FOR IMMEDIATE RELEASE:

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NCREIF Announces Publication of the NCREIF Agricultural Appraisal Guidelines

CHICAGO, IL, September 11, 2019– The National Council of Real Estate Investment Fiduciaries ("NCREIF") has announced the publication of the *NCREIF Agricultural Appraisal Guidelines*. The *Agricultural Appraisal Guidelines* represent the first set of comprehensive industry guidelines developed to meet the demanding reporting needs of institutional investors. Developed by members of the NCREIF Farmland Committee, with input from several appraisal organizations (e.g. Appraisal Institute, ASFMRA) the *Agricultural Appraisal Guidelines* have been approved for publication by the NCREIF Board of Directors.

The *NCREIF Agricultural Appraisal Guidelines* are intended to provide a clearly defined set of standards for appraisers that perform farmland appraisals on properties that are managed or owned by contributing members of the NCREIF Farmland Index. These guidelines are not intended to replace any current appraisal requirements such as the Uniform Standards of Professional Appraisal Practice, (USPAP) or any local or national licensing or valuation requirements. Instead, these guidelines are intended to create consistency and clarity in the appraisal reports of properties that are included in the NCREIF Farmland Index.

According to Rich Matheson, Farmland Portfolio Manager for a U.S. state pension fund and Chair of the NCREIF Farmland Committee, *"Many hours have been dedicated by multiple members of our committee to develop these guidelines. The primary goals are to assist the agricultural appraisal community by clarifying the content, analyses, and data that institutional investors need, as well as help further the growing demand for the agriculture asset class."*

A copy of the *NCREIF Agricultural Appraisal Guidelines* are attached and are also available on NCREIF's website in the Member Login area at https://www.ncreif.org/globalassets/member-site/knowledge-base/manuals/ncreif-farmland-index-appraisal-guidelines-2019.pdf.

NCREIF is a not-for-profit trade association that serves its membership, and the academic and investment community's need for improved commercial real estate data, performance measurement, investment analysis, data and reporting standards, and education. NCREIF has a rich history of providing indices to the real estate investment community to support benchmarking, attribution analysis, risk analysis and research on real estate trends for the benefit of investment fiduciaries.

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NCREIF FARMLAND

DATA CONTRIBUTORS

Agricultural Appraisal Guidelines

ABSTRACT

This document is intended to provide guidelines for appraisers that perform farmland appraisals on properties that are used in and managed/owned by contributing members of the NCREIF Farmland Index.

NCREIF Farmland Committee

2019

NCREIF Farmland Index Data Contributors
Agricultural Appraisal Guidelines

This document was drafted and approved by the Farmland Committee of NCREIF and by the NCREIF Board of Directors in 2019. It is intended to provide guidelines for appraisers that perform farmland appraisals on properties that are used in and managed/owned by contributing members of the NCREIF Farmland Index. These guidelines are not intended to replace any current appraisal requirements such as the Uniform Standards of Professional Appraisal Practice, (USPAP) or any local or national licensing or valuation requirements. Instead, these guidelines are intended to create consistency and clarity in the appraisal reports of properties that are included in the NCREIF Farmland Index.

General Appraisal Requirements:

1) All agricultural appraisals prepared for Farmland Index data contributors shall adhere to the applicable requirements of USPAP in effect as of the date of the appraisal report including the requirements of other professional organizations of which the appraiser belongs.

2) The appraisal shall estimate the market value of the subject property as of a specified date using one of the definitions of "market value" cited in the most current version of the Appraisal Institute's *The Dictionary of Real Estate Appraisal* or the equivalent standard for countries outside of the USA.

3) Though not required, it is preferred that all appraisal reports be completed and signed by appraisers holding a recognized professional appraisal organization designation (e.g. MAI, ARA, MRICS/FRICS, or equivalent). Whether or not a designated appraiser is used (based on the client's internal appraisal policies) all appraisers must have adequate licensing, training, education, and experience for the property and crop type being appraised.

4) All information should be kept strictly confidential in compliance with the Ethics Rule of USPAP and any applicable non-disclosure requirements of the client.

   Electronically delivered reports should be digitally secured. If required by the client, hard copy (paper) reports should have original "wet" signatures.

5) All agricultural appraisal assignments completed for Farmland Index data contributors shall be documented by a written agreement (i.e. letter or e-mail) which specifies the minimum requirements for the assignment and the required scope of work.

6) The engaged appraiser will receive a comprehensive package of information from the contributor or asset/property manager (i.e. the client) on the subject property to be appraised and may include available market sales or rental data.

7) In general, the appraisal report should include an adequate narrative description of the subject property, relevant market conditions and drivers, valuation methodology and approaches to value including reconciliation, etc. adequate for the client to understand the appraiser's analyses and conclusions.

Specific Appraisal Guidelines:

Appraisals completed on an annual or less frequent basis should utilize an appropriate report format consistent with the requirements of USPAP and the client's guidelines. Appraisals completed more frequently may be presented in a more abbreviated format and incorporate the annual report by reference per the client's guidelines.

In addition to the standard USPAP requirements, appraisal reports should generally include:

1) Transmittal Letter (including a statement of any Extraordinary or Hypothetical Conditions that is clearly stated, and where possible, pre-authorized by the client).

2) NCREIF Appraisal Summary attached to Transmittal Letter (see attached sample).

3) Market Area Description: The four traditional components of physical, social, economic and governmental considerations that impact the market area of the subject should be discussed. The report should include current and pertinent information along with relevant historical data. For some assignments, additional detail in the form of an industry analysis (i.e. dairy, vineyard, etc.) may be needed and should be included. Use of statistical data presented using charts, tables, etc. is encouraged along with stating relevant conclusions from the data.

4) Physical Description: Should adequately describe the subject property so that the reader has a clear and accurate picture of the location, layout, resources and improvements along with relative strengths and weaknesses. Specifically, the appraisal should identify and describe the soil types present on the property along with relevant productivity ratings for each soil type, i.e. NCCPI, Capability Unit, Storie Index, Corn Suitability Index, or other measures. Irrigated properties should thoroughly describe the source(s) of water, adequacy, cost, quality, distribution equipment, and application methods, etc. Those properties with permanent plantings or structures should include detailed descriptions of those improvements. For properties with components that are

considered personal property, those items should be separately identified and valued in accordance with USPAP. Other factors to note in the physical description include a discussion of water or perched water tables; air, soil and waterborne pests or diseases; and other detrimental impacts to the area, regional crops, or any other factors that may be relevant to the subject's value.

5) All appraisals must clearly specify and verify legal and physical access to the subject property, including controlled access highways and permitted approaches.

6) Highest and Best Use Analysis: The highest and best use of the subject property that is reasonably probable should be analyzed on both an "as if vacant" and "as improved" basis. A conclusion for each basis should be clearly stated. A specific conclusion other than "agriculture" is preferred.

7) Valuation Methodology: The appraiser shall explain the omission of any of the approaches to value if deemed inapplicable.

8) Sales Comparison Approach to Value:
   - A discussion of current market conditions, trends and relevant factors affecting the market or marketability of the subject property should be included. This may be more or less detailed depending on the property type and the nature of any improvements.
   - The unit of measurement commonly utilized in the market for the subject property type should be identified and applied.
   - The comparable sales selected by the appraiser should be summarized in a clear, concise fashion, typically in a table format. Detailed sales sheets may be included in the addendum along with a map showing the location of each sale.
   - Use of land and building mix adjustments is encouraged for those markets that support these techniques.
   - The rationale for any quantitative adjustments including market conditions should be clearly explained and supported by paired sales analysis.
   - The method used and/or thought process for making qualitative adjustments should be clearly explained.
   - A comparison of each sale to the subject property or indicated value from that sale should be identified, typically in a table format.
   - A discussion of current listings or properties being marketed in the subject area should be included.
   - The valuation of buildings and other improvements should be based on comparable market data and not estimates from the Cost Approach. If the Sales

Comparison Approach is deemed inapplicable for valuing the subject improvements, the appraiser should clearly explain why.

- Use of alternative valuation methods like a Gross Income Multiplier, Corn Suitability Ratio, or similar analysis by unit of production or another metric is also encouraged as deemed applicable.

Cost Approach to Value:

- The comparable sales used to estimate the value of the site or underlying land value should be summarized in a clear, concise fashion, typically in a table format. Detailed sales sheets may be included in the addendum along with a map showing the location of each sale.
- The estimated Replacement Cost New (RCN) of improvements should be based on reliable and reasonable sources such as, but not limited to, Marshall & Swift Valuation Service, University Extension cost studies, contractor or farm manager budgets or actual project costs. The source of the RCN data should be clearly stated.
- Market data should be presented and analyzed to determine the appropriate depreciation or developer profit rate from all sources.
- If possible, extraction of physical, functional and external depreciation rates from market data should be presented and analyzed.
- Use of Age-Life methodology should rely on market derived data if possible.
- The RCN, depreciation estimate and depreciated RCN for each improvement should be presented in a clear, concise manner, typically in a table.
- It is helpful to state the weighted overall effective age and overall remaining economic life of the improvements.

Income Approach to Value:

- The appraiser may select either a direct capitalization method or discounted cash-flow (DCF) analysis for valuation purposes using the Income Approach. Where adequate market data is available and applicable to the subject, a DCF analysis is encouraged.
- Those subject properties with uneven cash-flows, improvements with limited remaining economic lives or other unique circumstances should be valued using a DCF analysis as deemed applicable.
- The appraiser should explain why cash rent, share rent, owner-operated or other mode of operation was selected to analyze the sales and subject property.
- Comparable market rental data should be presented, analyzed and discussed in a manner adequate for the client to understand the appraiser's conclusions.

The rental data should identify typical landlord expenses paid under such rental arrangements.

- When a direct capitalization model is used, the appraiser should clearly show how capitalization rates from the comparable sales were derived, typically in a table format. The gross income, operating expenses and net income levels should be clearly identified for each sale.
- Likewise, when a DCF model is used, the presentation of how discount rates are derived should be clearly shown.
- The appraiser should analyze and discuss how the rent level, capitalization or discount rate for the subject property was selected.
- The gross income, operating expenses and net income levels for the subject property should be clearly shown.

Reconciliation:

- The appraiser should include adequate narrative discussion in the report to make clear to the client the methodology and thought-process for the reconciled value conclusion (e.g. relevance and weighting of each valuation method, qualitative assessments, etc.)

Addendum:

- The addendum section should contain only those items that will be of assistance to intended user. All other support data should remain in the appraisal file.

For questions and queries on the above, please contact us as below:

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This document was prepared by the Farmland Committee of NCREIF. The NCREIF Board has reviewed the document and concludes that its content is representative. This document is a NCREIF document and is not part of the NCREIF PREA Reporting Standards (RS).