Buyers need to know when their price is right
By Curtis Seltzer

BLUE GRASS, Va.—Buyers of country property always ask, “What’s the right money to pay?” They often seek an answer in three ways.

One approach is to assume that the buyer’s right money is roughly 15 percent less than the seller’s asking price. Deduct five to six percent from the asking price for commission and five to 12 percent more for “negotiating.” Whatever’s left, the buyer thinks, is the right price. This method often produces a purchase, because the buyer has accepted the seller’s asking-price framework. The buyer derives his offer based on a fictitious number that the seller has proclaimed to be the property’s value to him and the buyer. Asking price has nothing to do with the value of the property to the buyer.

A second approach is for a buyer to hire an appraiser to do a comparables analysis. This establishes a Fair Market Value (FMV) for the seller’s property by judging its features against the selling prices of at least three nearby, recently sold properties (comps) with similar qualities. The appraiser tweaks the FMV to account for differences between each comp and the seller’s property. A typical appraisal will not value assets like minerals, wind rights and land quality individually. Rural appraisers often use generic values for timberland, pasture and cropland without determining the actual in-the-field value of the seller’s timberland, pasture and cropland. An acre of generic timberland may be appraised at $1,500 across the board, but a buyer needs to know whether the 100 acres of timberland on the seller’s property contains merchantable timber worth $300 an acre…or $3,000. FMV has nothing to do with the value of the seller’s property to the buyer. It has to do with the value of the seller’s property in relation to other sales.

The third approach is for the buyer to ask the seller’s real-estate agent who’s driving him around: “What do you think the seller will take for it?” Seller and agent often anticipate this question and agree on an answer before the buyer asks it. A seller usually figures out his “will-take” price first, then steps it up to an asking price. An agent representing the seller should not give information to a buyer that harms the interests of his client, the individual whose funds will pay the agent’s commission. A seller’s “will-take” price has nothing to do with the value of his property to the buyer. So how does a buyer figure out what he should pay for rural property? The right purchase money is the value of the seller’s property in light of the buyer’s capabilities, the property’s capabilities and his plans. The buyer’s individual capabilities reflect the resources he can bring to bear on the property, before and after purchase. These include his time, knowledge, money and commitment. The less a buyer has of each of these, the lower his offer should be.

The property’s capability to generate income (sale of products or service; income from rent and royalty; federal subsidies) and tax benefits (deductions, depreciation, capital-gains rate, estate sheltering, conservation easement, 1031 exchange potential) is a major factor in determining what a buyer should pay. Other property capabilities a buyer should evaluate are its long-term appreciation potential; ability to pay down the mortgage through the sale of severable assets like an unwanted house or land; and, finally, its potential to be sold, in whole or part, for a Higher and Better Use (HBU), which means a higher price per acre than the one the buyer just paid.

The buyer’s plan for the property also determines its value to him. A plan can range from land used exclusively for personal recreation to a divide-and-flip business deal. Any plan that builds a property’s value and generates significant income increases the buyer’s ability to pay the seller a high price. When a buyer’s capabilities are low, the right money for personal-use property should also be low. In other words, he who stretches to buy something he doesn’t need has put himself on a rack of his own making. The right money—value to the buyer--is what the buyer should pay, never more and less if possible.

The right money to the buyer may be the seller’s asking price, or more, or far less. Of course, if you have money to burn, buy whatever you want and forget about the cost. Every seller dreams of a buyer with a ton of cash and a lighted match.

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