

VALUATION CASE STUDY PRESERVING THE LAND

The Challenge

Our client, an American citizen, owned 95 acres of pristine wilderness in the vicinity of the Cape Breton Highlands National Park. It had extensive waterfrontage and spectacular views over a bay populated with many islands. The owner wanted to preserve the land in its natural state for posterity but also reserve a site for a cottage. By placing a Conservation Easement on the property and donating it to the American Friends of Canadian Land Trusts our client could achieve the preservation goal and receive a charitable donation receipt equivalent to the value of the easement ... so long as the valuation report was acceptable to the United States Internal Revenue Service and Canadian taxation authorities.

Turner Drake's Approach

Our reports comply with the American Uniform Standards of Professional Appraisal Practice (USPAP) as well as its Canadian equivalent (CUSPAP), so are accepted in both countries. Our Valuation Division is well versed in valuing recreational and resource property for Conservation Easements under provincial legislation, and also for the Canadian Government's Ecogifts program. Reporting requirements and valuation methodology under the latter program are very similar to those required by United States' regulators. Since very few Conservation Easements are sold in the Canadian marketplace, an acceptable method for measuring their value is the "Before and After" approach whereby the property is first valued in its unencumbered state, and then valued subject to the Conservation Easement. The difference between the two values constitutes an acceptable approximation of the Market Value of the Conservation Easement. In each case sale prices of comparable property were used to benchmark the values. Since sales of property encumbered by Conservation Easements are not yet common, surrogate sales of property devoid of development potential were utilised to measure the "After" value. Valuing land with waterfrontage poses a particular challenge since the waterfront benefit does not transact in the open market. We have therefore pioneered valuation techniques to "detach" the waterfront benefit from the basic land value and CompuVal®, our proprietary information technology platform, uses a purpose designed algorithm to disaggregate each sale we utilise for comparative purposes into 27 value contributing components: water frontage (type, length), land (type, vegetation cover, timber type and maturity, area), and road frontage (length). For our inspection of the property, we have developed a Resource Survey instrument to capture and quantify over thirty attributes with particular reference to the ocean frontage (offshore, inshore, foreshore, backshore, bluff, beach frontage) and the backup land (vegetation cover, timber type and maturity, topography), as well as access and services availability. In computing the "After" value we also had to include the value of the cottage lot; an exercise accomplished by comparison with other cottage lot sales in the area.

Winning Results

Turner Drake furnished the property owner with a comprehensive Master Valuation Report, containing a detailed logic path to the Market Value conclusions, and the impairment due to the Conservation Easement, all anchored by market data, for successful use as part of their charitable donation claim with the United States and Canadian taxation authorities.

