

# Appraisal Process — Start to Finish

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Real estate appraisals are needed for several purposes including, but not limited to, bank financing, Internal Revenue Service (IRS) reporting, estate settlement, tax appeal, annual financial reporting, etc. The property to be appraised, along with the intended use and intended users of the appraisal, are clearly defined prior to the appraisal being initiated. Depending on the intended use and intended users, the reporting requirements can vary slightly; however, the process of carrying out an appraisal is fairly consistent across the board.

In this instance, we will take into consideration the task of appraising a piece of vacant land that is considered tillable cropland in a rural area, well outside of the nearest metropolitan area. The intended use is for bank financing and the intended user is a local community bank.

## **The appraiser will likely follow the following process:**

The first steps typically include the appraiser identifying the subject property to be appraised, along with the intended use of the appraisal, and the intended user. The subject property is legally and physically identified via parcel identification numbers, ownership, and legal descriptions. Additional property information is often obtained from the client seeking the appraisal, local government agencies, property owner, and/or physical inspection.

**The three approaches to value include the sales comparison approach, cost approach, and income approach.**

If the sales approach is deemed applicable, the appraiser will research, analyze, and verify sales data with parties associated with the sale such as the buyer, seller, real estate agent, etc.

If the cost approach is deemed applicable, the appraiser will research, analyze, and verify land sale data with parties associated with the sale such as the buyer, seller, real estate agent, etc. Then, the appraiser will develop an opinion of the replacement cost new of the existing improvements (can be from various sources), research and apply (if applicable), and verify three forms of depreciation (physical, functional, and external).

If the income approach is deemed applicable, the appraiser will analyze the subject's income-producing capability within the open market. If the property is currently leased, the appraiser can compare contract rent to the market. The main pillars of the income approach include supporting the rental revenue (revenue-generating ability) of the real estate, verifying market vacancy and credit loss, verifying operational expenses (typically with market support), and verifying a rent multiplier or capitalization rate. Often in the direct capitalization approach, a capitalization rate is applied to the net operating income to provide an indication of value.

In this instance the property is vacant; therefore, no improvements are to be analyzed; only the sales comparison approach is applicable. The vacant land is considered tillable cropland; therefore, research is performed in order to discover the property's physical features such as size, topography, soil productivity and soil types, drainage/tiling, accessibility, utility, access to water, land allocation percentage, etc.

A market study is then performed to provide an analysis of the subject property characteristics and how the subject property fits into the overall market and neighborhood. State, county, and local level agricultural trends are reported in a market analysis. The market analysis often provides high-level and general agricultural property value trends as well as commodity price trends. A sales study and analysis of comparable sales is often presented in the market analysis and further defined within the highest and best use analysis and sales comparison approach section of the report.

The market study and sales study help support the conclusion of the highest and best use. The four tests of highest and best use include: legally permissible, physically possible, financially feasible, and maximally productive.

The sales study provides comparable sales to be utilized in the sales comparison approach. The most recent and relevant sales that are most proximate and comparable to the subject are further researched, analyzed, and verified. These sales comparables (of which there are typically 4-6), depending on the quantity and quality of data, are then inputted into a summary and adjustment grid. Market-supported adjustments are made to the comparables for the inferior/superior qualities as compared to the subject. The adjustment categories for vacant tillable cropland typically include property rights conveyed, financing terms, conditions of sale, changes in market conditions since the time of sale, parcel/tract size (acres), land allocation percentage, soil productivity, utility, and topography/drainage.

After adjustments, the sales are further analyzed, and weighting/consideration can be given to certain comparables. A range in value (typically in dollars per acre) is often concluded and a final property value is reconciled within this range.

After an internal review of the appraisal, the appraisal report is submitted to the client. It is important to note that the appraiser is available to discuss the findings of the appraisal report and answer any questions the client may have regarding the findings and conclusions.

Peoples Company's dedicated team of appraisal professionals and consultants have the skills, experience, and resources to provide the most accurate property valuation available. To inquire about requesting an appraisal or retaining the services of a professional licensed consultant, contact Peoples Company at

855.800.5263 or email [Appraisal@PeoplesCompany.com](mailto:Appraisal@PeoplesCompany.com) for additional information.