

Email Correspondence Between Dakota County Staff and LSOHC Staff

Subject: Easement Valuation Formula

Joe and Mark,

It has taken quite some time to use existing real estate data to develop what I believe is a rational and defensible formula for determining the value of converting 2a classified agricultural land from cultivation to permanent habitat through the use of permanent conservation easements that prevents future agricultural production within the easement area.

There have been several challenges to developing this formula:

Market

- Assessed values of agricultural land are based on agricultural land values in rural Minnesota where there is no perceived development pressure. While significant portions of Dakota County remain rural with one house per forty acres and continued agricultural use, over the past three years there is significantly more interest in rural development due to the pandemic, availability of broadband facilitating teleworking. As a result the value of building rights has increased significantly and becomes an element of current valuation and speculation.
- With the volatility and decline of the stock market, investing in land has become very attractive for investors. Couple that with generational change in family land ownership, the market has become very dynamic and “heated” with competition among buyers and the availability of cash resulting in significant increases in land value.
- Commodity prices have increased significantly making row crop agricultural very attractive and also resulting in higher land values for buyers with adequate capital and equipment.

Valuation

- Assessments and appraised valuations are retrospective to the previous year or later.
- When properties are sold, there is no sales data related to the proportion of tillable land to the total property, locational adjustments, soil types/crop production indexes, the number of available building rights, whether there is an ability to transfer within the larger $\frac{1}{4}$ $\frac{1}{4}$ section, road frontage, and other considerations

We began the analysis with 69 properties sold in 2020 and 2021 based on Certificates of Real Estate value received from the Department of Revenue. See attached Excel Spread sheet for Original Data. We then reviewed each parcel with GIS to refine the list to similar properties with higher proportions of 2a land per sold property with minimal building right valuation influence. We then determined the respective assessed values with sale price for the 2a land to determine an average difference using twelve properties located throughout the County. See Condensed Data sheet. The average difference between the assessed value and sale value was 46 percent.

We then used a recently completed independent easement appraisal for cultivated land that the County wanted to permanently convert from row crops to native grasses adjacent to a park reserve. See attached appraisal and summary sheet. This appraisal provided three important data points:

- 1) The fee title value was at least 60 percent more than the assessed value. Actual amount was not calculated because the assessed value include three acres of land with five farm buildings and the appraisal did not include the three acres as part of the larger parcel. On a per acre basis, the farmstead land would have been the most valuable. Interestingly, the average market value is 65 percent more than the average RIM rate for 2a land which of course does not reflect the full fee title value of the property.

- 2) The average increase in market value among the appraisal comparables was 20 percent from beginning to the end of 2021. If one combines the average 46 percent difference between assessed value and market value for sales in 2020 and 2021, and applies a conservative factor of an additional ten percent, it is likely that the difference between assessed value and market value in 2022 would be 56 percent or more.
- 3) The easement of the cultivated land portion was approximately 75 percent of the fee value based on a recent appraisal in the County which was lower than anticipated. However, in subsequent discussions with other appraisers, their opinion is that the easement value is closer to 85 or 90 percent of fee value. We have selected 85% for the formula.
- 4) For existing non-cultivated land, we propose to use the current RIM rate of 60 percent of the adjusted assessed value for the easement value.

Based on this analysis and high commodity prices, a conservative estimate for the fee title market value of 2a agricultural land in 2022 will increase by an additional 10 percent. This would equate to a fee value 75 percent greater than existing RIM rates or 55 percent more than current assessed fee value. Using an easement value of 85 percent of fee value for 2a land, an example calculations is as follows:

Assessed fee value of 2a classified parcel at \$1,000/acre x 0.55 adjustment = \$1,550/acre x 0.85 (easement percent of fee title) = \$1,317/acre. This would be conservatively equivalent to assessed fee value plus 30 percent for the value of a permanent natural area conservation easement.

Using an easement value of 60 percent of fee value for 2b land, an example calculation is as follows:

Assessed fee value of 2b (waste and wildlife) classified parcel at \$450/acre x 0.55 adjustment = \$698/acre x 0.60 (easement percent of fee title) = \$419/acre. This would be equivalent to 93 percent of the assessed value of a permanent natural area conservation easement.

Not sure if this formula will still be competitive in the rural areas that will ultimately result in protection and restoration of important tracts of habitat. Perhaps a broader study group of assessors, appraisers, economists, etc. could be assembled to provide more rigor to a similar analysis.

Thoughts? Please advise.

Thank you.

Al

Al Singer
Land Conservation Manager



Environmental Resources Department
(Office) 952-891-7001
www.dakotacounty.us
14955 Galaxie Avenue
Apple Valley, MN 55124
(Cell) 651-238-0106

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