Insufficient Data = Inaccurate Results in Property Valuations

Published on Nov 10, 2022 by Peoples Company

Or maybe another way to express it is "lack of quality data creates lack of clarity in the final opinion of value."

By Mark Williams, ARA | Certified General Appraiser

The primary goal of any appraisal report is to provide a "market-supported" opinion of value. As kids we probably heard from our mothers or grandmothers, "the proof is in the pudding." In the terms of baking, it translates to mean if you don't include the correct ingredients, it is likely whatever you are baking just isn't going to taste right.

In the land of rural property valuation, there are many factors to consider; however, the key ingredient is data, not only the quantity of data but the quality of data. One of the challenges that rural property appraisers face is hidden in the appraisal industry itself, which is composed primarily of residential appraisers along with a smaller percentage of commercial and rural property appraisers.

Therefore, most elementary appraisal classes are geared towards the residential appraisal world, where typically, there is a plethora of data. This abundance is not only in quantity but also similarities and quality. Most beginning appraisers have probably heard when searching for sales, “just find three similar properties within a half-mile that sold in the past six months.” While that may be possible in an active residential market, it is uncommon and unlikely in most rural markets.

Keeping the above in mind, what is the next step for rural appraisers? The first step is to always remember that rural markets are by nature much larger than residential markets, where a buyer might want to live in a certain school district, work/urban area, or small town. Rural markets are often defined as counties, regions, or growing areas. In some cases, it might be a national or international market. With changes in farming, shipping, and marketing practices, market areas that were once local have expanded to regional or national markets as farmers look to offset risk and expand the utilization of equipment by having farms in multiple regions. The influx of institutional investors into the agricultural market has also tipped the scales in this area.

It is not uncommon to see dairy producers’ own facilities in multiple states or crop farmers’ own tracts in different growing seasons to extend planting and harvesting windows. Thus, it is vital for the rural appraiser to define the correct market area in the area/market analysis section of the appraisal report.
In some instances, three sales may be sufficient, but most times, it is not. The method preferred by most appraisal peers is to show the entire market, consisting of multiple sales. Although only a few may be selected for additional analysis, it shows the client/reader that the appraiser has done their due diligence in researching the market. If completed correctly, it will include sales that are clearly inferior to the subject property and sales where they are clearly superior to the subject property. Thus, the subject property has been “bracketed,” and the market has clearly been defined.

Another key ingredient or component of the data component for sales analysis is verification of the sale. Before the invention of computer access to sales data, verification was a more intensive and exhaustive process. Research of a sale typically started at the register of deeds office for a deed search which contained the sale date, legal description, and sale price along with buyer/seller (grantor and grantee). The appraiser then typically completed a physical inspection of the sale and often spoke directly with the buyer/seller of the property for verification of price, date, and motivation. If they were unable to, the buyer/seller was typically listed in the local telephone directory. A second approach would be to contact local realtors or auctioneers who not only had sales information but could speak directly to any atypical motivational or other factors.

However, transition to the electronic age has totally changed the research and verification arena. Appraisers can now search for recorded sales through the county assessor’s website and a multitude of multiple listing services (MLS), search engines that provide buyer/seller, date, legal description, and sales prices. Although this advance in technology has sped up and eased this part of the verification process, it has hindered the process in another area. Is the information included in the search engine accurate and matches recorded documents? Also it also often lacks verification with parties directly involved in the process.

The verification process includes two important parts, both dependent on each other to ensure quality and accurate data. The first step of the process is “what” happened. This information is typically found in county records, MLS, or other search engines. Typically, they provide an accurate picture of the involved parties, the date of the transaction, the legal description, and the sales price. However, it is prudent to cross-verify this information as mistakes have and can be made. The second step in the verification process is “why” did this transaction take place. What was the motivation for selling/buying the particular property?

Did the property sell to: due to distress, to a family member, or to a long-time tenant? If so, an adjustment for motivation should be considered, or perhaps it is not a valid sale and should be discarded. On the other hand, did the property sell: to an adjacent farmer, to competing farmers, or family member who had fond memories of the property? If so, an adjustment for motivation should be considered, or perhaps it is not a valid sale and should be discarded. Or another important question that needs to be answered in the verification process is whether any personal property changes hands as part of the sale. It is common with the transfer of production facilities (dairy, hog, poultry, horse) for feed, mobile equipment/tractors, and often animals are part of the sale but not separated out in the sales price.

There is also a correct process for verification. We may think there are issues that influence the price. Rather than asking, “did you pay a premium because the property was located adjacent to your farm? The correct methodology is to ask, “what were the positives or negatives for the purchase/sell”? In this manner, the appraiser is not leading the buyer/seller.

In a recent project, Peoples Company was tasked with determining whether pastureland values had increased more or less than 10% annually in the State of Iowa. Iowa agriculture primarily consists of corn/soybean rotation with a smaller segment of pasturelands. Thus, the pool for sales is reduced, and coupled with strong commodity prices for corn/soybeans in the past two years, many poor-quality tracts of land have been taken out of pasture and sold for row crop production. Thus, they may have previously been utilized for pasture production, but a premium was paid due to increased profits from conversion to cropland.

This created insignificant data for our analysis. One government survey indicated that pastureland values had increased more than 10%; however, when further examined, the sales pool was small, and none of the sales had been verified as to whether they were true pasture tracts and for other motivational factors.

Other appraisers may have called off the hunt or accepted the government study; however, the Peoples Company appraisal team took a second approach to enlarging the market area. By searching for sales in a broader area of adjacent states (Missouri, Nebraska, South Dakota) where pasturelands are more prominent, significantly more sales were added to the study. Many of these were verified for both “what” occurred and “why” they occurred. With those additional sales, the Peoples Company appraisal team was able to support from the market that the applicable land class had increased by less than 10%.
Correct completion of all the steps in the data collection process ensures appraisers have provided the client with a “market-supported” opinion of value.