Agricultural Buildings and the Assessment Process

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In this presentation I will try to address problems with the current mandates in the valuation of agricultural outbuildings.

Assessors are currently required to calculate replacement costs for these structures, remove equipment , calculate depreciation, obsolescence, apply an agricultural factor representing the difference in the market value of the ground from it's productivity value, then remove the value of the pit if the owner signs an exemption.

The results of this valuation methodology are approximately an 85-90% reduction from replacement cost.

The most egregious error occurs when the "Ag" factor derived from the land is applied to buildings. The productivity of agricultural buildings and land are unrelated and to apply one to the other is inappropriate and does not reflect the true contribution of the buildings to the operation.

Remember that the valuation of agricultural land and buildings is a closed system. If the value of ag buildings rises, the assessed value of the land decreases and the reverse is also true. With the current application on an "ag" factor to the outbuildings reducing them to a minimal value, those that farmers that have minimal investments in buildings pay on higher land values.

Another fact to remember is the exemption of the pits for pollution control shrinks the total value of agricultural property below even the "closed" productivity and net earning capacity calculation.

I would recommend a study of the true productivity of agricultural buildings be initiated and utilized to value these structures. This would result in a more equitable distribution of the costs for services between the livestock intensive entities and the grain producers.

Assessment of Commercial Property
The Income Approach

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The valuation of real property generally involves the correlation of the three generally accepted approaches to value, cost, income and market.

The preferred method of valuing commercial property for assessments is a market adjusted cost approach. These costs are based on calculations derived from State of Iowa Real Property Appraisal Manual adjusted by a local modifier.

For several years I believed the income approach has been underutilized if not entirely ignored in the commercial valuation process. The private sector appraisals generally weight their value estimates toward the income approach when they appraise income producing properties for good reason. That is the driver of values for investors and marketers of income producing properties.

In Iowa we have drifted, in my opinion, to relying on the commercial sector for a disproportionate share of property tax revenue. Missing in our calculations has been an indication of properties ability to bear this expense.

The income approach addresses this issue by factoring the effective tax rate into the capitalization rate of the net operating income. What in effect you are accomplishing is viewing the property as an investor would to establish an appropriate value.

The income approach captures obsolescence, depreciation, entrepreneurial profit, vacancy, and extraordinary cost at the same time. Cost may or may not equal market and the market activity may be non-existent, but it would be unusual for there to be no income producing property.

It is my opinion that the income approach should be the preferred approach when valuing commercial property with the understanding that all three approaches have their utility and when possible, should be utilized in the valuation process.