



Timberland Appraisal Overview

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Don MacKay, Ph.D., CFA
Forest Economist & Appraiser

don@forestresearchllc.com

www.forestresearchllc.com

207.299.3280

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- Examples
- Why would you want an appraisal?
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What is an Appraisal?

- The act or process of estimating value
- An analysis, opinion, or conclusion related to real estate
- Valuation, consulting, or review



Types of Real Estate Appraisal Specialties

- Residential appraisers
 - Houses
- Commercial appraisers
 - Office buildings
 - Warehouses
 - Retail
 - Golf courses
 - Lodging
 - Timberland
 - Farms

Timberland

Assignment Examples

- 50,000+ acre timberland property
 - Timber, leases, road tolls
- 20,000+ acres with conservation easement purchase option
- Blueberry and forestland property
- Mountain summits
- Timberland and development property
- Riverfront land with endangered species
- Camp lots

Examples of Reasons to Obtain a Timberland Appraisal

- Estimate a potential sale price
- Asset valuation for financial statements
- Value a conservation easement
 - Sale
 - Donation
- Casualty loss
- Divorce/estate
- Hypothetical analysis

Appraisal History

- FIRREA – Financial Institutions Reform, Recovery, and Enforcement Act (1989)
 - Appraisal industry under federal regulation
 - Mandate states to license and certify appraisers
- Office of Management and Budget Circular A-129 (1991)
 - Required use of state certified or licensed appraisers by federal agencies

Timberland Valuation

- History
 - A variety of approaches
 - Cost approach
 - Add components together
 - Simple and understandable
 - Sales comparison
 - Evaluate what others have paid for similar properties
 - Income approach
 - Value of future benefits
 - Net present value

Process Steps

- Identify
 - the real estate to be valued
 - the property rights to be valued
- Understand use of appraisal
- Determine
 - date of value estimate
 - scope of the appraisal
- Other limiting conditions
 - Extraordinary assumption
 - Presume as fact otherwise uncertain information
 - Hypothetical condition
 - Contrary to what exists

Process Steps (Cont.)

- Gather data on property
- Typically inspect property
- Gather other data
 - Timber prices
 - Market information
 - Regulations/zoning
 - Tax status

Highest and Best Use

- Evaluate the highest and best use
 - That which results in the highest value
- Must consider
 - What is legally permissible?
 - What is physically possible?
 - What is financially feasible?
 - What is maximally productive?

Appraisal Approaches

- Three approaches
 - Sales Comparison
 - Income Approach
 - Cost Approach



Cost Approach

- Estimate the current cost to construct a reproduction of, or replacement for, the existing property
- Benefits
 - Easy to understand
 - Commonly used in some areas
- General technique
 - Estimate value of timber
 - Estimate value of land

Cost Approach

- Need a land and timber inventory
 - Species
 - Products
 - sawtimber
 - pulpwood
 - Land classifications
 - Units can be problematic
 - Premerchantable timber
 - Estimate value of land and timber
 - discounts for large amounts

Sales Comparison

- Compare the property being appraised to similar properties that have been sold recently
- Example:
 - 500+ acres of timberland in western Maine
 - Seek sales of other properties with similar characteristics
 - Timber stocking
 - Amenities (lakes, rivers)
 - Zoning
 - Use the comparable sales to estimate a reasonable value

Sales Comparison

- Types of adjustments
 - Interest conveyed
 - Financing
 - Conditions of sale

 - Market conditions
 - Location
 - Size
 - Land attributes
 - Timber attributes

Income Approach

- Income Capitalization Approach
- Usually discounted cash flow
- Derive a value for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value
- Net present value
- Many inputs
- Subjectivity?

Income Approach

- Model investment horizon (may be 10 to 30 years)
 - Timber cash flows
 - Land values
 - Management costs
 - Discount rate
- Can be very complicated, but this is how investors buy larger properties
- Software

Reconciliation

- Typically need to come up with one value or a range
- May have three estimates
- Use judgment to come up with one value or a range



Issues

- Hard to get timber and land data
 - Need cooperation from realtors & other appraisers
- Complexity increasing
- Appraisal pressure

Conclusion

- Appraisal is the act or process of estimating value
- Needed in a variety of situations
- Properties and assignments are increasingly complex
- The appraisal profession is highly regulated

References

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