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Evaluation of Oliver Properties, Jackson, Wyoming

Harrison Price Company

Stephen S. Watts



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EVALUATION OF OLIVER PROPERTIES
JACKSON, WYOMING

Prepared for:

Mr. R. Steven Bonnett
Vice President, Trust Division
Pittsburgh National Bank

April 7, 1981

Prepared by:

Harrison Price Company
876 South Bronson Avenue
Los Angeles, California 90005

(213) 937-3457

INTRODUCTION

Mr. R. Steven Bonnett, Vice President, Trust Division, Pittsburgh National Bank, is serving as executor of the estate of the late Henry Oliver, Jr.

In that capacity, Mr. Bonnett retained Vern Englehorn and Frank Kemp of Denver to appraise the fair market value of two assets owned by Mr. Oliver, the Poodle Ranch and the Four Lazy F Ranch, in Teton County, Wyoming.

Mr. Bonnett subsequently retained the Harrison Price Company to critique the Englehorn/Kemp appraisal and the subsequent IRS appraisal based on that report, with particular reference to establishing the cash equivalent value associated with the comparable sales sited in the Englehorn/Kemp appraisal.

Our research program included a physical inspection of each comparable sale, a review of their development entitlements, confirmation of terms of sale, and interviews with appropriate investing institutions to determine the discount rate they would have employed at the relevant valuation date of January 11, 1978 if they were to purchase those notes at that date.

This report was prepared by Stephen S. Watts, Director of Real Estate for the Harrison Price Company. Appendix A contains a resume relative to Mr. Watts and a qualification statement relative to the Harrison Price Company.

VALUATION CONCLUSION

The subsequent report demonstrates that the Lewton/Brown sale was the most relevant sale. The fair market value of that sale net of improvements and after adjusting for below market interest rates was \$2,113 per acre.

The Lewton/Brown sale closed in January 1978, so no adjustment for time need be made.

However, two factors suggest a lower land value would be appropriate for the Oliver properties:

1. The Lewton/Brown sale was contingent on Lewton securing development rights prior to closing; had he been unsuccessful, he would not have closed the sale.
2. The Lewton/Brown tract is 648 acres, whereas the Oliver properties are 1,678 acres; land value per acre almost always decreases as parcel size increases.

In light of these considerations, it is our opinion that the Oliver properties had a land value of \$2,000 per acre in January, 1978. Therefore, our estimate of the property's full market value as of January 11, 1978 is described as follows:

<u>Component</u>	<u>Full Market Value, January 11, 1978</u>
Unimproved Land (1,688 acres @ \$2,000/acre)	\$3,376,000
Improvements	<u>240,000</u> 1/
	\$3,616,000

BACKGROUND

The Poodle Ranch and Four Lazy F Ranch properties are located about a mile and a half southwest of downtown Jackson. The two ranches combined contain a total of 1,688 acres and certain improvements.

1/ An estimate in the Englehorn/Kemp appraisal, endorsed in the IRS appraisal.

The Englehorn/Kemp appraisal valuation date is July 11, 1977, the date of Mr. Oliver's death. However, the IRS appraisal date is as of January 11, 1978--the alternative valuation date chosen by the estate executor. According to the IRS appraisal, Englehorn/Kemp updated their findings to January 11, 1978.

The following text table summarizes valuation conclusions by these two appraisals:

	<u>Market Value As Of January 11, 1978</u>	
	<u>Englehorn/Kemp 1/</u>	<u>IRS</u>
Land Value/Acre (\$)	\$ 2,095	\$ 2,850
Total Value (\$000)		
Land	\$ 3,536	\$ 4,782
Improvements	<u>239</u>	<u>240</u>
Total	\$ 3,773	\$ 5,022

Since both appraisals reach a similar valuation conclusion relative to improvements and those improvements represent a small share of total value, we do not further consider those improvements in our analysis.

PERCEIVED RELEVANCE OF COMPARABLE SALES

To establish an opinion as to the relevance of the comparable sales sited in the Englehorn/Kemp appraisal and relied on by the IRS appraisal, we physically inspected each of those properties, defined their respective development entitlements, and derived a "forced ranking" of the six comparables relative to a number of relevant parameters. Figure 1 illustrates the location of the subject properties and the defined comparable sales. Table 1 summarizes findings of our analysis as to "perceived comparability."

1/ Interpolated from July 11, 1977 valuation by component to total value quoted in IRS appraisal.

Table 1

PERCEIVED RELEVANCE OF
COMPARABLE SALES

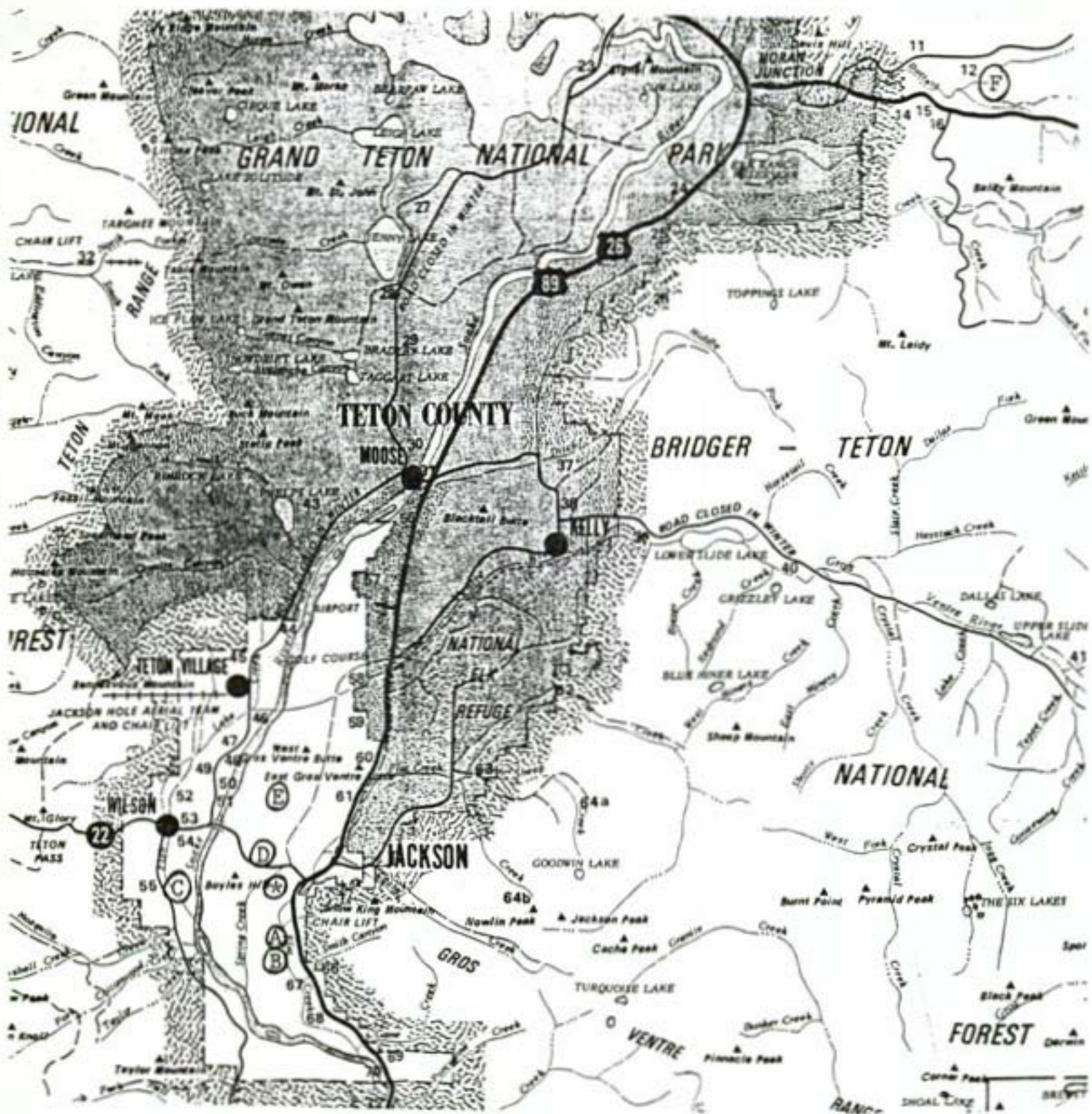
Property	Development Status/Average Lot Size ¹						Perceived Comparability by Subject ²						
	Gross Acreage ¹	Status	Acreage Mapped	Lot Yield	Actual Lot	Date Approved	Total Acreage	Lot Yield	Topo- graphy	Proximity to Jackson	Probable Consumer Profile	Total Value	As Percent of Best Total
Subject Property													
Pre-1978	1,678	Pending	1,678P	1,602P	1.0	NA							
1978 On	1,678	Pending	1,678P	1,681P	1.0	NA							
Kemp/Englehorn Comparable Sales (Buyer/Seller)													
Lewton/Brown	648	Mapped	445A	492A	.9	-/77	6	6	6	6	6	30	100A
Lewton/Childs	127	Mapped	127A	12A	10.6	12/77	2	1	5	5	4	17	57
Buchenroth/Swabaker	175	Mapped	81A	13A	6.2	6/77	3	3	4	2	2	14	47
Karns/Brown	104	Mapped	104A	28A	3.7	10/76	1	5	2	4	5	17	57
Shanor/Church	549	Mapped	549A	69A	8.0	6/80	5	2	1	3	3	14	47
Albrecht/Feus	355	Pending	355P	90P	3.9	NA	4	4	3	1	1	13	43

NA means not applicable

1 Dan Cowlee, Planning Director, Teton County (P means potential, A means actual).

2 Forced ranking, with 6 "most comparable", 1 "least comparable"

Source: Harrison Price Company



- (*) Oliver Properties
- (A) Lewton/Brown (Rafter J)
- (B) Lewton/Childs
- (C) Buckenroth/Swabaker
- (D) Karns/Brown
- (E) Shanor/Church
- (F) Albrecht/Feuz

Figure 1
 AREA LOCATIONAL MAP,
 OLIVER PROPERTIES AND
 COMPARABLE SALES

Source: Harrison Price Company

A major limiting condition on the relevance of all the comparables is that they are far smaller than the Oliver Ranches. Due to increased holding costs, purchase price, and down payment requirements, larger sized parcels almost always decline in price per acre relative to directly comparable smaller parcels.

Quite properly, both reports place considerable emphasis on comparing the development entitlements of the subject property with those of the comparable sales. Based on a meeting with Dan Cowlee, Planning Administrator for Teton County, we have quantified this comparison.

While a new general plan for Teton County came into effect on January 1, 1978, the development potential for the subject properties was not materially changed. The significant increase in density on the 160-acre section of the subject property in the so called "urban expansion area" was effectively offset by a reduction in development entitlements on the balance of the property (in most areas, from one unit per acre, to one unit per three acres).

Which ever plan was in effect, our analysis indicates that the subject properties could have been developed to a density of roughly one unit per gross acre, consistent with the density achieved at Rafter J (the Brown/Lewton transaction). None of the other comparables achieved a density resulting in anything approaching this kind of yield.

As an additional means to compare the six comparable sales, we developed a "forced ranking" of those sales relative to the Oliver property in terms of a number of pertinent criteria. That analysis, also shown in Table 1, clearly confirms that the Lewton/Brown tract is the most comparable of the six comparable properties.

CASH EQUIVALENCY VALUE OF COMPARABLE SALES

Review of the terms of sales associated with the comparable sales indicates the interest rates in the amortization schedules were below then prevailing market interest rates. In fact, in summarizing Sale #1 (Lewton/Brown), the IRS appraisal notes that "beneficial financing may have influenced value," and with respect to Sale #2 (Lewton/Childs), "as in the case of Sale #1, beneficial financing may have played a part in the ultimate selling price."

While the IRS appraisal ignores the implications of this beneficial financing, we feel it is critical. This view is confirmed by an article in the January 1979 issue of The Appraisal Journal entitled Cash Equivalent Analysis, in which the authors stated:

"Below market interest rate financing is the most prevalent "nonrealty consideration" in land markets. It always must be realized that in such a transaction the total purchase price is not only for the land but also for the favorable financing terms. To find out what the land is worth by itself it is necessary to subtract from the total price paid the value of the financing terms."

Based on interviews with Mr. Banks, the Trust Officer with the Jackson State Bank, we were able to directly confirm actual sales terms for the first three comparable sales, as he acted as trustee in those sales. Mr. Gene Hoffman, the only MAI in Jackson, provided us with sales terms on the other comparable sales. Those terms are described in detail in Table 2 and vary somewhat from the data in the Englehorn/Kemp appraisal.

To determine the cash equivalency value of a note bearing a below market interest rate, the associated income stream (or amortization schedule) must be discounted at the then pre-

Table 2
SUMMARY OF PRICES AND TERMS,
COMPARABLE SALES¹

Comparable (Buyer/Seller)	Additional Data Source	Total Acreage	Closing Date	Purchase Price		Improvements		Purchase Terms
				Total (\$000)	Per Acre	Value (\$000)	Percent of Price	
Lewton/Brown	Bank	648	1/78	\$1,814.4	\$2,800	\$ 100	5.5%	<ul style="list-style-type: none"> • 6 month option while mapping @ \$50,000 (refunded) • \$470,500 down (in form of a trade) • \$1,343,900 @ 180 equal monthly payments, mortgage method, 6% rate (\$136,086/year)
Lewton/Childs	Bank	128	7/77	447.2	3,500	40	8.9%	<ul style="list-style-type: none"> • \$50,000 down • Balance 15 year, 8% rate, mortgage method, balloon year 8
Buckenroth/Swabaker	Bank	175	12/75	448.2	2,561	0	0.0%	<ul style="list-style-type: none"> • \$100,000 down • 1 year interest only, 3 years equal principal with interest @ Bank of America prime • Release clauses with no penalty; in fact paid off in 1978
Shanos/Church	Hoffman	549	4/76	1,100.0	2,004	0	0.0%	<ul style="list-style-type: none"> • \$275,000 down • Balance 10 year, 8% rate, mortgage method
Albrecht/Feuz	Hoffman	355	8/75	1,065.0	3,000	76	7.1%	<ul style="list-style-type: none"> • \$30,000 down for lease/opticon • 5 year lease @ \$20,000/year • Balance due @ 29% down (less original \$30,000, with note amortized by mortgage method, 10 year term, 7% rate)

¹ Excludes Karns/Brown (non bonafide)

Source: Harrison Price Company

vailing interest rate for such notes. The sum of those values represents the cash equivalent value of the note, or actual fair market value.

To determine the appropriate discount rate to employ in evaluating the actual fair market value (or cash equivalent value) of the comparable sales, we interviewed a number of mortgage bankers and primary lenders. Most sources indicated they were not active in the business of buying mortgages on raw land and indicated that no organized market for these notes exists. However, four interviewees indicated it was likely their company would have bought the notes as of January 1978 at a cash value based on a discount of the amortization schedule at a rate of 10 to 12 percent. Specifically:

<u>Quoted Discount Rate</u>	<u>Source</u>
10%	Dean Bank, Trust Officer, Jackson State Bank, Jackson, Wyoming
10%	Paul Miller, AVP, Utah Mortgage Loan Company, Ogden, Utah
12%	Mark Winnert, Real Estate Loans, GE Credit, Denver, Colorado
12%	Ken Cavenaugh, Business Receivables, Westinghouse Credit, Denver, CO

Based on these findings, we conclude the notes associated with the various comparable sales could have been sold subject to an 11 percent discount rate. By using this rate and the amortization terms described in Table 2, the cash value per acre of the five bonafide comparable sales is derived in Table 3; specifically:

Table 3
CASH EQUIVALENT LAND VALUE,
COMPARABLE SALES¹

Characteristic	Comparable Sales				
	Lewton/Brown	Lewton/Childs	Buchenroth/Swabaker	Shanon/Church	Albrecht/Feuz
Parameters ²					
Gross Acreage	648	128	175	549	355
Improvements Value Percent Offset Basis Value/Acre	5.5%	8.9%	0.0%	0.0%	7.1%
Gross	\$2,800	\$3,494	\$2,561	\$2,004	\$3,000
Net of Improvements	2,646	3,103	2,561	2,004	2,787
Annual Debt Constant	10.13	11.47	8.00 ³	14.88	14.24
Amortization Schedule by Relative Year					
0	\$ 470.5	\$ 50.0	\$ 100.0	\$ 275.0	\$ 30.0
1	136.1	45.6	27.9	122.8	20.0
2	136.1	45.6	139.2	122.8	20.0
3	136.1	45.6	130.0	122.8	20.0
4	136.1	45.6	120.8	122.8	20.0
5	136.1	45.6		122.8	20.0
6	136.1	45.6		122.8	20.0
7	136.1	45.6		122.8	386.6
8	136.1	268.5		122.8	107.7
9	136.1			122.8	107.7
10	136.1			122.8	107.7
11	136.1			122.8	107.7
12	136.1				107.7
13	136.1				107.7
14	136.1				107.7
15	136.1				107.7
Present Value @ 11% Discount					
Total (\$000)	\$1,449.2	\$ 381.4	\$ 412.7	\$ 998.2	\$ 629.4
Per Acre (\$)					
Total	\$2,236	\$2,980	\$2,359	\$1,818	\$1,773
Net of Improvements	\$2,113	\$2,715	\$2,359	\$1,818	\$1,647
Ratio of Present Value to Basis Value					
Net of Improvements	79.9%	85.3%	92.1%	90.7%	59.1%

1 Excludes Karns/Brown (non bonafide).

2 See Table 2.

3 Add on interest rate (assumed to be constant; actually floats with Bank of America prime rate).

Source: Harrison Price Company

<u>Comparable Sale</u>	<u>Value/Acre</u> 1/		<u>Cash Value As Percent Face Value</u>
	<u>Face Value</u>	<u>Cash Value</u>	
Lewton/Brown	\$2,646	\$2,113	80%
Lewton/Childs	3,183	2,715	85%
Buchenroth/Swabaker	2,561	2,359	92%
Shanor/Church	2,004	1,818	91%
Albrecht/Feuz	2,787	1,647	59%

1/ Net of improvements value

Appendix A

Harrison Price Company Qualifications

HARRISON PRICE COMPANY

STEPHEN S. WATTS
Director - Real Estate

Mr. Watts has been engaged continuously in real estate economic analysis for ten years. Prior to joining Harrison Price Company, he served as Vice President of Economics Research Associates (ERA), a nationally prominent economic consulting firm, where he was in charge of its real estate research activity. For the last two years he has been Vice President of Terramics Research Associates, a Los Angeles-based real estate consulting firm affiliated with the Newport Development Company. While with ERA, Mr. Watts spent two years in the firm's Washington, D.C. office.

As a result of this experience, Mr. Watts has personal familiarity with virtually all major domestic real estate markets and analytic experience relative to all types of land use. Representative clients include Rouse, E. F. Hutton, Shell Oil, The Campbell Estate, KACOR Realty (formerly Kaiser-Aetna), and Reserve Oil and Gas. His principal areas of experience include:

- Market and financial analyses of existing and proposed developments.
- Locational analyses.
- Implementation consulting.
- Business strategy analysis.

Before joining ERA, Mr. Watts was a Captain in Military Intelligence, US Army. He is a graduate of the University of Wisconsin with a degree in economics.

HARRISON PRICE COMPANY

Harrison Price Company was founded in 1978 to provide senior level research and consulting services to public and private sector clients requiring innovative, well-advised solutions to complex land use economic questions. The firm's founder, Mr. Harrison A. Price, has 29 years experience in economic consulting, and is the founder and former President of Economics Research Associates. Mr. Price has directed more than 2,000 studies in the field of real estate and land use economics for several hundred clients throughout the world.

In the private sector, Mr. Price's clients have included Walt Disney Productions; MCA, Great Lakes Properties; His Highness the Aga Khan; Anheuser-Busch, Inc.; AMFAC Properties, Inc.; Kaiser Aluminum & Chemical Corporation; Boise Cascade Corporation; Fibreboard Corporation; RCA, Inc.; Cabot, Cabot & Forbes; ITT Corporation; Ford Motor Company; Western International Hotels, Inc.; Weyerhaeuser Company; GAC Properties, Inc.; Oceanic Properties, Inc.; Northrop Corporation; Chrysler Realty Corporation; Lear/Siegler Trousdale; The Irvine Company; AVCO Community Developers, Inc.; Lockheed Aircraft Corporation, and North American Rockwell Corporation.

Research services performed may be grouped into the following general categories:

- Economic planning for large land holdings.
- Development planning for a complex of land uses.
- Highest and best land use determinations.
- Office building analyses.
- Hotel/motel studies.
- Retail facilities evaluations.
- Residential marketability studies.
- Recreational land development analyses.
- Industrial land use evaluations.
- New town studies.
- Property appraisals.

One of the major areas of expertise developed by Mr. Price and his staff is urban land economics, including numerous studies for public agencies on the local, state, and federal levels. These studies include regional and community economic base analyses; marketability, land utilization, and reuse appraisals for urban renewal projects; economic inputs to general plan programs; public facilities development studies; and other similar assignments.