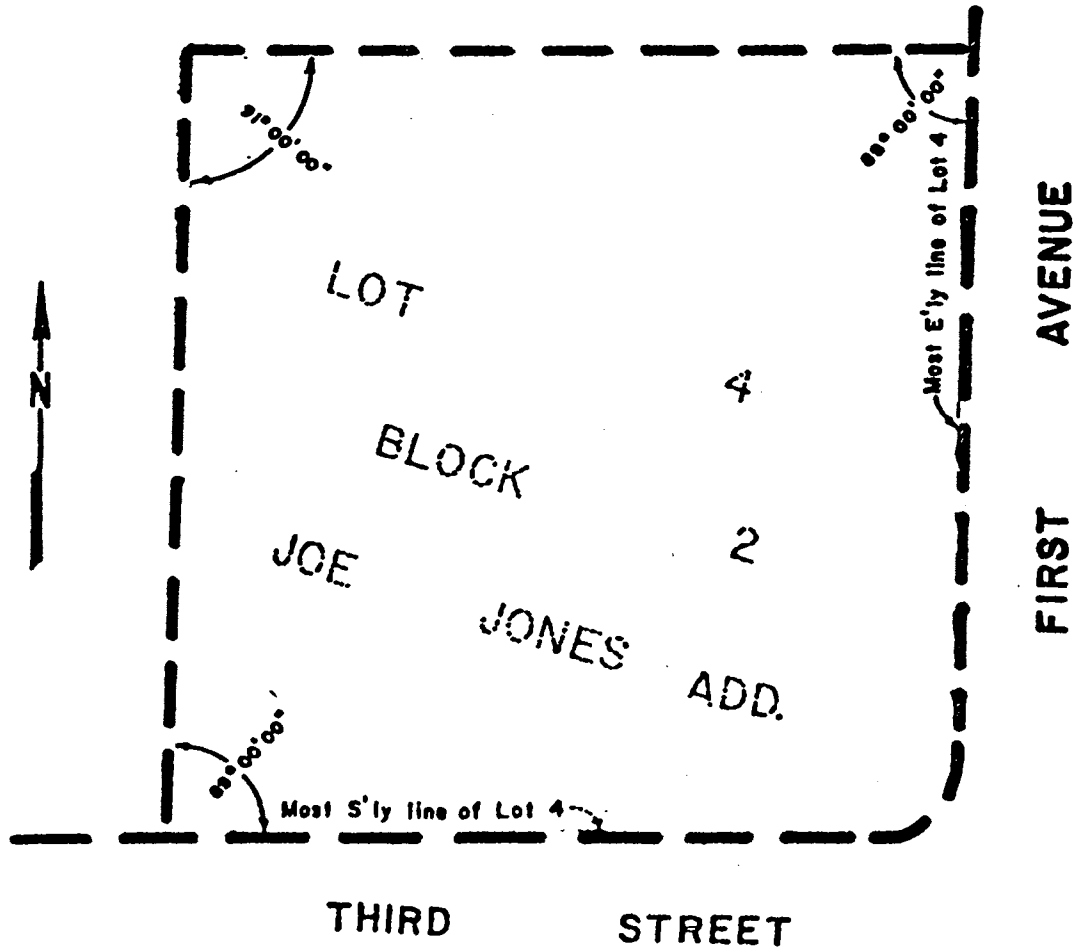
That part of the Northeast Quarter of the Northeast Quarter, Section 11,
Township 117 North, Range 22 West of the 5th Principal Meridian, lying
northerly of the northerly line of State Highway No. 5 as described in
Document No. 160000, and lying south of a line drawn west, at a right
angle to the east line of said Northeast Quarter of the Northeast Quarter,
from a point on said east line distant 300.00 feet south from the north-
east corner of said Northeast Quarter of the Northeast Quarter.



SCALE: 1" = 300'

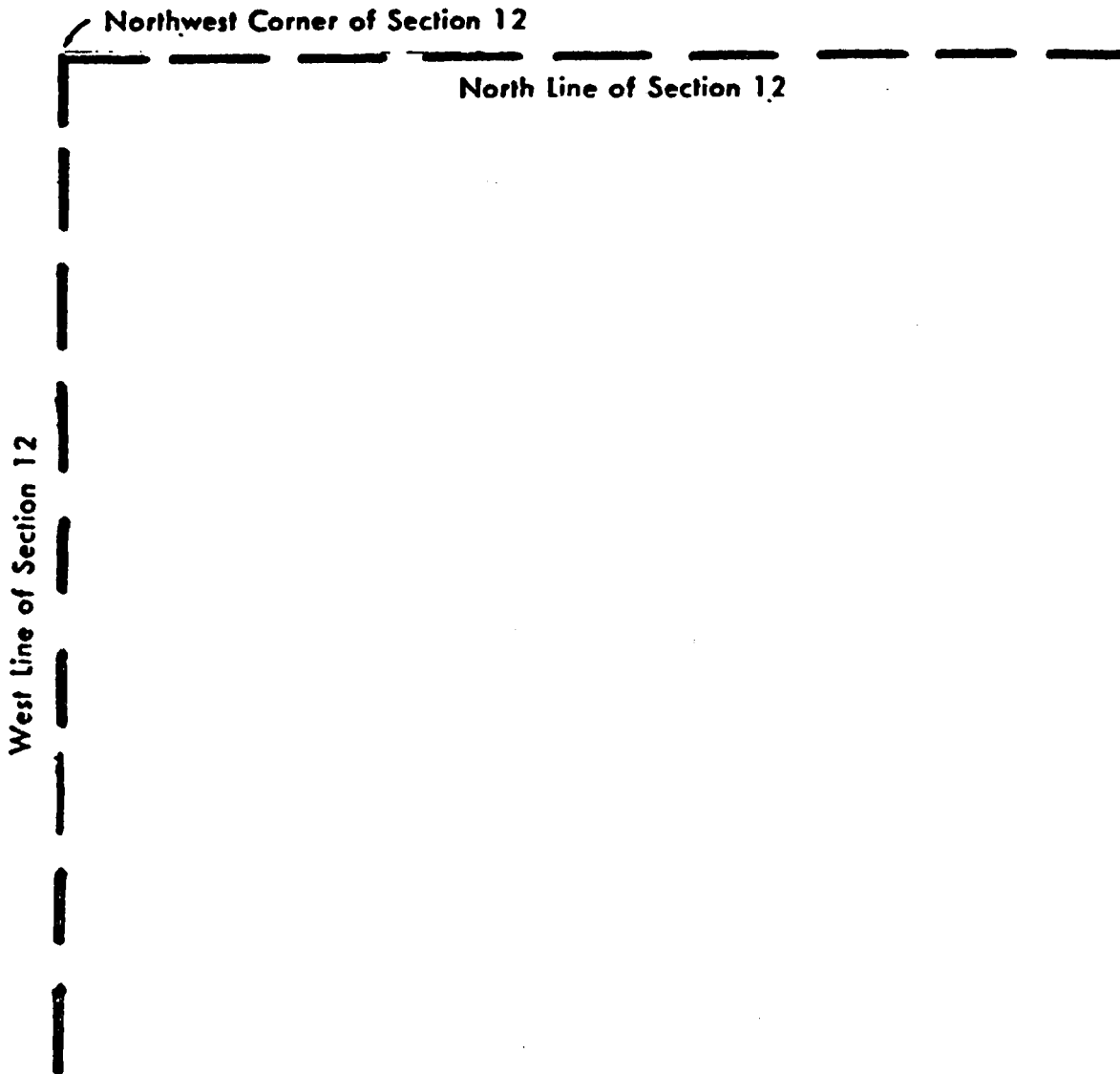
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February, 1972.

That part of Lot 4, Block 2, Joe Jones Addition, according to the recorded plat thereof, lying east of a line 70.00 feet west of, measured at a right angle to and parallel with the most easterly line of said Lot 4, and its southerly extension, which lies south of a line 100.00 feet north of, measured at a right angle to and parallel with the most southerly line of said Lot 4, and its easterly extension.



SCALE: 1" = 50'

Description of Tract: Commencing at the Northwest corner of Section 12 thence South along the section line 21 feet; thence East 10 feet for a place of beginning; thence continuing East 34 feet; thence South 62 degrees, 30 minutes East 32 feet; thence Southeasterly along a line forming an angle of 8 degrees, 04 minutes to the right with a prolongation of the last described course 29 feet; thence South 13 degrees, 0 minutes to the left with a prolongation of the last described line a distance of 49 feet; thence East to a line parallel with the West line of said Section and 180 feet distant therefrom; thence South on the last described line a distance of 65 feet; thence due West a distance of 82 feet; thence North 1 degree West 39 feet; thence North 58 degrees West a distance of 49 feet; thence Northwesterly along a line forming an angle of 163 degrees as measured from right to left with the last described line a distance of 49 feet; thence North the place of beginning.



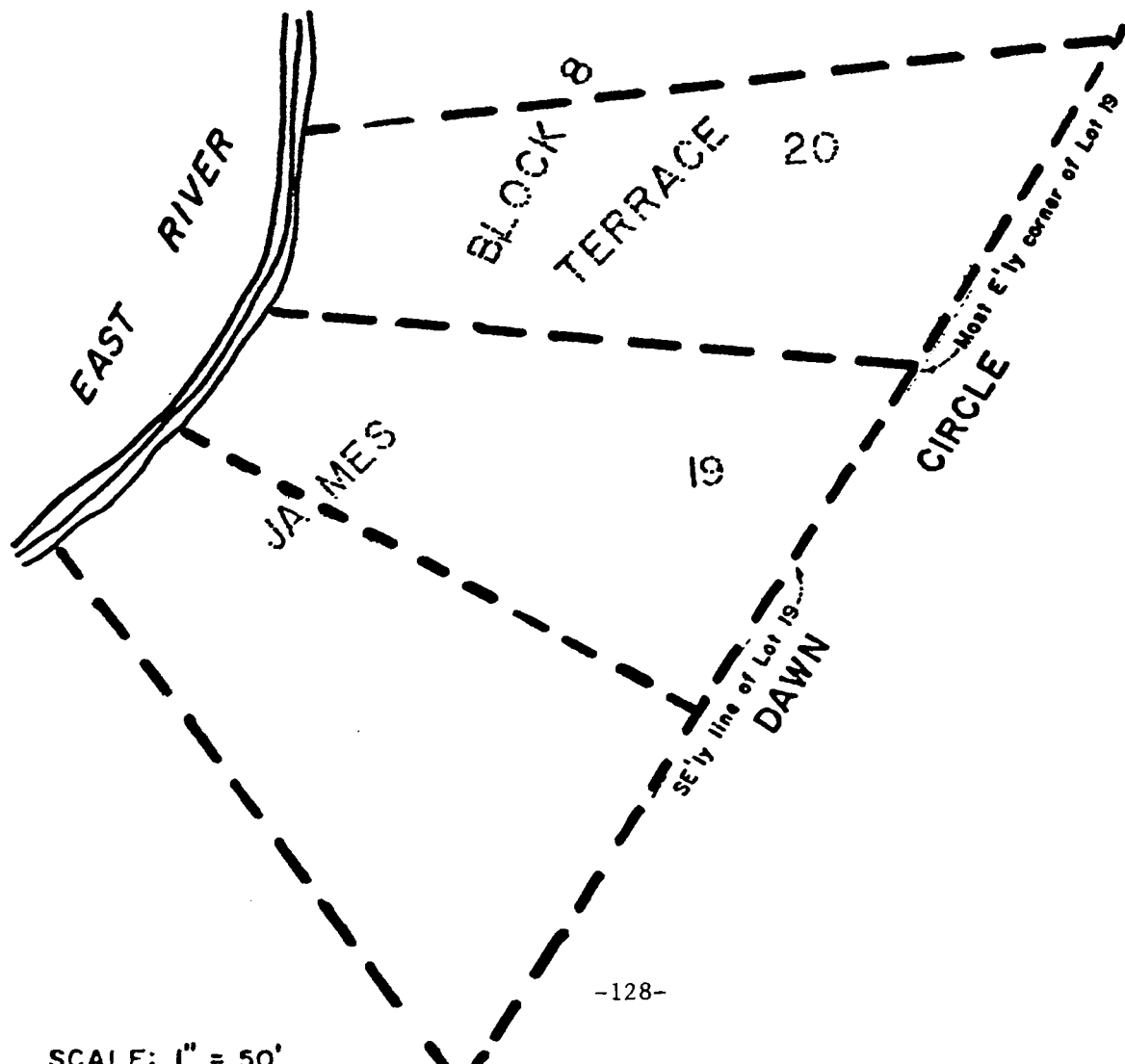
SCALE: 1" = 60'

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prepared by Jesse E. Fant,
Alver R. Freeman, and Carlisle
Madson. Dept. of Civil
Engineering, U. of M., Mpls.,
February, 1972.

Those parts of Lot 19 and of Lot 20, Block 8, James Terrace, according to the recorded plat thereof, lying southwesterly of a line described as follows:

Commencing at the most easterly corner of said Lot 19; thence southwesterly, along the southeasterly line of said Lot 19, a distance of 36.00 feet to the beginning of the line to be described; thence northwesterly, deflecting to the right 81 degrees 00 minutes 00 seconds, to the shore line of East River; and said line there terminating.



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Madson. Dept. of Civil
Engineering, U. of M.; Mpls.,
February, 1972.

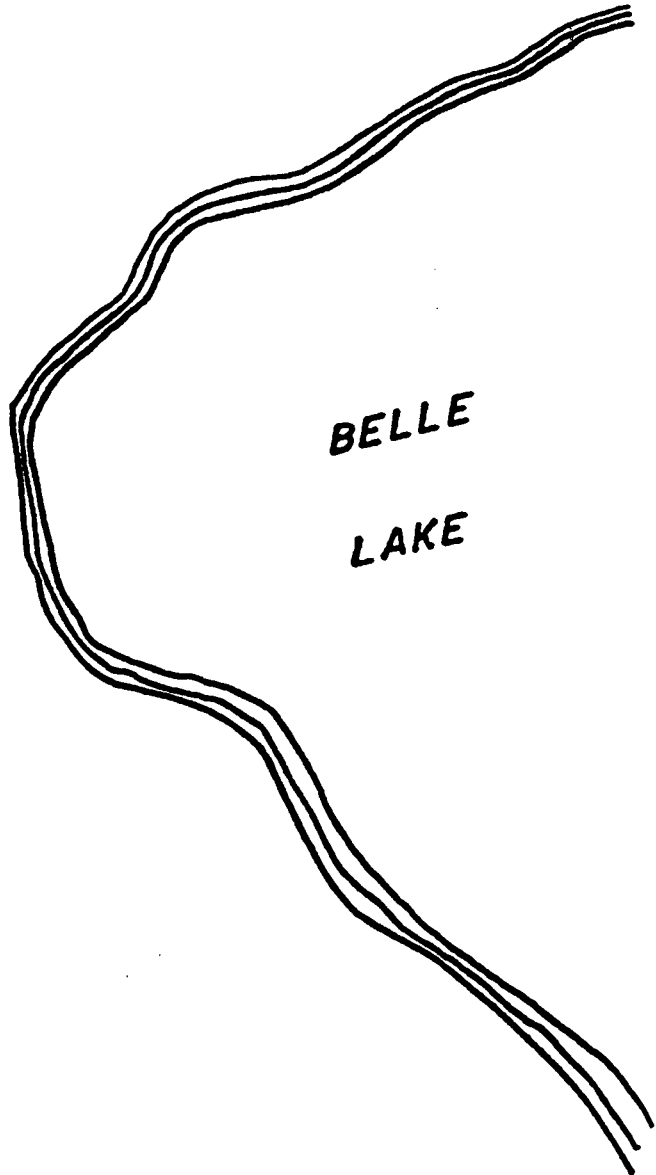
That part of Government Lot 3, Section 10, Township 116 North, Range 22
West of the 5th Principal Meridian, described as follows:

Commencing at a point on the west line of said government lot
distant 510.00 feet south from the northwest corner of said
government lot; thence easterly, parallel with the north line of
said government lot, a distance of 250.00 feet to the point of
beginning of the land to be described; thence southeasterly,
deflecting to the right 68 degrees 00 minutes 00 seconds, a
distance of 310.00 feet; thence easterly, parallel with said
north line, to the shore line of Belle Lake; thence northerly,
along said shore line, to the intersection with a line drawn
easterly, parallel with said north line, from the point of
beginning; thence westerly, along said parallel line, to the
point of beginning.

North line of Gov't Lot 3



West line of Gov't Lot 3



BELLE
LAKE

SCALE: 1" = 200'

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prepared by Jesse E. Fant,
Alver R. Freeman, and Carlisle
Madson. Dept. of Civil
Engineering, U. of M., Mpls.,
February, 1972.

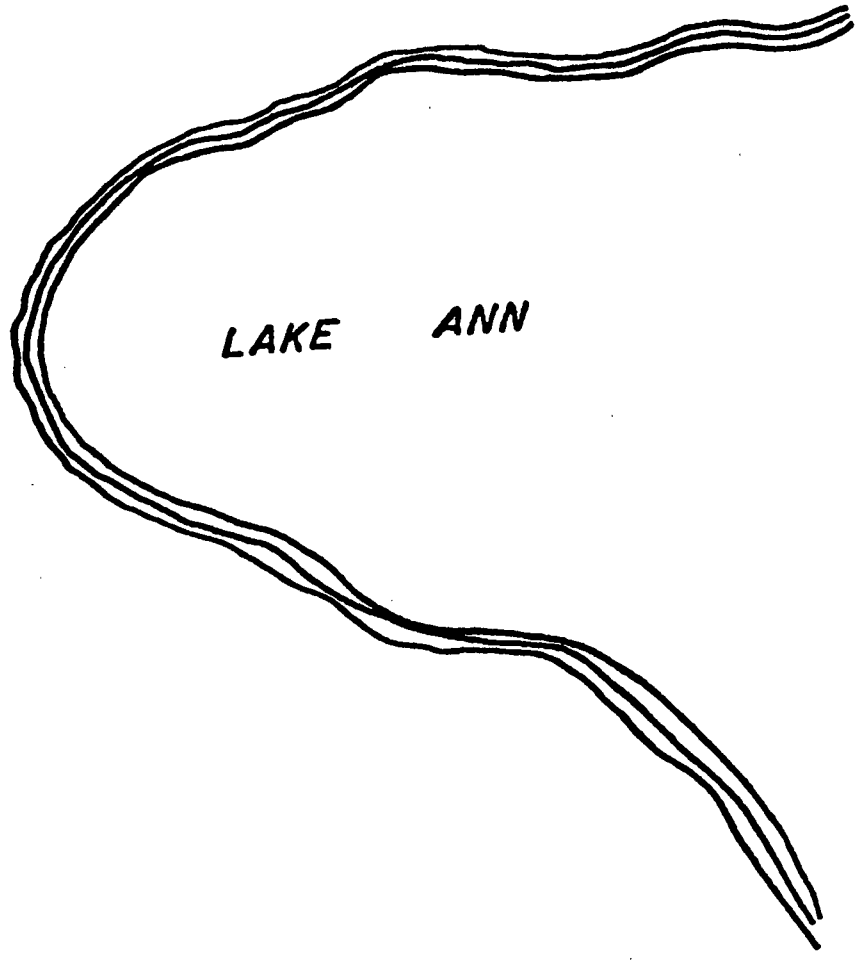
That part of Government Lot 3, Section 13, Township 116 North, Range 22
West of the 5th Principal Meridian, described as follows:

Commencing at the northwest corner of said Government Lot 3;
thence southerly, along the west line of said government lot,
to the intersection with a line 670.00 feet south of, measured at
a right angle to and parallel with the north line of said govern-
ment lot; thence on an assumed bearing of East, along said parallel
line, a distance of 310.00 feet to the point of beginning of the
land to be described; thence South 57 degrees 00 minutes 00 seconds
East a distance of 245.00 feet; thence on a bearing of East to the
shoreline of Lake Ann; thence northerly along said shoreline to the
intersection with a line 515.00 feet south of, measured at a right
angle to and parallel with the north line of said government lot;
thence on a bearing of West, along the last described parallel line,
to the intersection with a line bearing North 25 degrees 00 minutes
00 seconds East from the point of beginning; thence South 25 degrees
00 minutes 00 seconds West to the point of beginning.

North line of Gov't Lot 3



West line of Gov't Lot 3



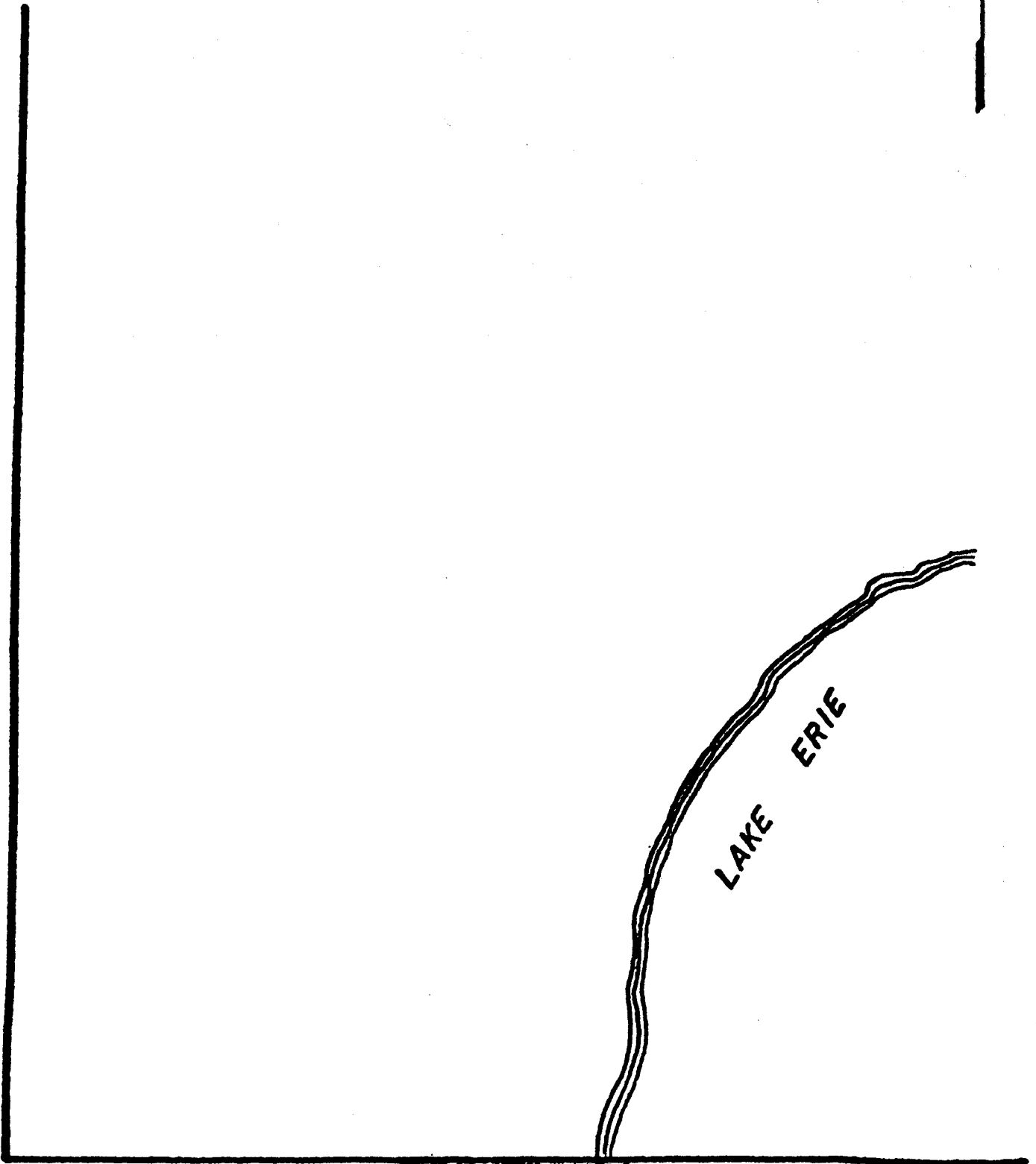
LAKE ANN

SCALE: 1" = 300'

Reprinted from "Report on
Metes and Bounds Description,"
prepared by Jesse E. Fant,
Alver R. Freeman, and Carlisle
Madson. Dept. of Civil
Engineering, U. of M.; Mpls.,
February, 1972.

That part of Government Lot 3, Section 26, Township 117 North, Range 25
West of the 5th Principal Meridian, described as follows:

Commencing at the southwest corner of said Government Lot 3; thence
on an assumed bearing of East, along the south line of said Govern-
ment Lot 3, a distance of 872.00 feet; thence North 11 degrees 30
minutes 00 seconds East a distance of 614.00 feet to the point of
beginning of the land to be described; thence continuing North
11 degrees 30 minutes 00 seconds East a distance of 231.50 feet;
thence South 57 degrees 25 minutes 00 seconds East a distance of
340 feet, more or less, to the shore line of Lake Erie; thence
southerly, along said shore line, to the intersection with a line
bearing South 79 degrees 23 minutes 00 seconds East from the point
of beginning; thence North 79 degrees 23 minutes 00 seconds West
to the point of beginning.



LAKE ERIE

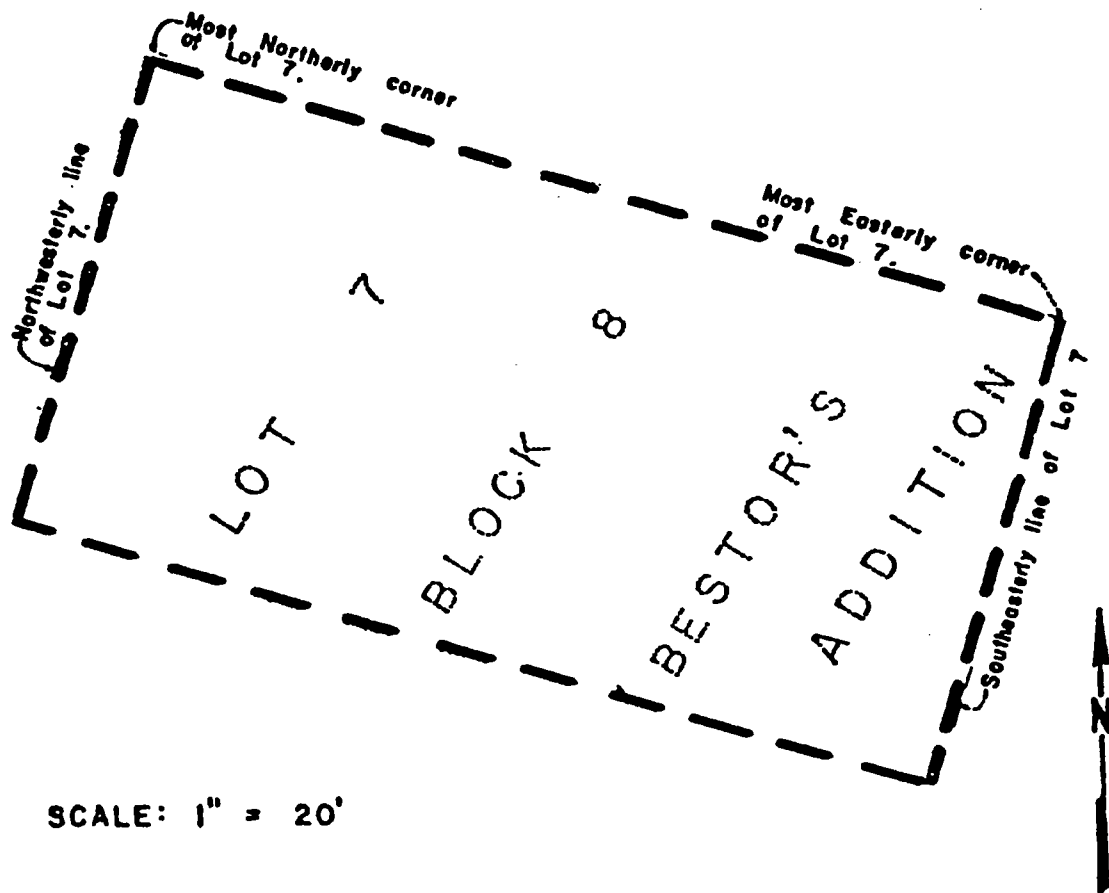
SW corner of Gov't Lot 3

South line of Gov't Lot 3, Sec. 26, T.117N, R.25W. of the 5TH PM.

SCALE: 1" = 300'

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Metes and Bounds Description,"
prepared by Jesse E. Fant,
Oliver R. Freeman, and Carlisle
Madson. Dept. of Civil
Engineering, U. of M.; Mpls.,
February, 1972.

That part of Lot 7, Block 8, Bestor's Addition, according to the recorded plat thereof, lying northerly of a curve concave to the north having a radius of 500.00 feet. Said curve begins at a point on the northwesterly line of said lot distant 32.50 feet southwesterly from the most northerly corner of said lot, and passes through a point on the southeasterly line of said lot distant 4.00 feet southwesterly from the most easterly corner of said lot.



PROPERTY DESCRIPTION - URBAN PROBLEM

1. Draw in the location of the described parcels.
2. Make the property split or bunch as requested.
3. Write a new legal description for the requested parcel.
4. Scale of 1" = 100'

<u>Parcel #</u>	<u>Description</u>
44-27230-00	N175' of W150' of Block 1, City of Belgrade, Borgerdings Addition
44-27231-00	S57.11' of N232.11' of W150', City of Belgrade, Borgerdings Addition
44-27232-00	N110' of E396.85' of Block 1, City of Belgrade, Borgerdings Addition
44-27233-00	S50' of N235' of E310' and also W250' of E310' of S75' of N185' of Block 1, City of Belgrade, Borgerdings Addition
44-27234-00	E60' of S75' of N185' of Block 1, City of Belgrade, Borgerdings Addition
44-27235-00	N349.16' of S399.16' of E165' less 65' x 50' tract to NSP of Block 1, City of Belgrade, Borgerdings Addition
44-27236-00	S50' of E50' and a strip 15' x 50' on the west side of the tract, Block 1, City of Belgrade, Borgerdings Addition
44-27237-00	Block 1, less N110'; less S122.11' of N232.11' of W150'; less S125' of N235' of E310'; less S399.16' of the E165', City of Belgrade, Borgerdings Addition

SPLIT THE FOLLOWING PARCELS:

1. 44-27230-00 to be split. New Parcel: 44-27230-01, S65' of N175' of W150' of Block 1, City of Belgrade, Borgerdings Addition.

If the total estimated market value for land was \$13,100 for 44-27230-00, then what is the allocation of estimated market value to each parcel?

Taxes are \$524.00 for the year. It is classified as vacant land commercial property. The mill rate is 100 mills. Split the taxes for each respective parcel.

Write a new legal description for 44-27230-00.

2. 44-27232-00 to be split. New Parcels: 44-27232-01, E86.85' of W236.85' of N110' of Block 1, City of Belgrade, Borgerdings Addition; 44-27232-02, W150' of E310' of N110' of Block 1, City of Belgrade, Borgerdings Addition.

If the total estimated market value for land was \$21,800 and the building value was \$50,000 for 44-27232-00, then what is the allocation of estimated market value to each parcel should the building be standing on 44-27232-00?

Taxes are \$2,187.40 for the year. It is commercial property that is assessed at 28% for the first \$60,000 of EMV and the balance is assessed at 43%. The mill rate is 100 mills. Split the tax for each parcel.

Write a new legal description for 44-27232-00.

BUNCH THE FOLLOWING PARCELS:

(1) Combine 44-27233-00 and 44-27234-00

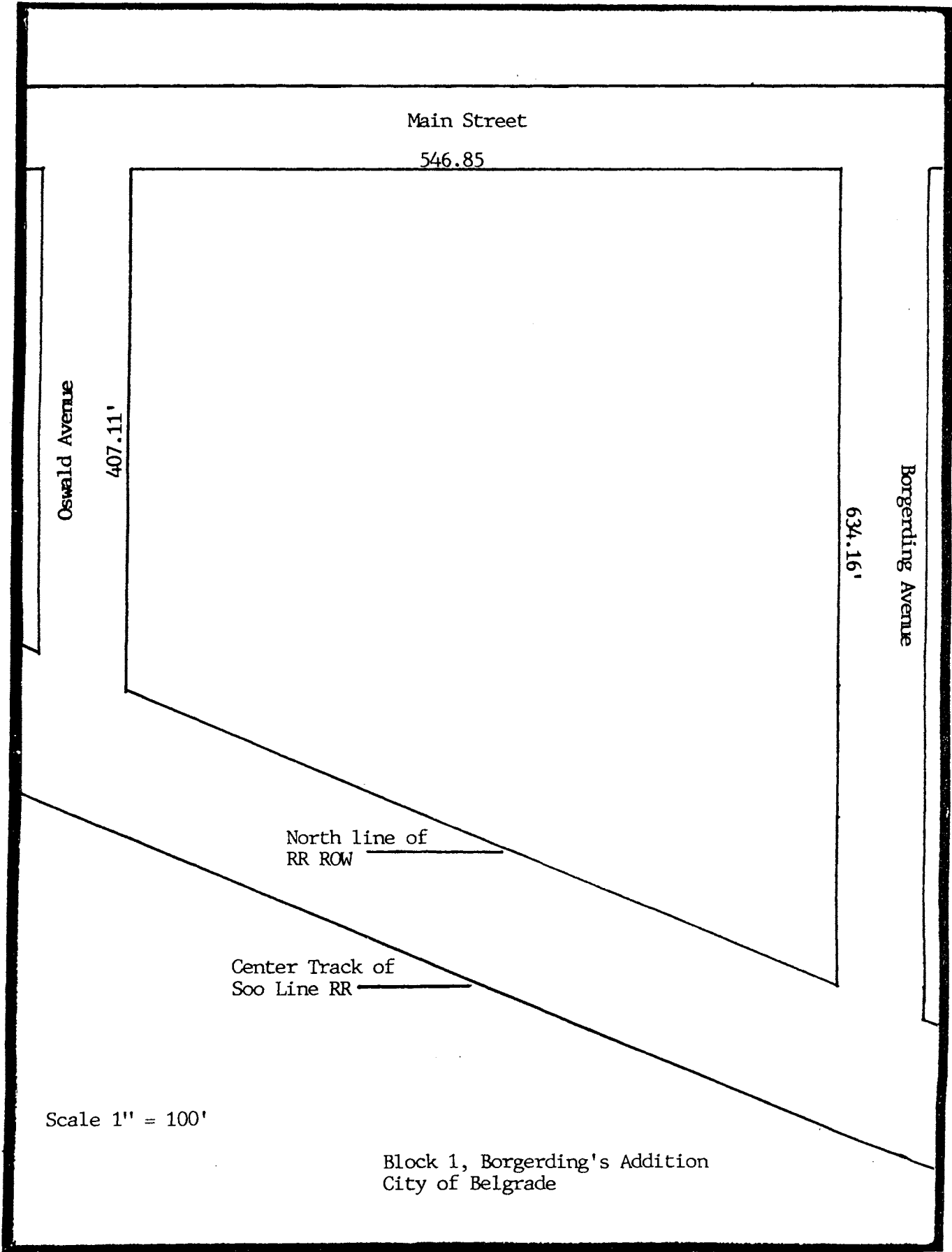
If 44-27233-00 is to remain as the active parcel and the other parcel is deleted, then what is the total estimated market value if 44-27233-00 has a market value for land set at \$16,900 and 44-27234-00 has a market value for land set at \$4,500?

Write a new legal description for 44-27233-00.

(2) Combine 44-27231-00 and 44-27230-01.

If 44-27231-00 is to remain as the active parcel and the other parcel is deleted, then what is the total estimated market value if 44-27231-00 has a market value for land set at \$8,600 and a market value for the buildings set at \$25,000 when parcel 44-27230-01 has a market value for land set at \$9,800.

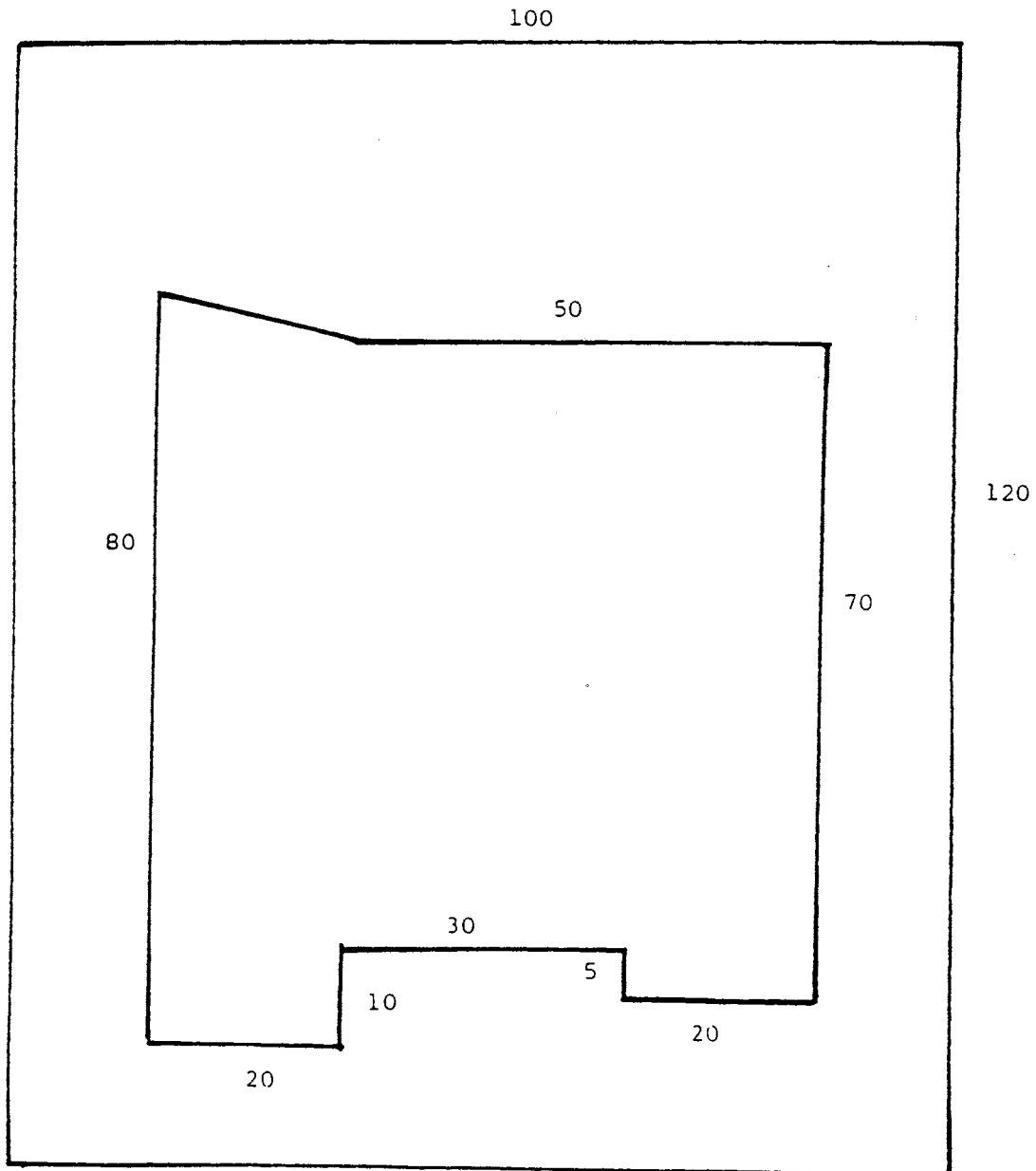
Write a new legal description for 44-27231-00.



MEASUREMENTS

VALUATION OF COMMERCIAL BUILDING BY COMPUTING AREA

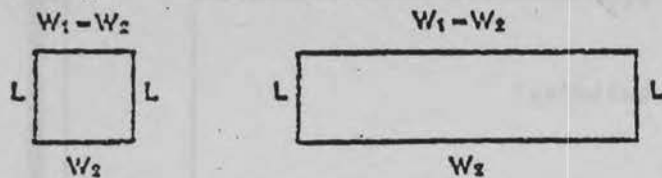
1. Lot Value .75 per sq. ft.
2. All land not covered by building is new asphalt as .25 per sq. ft.
3. Building Value new \$32.00 per sq. ft.
4. Building depreciation 10%
5. What is today's value of land and building?



FORMULA FOR COMPUTING AREAS

The area of any taxable parcel is equal to the length of the parcel multiplied by the average width of the parcel with length at right angles to width.

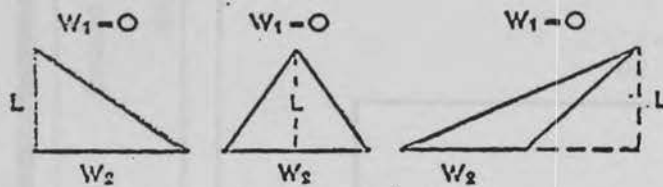
Case #1—Square or Rectangle



$$\text{Average width} = \frac{W_1 + W_2}{2} = \frac{2W_2}{2} = W_2$$

$$\text{Area} = W_2 \times L$$

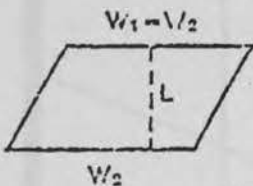
Case #2—Triangle



$$\text{Average width} = \frac{W_1 + W_2}{2} = \frac{0 + W_2}{2} = \frac{1}{2}W_2$$

$$\text{Area} = \frac{1}{2}W_2 \times L$$

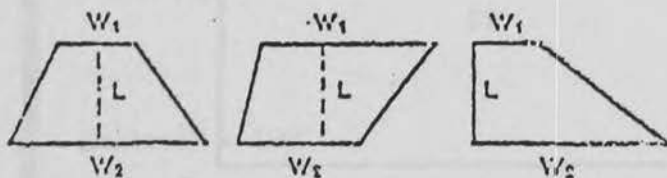
Case #3—Parallelogram



$$\text{Average width} = \frac{W_1 + W_2}{2} = \frac{2W_2}{2} = W_2$$

$$\text{Area} = W_2 \times L$$

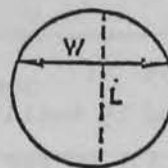
Case #4—Trapezoid



$$\text{Average width} = \frac{W_1 + W_2}{2}$$

$$\text{Area} = \frac{1}{2}L(W_1 + W_2)$$

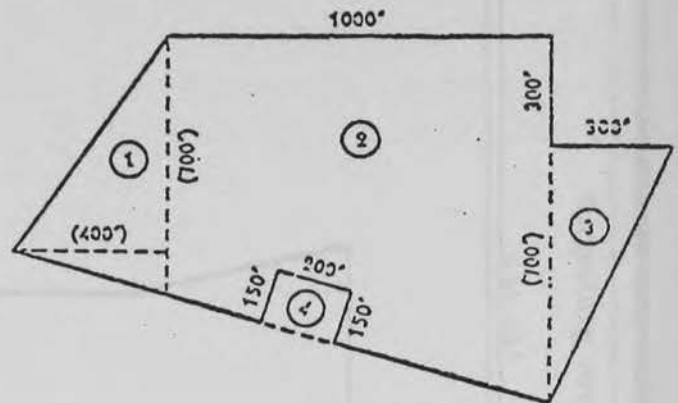
Case #5—Circle



$$\text{Average width} = .7854 L$$

$$\text{Area} = .7854 L \times L$$

When a parcel is too complex to work as a single computation, it is best to divide the total area into smaller areas as shown in the following example:

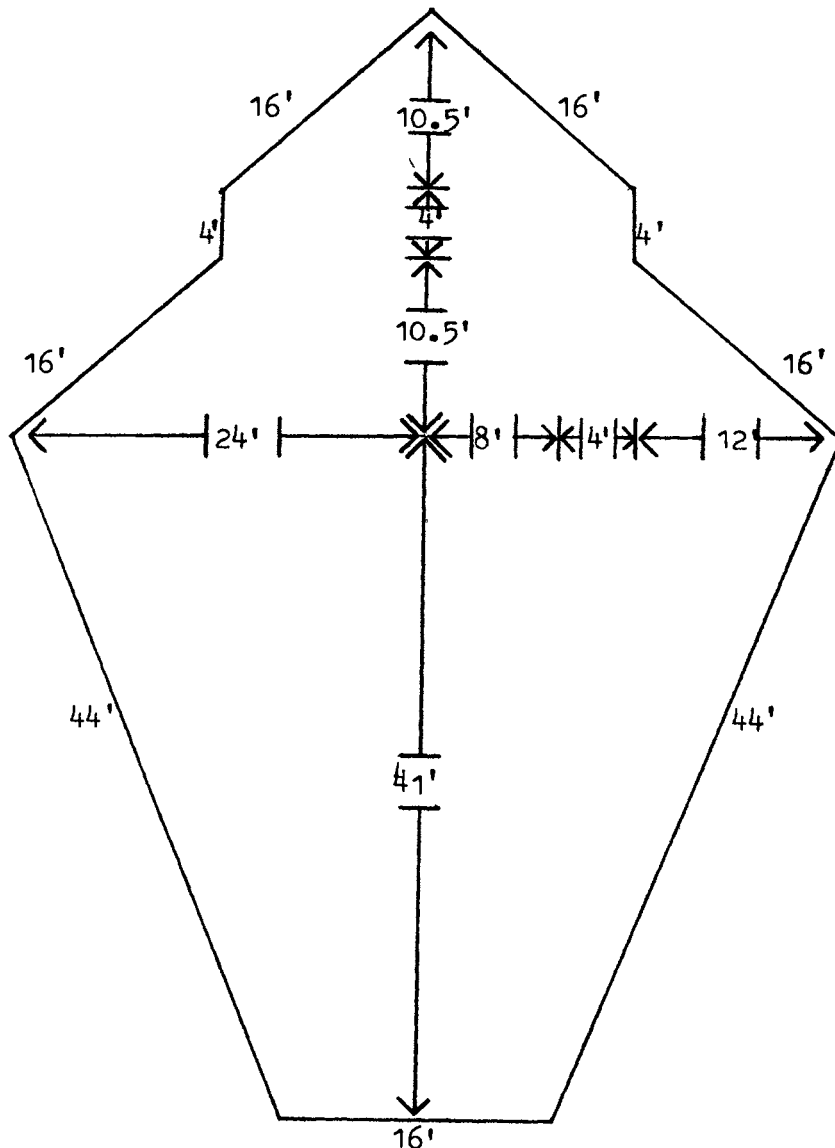


Area (1) + Area (2) + Area (3) - Area (4) = Total	
Area (1) = $\frac{1}{2} \times 400 \times 700 =$	140,000 sq. ft.
Area (2) = $\frac{1}{2} \times (700 + 1900) \times 1000 =$ $\frac{1}{2} \times 1700 \times 1000 =$	250,000 sq. ft.
Area (3) = $\frac{1}{2} \times 300 \times 700 =$	105,000 sq. ft.
	<hr/>
	1,000,000 sq. ft.
Area (4) = $150 \times 200 =$	-20,000 sq. ft.
	<hr/>
TOTAL SQUARE FEET =	1,065,000
(1 sq. ft. = 0.000023 Acres)	<hr/>
	24,300.00
	<hr/>
TOTAL ACREAGE =	24,375,000

CALCULATION OF SQUARE FOOTAGE

While picking up new construction in your town you come across a new partially completed house built in an "interesting" shape. In talking to the carpenter he indicates the house is about 1,800 square feet in size but that you can measure it if you want. Along with the perimeter measurements you are able to take a cross measurement from the inside.

Back at the office you draw the scale drawing shown below. Calculate the square footage of the house. Did the carpenter know from whence he spoke?



RATIO STUDIES

Problem #1

<u>Sale Price</u>	<u>EMV</u>	<u>Individual Sale Ratio</u>	<u>Individual Sale Ratio Less Median</u>
15,000	13,900		
50,000	45,000		
72,000	65,100		
36,000	32,900		
63,500	56,800		
22,500	21,400		
58,250	52,400		

1. Compute the individual assessment sales ratios. (Round to the nearest .001 and record in percentage i.e. .927 = 92.7%)
2. Compute the mean assessment sales ratio.
3. Compute the aggregate assessment sales ratio.
4. Given that the state requires a minimum aggregate level of assessment on residential property of 90%, discuss the quality of assessment based on the information found in #1 - 3.
5. Compute the price related differential.
6. Find the median assessment sales ratio.
7. Compute the coefficient of dispersion.
8. Discuss the quality of assessment based on all of the above information.

RATIO STUDIES

Problem #2

Given the following 9 residential sales:

<u>Sale Price</u>	<u>'86 EMV</u>	<u>Individual Sale Ratio</u>
45,000	44,000	
75,500	65,200	
32,500	34,500	
10,000	15,000	
71,000	60,000	
51,500	50,000	
14,500	18,300	
62,000	53,800	
25,750	28,900	

1. Compute the individual assessment sales ratios. (Round to the nearest .001 and record in percentage i.e. $.924 = 92.4\%$)
2. Compute the mean assessment sales ratio.
3. Compute the aggregate assessment sales ratio.
4. Given that the State requires a minimum aggregate level of assessment on residential property of 90%, discuss the quality of assessment based on the information found in #1 - 3.
5. Compute the Price Related Differential.
6. Find the median assessment sales ratio.
7. Given that the coefficient of dispersion equals 15.88 (this has been worked for you), discuss the quality of assessment based on all the above information. How would you correct any deficiency?

HIGHEST AND BEST USE: ANALYSIS AND ESTIMATE

The ultimate objective of property analysis is to develop a conclusion as to the Highest and Best (or Most Probable) Use of the site and of the improved property. The information gathered and analyzed is all oriented toward that objective.

A. Definition

1. Highest and Best Use is "that reasonable and probable use that will support the highest present value, as defined, as of the effective date of the appraisal."
 - a. Most Probable Use is "highest and best use in the context of market value."
2. Both the site and the improved property have a Highest and Best (or Most Probable) use at any given point in time. The Highest and Best Use of the improved property may or may not be the same as the Highest and Best Use of the site.
3. The determination of highest and best use results from the appraiser's judgment and analytical skill, i.e.,...the use determined from analysis represents an opinion, not a fact to be found."
4. Highest and Best Use must be reasonable, probable and proximate (likely to occur soon, if not immediately). It is not speculative or conjectural. It may or may not be the present use of either the site or the improved property.
5. Highest and Best (or Most Probable) Use can change over time as external market forces change. These include effective demand (and all its components, public tastes and standards, land use regulations (especially zoning), competition. In addition, the character of the subject property itself may change, thereby changing its Highest and Best Use. This is why Highest and Best (or Most Probable) Use is always estimated as of the valuation date.
 - a. In some instances, Highest and Best Use may anticipate the market, provided the conclusion is reasonable, probable and proximate.

B. Rationale of Highest and Best Use

A property must have utility reflected through market demand to have a market function. In turn, function determines use, and use is a major determinant of value, in the context of existing current market forces. Since Market Value in particular is always the highest price that an informed and prudent purchaser would pay, the use in terms of which Market Value is estimated is Highest and Best Use.

C. Tests of Highest and Best Use

In estimating Highest and Best Use, following Property Analysis (Site analysis and Improvements analysis, as applicable) the appraiser goes through essentially four stages of analysis, as indicated in earlier Sessions:

1. Possible Use (Physical). What uses are physically possible on the subject site or in the subject improvements, given the physical characteristics revealed by property analysis?
2. Permissible Use (Legal). What uses are permitted under existing zoning and other land use regulations and controls, and under existing deed restrictions, for the subject property?
3. Feasible Use (Appropriate Use). Among legally permitted and physically possible uses for the subject property, which are appropriate given the characteristics revealed by market, neighborhood and property analysis? Which uses produce any net return to the owner, or a positive net present value?
4. Highest and Best Use. Among appropriate or feasible uses for the subject property, which use will produce the highest present value?

D. Highest and Best Use of Site

1. Site is always valued as if vacant and available to be put to its Highest and Best Use, when Market Value is to be estimated.
2. In the analysis of Highest and Best Use, the appraiser must consider not only the suitability of the site for the existing or proposed use, but its suitability for alternative uses not specifically mentioned in the appraisal assignment as well. He must discover that use which is most probable from the point of view of the typically informed buyer on the market. This is the use that will produce the highest present worth of the site.

In the analysis, the appraiser must identify a program of development of the site which will produce the greatest future benefits to the owner. He must also estimate the form that these benefits will take, and the time period over which they can reasonably be anticipated to be received. In this process, the standard of Highest and Best Use is measured by this program which will develop the site to its full potential utility.

The appraiser must answer the following questions:

- (1) What is the site suited for?
- (2) What is permitted on the site?
- (3) What do its physical characteristics preclude?
- (4) What does the economic character of the site and the market environment preclude?
- (5) What would current buyers have in mind in bidding for this site?

If he can justify his answers to these questions, the appraiser has a defensible presentation of Highest and Best Use analysis.

3. Site analysis is necessary prior to a conclusion as to Highest and Best Use of the site. It also provides insights into the desirability of the current use program of the site. Should it be continued, or should it be changed (supersession of uses)? This is used later in appraisal analysis to ascertain what contribution the improvements are making to the value of the total property. It helps in comparing the Highest and Best Use of the site with the Highest and Best Use of the property. Any difference in value resulting from differences in these two uses is functional obsolescence chargeable to the improvements.

E. Highest and Best Use of the Property

1. This always takes into consideration existing improvements, as identified and characterized by Property analysis (Improvements analysis).
2. When there are existing improvements, the Highest and Best Use of the site may be different from that of the improved property. For property valuation purposes, the applicable Highest and Best Use is that of the improved property, which always includes retention and use of the existing improvements.
3. Present use of the property may differ from Highest and Best Use of the site. "The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use." Therefore, the present use of an improved property is presumed to be its Highest and Best (or Most Probable) Use unless it can be demonstrated that change is imminent through the impact of market demand or legal (land use control) forces.
 - a. If change is demonstrated to be imminent, then the existing buildings are to be razed or substantially altered to put the property to a new (Highest and Best) use. In this case, property value is no more than vacant site value.

F. Requirements to Find Highest and Best Use

1. Thorough knowledge of the subject property and its characteristics, through Property analysis.
2. Thorough knowledge of the community and market forces, through Area and Neighborhood analysis.
3. Knowledge of the principles of land and property utilization.

HIGHEST AND BEST USE

PROBLEM I

INTRODUCTION

This problem deals with a vacant residential site in an established neighborhood.

The participants must analyze data relative to the questions of physical and legal possibilities.

The problem is solved by use of a land residual technique using simple market estimates, but overlapping value conclusions require the participant to apply judgment relative to financial feasibility and maximum productivity.

Discussion questions are designed to anticipate some of the points that may be raised in working out a solution to this problem.

HIGHEST AND BEST USE
PROBLEM I

RESIDENTIAL LOT

SITE 82.5 ft. wide x 170 ft. deep; inside lot. Down slope of 100% (45 degree) served with gravel dedicated city street; sewer, water, wooded, with excellent view.

IMPROVEMENTS None

LOCATION Edge of old, well-established neighborhood; improved property values range from \$45,000 to \$200,000. Strong pride of ownership. Immediate neighborhood is developed with newer residences on difficult-to-develop lots that range in price from \$150,000 to \$170,000.

ZONING Single-Family Residential. Minimum lot area 4,000 sq. ft.; 40 ft. minimum width; 70 ft. minimum depth; 12 ft. frontyard setback; 40 ft. minimum frontage; zero-lot-line, requiring no frontyard setbacks, permitted on inside lots.

TRENDS Some zero-lot-line housing development is occurring throughout the community but is generally located in lower middle-class neighborhoods. Detached construction dominates in upper middle-class locations and on high-amenity lots. Overall, conventional single-family construction is predominant.

COMPARATIVE DATA

Zero-lot-line dwellings range from \$80,000 to \$100,000.

Estimated site value contribution averages 10%. These could be built with pole-type construction with not excessive cost because of steep topography. Site value for single-family construction ranges from 15% to 18%. An architect has advised that the site topography will increase construction cost 5% for additional site preparation. The desirability of the neighborhood supports the marketability of good-quality housing.

ESTIMATE THE HIGHEST AND BEST USE OF THE SITE.

HIGHEST AND BEST USE
PROBLEM II

INTRODUCTION

This problem involves an improved transitional property. Physical and legal criteria are implicit, namely, commercial use.

The participant must consider development alternatives and estimate the value of the land as though vacant and the property as improved to estimate the highest and best use of the property. Land and property residual techniques are employed.

Judgement must be exercised relative to financial feasibility and maximum productivity of the property in the alternate uses to reach a final conclusion.

The instructor may introduce additional discussion questions that may include the forecasting of appreciation and consideration of the relative merits of long-term investment alternatives.

HIGHEST AND BEST USE
PROBLEM II

RESIDENCE IN TRANSITIONAL AREA

SITE

100 Ft. x 115 ft. inside lot; level. Served with four-lane curbed street, sidewalk, sewer, and water.

IMPROVEMENTS

Residence built 1940; contains 1,050 sq. ft. first floor and finished attic of 570 sq. ft., one-half bath, four bedrooms, and attached single garage. Frontyard setback is 20 feet. Comparable house in residential location would have a market value of \$60,000.

LOCATION

Strip commercial location on major arterial in a community of 150,000. Arterial serves upper middle-class residential area.

ZONING

Commercial Retail. Zone permits commercial retail, commercial office, and related uses. Conditional uses include selected light manufacturing, auto repair, etc. Frontyard setback on new construction is 5 feet.

TRENDS

Commercial land values have increased rapidly and are supported by good-quality development. Some houses with good structural characteristics have been renovated and converted. Traffic count and location support more development of convenience facilities, such as fast food restaurants, convenience grocery stores, or specialty shops.

COMPARATIVE DATA

The market supports a value for the site, as if vacant, of \$80,000. If renovated, the house would rent as commercial office, a travel agency, insurance agency, or appraisal firm for \$900 per month, with vacancy projected at 5%, and total expenses projected to be 16% of gross potential income. The market supports a 10% overall rate for this quality property. Conversion cost is estimated at \$7,500. If the structures are razed, net razing cost is estimated at \$4,200.

ESTIMATE THE HIGHEST AND BEST USE OF THE SITE

HIGHEST AND BEST USE
PROBLEM III

INTRODUCTION

This problem involves an older high-rise office building in a central business district. Physical and legal criteria are implicit.

Financial feasibility and maximum productivity must be estimated by analysis of the data. By use of a property residual technique, the participant tests net income before and after renovation. Because of the closeness of the net operating income estimates, a judgement analysis is required relative to prudent property management and the stability of the net income stream.

The discussion question introduces significant functional deficiencies and requires the participant to evaluate the possibility of completely razing the improvements.

HIGHEST AND BEST USE
PROBLEM III

MULTISTORY BUILDING

SITE Corner site 200 ft. x 100 ft., or 20,000 sq. ft.; level. Four-lane, one-way street on front. Side street is two-lane, one-way. Traffic grid is favorable to property. Land value is estimated at \$100 per sq. ft.

IMPROVEMENTS Fifteen-story office building containing 265,000 gross and 215,000 net rentable sq. ft., including first-floor area.

LOCATION Central business district of a medium-size midwestern city. The city core is stable. Office and retail occupancy is good, averaging about 6% vacancy.

ZONING Central Business District. Permits development density (building to land) of 12 to 1. Existing building is nonconforming to the extent of its slight excess development.

HISTORY, TRENDS, DATA Stable office and retail use projected for the foreseeable future. The property has obsolete lobby and first-floor area, with 17,000 sq. ft. of rentable space on first floor. Currently rented to four tenants: a news/candy store, a delicatessen, a discount camera store, and a men's clothing store. First-floor rents are \$12.00 per sq. ft. Three tenants are month to month. The fourth

tenant has three years remaining, but will vacate with payment of \$18,000. A stock brokerage firm will rent entire floor for \$18.50 per sq. ft. for 10-year term if renovated. Estimated renovation cost including rent loss during construction is \$534,500, including lobby area. Office rents on second through fifteenth floors are \$9.00. The building is a good, Class B office in good condition. Operating expenses, including vacancy, average 45%. Current overall rate is 10%.

IS THE RENOVATION JUSTIFIED?

HIGHEST AND BEST USE
PROBLEM IV

A single family home is located on a commercial zoned site measuring 80 feet by 150 feet. Market rent for residential is \$480.00 monthly, unfurnished. The appropriate GRM is 125. Current value of the commercial site is \$4.75 per square foot. Commercial values are inflating at 10% per year and residential values are stable. Renovation from residential to commercial use would cost \$4,000. Rent would then be \$7,500 per year with a 5% vacancy rate and \$1,000 in expenses. The appropriate overall capitalization rate is 10.0%. Razing costs would be \$2,000. What is the highest and best use?

UNIVERSITY OF MINNESOTA



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