

Economics 364: Rural Property Appraisal

Prerequisite: Economics 101

Spring 2020

0108 Curtiss Hall

2:10 – 3:25 PM; Tuesday and Thursday

Co-Instructors

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Office Hours for Dr. Zhang: Tuesday and Thursday 10:30 am – noon in 478C Heady

Office Hours for Mr. Nebel: Thursday 1-2 pm in 167 Heady

Office Hours for Ms. Graves: Wednesday 1:10 – 2pm in Econ help room

Please be sure to include Econ 364 in the subject line when emailing us

Purpose and Objectives of the Course:

Taking this course will not make you a professional rural property appraiser, but this course will help you develop an understanding of the fundamentals and principles of valuing and appraising rural property, especially farmland. Students will gain an appreciation of what an appraiser does, what constitutes a sound appraisal, how to read and assess an appraisal report, and how to apply this knowledge in their careers. This knowledge will be relevant for your future career aspirations as an ag lender, farm manager, broker, ag sales person and appraiser. The second major objective is to show students how economic theory of land valuation could guide us in understand trends and determinants of farmland markets, assess various data sources on farmland by government and start-up companies, and learn how to evaluate an individual land purchase.

The specific objectives are:

- Know the market forces influencing current and historical property values.
- Understand the underlying economic principles that determine rural real estate values.
- Understand how to identify and organize the information needed to conduct an appraisal.
- Know the three alternative approaches to rural property appraisals.
- Know how to synthesize findings in a professional appraisal report.
- Learn how to analyze the economic feasibility, profitability and repayment ability of alternative rural investments.

The top students in their sophomore or junior years from this class this year could become the TA for the class next year in Spring 2021.

Classroom Etiquette:

All people and opinions will be treated with respect. This includes the instructor for the students, the students for the instructor and the students for each other. Disruptive behavior is not acceptable. **Use of cell phones, computers, and outside reading material during class is not acceptable except for completion of class exercises.**

This class utilizes outside lecturers from the American Society of Farm Managers and Rural Appraisers and other organizations and companies. Remember we are representing the University when there are visitors and they could be your future employers!

Textbook:

There is no required textbook for this class and all course materials will be posted on Canvas. For those who are interested, I encourage you to read the following textbooks for reference.

- Valuing Rural America: Foundations of Data Analysis, American Society of Farm Managers and Rural Appraisers, <https://www.asfmra.org/education/bookstore/valuingruralamerica>
- American Society of Farm Managers and Rural Appraisers and the Appraisal Institute, 2000, *The Appraisal of Rural Property*, 2nd edition, [LINK](#)
- Murray, William, Duane Harris, Gerald Miller, and Neill Thompson, 1983. *Farm Appraisal and Valuation*, 6th edition, the Iowa State University Press, [LINK](#)

Canvas Course Site:

There will be required readings posted on Canvas that you are expected to read and questions from them will show up on the exam.

Independent Work and Academic Dishonesty:

Unless otherwise noted, students are expected to work independently. Academic dishonesty will not be tolerated. All applicable University policies with respect to academic integrity will be followed. Anyone suspected of academic dishonesty will be reported to the Dean of Student Services: <http://www.dso.iastate.edu/ja/academic/misconduct.html>

Evaluation:

Students will be assigned 1000 points based on the following components:

- **Midterm Exams:** There will be two in-class midterm exams to determine the student understanding of the subject matter presented. Students will be given a grade ranging from 0 to 100 for each exam.
- **Final Exam:** There will be a final exam given during the time announced by the University. This will be a comprehensive/cumulative exam with grades ranging from 0 to 130 points. **ALL STUDENTS WILL TAKE THE FINAL EXAM**
- **Problem Sets:** Students will be given six problem sets throughout the semester. These activities will be worth 20 points each.
- **Team-based presentation:** Students will be assigned to present on a previously written appraisal report by a former student or appraiser, and the grade will be equal for all team members and worth a total of 40 points. .

- **Class Participation:** Students are expected to participate in the class discussions and attend lectures. These activities will be worth 40 points and will help familiarize you with the important aspects of farmland sales listed in an auction and aspects to pay attention to when selecting appropriate comparable sales for your appraisal report.

- A student who attends at least 80% of the lectures (including guest lectures), and actively participates in class discussions and in-class exercises will get full score.

- **In-class exercises:** There will be about ten in-class team exercises throughout the semester. These activities will be worth 100 points. These in-class exercises and pop quizzes are designed to encourage students to read the required materials, think, and ask questions, and often the answers will be revealed in class.

- **Appraisal Report:** Each student will choose an approved, unique farm property in Iowa or other states to develop a complete appraisal report. **This report will be due April 23, 2019.** Special instructions and guidance for the report will be given in class. But, the students will **develop a narrative based appraisal report that is designed as if to be presented to a potential land buyer. Standardized, commercial appraisal forms where you just fill in some numbers will not be accepted.**

Bonus point opportunity: In this final report, all students are required to also provide a one-pager thoughts on the following things: the data challenges in finding comparable sales, the most and least useful resources, the approaches that are most confusing as well as easiest to understand, suggestions on how data sources or class structure could be changed to improve your learning. Among all entries, 5 students' answers will be selected to receive a 1% grade bump on their final grade, and potentially become authors of a journal article on students' perspectives on challenges in farmland appraisals for Journal of the American Society of Farm Managers and Rural Appraisers in 2020.

Final Grade:

The following weights will be assigned to each component:

Class Participation	40
Team Presentation	40
In-class exercises	100
First mid-term	100
Second mid-term	100
Problem sets	120
Appraisal report	400
Cumulative Final exam	<u>100</u>
	1000

A letter grade will be assigned to each component. The distribution of scores for each grade will depend upon the range of the final cumulative scores as follows:

A: 930 – 1000	A-: 900 – 929	B+: 870 – 899	B: 830 – 869	B-: 800 – 829
C+: 770 – 799	C: 730 – 769	C-: 700 – 729	D+: 670 – 699	D: 630 – 669
D-: 600 – 629	F: 0 - 599			

Exam Dates:

February 25: Exam 1 (100 points)

April 9: Exam 2 (100 points)

May 5-8: Cumulative Final Exam – TBD (100 points)

Key Deadlines for Your Appraisal Report: - START EARLY! ASK QUESTIONS!

February 4 midnight: One-page summary of where your parcel is; land use and ownership history (20 points)

February 17 midnight: Appraisal Project Part 1 Due – Legal Description, CSR2, Area Analysis, Photos (70 points)

March 31 midnight: Appraisal Project Part 2 Due – Income Approach → Net Income, Cap Rate based on five comparable sales (70 points)

April 23 midnight: Appraisal Project Part 3 Due – Cost and Market Approaches (80 points)

May 3 midnight: Appraisal Project Final Report Due (160 points)

Problem Sets Deadlines

January 28: Appraisal terms and definitions (20 points)

February 6: Legal descriptions (20 points)

February 26: Land value, cash rent and CSR2 (20 points)

March 10: Income approach – cap rate (20 points)

March 24: Cost Approach (20 Points)

April 12: Market Approach (20 Points)

Guest Lecture Dates:

January 30: Mr. Wayne Schwickerath on Beacon and Vanguard and how to find comparable sales and leverage the local assessor resources

February 6: Mr. Steven Brockshus on FarmlandFinder and online data sources for your appraisal project

February 11: Mr. Richard Isaacson on the Three Approaches to Appraisal Focusing on Farmland

February 13: Mr. Terry Kestner on Highest and Best Use

March 3: Mr. Geordan Hanson on How appraisals are used by Ag Lenders, sources of ag financing for farmland, and beginning farmer loan programs

March 26: Mr. Jim Jensen on the Market Approach for Farmland Illustrations

March 7: Mr. Fred Greder on Cost Approach to Value Buildings or Livestock Facilities and Iowa Appraisal Examining Board

April 14: Mr. Dan Riewerts on Institutional Farmland Investment

Note: During each guest lecture, you will be given a key question sheet that will guide you what to pay attention to, and help us evaluate and improve on the guest lectures.

Students' Evaluations: I really appreciate feedback on my teaching, and I strive to help each and every student learn as best as I can. The students will have a chance to offer mid-term feedback on my teaching and the course in general, and I will adjust the latter half accordingly. The students will be able to rate and assess the quality and usefulness of the guest speakers at the end of the course as well. If at the end of semester, more than 80% of the students complete the student's evaluation online, each student will get a **2% grade bump** on the final grade. This way, we could preserve the anonymity of the evaluations while offering incentives for feedback.

Networking opportunities/events that are free to you:

- Join as the student member of Iowa chapter of ASFMRA for free at <http://www.asfmra.org/member-center/become-a-member/>
- Participate the 2020 annual meeting of Iowa chapter of ASFMRA for free in ISU Scheman Building on February 5-7

Disability Accommodation

Iowa State University complies with the Americans with Disabilities Act and Sect 504 of the Rehabilitation Act. If you have a disability and anticipate needing accommodations in this course, please contact (instructor name) to set up a meeting within the first two weeks of the semester or as soon as you become aware of your need. Before meeting with (instructor name), you will need to obtain a SAAR form with recommendations for accommodations from the Student Disability Resources, located in Room 1076 on the main floor of the Student Services Building. Their telephone number is 515-294-7220 or email disabilityresources@iastate.edu. Retroactive requests for accommodations will not be honored.

Late submissions & Make-ups

Unless with approved proofs AND consent of the instructor, this class does not allow or accept late submissions or make ups for all problem sets, project materials and/or exams.

Dead Week

This class follows the Iowa State University Dead Week policy as noted in section 10.6.4 of the Faculty Handbook: <http://www.provost.iastate.edu/resources/faculty-handbook>

Harassment and Discrimination

Iowa State University strives to maintain our campus as a place of work and study for faculty, staff, and students that is free of all forms of prohibited discrimination and harassment based upon race, ethnicity, sex (including sexual assault), pregnancy, color, religion, national origin, physical or mental disability, age, marital status, sexual orientation, gender identity, genetic information, or status as a U.S. veteran. Any student who has concerns about such behavior should contact his/her instructor, Student Assistance at 515-294-1020 or email dso-sas@iastate.edu, or the Office of Equal Opportunity and Compliance at 515-294-7612.

Academic Misconduct

Academic Misconduct in any form is in violation of Iowa State University Student Disciplinary Regulations and will not be tolerated. This includes, but is not limited to: copying or sharing answers on tests or assignments, plagiarism, and having someone else do your academic work. Depending on the act, a student should receive an F grade on the test/assignment, F grade for the course, and could be suspended or expelled from the University. See the Conduct Code at www.dso.iastate.edu/ja for more details and a full explanation of the Academic Misconduct policies.

Religious Accommodation

If an academic or work requirement conflicts with your religious practices and/or observances, you may request reasonable accommodations. Your request must be in writing, and your instructor or supervisor will review the request. You or your instructor may also seek assistance from the Dean of Students Office or the Office of Equal Opportunity and Compliance.

Contact Information

If you are experiencing, or have experienced, a problem with any of the above issues, email academicissues@iastate.edu.

Economics 364 Schedule – Spring 2020
0108 Curtiss Hall Tues, Thurs 2:10-3:25pm

Date (Instructors present)	Topic
	Two students will report farmland auction details in each class starting from Jan 17
January 14 (WZ, DN)	Introduction, getting acquainted, orientation; Introduce syllabus and especially the appraisal project in detail;
January 16 (WZ)	Overview of appraisals and appraisal process; Appraisal terms, How to read and write your appraisal project report; Examples of good appraisal reports by professional appraisers and previous students Problem set 1: Appraisal terms and definitions (Due Jan 28 midnight) <i>One-Pager Parcel Location and General Characteristics Due February 4 noon</i>
January 21 (WZ)	Appraisal Data Sources: Legal Description – How to Describe the Location of your parcel In-class team exercise 1: legal description exercises
January 23 (WZ)	Appraisal Data Sources: Iowa Land Records, Plat Book, Deed, AgriData SuretyMaps – where to find your parcel
January 28 (WZ, DN)	History and Economic Foundations of Appraisals – Economic Theory of Land Value and where to find county-level land value information Problem set 2: Legal description (due Feb 6 midnight)
January 30 (WZ, DN)	Appraisal Data Sources: Beacon cont'd, Vanguard, county assessment – Where to find comparable sales and how does county assessment of farmland for tax purposes work <i>Guest Speaker 1: Mr. Wayne Schwickerath, Story County Assessor</i>
February 4 (WZ, DN)	Appraisal Data Sources: Web Soil Survey, CSR/CSR2 – how to describe the land quality - In-class team exercise 2: characteristics for comparable sales Iowa Chapter ASFMRA conference in ISU Scheman Building
February 6 (WZ, DN)	Appraisal Data Sources: Acre Value, Farmland Finder - Where to find key land characteristics & comp sales for your parcel <i>Guest Speaker 2: Mr. Steven Brockshus, Farmland Finder</i>
February 11 (WZ, DN)	Three Approaches to Appraisal – An Overview of Appraisal Process: Income Approach, Cost Approach, and Sales Comparison Approach; and Criteria to select Comparable Sales <i>Guest Speaker 3: Mr. Richard Isaacson, Agri-Management Services</i> Please glance over the sample report before class
February 13 (WZ, DN)	Highest and Best Use <i>Guest Speaker 4: Mr. Terry Kestner, Rabo Bank</i> <i>Appraisal project part 1 due Feb 17 midnight: location, owner, and description of subject property</i> Problem set 3: Land value, cash rent & CSR2 (due Feb 26 midnight)
February 18 (WZ, DN)	Income approach: Overview and How to Derive Net Income from Iowa Cash Rental Rate Survey and Iowa Costs of Crop Production

	In-class team exercise 3: income approach cap rate exercises
February 20 (WZ, DN)	Income approach cont.: How to Derive Cap Rate from Comparable Sales <ul style="list-style-type: none"> - In-class team exercise 4: income approach cap rate exercises
February 25 (SG)	Exam 1
February 27 (DN)	Cost approach: Overview and How to Classify Your Land Parcel into Different Land Quality Classes Using Web Soil Survey <ul style="list-style-type: none"> - In-class team exercise 5: land quality class determination
March 3 (WZ, DN)	<i>Exam 1 explanations</i> Cost approach: How to Determine Allocated Land Values Based on Effective Acres of Different Land Quality Classes <ul style="list-style-type: none"> - In-class team exercise 6: land value determination - Problem Set 4: income approach (due March 10 midnight)
March 5 (WZ, DN)	Market Approach: Overview and Criteria for Valid Comp Sales, What Adjustments are Needed and How to Adjust for Time, % Tillable, CSR2 In-class team exercise 7: market approach adjustments – time, CSR2, % tillable <i>Appraisal project part 2 due March 31 midnight: income approach</i> <i>Learn about Auction – Free Pizza!</i>
March 10 (WZ)	How are Appraisals used by an Ag Lender, beginning farmer tax credit, and sources of ag financing for farmland, <i>Guest Speaker 5: Mr. Geordan Hanson, Lender, Luana Savings Bank</i> (also TA for this class in 2017) <ul style="list-style-type: none"> - Problem Set 5: allocated value by quality and cost approach (due March 24 midnight)
March 12 (WZ, DN)	Market Approach - How to Adjust for Location, Size and Farmability using Paired Analysis method and regression analysis <ul style="list-style-type: none"> - In-class team exercise 8: location and size adjustments using paired analysis and common adjustment ratios
March 17	Spring break
March 19	Spring break
March 24 (WZ)	Team-based presentations on previous farmland appraisal reports – Session 1 <i>ASFMRA YPN Representative will give a brief presentation</i>
March 26 (WZ)	Team-based presentations on previous farmland appraisal reports – Session 2
March 31 (WZ, DN)	Market Approach to valuation Illustration and Adjustments in Different Scenarios <i>Guest Speaker 6: Mr. Jim Jensen, ARA, Jensen and Jennings Appraisals, LLC</i> <ul style="list-style-type: none"> - Please READ THE MARKET APPROACH SECTION before class - Problem set 6: market approach, paired analysis (due April 12 midnight)

April 2 (WZ, DN)	Market approach adjustments exercise & Professional appraiser: Developing, writing & reading an appraisal report; Reconciling various approaches to value
April 7 (WZ, DN)	[Appraisals In Reality and Why We Don't Require this in Your Project] Valuing Buildings, Livestock Facilities, and Three Types of Depreciation <i>Guest Speaker 7: Mr. Fred Greder, ARA, Benchmark Agribusiness</i>
April 9 (SG)	Exam 2
April 14 (WZ, DN)	Investing in America's Land: An Institutional Investor Perspective <i>Guest Speaker 8: Mr. Dan Riewerts, Hertz Farm Management</i>
April 16 (WZ, DN)	Farmland purchase analysis: economic analysis In-class team exercise 9: economic analysis
April 21 (WZ)	Farmland purchase analysis: financial feasibility In-class team exercise 10: financial analysis <i>Appraisal project part 3 due Apr 23 midnight: cost approach and market approach</i>
April 23 (DN)	Appraisal Project In-Class Q&A and Work Session <i>Appraisal reports are due May 3 midnight</i>
April 28 (WZ, DN)	Farmland Ownership and Tenure Trends
April 30 (WZ, DN)	Review
May 5 – May 8	Final Exam Week