Lost Capital
Cost Approach

Construction regrets:
Cost
Design
Siting

These are the basis for “lost capital” along with market influences ... all functional and external obsolescence.
New house; new marketing idea ...
Borden’s new barn
Calf Barn, part of $500,000 heifer complex.
Pasteurizer for calves’ milk. Is this RE, fixture, or trade fixture?
Cost Approach

• Starts with RCN...
Cost Approach

• RCN: Replacement vs. reproduction

Replacement eliminates *some* functional obsolescence.
Cost Approach

Cost New

- Depreciation

= Building Contributory Value (CV)
Cost Approach

Depreciation in all its’ forms:
Cost Approach

Depreciation in all its forms:
  Physical
Cost Approach

Depreciation in all its forms:
  Physical
  Functional Obs.
Cost Approach

Depreciation in all its forms:
    Physical
    Functional Obs.
    External Obs.
Cost Approach

Physical

Basic concept everyone understands.
Cost Approach

Physical
Cost Approach

Functional

Low eave height, no ventilation for sides or roof.
No cover over the feed pad, water drains off the roof into the feed area. $50,000 needed to collect leachate.
Cost Approach

Functional

Large barns on a small property with all woods... superadequacy.
3-row FS, now used for heifers
External

House on right is not on same property as barn on left.
Also has functional issues...

Close-up of previous pic. Property is permitted for eight horses with a 12+ stall barn.
External
Location, location

Ideal Dairy vs. Schermerhorn Apts.
What do you see?
What do you see?
Changing Technology
Principle of Balance

How many stalls should the parlor be?

[Diagram showing the layout of a parlor and holding area with 120 stalls indicated]
Possible answers – milking 120 cows 2x daily @ 5 cows per hour per stall = 2 stalls (Milking continuously)
Or, milking 120 cows 3x daily @ 5 cows per hour per stall = 8 stalls (2x-4), done in 3 hrs. each milking.
In theory, so long as the additional parlor unit adds more in value than its cost, it would be built.
Right number of
• stalls, parlor size,
• holding area, ...

What else needs to be in balance on a farm?
- Right number of stalls, parlor size, holding area, ...

  - Manure storage
  - Feed storage
  - Cropland acreage – rent, own?
  - Shop, equipment storage
  - Worker housing ... workers
Greenhouses – the “Other Ag”
Cost Approach

Sale analysis
Allocation & extraction
Cost Approach

Sale analysis – Contributory Value
Dairy Farm selling for $1,000,000
Cost Approach

Sale analysis – Contributory Value
Dairy Farm selling for $1,000,000.
407 acres, 290 ac. cropland
208-stall barn with 2x-8 parlor
14-yr-old barn
1,400 SF cape, 1900’s
Cost Approach

Sale analysis – Contributory Value
Dairy Farm selling for $1,000,000.
407 acres, 290 ac. Cropland
Land value:
$2,000 per ac. Cropland
$1,000 per acre rest
Income Approach
Sale Comparison Approach